

# The Role of Bancassurance in the CEE countries

West Balkan-Conference 10th June 2015,  
Sarajevo

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**ERGO**



1. ERGO International

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2. Market potential

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3. Trends in Bancassurance

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4. Main challenges for insurers and banks

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5. Opportunities and Challenges

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6. Questions & Answers

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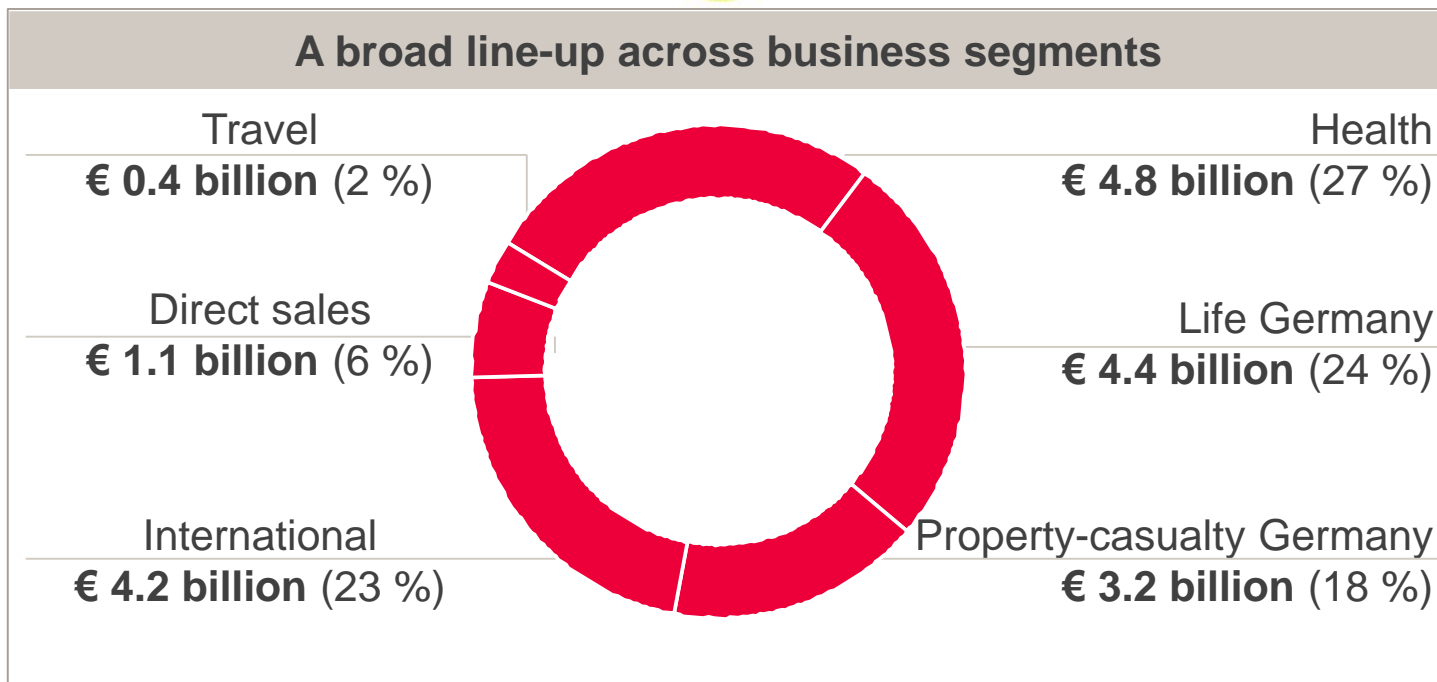


TOTAL PREMIUMS  
**€ 18.2 billion**

INVESTMENTS  
**€ 128 billion**

BENEFITS TO CUSTOMERS  
**€ 17.9 billion**

CONSOLIDATED GROUP RESULT  
**€ 620 million**





- International Competence Center Bancassurance (ICCB) established in Vienna to drive and support Bancassurance expansion in Europe and Asia
- Strong strategic partnerships and presence across Central, Eastern Europe and Asia
- Almost 50 local bank partnerships across Europe, of which 19 in Poland
- Austria as hub for pan-European Bancassurance activities
- Strong focus on developing the international business
- Total bancassurance new business (APE) 2013: € 389 million

