Banking: Banks Buying Insurers and Insurers Buying Banks; where are we going with it

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Bancassurance overview

The bank insurance model, known as bancassurance, is the partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel to sell insurance products to the bank's client base.

- Bancassurance originated in Europe in the mid-1980s and has replaced traditional agency distribution in many markets but has not developed uniformly in all markets.

- Growth in the bancassurance channel is occurring most rapidly in emerging markets, where insurers are leveraging large bank customer bases to market their policies.
Regional business drivers

- Growth of relationship banking
- Favorable tax structure
- Declining interest rates
- Reduction in government social security expenditures
- Need for middle and long term savings

- Large separation between insurance providers and bank distributors, where banks sell third-party products to their clients
- US market is dominated by more established channels such as agencies and brokers

- Low levels of insurance penetration
- Presence of large foreign players
- Brand equity of banks
- Financial deregulation
- Tax advantages and credit availability

- Several foreign insurers competing in limited space currently occupied by few domestic bank distribution platforms
Value of a Partnership
Advantages of bancassurance for the Insurer...

- Strength of the bank brand
- Customer service
- Access to customer database
- Large bank footprint – branches, sales network, distribution
- Lead generation and cross-selling
- Banking & insurance product integration
- Share of bank’s revenues from u/w profits
- Long-term commitment
- Customer segmentation and targeting
Advantages of bancassurance for the Bank...

- Strength of the insurers’ brand
- New source of revenue
- Offer protection products for bank customers
- Product innovation based on market knowledge and risk-taking abilities
- IT systems and underwriting support
- Customer support
- Commission structure
- Marketing
- Long-term commitment
The Bancassurance Model
Bancassurance models

1. Integrated bancassurance group – bank owns insurer or vice versa.
2. Distributor partnerships – bank acts as an intermediary, offering products of more than one insurance company.
3. Strategic alliances – bank sells the product(s) of only one insurance company.
### Distribution channels and trends

- Mortgage specialists
- Insurance specialists
- Bank sales staff
- Branch managers
- Business bankers

**In-branch sales force**

**Tied and Multi-tied advisors**

**Tele-sales (call centers)**

**Direct/Online channels**

**Independent Financial Advisors (IFAs)**

**Wealth management/trust/estate advisors**

**Internal/External**
- Inbound
- Outbound

**Growth channels for bancassurance**

- RGA surveys report the importance of a **multi-channel and multi-product bancassurance strategy** as a key to future success
- Bancassurers must seize opportunities for branches to evolve and remain relevant as banks increasingly rely on technology to gain the competitive advantage
Brazilian bancassurance models
Bancassurance

Share of New Business Premium

- US: 3%
- India: 10%
- Australia: 11%
- UK: 20%
- South Africa: 20%
- Germany: 26%
- China: 48%
- Norway: 50%
- Belgium: 51%
- Italy: 59%
- France: 62%
- Brazil: 70%
- Spain: 77%
- Portugal: 86%

RGA Bancassurance Trends and Best Practices

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Global Bancassurance map

- Bancassurance business accounts for more than half of the total market share for a number of countries.
- Average growth of 6% globally—four times faster than the growth of life insurance in general, in many markets around the world.
- The estimated global bancassurance market is predicted to grow at a CAGR of 6% between 2014 and 2018 (TechNavio advisory consultants).
Case studies

Examples of 5 different bancassurance models in Brazil

1. Citibank – total assets: BRL 60.841m (US$20 billion)
2. HSBC – total assets: BRL 167.708m (US$55 billion)
3. Banrisul (Icatu) – total assets: BRL 59.561m (US$20 billion)
4. Itaú – total assets: BRL 1.208.701m (US$400 billion)
5. Bradesco – total assets: BRL 1.032.040m (US$344 billion)

http://www.valor.com.br/valor1000/2015/ranking100maioresbancos
Citibank

Before

Citibank

Broker

Insurer 1
Insurer 2
Insurer 3

After

Citibank

Broker

MetLife

1st choice provider

Insurer 1
Insurer 2

Reason: global agreement

Citibank does not use its own paper
Citibank

Insurance companies by Lines of Business

Auto  Homeowners  Life  Loan  Credit Card  Travel  Capitalization
Citi Brazil

- Really has no interest in being a risk taker. Does not have Insurance DNA
- Has a high socio-economic client base that “buys” insurance
- Included MetLife due to global agreement – first choice provider
- All insurance policies are written on “insurance partners paper”
- Citi’s revenue includes
  - Up front lump sum commission
  - On-going commission payments
- Regulation as a “broker” is very light
HSBC Risk taker

