

LINKING BANKS AND INSURANCE COMPANIES – A NEW TREND IN THE MACEDONIAN BANKING SECTOR

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ABSTRACT

Cooperation between banks and insurance companies is a contemporary trend in many banks in developed and developing countries and has recently been increasingly implemented in our country. Insurance slowly but surely becomes one of the most attractive options for expanding the banking business. The borrower, banks as intermediaries and insurance companies also benefit from this method of connection. Also, insurance is used by banks to manage risks. Out of 15 banks in the Macedonian banking sector, 7 banks have received permission from the Supervision Agency and the NBRM to perform insurance representation activities.

The purpose of this paper is to put emphasize on bancassurance as a new modern trend in many countries, to analyze which banks follow this trend and which products they offer in cooperation with insurance companies. Also, it is made a comparative analysis of the application of this method in individual countries.

KEY WORDS: banks, insurance companies, bancassurance

INTRODUCTION

The term "bancassurance" for the first is appeared in France. As a model has been operating in Europe since 1980 and indicates the simple distribution of insurance products by bank branches, with the bank fully using its customer base as potential customers for some type of insurance. (N. Genetay, P. Molyneux., 2016; Suresh P., 2011)

Bancassurance is a modern channel for distribution of insurance products, and in our country, although at the beginning, still has great potential. Banks can be an important channel for insurance in the country. The model of bancassurance has benefits for the banks and insurance companies, but also for the citizens, because in that way they will be able to get life or non-life insurance more easily. Thus, the offer of integrated financial services that are characteristic of financial institutions capable of providing all types of financial services "under one roof" has become a reality. (Stijn, C., 2002).

THE BANCASSURANCE MODEL

Bancassurance can be found in several models of cooperation but generally, can be classified into a simpler and more complex model of bancassurance. The simplest model is when the bank offers the

existing products of the insurance company. In addition, within its marketing strategy, the bank can offer insurance products in addition to its services with certain benefits (eg.: property insurance with mortgage loans, travel insurance with credit cards, etc.) The advantage of this model is that the activities can start very quickly and without significant capital investments, while disadvantage can be the inflexibility that arises from the already defined offer in both entities.

A more complex form of bancassurance is the model when the bank in cooperation with the insurance company forms a product that as an integral part has a certain type of insurance coverage (eg: a loan supplemented with risk life insurance). Given the long-term character of mortgage loans, this form of bancassurance is more difficult to manage in the long term because the two entities have different life and development cycles.

The challenge for both models is the different corporate culture of the two entities. This can be overcome with the model of full integration, i.e. the establishment of an insurance company by the bank, but that is a large and complex business decision due to the significant investment and the overall procedure.

APPLICATION OF THE BANCASSURANCE MODEL BY MACEDONIAN BANKS

In our country, the application of bancassurance become topical when the legal solutions allowed the banks to expand on the insurance market. With the adoption of the Law on Amending the Law on Insurance Supervision in 2007, the Macedonian legislation regulated the bancassurance. From a legal aspect, in the context of the Law, bancassurance is recognized as performing insurance representation activities. For that, the bank should receive a permission to perform insurance representation activities by the National Bank of the Republic of Macedonia on the basis of prior consent of the Insurance Supervision Agency. The banks have used and still use the opportunity to sell insurance as a supplement or connection to the product or service they offer and before the emergence of this regulated form. For example: - Property insurance policy, when the bank's client is a user of a mortgage loan for which he has pledged real or movable property for the benefit of the bank (insurance of an apartment/house or car insurance). Travel insurance policy, when the bank's customer is a user of a debit/credit card with which he has paid for the trip or uses it when traveling abroad.

The role of sales intermediation is having an increasing impact on the insurance sector. According to the Annual Report on the situation and movements of the Insurance Market in 2018, 48.74% (2017: 50.62%) of the realized GWP were realized through direct sales by the insurance companies, while 51.26% (2017: 49.38%) are realized through indirect intermediation channels (Table 1).