# Banking markets in the CEE15\* (Size vs. Growth)

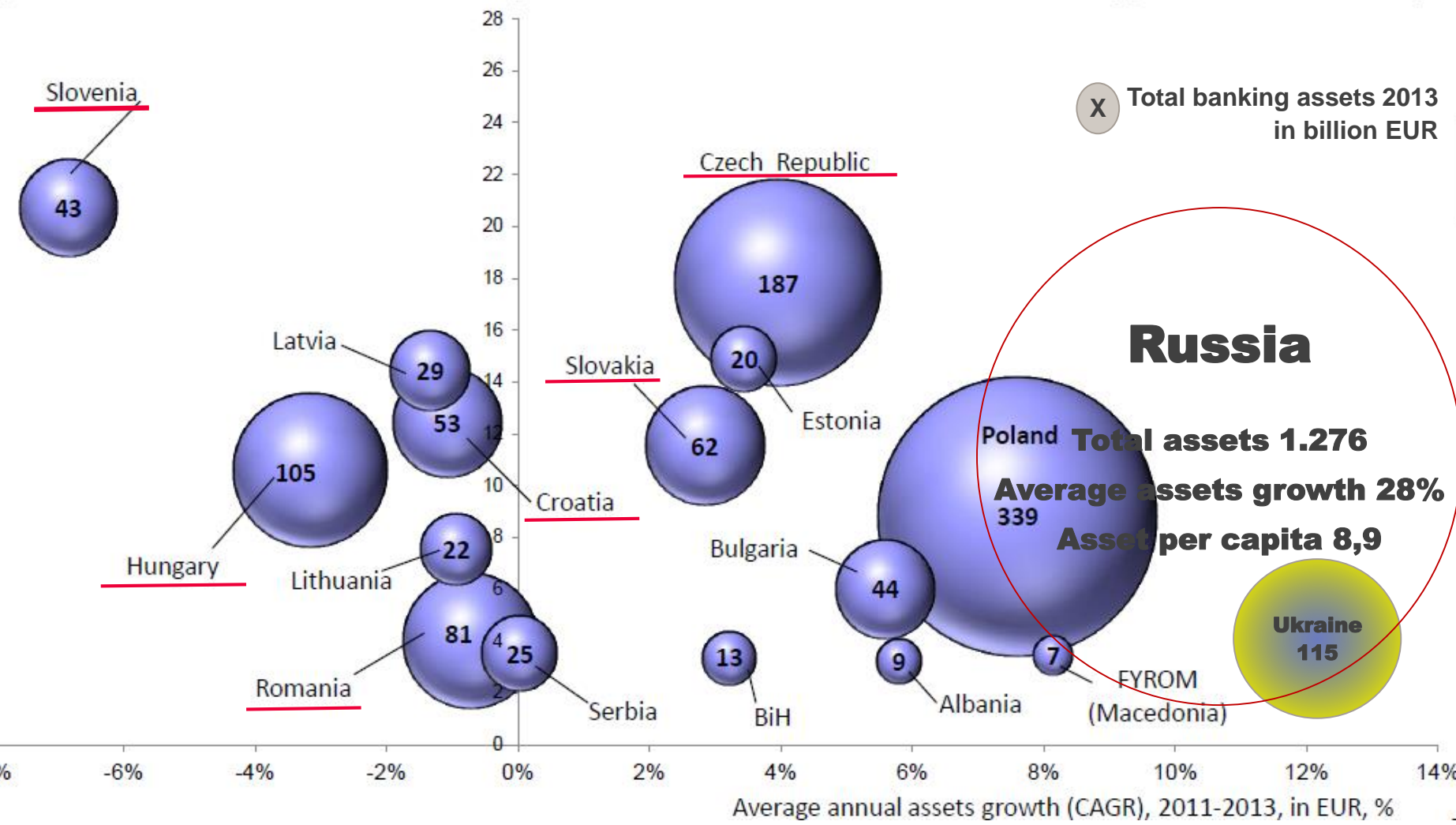


Negative growth

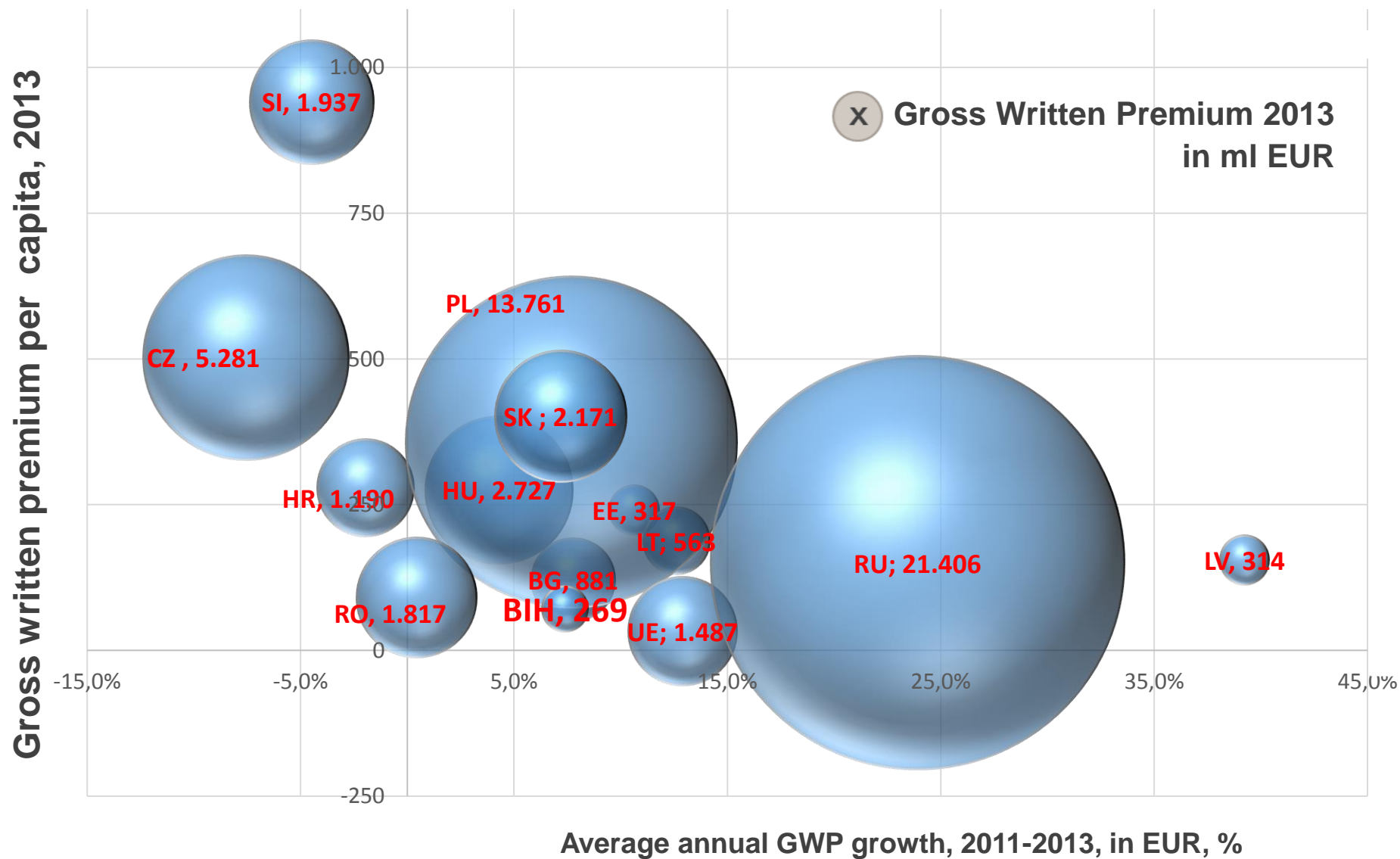
Low growth

High growth

Banking assets per capita, 2013, in '000 EUR



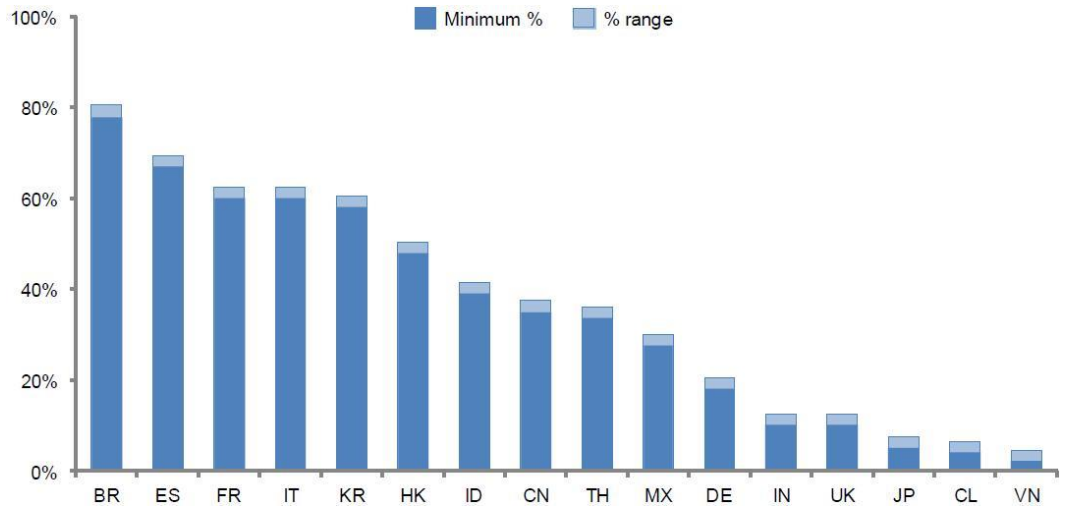
# Insurance markets in the CEE15\* (Size vs. Growth)