Distr. channel
Risk taker
Broker

Before

HSBC

BAMERINDUS

LoB 1
\(\text{e.g.: Health}^{*}\)

LoB 2

LoB 3

*Exit healthcare \(\rightarrow\) sold to Generali

HSBC uses its own paper

After

HSBC Life & Pension Insurer

Broker

Auto

Homeowner

Other LoB’s

Tender to 3\textsuperscript{rd} party insurers

Reason: focus on core strengths

HSBC and Insurance Partners` paper
HSBC Brazil

- Concentrated on the lines that it had risk appetite and had a competitive advantage
  - Life and Pensions – HSBC paper
  - Used third parties for lines that were attractive to its clientele – insurance partners’ paper
  -Exited Health Business

- No first choice provider

- HSBC revenue includes
  - Earnings from Insurance Unit
  - Up front lump sum commission & on-going commission payments

- Has a high socio-economic client base that “buys” insurance

- Regulation for insurance company is heavy
Icatu (with Banrisul)

Before

- Icatu
  - Distr. channel
  - Risk taker
  - Broker
- Banrisul
  - Broker (in house)
- LoB 1
- LoB 2
- LoB 3

Receives all the profits

Banrisul uses Icatu’s paper

After

- Icatu
  - Broker
- Banrisul
  - Insurer
  - Virtual Company
- LoB 1
- LoB 2
- LoB 3

Receives 50% of the profits and share 50% of the commision

Received U$ Xm from Icatu

Banrisul Insurance own paper

R: Profit share model and long term commitment

Receives 100% commision

Banrisul uses Icatu’s paper

Receives: 50% of the profits
50% of commision and FEE for the backoffice
Paid U$ Xm to Banrisul

Banrisul uses Icatu’s paper
Banrisul

- Banrisul Bank moved from being a distributor to a risk-taker
- Received one time payment of US$X million
- The Insurance partner (Icatu) now enjoys a “stress free” long term relationship in the prosperous Southern Brazilian region
- All new insurance policies are now written on “Banrisul Insurer” paper
- Banrisul’s revenue now includes
  - 50% of its in house broker’s commission (other 50% goes to its JV partner - Icatu)
  - Plus 50% of earning of its Insurance company
  - Minus Administration fees paid to Icatu for administering the insurance business
- Banrisul Bank is even more motivated to sell insurance policies – more skin in the game
- Regulation is now heavy – but JV partner looks after this issue
Itaú

Before

Itaú Insurance companies

Auto & Homeowner

Ind. Life & Pension

Others LoB’s

Health

Large Risks

Group Life

Itaú uses it’s own paper

After

Itaú Insurance companies

Porto insurance

s/h 30%

Auto & Homeowner

Ind. Life & Pension

Others LoB’s

Itaú uses it’s own paper
Itaú
Continuous divesting strategy

- 2009: Health portfolio sold to Tempo Participações ($55m)
- 2013: Large risks portfolio sold to ACE ($1.5b)
- 2016: Group Life portfolio sold to Prudential
Itaú

- Insurance is not core business
- Has an extremely strong brand which they leverage
- All insurance policies are written on Itau’s paper
- Very opportunistic & continuous analysis of Insurance business
  - Life & Pensions (in house)
  - Auto – they sold their portfolio BUT acquired large stake of shareholding of purchaser
  - Health – Exited (tough regulation)
  - Group Life – Exited (price compression)
- Make use of both their in-house broker (bancassurance) and corporate brokers (Aon, Marsh, Willis)
Bradesco

**Before**

- Bradesco Insurance companies
  - LoB 1
  - LoB 2
  - Large Risks

**After**

- Bradesco Insurance companies
- LoB 1
- LoB 2

Swiss Re Corporate Solutions Large Risks

- 9th largest Direct Writer
- 50% Swiss Re paper
- 50% Bradesco paper

Bradesco uses its own paper

Distr. channel
Risk taker
Broker
Bradesco

- Considers Insurance to be “core business” for the group
- Has an extremely strong brand which they wish to leverage
- All insurance policies are written on “Bradesco Insurance paper”
- Make use of both their in-house broker (bancassurance) and corporate brokers (Aon, Marsh, Willis)
- JV with Swiss Re (large risks P&C)
  - Reduced Bradesco’s top line – R$412 million (US$140 million) – less than 1%
  - Swiss Re provide cash injection
  - JV writes on Swiss Re Corporate Solutions paper
- Bradesco enjoys very powerful lobby with the Regulators/Government – competitive advantage
- Owns large % of State Reinsurer (IRB). Gets special terms and conditions
Take away points...