Table 1. Participation of the banks in the structure of the channels for policies sale according to the realized GWP (thousand denars)

	2018	%	2017	%	2016	%
Direct sales	4.838.893	48,74%	4.551.392	50,62%	3.985.000	45,69%
Insurance brokerage companies	2.745.963	26,66%	2.380.037	26,47%	2.228.717	25,55%
Insurance agents	1.053.116	10,61%	991.211	11,02%	1.471.514	16,87%
Insurance companies	858.660	8,65%	829.413	9,22%	864.212	9,91%

Banks	371.757	3,74%	193.260	2,15%	131.253	1,50%
Tourist agencies	34.198	0,34%	34.674	0,39%	34.473	0,40%
Other distribution channels	15.937	0,16%	5.019	0,06%	194	0,00%
Auto dealers	0.041	0,09%	7.071	0,08%	6.081	0,07%
Total	9.927.565	100,00%	8.992.077	100,00%	8.721.444	100,00%

Source: Annual report of the insurance market in 2018, p. 26, July, 2019

According to the latest published Analysis of the insurance market for 3Q, 2019, total 16 insurance companies are actively working on the insurance market, of which 11 companies perform non-life insurance activities, while 5 life insurance. According to the data in this analysis, there are 6 commercial banks as insurance representatives (3Q2018: 5). But as a result of giving permission to sell insurance products for one bank in 2019 and one bank in 2020, total seven banks have permission to offer insurance product through their network of branches (Table 2).

Table 2. List of Macedonian banks that offer life and non-life insurance policies

Bank - insurance representative	NBRM permission	Represented insurance company
Ohridska Banka AD, Skopje	10.2012	AD for insurance GRAWE Skopje
NLB Banka AD, Skopje	05.2015	Sava insurance a.d. Skopje
		CROATIA INSURANCE AD - Life Insurance Company, Skopje
Sparkasse Bank Macedonia AD, Skopje	07.2015	WINNER LIFE – Vienna Insurance Group Skopje
		WINNER LIFE Insurance Group Skopje
HALK BANKA AD Skopje	02.2018	Insurance company HALKINSURANCE AD, Skopje
		CROATIA INSURANCE AD - Life Insurance Company, Skopje
Stopanska Banka AD Skopje	07.2018	CROATIA INSURANCE AD - Non-life insurance company Skopje
		Life Insurance Company UNIQA LIFE AD, Skopje
Komercijalna Banka AD Skopje	04.2019	Stock Company for Insurance and Reinsurance MACEDONIA Skopje-Vienna Insurance group
		TRIGLAV INSURANCE AD, Skopje
Universal Investment Bank AD Skopje	01.2020	CROATIA INSURANCE AD - Life Insurance Company, Skopje

Source: Register of banks that have received a license to perform insurance representation activities, 11.2.2020

According to the NBRM Financial Stability Report for 2018, cooperation between banks and companies for written premiums charged through banks, have a small share of the total premiums of insurance companies in 2018. The number of insured banks' claims is small.

However, within the traditional life insurance, the representation in the insurance by several banks contributes to the growth of this type of insurance. That is mostly used as a loan security and is mainly sold through banks as insurance representatives. In recent years, bancassurance has gradually increased (from 1% share in the value of the amount of sold GWP in 2014 to 17.9% in 2018, and compared to 2017 growth is 6 percentage points).

According to the Analysis of the insurance market for 3Q, 2019, in the structure of sales channels in non-life insurance, the largest share is occupied by direct sales with 53.31%, and banks have a share of only 1.19%. In contrast, in the structure of sales channels in life insurance, the largest share is occupied by insurance brokerage companies with 41.03%, followed by banks with a share of 24.4%.