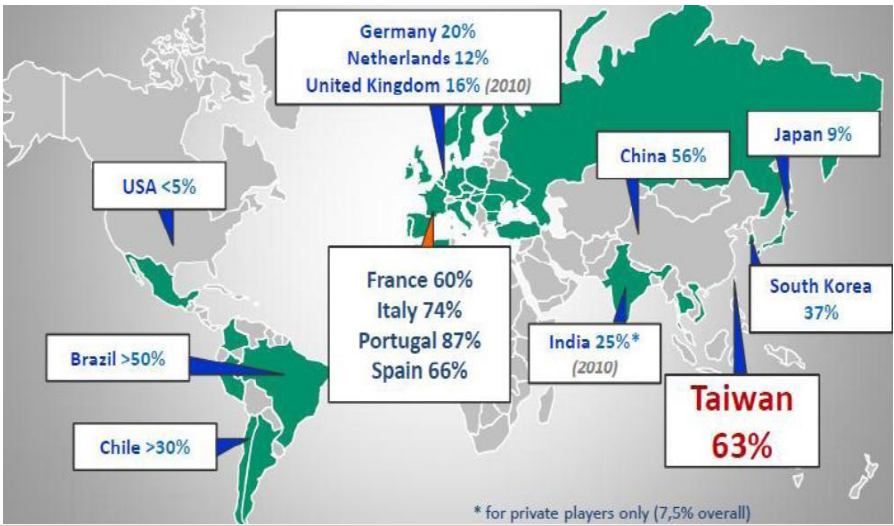
# Bancassurance is one of the most promising sales channels in insurance business



**Estimated Distribution Share of Bancassurance in Life Insurance Sales, 2012**



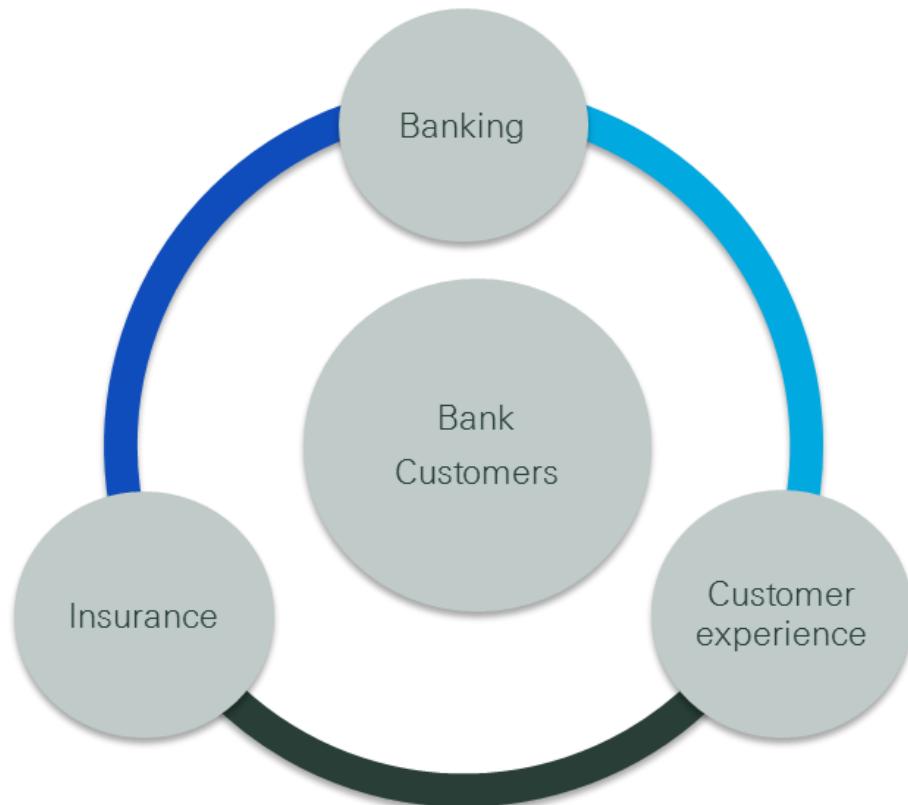
**Bancassurance Penetration in Life Insurance, 2012**



- Bancassurance growth is increasingly supported by distribution of more complex Life & Non-Life products
- 33 % of European bank clients own at least one policy from their bank
- The share of bancassurance has been increasing in most markets, with growth driven mainly by loan and mortgage related protection business
- Banks will play a pivotal role offering investment products such as unit-linked savings plans.