- High growth opportunity for the Caribbean/Central America
- No perfect bancassurance “model” – model structure can be fluid
- Multi distribution channel is best strategy
- Scale is a driver for model
- Is Insurance Regulation stringent or flexible?
- Underlying profitability of bank vs insurance
- Strength of bank’s brand
- Bank’s clients – propensity to buy what products?
- Multinational vs Local (more authority)
- More complex models exist – Banco do Brasil. Zurich Santander, Caixa
Bancassurance models – Conclusion?

1. **Integrated bancassurance group** – bank owns insurer or vice versa *(highest maintenance – really need scale & super brand).*

2. **Distributor partnerships** – bank acts as an intermediary, offering products of more than one insurance company. *(lowest maintenance – plug and play)*

3. **Strategic alliances** – bank sells the product(s) of only one insurance company.

4. **Joint ventures** – bank and insurer establish jointly-owned insurance distributor.
Bancassurance Analysis
Bancassurance Analysis

Triangular Analysis

The area of the triangle measures how attractive insurance can be for the bank.

Alignment between Bank and Insurer

Flexible Regulation

Low Competition

“Ideal World”

Area of the triangle
Bancassurance Analysis

Triangular Analysis

**Scenario 1:**
Bank reduces their commission on insurance products

The area of the triangle measures how attractive insurance can be for the bank.

Area of the triangle

"Ideal World"
Bancassurance Analysis

Triangular Analysis

Scenario 1:
Bank reduces their commission on insurance products

The area of the triangle measures how attractive insurance can be for the bank

Area of the triangle
"Ideal World" Less commission
Bancassurance Analysis

Triangular Analysis

Scenario 2:
regulation becomes tough – increase regulation on bancassurers

The area of the triangle measures how attractive insurance can be for the bank
Bancassurance Analysis

Triangular Analysis

**Scenario 2:**
regulation becomes
tough – increase
regulation on
bancassurers

The area of the triangle measures how attractive insurance can be for the bank.
Bancassurance Analysis

Triangular Analysis

**Scenario 3:**
more competitors
enter in the
marketplace

The area of the triangle measures how attractive insurance can be for the bank

Area of the triangle

"Ideal World"
Bancassurance Analysis

Triangular Analysis

Scenario 3:
more competitors
enter in the
marketplace

The area of the triangle measures how attractive insurance can be for the bank.
Bancassurance Analysis

Triangular Analysis

**Scenario 4:**
all the 3 scenarios combined

The area of the triangle measures how attractive insurance can be for the bank.
**Bancassurance Analysis**

**Triangular Analysis**

**Scenario 4:**
all the 3 scenarios combined

The area of the triangle measures how attractive insurance can be for the bank.
What do all of these companies have in common?
Answer

- **BIG DATA / Data Mining**
- Access to high speed computing
- “State of the art” modeling techniques and software
- Work in an extremely competitive environment – even slight advantages provide non linear upside in market share
- They all use Predictive Modelling (PM)
Application to Insurance Industry

Optimize the Value of Available Data

Behavioral/Policyholder/Policy Specifics/Territorial

Demographic Data
Past Claims History
Laboratory Data
Property Data
Prescription Histories
(Potential) Customer
Banking Data
Insurance Data
Socio-Economic
Electronic Health Records
Driving Violations
Spending Data
Interests & Behaviors
...and more
Build Models & Make Predictions
Predictive Modeling

The Basics

- PM is an approach to forecasting an outcome or probability, typically using historical facts and data.
- Creating PMs involves collecting and analyzing large data sets to find meaningful relationships.
- Data Regression Analysis forms the basis of many Predictive Models, but there are a wide range of model forms and algorithms.
The objective

- Each model returns a “likelihood” score
- Safeguards against the worst risks and anti-selection concerns
- Fast Issue for those least likely to claim
- Full UW for the more risky cases
- A more simplified process for those in the middle
Simplified Issue Example

Application
Simplified Issue Application with Drill Downs

Gather 3rd Party Data

Meets Req's

Low TRL Scores
Offer Preferred SI

Intermediate TRL Scores
Offer Standard SI

High TRL Scores
Refer to Underwriter
Questions?