Table 3. Gross written premiums (by insurance companies)

000 MKD

Insurance company	Ohridska Banka	NLB Banka	Sparkasse Banka	Halk Banka	Stopanska Banka	Komercijalna Banka	Total
Total Non-Life	0	28.740	0	528	31.876	9.041	70.185
Macedonia	0	0	0	0	0	9.032	9.032
Triglav	0	0	0	0	0	9	9
Sava	0	28.740	0	0	0	0	28.740
Uniqa	0	0	0	0	0	0	0
Halk	0	0	0	528	0	0	528
Croatia Non-life	0	0	0	0	31.876	0	31.876
Osiguritelna polisa	0	0	0	0	0	0	0
Total - Life	41.268	146.562	4.626	73.149	14.051	0	279.656
Croatia Life	0	146.562	0	73.149	0	0	219.711
Grawe	41.268	0	0	0	0	0	41.268
Winner Life	0	0	4.626	0	0	0	4.626
Uniqa Life	0	0	0	0	14.051	0	14.051
Total	41.268	175.302	4.626	73.677	45.927	9.041	349.841

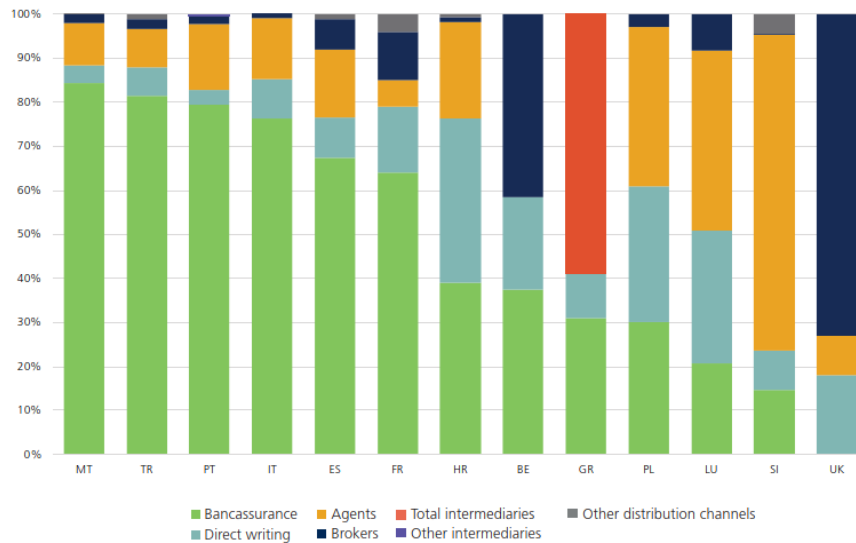
Source: Report on the content and scope of work of the insurance companies for the period 01.01 - 30.09.2019

COMPARATIVE ANALYSIS OF THE APPLICATION OF THE BANCASSURANCE MODEL IN INDIVIDUAL COUNTRIES

The examples of other countries show the potential of the bancassurance model for the two industries - banking and insurance. Bancassurance has a different level of development around the world and reasons for this is primarily due to the impact of regulation, as well as a number of cultural, social and demographic factors. But despite the heterogeneity, in recent years the importance of bancassurance has been increasing in developed and developing countries with lower insurance penetration and limited distribution channels.

Bancassurance is the main distribution channel of life insurance in some European countries with a share of more than 80% in Malta and Turkey, more than 70% in Portugal and Italy and more than 60% in Spain and France (Graph 1).

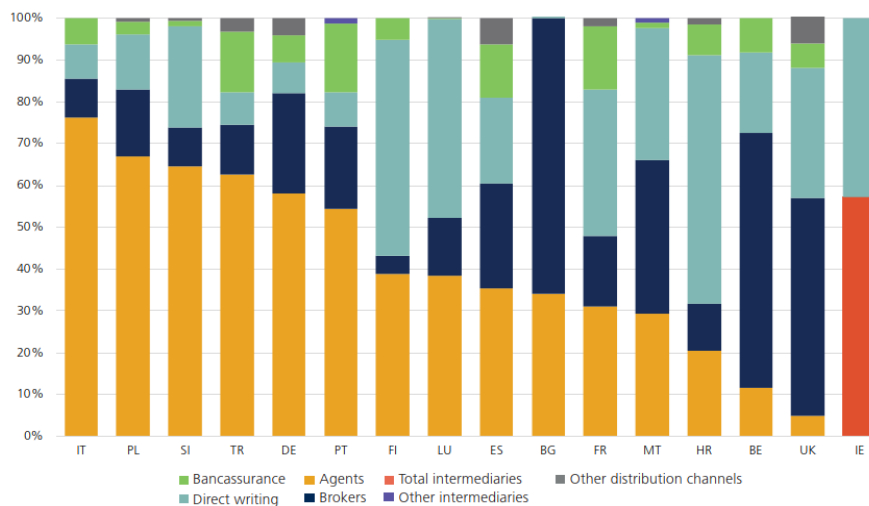
Graph 1. Distributed life insurance channels in certain European countries (% of GWP) – 2017