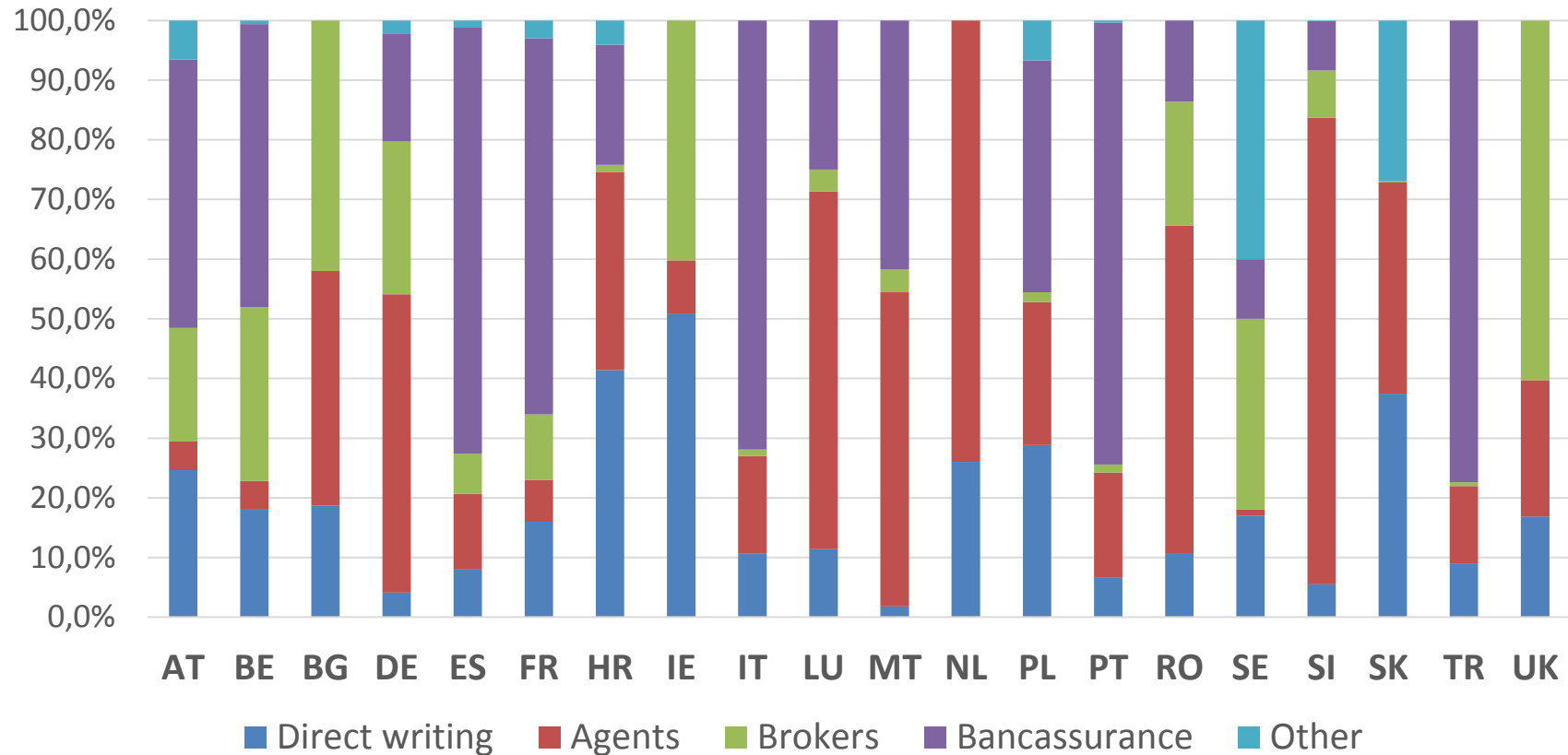
## Bancassurance provides many growth opportunities and benefits for each party



- Risk-free source of revenue from insurance **sales commissions**
- Increased bank branches **profitability**
- Increased employee **productivity**
- New **product range** without cost of research and design
- Access to strong **product development capabilities**
- Effective **sales training** with development of sales culture and proactive approach
- Increased **customer satisfaction** and loyalty
- Development of **new insurance products** to add value to the existing core banking products
- Better **long-term planning** with ERGO and homogeneous marketing strategies