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Market Overviews
Global bancassurance market overviews

**Brazil**

- One of the largest and most sophisticated financial systems in Latin America
- Low market penetration for insurance which is being addressed by tapping the growing middle market
- Bancassurance is well established (80% distribution share) with active sales through bank channels
- Established bank brands supported by strong customer loyalty
- Little regulatory implications for insurers – numerous integrated bancassurance models
- 3 of the 4 largest banks account for 60% of premiums
- Government reforms promote domestic savings products (tax-deferred retirement plans)
- Individual life and retirement products are staples – aligning well with insurers' focus on savings and asset-accumulation services
- Successful cross-marketing of products — strong customer relationship management and marketing

**Mexico**

- Vast market potential and low penetration rates increases the opportunities for distribution through banks and telemarketing
- The top 5 banks account for approximately 30% of total life income (strong increase from 2005 when it was 17%)
- No restrictions on cross-ownership between banks and insurers
- Large shift of the population into the middle market and some into the preferred/affluent markets
- Primary products offered: simple one year term, credit linked/universal life policies and endowments, indemnity-type medical and critical illness, and bundled life and health products
- Strong geographical presence of banks through branch networks – advantage for servicing customers and less developed areas
- Market plans to grow bancassurance business by doubling the size in the next three years.
Global bancassurance market overviews

- Banks are the principal distribution channel for insurance and investment products
- Extensive branch networks and excellent customer service and loyalty, supported by a strong foundation of capital resources
- Consolidation of banks and mergers of local savings banks (cajas) negatively impacted insurers limiting their distribution capabilities
- Bancassurance distribution has declined slightly since 2013 for the total written premium being generated (now 69%)
- Distribution is based on the simplification of processes, and future innovation will be based on simplifying underwriting processing and products

- Bancassurance is the leading distribution channel with many integrated players
- 59% of life insurance reserves and 96% of total bank investments at the end of 2013 were managed by the leading bancassurance groups
- Dominance of bank distribution is due to protection being largely covered by state and contributory social security – limiting the need for individual private cover and there are tax incentives on savings products
- Products are distributed through banks and post offices (La Poste) which naturally lend themselves to over-the-counter insurance sales
- Banks are focusing on digital strategies for growth which will progressively extend to insurance sales
Global bancassurance market overviews

- Bancassurance was signed into law in 2013 which permitted cross-selling products within Bangko Sentral ng Filipinas (BSP)-licensed banks
- Bancassurance was triggered by the regulatory environment and market conditions
- Banks hold a distribution share of over 40% of the life market
- Changes to the equity investments in insurance companies are no longer required by banks to transact bancassurance
- Bancassurance distribution is through joint ventures, integrated models (bank-owned insurance companies) and brokerages set up by bancassurers
- Single premium unit-linked products are the primary products in the market
- Banks benefit from cross-selling

- Bancassurance maintains a 20% to 30% market premium share by distribution channel
- Dominated by multinational life companies and family takaful operators in the market
- Single premium mortgage/credit insurance is the leading product for conventional and family takaful business
- Affluent market is targeted for a broader range of investment-linked, endowments, traditional WL products and private medical insurance (PMI)
- Bancassurance channels cater to less affluent segments
- New LIFE framework regulatory requirements are driving non-agency channel distribution to exceed 30% of regular premium/contribution of products sold by 2020
- Very high penetration for mobile technology and internet
- Term products are mandated to be sold through direct channels (followed by CI, medical, health and takaful products by 2018)
Global bancassurance market overviews

- Bancassurance constituted 50% of individual new life distribution (the largest channel) in 2014
- Banks are the leading channel because of their knowledge of their customers’ financial status, combined with their brand, ability to segment and target-market their customer base effectively
- Bancassurance power has been reinforced by long-term tie-ups with some of the leading agency distributors (AIA with Citigroup)
- Banks sell everything from deposit-replacement savings policies (at the bottom end) to leveraged UL policies (at the top end) and a wide range of health-related products

- The bancassurance channel has surged from 19% to 36% from 2007 to 2014 for life distribution
- Manulife’s 15-year agreement with DBS services includes Singapore, Hong Kong, Indonesia & China
- Typically sell protection covers linked to bank credit - supported by discounted interest terms; short-term endowment sales as a deposit replacement product
- Private banking caters to HNW and sells mostly single premium investments for legacy planning and wealth transfer
- Expatriate community generates significant amounts of single premium business written and banks may support clients by facilitating loans for investment purposes

Hong Kong

Singapore