Source: European Insurance – Key Facts, September 2019

In contrast to life insurance, bancassurance in Europe has a lower share in the non-life insurance segment, i.e. it comes after agents, brokers and direct sales, but in recent years there is a positive trend because non-life products become more attractive and easier to distribute (Graph 2).

Graph 2. Distributed channels of non-life insurance in certain European countries (% of GWP) - 2017



Source: European Insurance – Key Facts, September 2019

BANCASSURANCE AND RISK MANAGEMENT

Insurance is part of a country's financial system and is a complementary activity to banking in many countries around the world. Intense competition between banks has increased administrative costs, amid declining interest rate margins. This has limited the profit margin for traditional banking services, which forced the need to find new services. The banks had to find a way to increase profitability and productivity, due to significant changes in customer preferences. Cooperation between banks and

insurance companies reduces business risk and banks achieve a higher price advantage by selling insurance products than insurance companies. (Saunders and Walter,1994; Hughes et al.,1999). Bancassurance as a service primarily provides credit risk management to the insured. The banks in cooperation with insurance companies offer loans with additional protection. The insurance company will settle the outstanding principal of the loan, if occurs an adverse event. These are the offer of consumer loan plus insurance, housing loan plus insurance, credit and debit cards plus insurance, allowed overdraft plus insurance, etc. This means that are offered "risk free" products, such as a product that combines consumer loan and life insurance in a particular market offering. These are products that provide additional protection through the life insurance of the borrower and that offer greater security in the repayment of the loan. These products provide more benefits. The borrower does not worry that someone else would be burdened with his credit obligations if occurs an adverse event. For the insurance companies, these products mean increased supply, increased distribution and sales network, increased customer portfolio, risk diversification and better financial results. For banks, this is not only an opportunity for higher revenues, but also an opportunity to more easily manage credit risk, because instead of allocating reservations for non-repayment of the loan, the borrower does that by paying the insurance premium.

CONCLUSION

The potential for the implementation of the bancassurance model in our country is almost unlimited, and there are many reasons for that. The process of reducing the number of banks begins with the introduction of new financial companies, which should be a kind of competition of smaller banks, and thus the banks would start thinking about mergers or full sales. Another important point is the development of insurance companies and the number of products they offer. If we take into account the constant (limited) number of potential customers, then it would be in the interest of insurance companies potentially to increase the base. Insurance companies base their investment decision on the possibility of agreeing with one of the banks to use their branches to sell insurance policies. In this regard, it is the incentive that can be given to banks in form of relief in terms of capital adequacy if they have non-life insurance policies that would cover not only the basic risk of housing loans, such as fire, but also the risk of natural disasters, such as earthquakes, etc. The whole activity is in joint sale of complementary products for the final consumer - the client. Given these facts, it can be concluded that the potential for bancassurance in our country is realistic, but should be followed the example of implementation of bancassurance in highly developed countries, as well as some countries in the region. All insurance companies and banks should consider to introducing this way of selling in their operations. But this requires serious investment, as in information technology, telecommunications and professional staff in both industries. There is a professional staff in our country, who, regardless of whether they work in a bank or an insurance company, can easily cope with the challenge of bancassurance. Therefore, it is expected that there will be new investors in the field of insurance in the future. It requires more information and general education of the clients of the banks and the insurance companies for the offer of their services. Also, it requires to increase the insurance culture, for which the banks and the insurance companies should make greater efforts, in order the bancassurance to approach to international trends.

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