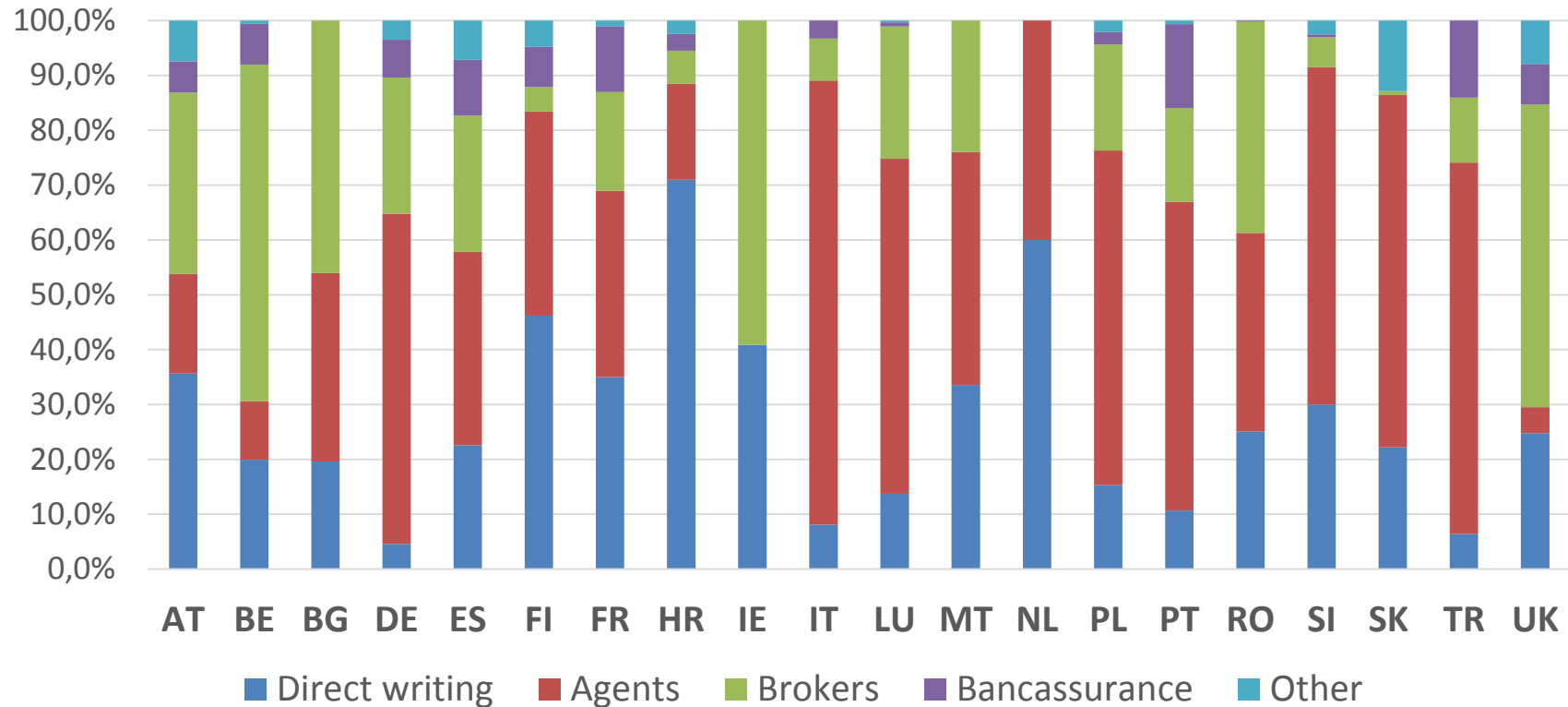


# Breakdown of life insurance premiums by distribution channel - 2012



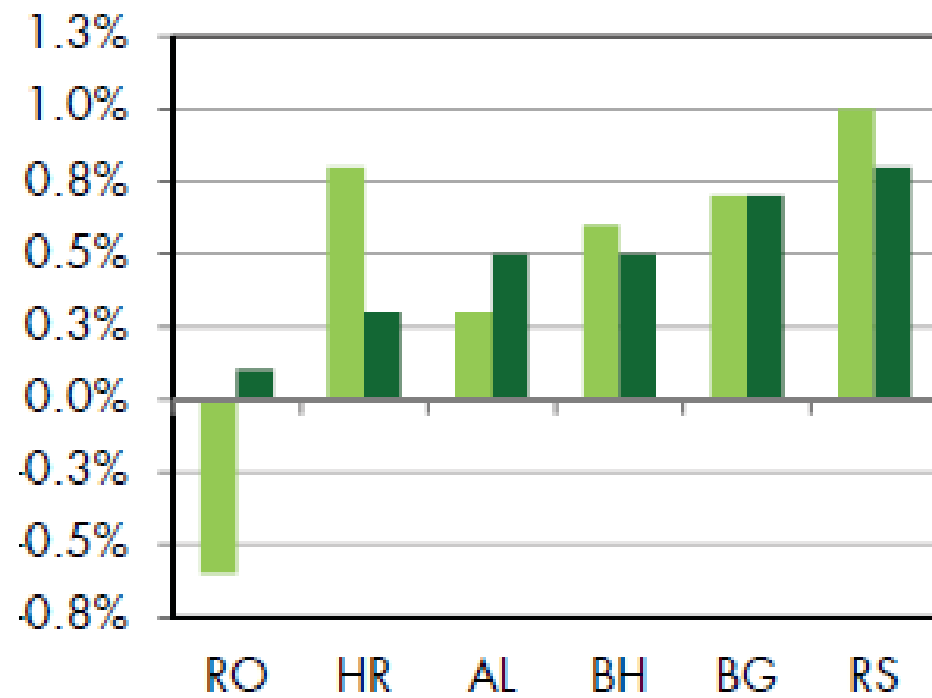
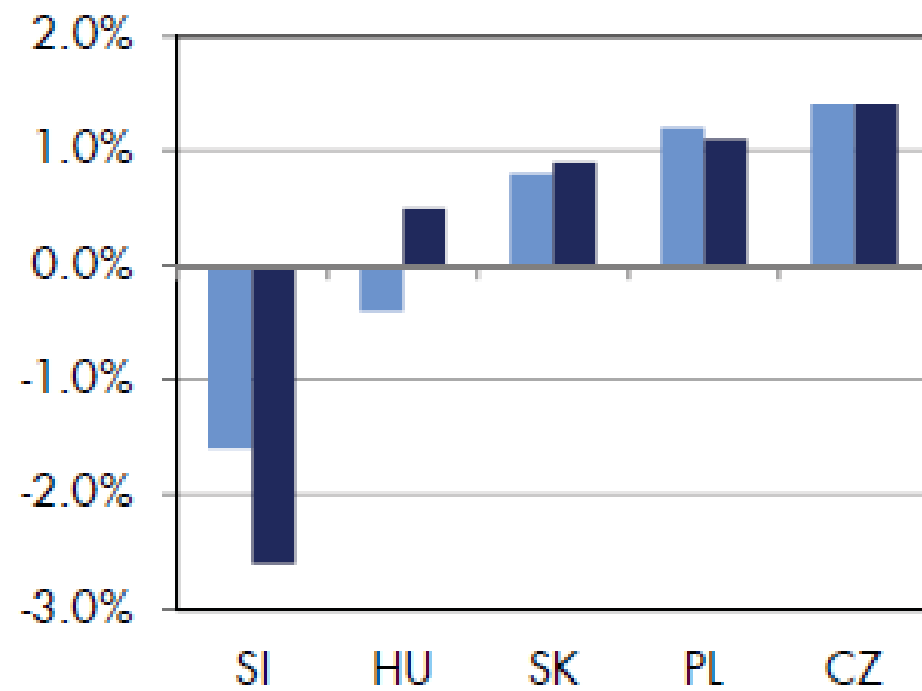
**▶ The main distribution channel for the Life insurance market !**

# Breakdown of non-life insurance premiums by distribution channel - 2012



**In the last years the Role of the Bancassurance in Non-Life is continually increasing!**

# Challenge #1: Drop in RoA




(Banking sector RoA by region in %), 2012-2013

**▶ The overall RoA in CEE slide from 1.5% to 1.2%**


### For the banks

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- Basel 3
  - Regulatory interventions
  - Consumer protection
  - Structural reform
  - Reducing systemic risk
- 
- Capital requirements, Liquidity
  - Provisions, Authorisation, Compensation, Supervisory approach, Disclosure
  - Conduct risk, Consumer credit, Deposit insurance, Debt management, Retail investment products
  - Compensation, Ring-fencing, continuous cost pressure
  - Supervisory oversight, G-SIFIs, Living wills

### For insurance company

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- **Low interest rate environment**
  - Regulatory changes
  - Changes in tax benefits
  - Increased competition
- 
- Impact on investment portfolios of life insurers; reduced margins and profitability; weaker value proposition
  - Solvency II, MiFID-2, IMD-2, PRIPs; compliance costs
  - Reduction of tax incentives associated with investments in insurance
  - Savings products from banks; retirement products from AM; aggregators & new market entrants (distributors from outside)

### Risks in investment-linked insurance:

- High risk of consumer detriment when buying life products (compared to other financial products)
- Asymmetry of information
- Mis-selling or poor selling practices

### Current issues related to commissions:

- Cause ambiguity
- Conflict of interest
- Advice to buy a product rather than repaying debt

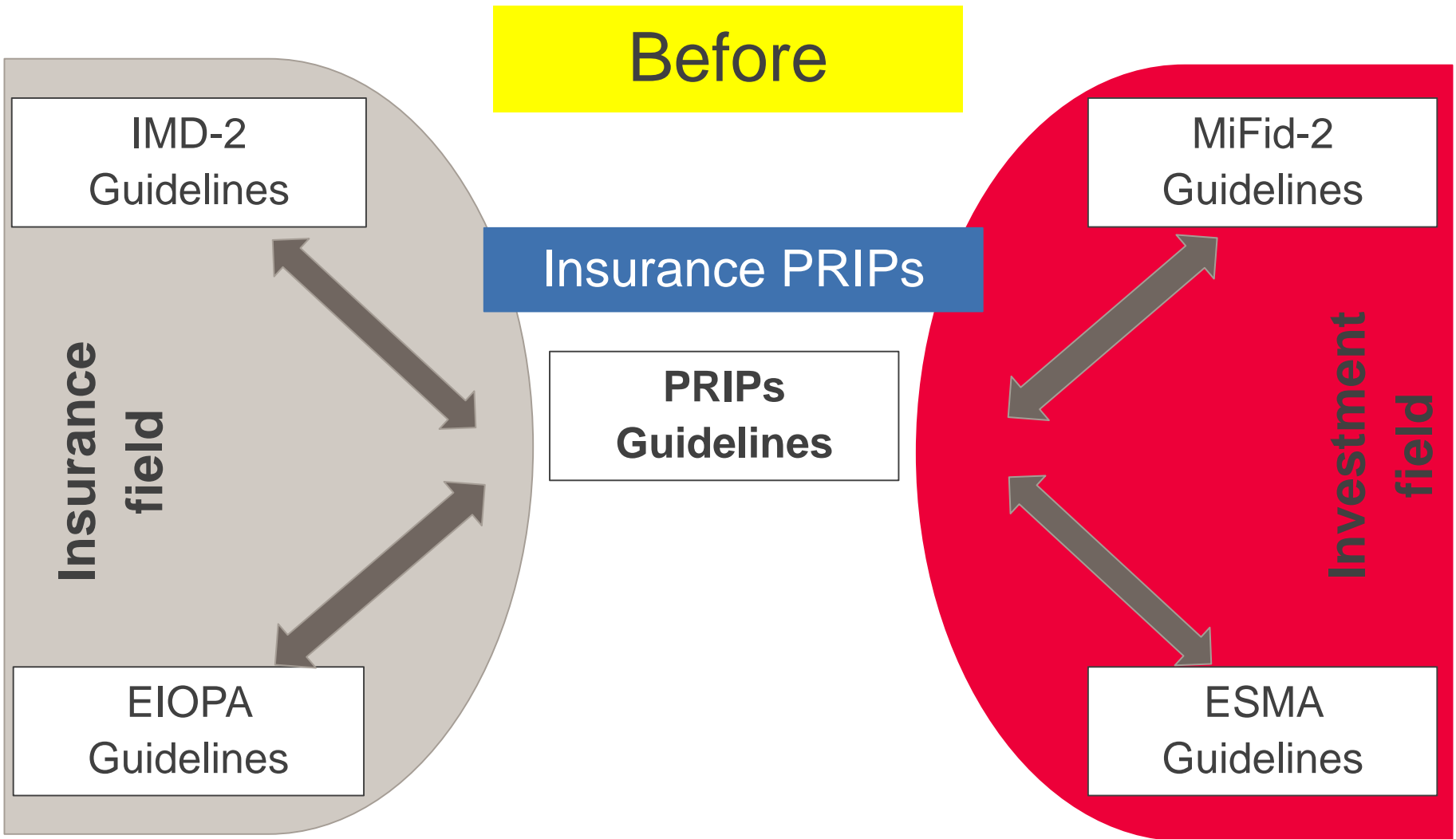
#### Consumer Trends Report, EIOPA, Dec. 2014

- **Unit-linked life insurance – poor selling practices**  
**AT, BE, CZ, ES, NO, LT**

Expected changes, EU level – Remuneration disclosure:

#### IMD 2 – Expected to come into force in 2017

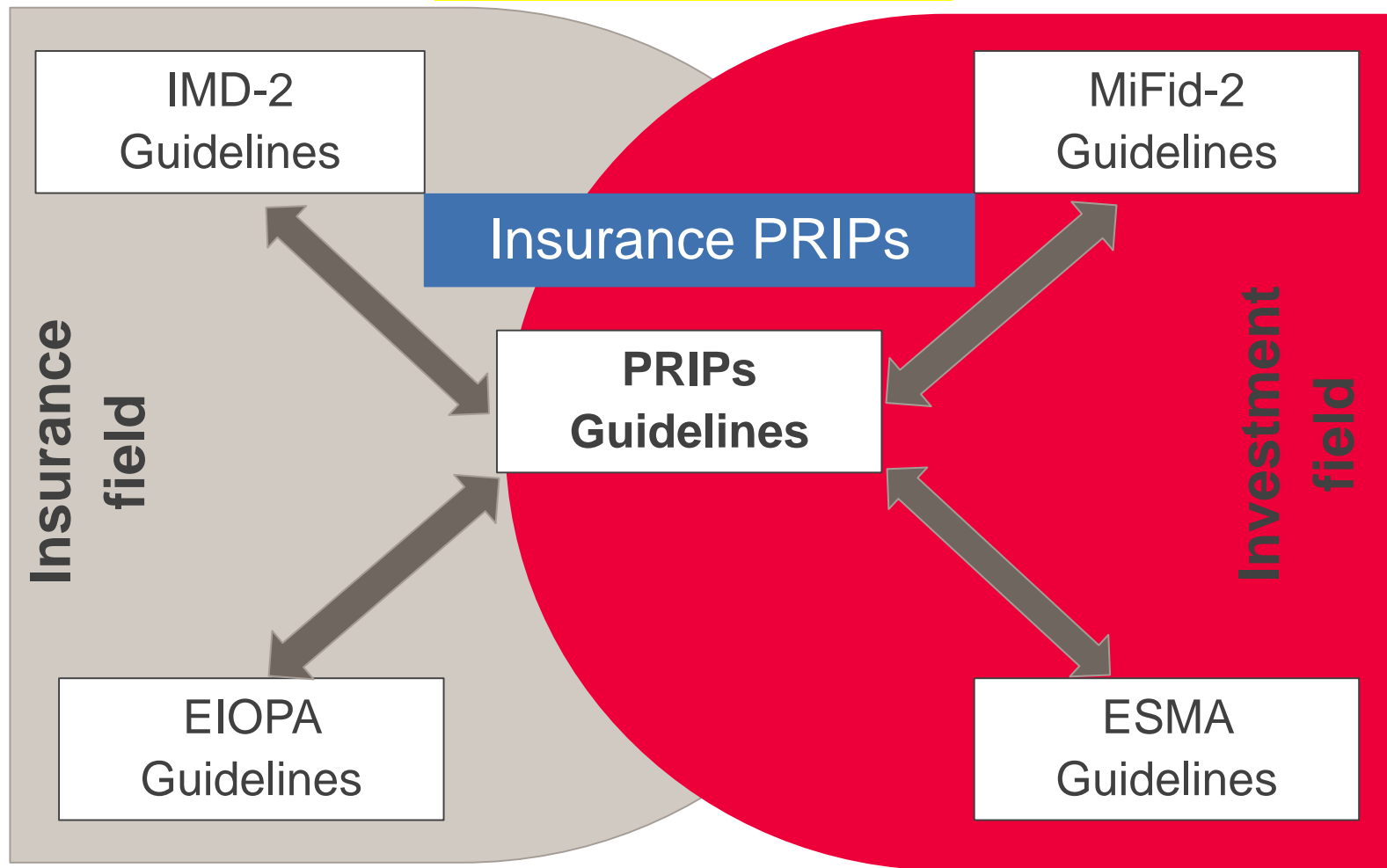
- Customers should be provided in advance with clear information about the status of people who sell insurance products and about the remuneration which they receive. The information should show the relationship between the insurance undertaking and the intermediary (where applicable) as well as the structure and the content of the intermediaries' remuneration.



# PRIPs, IMD-2 und MiFid-2 – new requirements for insurance products



After





## 2014 Recommendation U

Published by the Polish Financial Supervision Authority on 24 June 2014

### Key provisions

- **Bancassurance model and conflicts of interest**

#### Group insurance vs agency model

- i. Banks allowed to receive commissions only under the agency model (bank acting as agent/intermediary)
- ii. Banks not allowed to receive commission under the group insurance model (however the bank is permitted to charge the customer for the cost incurred in concluding/handling the insurance agreement)

- **Transparency and commission levels**

- i. No limits on commissions but the Supervisory Authority expects that commissions should be in line with the costs incurred by the bank
- ii. The bank should always clearly inform the customer if it is acting as agent or as policy holder under the group insurance model. Rules of cooperation between bank and insurer should be transparent, clear and not misleading
- iii. The bank must provide customers with clear and comparable information (when offering similar products from different insurance providers)

- **Freedom of Choice**

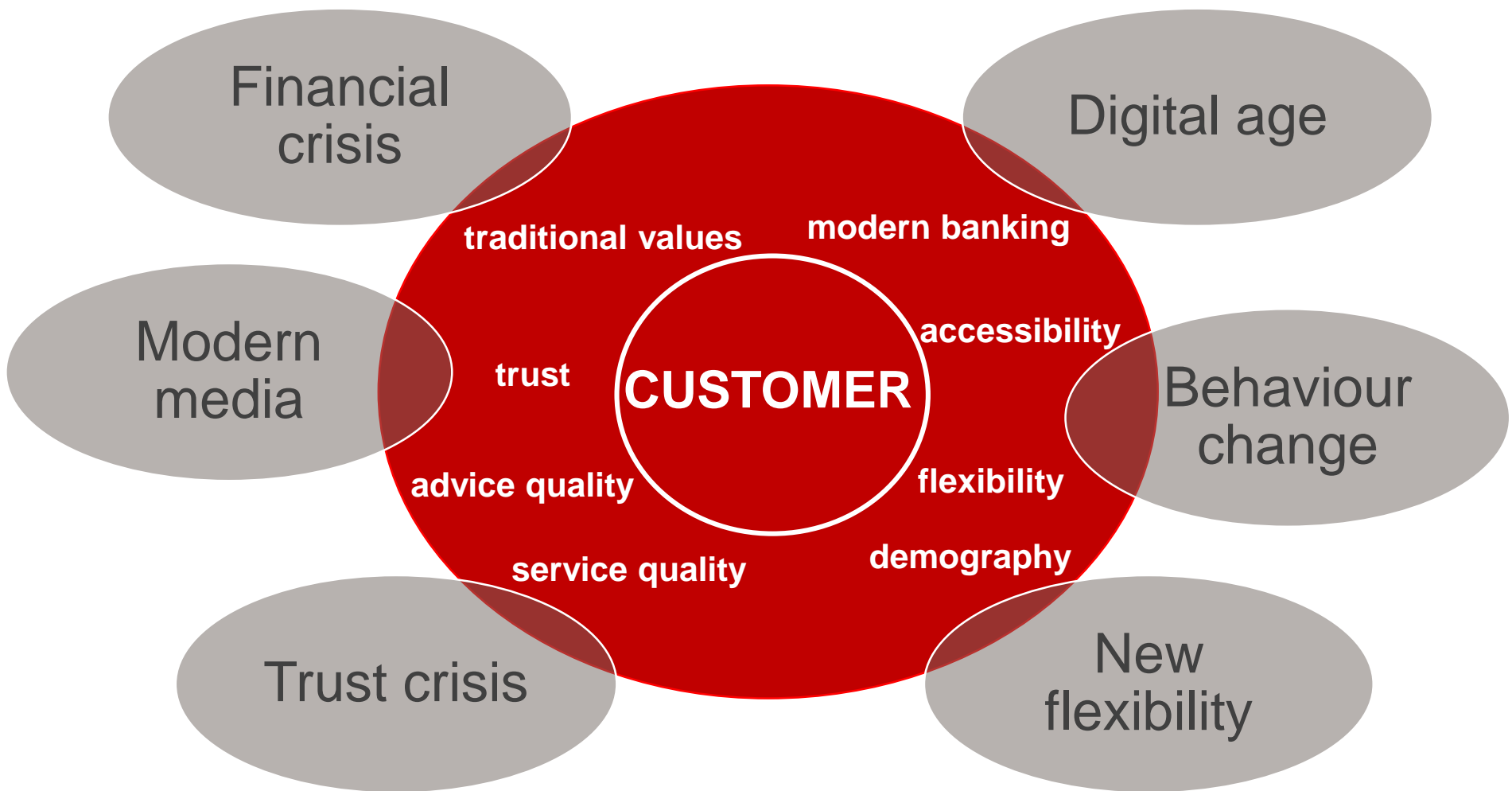
- i. Banks can enter into a cooperation with one or more insurers
- ii. Banks should allow customers to procure insurance coverage from alternative insurers (with no agreement with the bank), provided the alternative insurance coverage meet objective minimum criteria set by the bank
- iii. Refusals to accept products from alternative providers must be justified in writing by the bank

### Challenge #3: Customer perception

Only who understand, what move people, can move the people!" (Bodo Flaig)

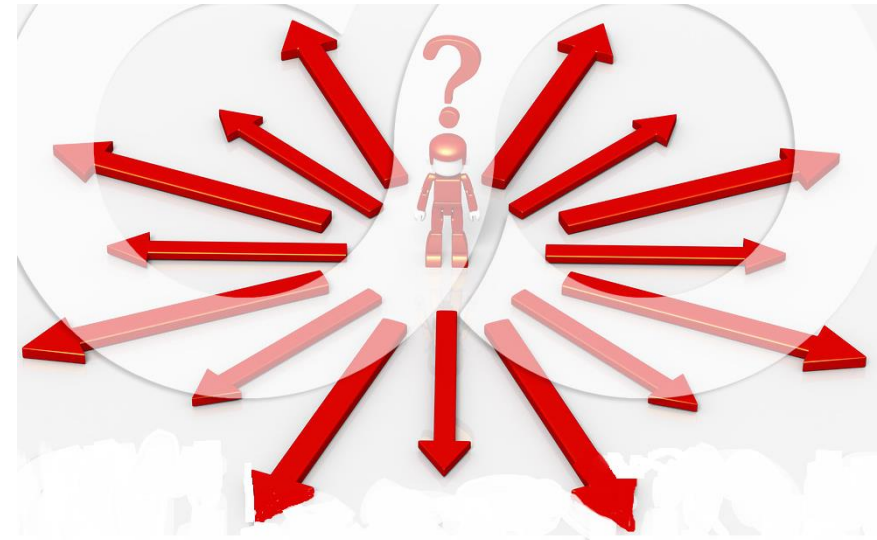


**"In most advanced/ mature markets, the ability of the insurer to bring a true "multi-channel" strategy aligned with retail banking model will become a key requirement**



## Challenge #4: Product design

- Focusing on P&C and Health insurance
  - Currently main driver is Life business
- Simplified product range
  - Limits and covers
  - Meeting the price expectation
- Customisation and segmentation
  - Increased focus on retirement solution
  - Emerging middle class
  - Digitalisation: serving new segments
- (Real) life cycle Marketing
  - Raising insurance awareness at critical points in life
  - Need based approach (life events triggers)
- Safeguarding customer interest
  - Transparency, disclosure of information (e.g. IMD2)
  - Comparability, clarity (e.g. PRIPs)



**Challenges & Opportunities...!**

# Thank you for your attention!

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**International Competence Centre Bancassurance**

**ERGO Austria International AG**

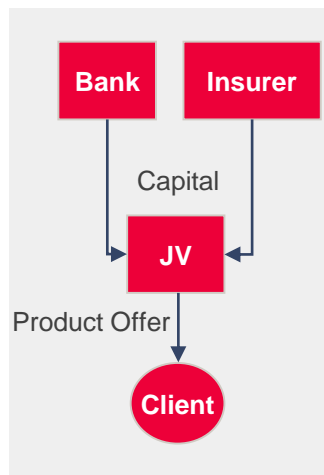
**[Gueorgui.tzvetanov@ergo-austria.at](mailto:Gueorgui.tzvetanov@ergo-austria.at)**

**ERGO**

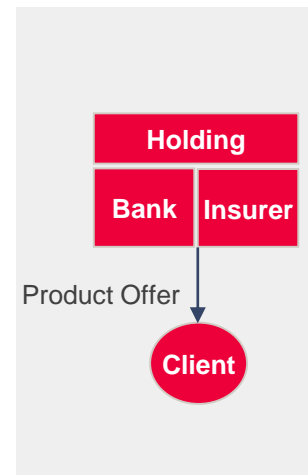
Distribution Model



Joint Venture Model



Holding Model



**ERGO** ↔ **UniCredit**

**Allianz** ↔ **HSBC**

- Based on a cooperation agreement (exclusive/non-exclusive)
- Client belongs to bank
- Also available as referral model
- Duration short- to long-term

**ERGO** ↔ **HDFC**

**Standard Life** ↔ **HDFC**

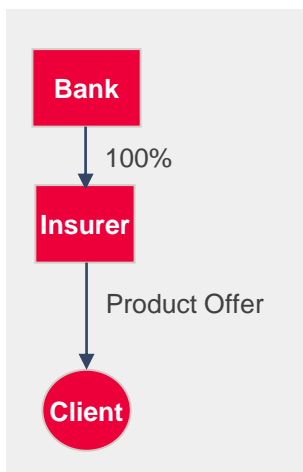
- Both parties agree on establishing a separate enterprise
- Stake depending on regulatory environment
- Useful in markets with entry restrictions for FDI

**ING**

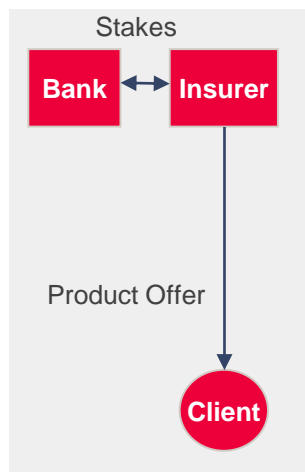
**KBC**

- Bank and insurer belong to the same holding
- Cross-distribution of products
- Appearance under same brand
- Separated profit centers

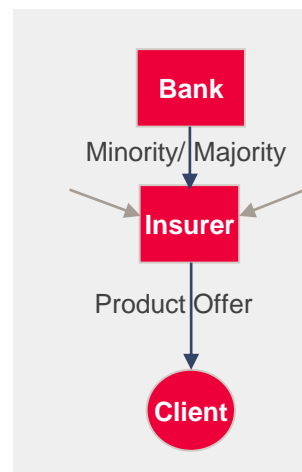
## Fully Owned Model



## Cross-Share Model



## Shareholder Model



- Insurance fully owned by bank
- Special tailor-made products for banks
- Mostly the same brand
- Bank bears risk and equity regulations of insurer

- Both parties own stakes of each other
- Close relationship between bank and insurer
- Not necessarily exclusive distribution

- Bank owns a stake of insurer together with other investors or vice versa
- Influence depending on ownership structure
- Less risk for bank, but still access to insurer's financial expertise



**CATEGORY**

Pension

**PRODUCT**

3-Phasen-Rente (DE)

**FEATURES**

Flexibility/Customisation

**RESULTS**

€ 1.5 bn volume in the first 2 years



Long-term care

Vers l'autonomie (FRA)

Intergenerational long-term solution. Health-personal protection-retirement

Benchmark provider in LTC in bancassurance



Long-term care  
 Funeral insurance  
 Accident insurance

Avisys Protection Famille and Sérenia  
 Protectys Autonomie  
 Résolys Obsèques Prestations



*Label d'Excellence*



Protection Package

Hyundai Life Zero (KOR)

Simplicity/Clarity/À la carte

15,000 policies sold in the first 6 months of launch