



focus FINANCIAL SERVICES

Bancassurance: success factors and regulatory obstacles.

SECOR takes a comparative look at the models that have evolved in France, the United States and Canada

Canada: What Opportunities Exist to Get More Out of the Bancassurance Model?

In Canada, two different legislative systems have led to two bancassurance models. Federal regulation prohibits sales through bank branches and limits the banks' ability to solicit their clients with respect to insurance matters; the regulation governing Quebec's chartered institutions is more liberal. However, Canadian banks have found ways to offer their clients insurance products within the regulatory framework.

Historically Canadian banks have spent more time and effort on their P&C insurance operations, with the notable exception of creditor insurance. However life insurance may present now the greatest opportunity for Canadian bancassurance. The future of the traditional life insurance model may be in doubt, however it has benefitted thus far from a regulatory framework restricting competition. In order to expand their insurance operations, Canadian banks could take a number of lessons from French banks:

- Combine life insurance products into the bank offerings (as was done in France with retirement plans), notwithstanding regulatory restrictions. When retirees start to draw on their savings, the bank has an opportunity to broaden its offerings through insurance products meeting the needs of a valuable customer segment.
- Build insurance subsidiaries and integrate them into the bank. Life insurance products are an excellent complement to other banking product areas (wealth management being the most potent example). Managing distribution networks is a basic skill mastered by the banks.
- Expect returns over the medium term. On average, French banks needed about 10 years to make a profit using the bancassurance model; Canadian banks will have to understand the level of patience required to implement and sustain this model in the face of short-term pressures.



Bancassurance: A Successful Business Model in France, Still Largely Untapped in North America

France: The Blueprint for Bancassurance Success

Banks in France were pioneers in bancassurance; they began selling insurance products about 15 years ago, and the practice became widespread throughout the 1990s. Today the benefits speak for themselves:

- In 2007, 62% of revenues from life insurance premiums (including retirement plans) were captured by the bancassurance model
- Four of the top ten insurance companies in France (in terms of insurance premiums) are banks
- At 20 billion Euros, the Crédit Agricole is N°2 in life insurance and N°3 for Life and Property & Casualty insurance combined

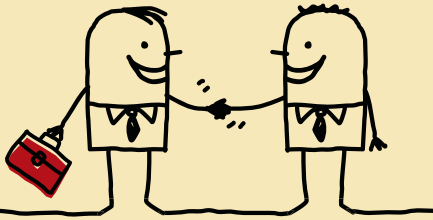
The question arises: Why is the French Bancassurance model so successful?

It must first be stated that the unwavering determination of French banks to become distributors of retail financial products cannot be underestimated. Although it took some bancassurance subsidiaries several years to begin turning a profit, the ultimate goal was never in question. Those who had started with partnerships soon discovered their limitations; in the end, all the banks acquired or developed their own insurance subsidiaries in order to have complete control over their back-office and product development.

Once these conditions were in place, the strategy was based on three levers :

- Understanding customers and their needs. The frequency of client contact provides bankers with a lot of information regarding wealth and insurance requirements, making it easier to effectively offer new products to the right clients.
- Access to and contact with customers – in particular, dense branch networks with heavy client traffic. Any reticence about selling insurance products disappeared within a few years as relationship managers and financial planners quickly integrated these products into their offerings.

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France: Where Will Future Growth Be?

Now that most insurance is sold through bank channels, French bancassurance companies are faced with two major challenges:

The multi-channel challenge

This is a primary issue that concerns French insurance subsidiaries. Should they continue to sell through their bank networks? Should they develop a dedicated sales force while maintaining the bank branch channel? Or should they develop their own distribution network?

Selling over the Internet is no doubt one of the major issues this industry will continue to face in the future. This aspect of the business did not develop as quickly as originally anticipated during the early 2000s, and customer preference for strong face-to-face relationships is still dominant. It remains to be seen whether the next decade will bring dramatic changes in e-business, and if (and how) financial institution products and distribution networks will adapt to the trend.

As part of this challenge, the risks of cannibalization amongst the various distribution networks will have to be resolved. A temporary solution could be to use the banks' own multi-channel platforms, which have likely worked through many of the issues related to cannibalization in a banking context.

The product-service challenge

A broader issue rests on the kind of relationship banks wish to build with the customers to whom they would like to offer insurance products. This is part of the current trend by financial institutions to broaden their product and service offerings into the retail channel. Insurance products already offered include standard health and personal accident assistance, and could soon include a wider range of life insurance products.

This kind of offering will require a high level of coordination among the networks and subsidiaries involved. It also means that the way insurance products and services are sold through branches, in particular the role played by relationship managers and financial planners, will have to evolve. Their role will become something akin to a "family officer," a position already developed in other channels to serve high-net worth clients.

- Cultural affinity with life insurance companies. With existing death and disability insurance products for loans, lines of credit and related assistance services, bankers had already acquired experience that enabled them to accelerate the integration of insurance products into their regular array of product lines. It also helped that life insurance has all the characteristics of a savings product, making it a very familiar product for banks to market. It should also be noted that the success of life insurance products – the largest source of revenue – was greatly helped by favourable tax treatment, making them very attractive to clients planning for their retirement.

United States: How Can Banks Adopt Bancassurance More Effectively?

In the United States, anti-trust laws (in particular the 1933 Glass-Steagall Act) had prevented banks from owning or partnering with other types of financial institutions. Growth in life insurance had therefore come primarily through independent broker networks. In 1999, when regulations were eased with the passage of the Gramm-Leach-Bliley Act, banks elected to buy insurance brokerages on a massive scale; by 2004, 24 of the 100 biggest US insurance brokerages were owned by banks. Banks saw this diversification as a source of potential revenue that would not be subject to fluctuations in interest rates, as, for example, loan activities are. Data related to merger & acquisition value creation shows that they were right: SECOR has shown that the value created by the acquisition of insurance companies by banks is historically greater on average than bank takeovers of other banks.

More substantive growth opportunities for the bancassurance model in the United States are plentiful. Life insurance premiums sold in the US totalled 608.3 billion dollars in 2007, including only 2% of policies sold through banks, compared to 20.3% in the United Kingdom and 64% in France. If bancassurance-related sales in the United States were to reach even the levels seen in the United Kingdom, banking revenues would swell by an additional 110 billion dollars in premiums.

But the growth of life insurance premiums through banking institutions in the United States has been very limited over the last 10 years. There are several reasons for this. Even though the larger American banks are thoroughly engaged in the distribution of insurance products, it is done primarily through their network of brokers rather than directly through bank channels. In addition, most American commercial banks are small; over 92% of them have less than 1 billion dollars in assets, and thus many would be unable to take full advantage of the bancassurance model. And most importantly, customer perceptions of the model are unclear: half of US banking customers are not aware that their bank could offer them insurance products, and half of those who are aware are not prepared to buy life insurance from their bank!

For a more rapid development of bancassurance in the United States, banks will have to further develop their banking channels as a complement to broker networks. As most life insurance and retirement plans are sold by independent advisors, this is a serious challenge. To fully capitalize on the potential of bancassurance, US banks will have to follow more closely the French model in creating their own life insurance subsidiaries and/or buying life insurance companies.

Unfortunately, this is not the ideal time for change. Given the deep financial crisis and the tighter capital and regulatory environment that will likely follow, there is little chance that banks will use their capital to expand into a different area of business. However, they could get forced to: life insurance companies are likely to strengthen their presence in the banking business, growing their market share with baby boomers through the acquisition and integration of Wealth Management operations.

¹American Banker; ²American Council of Life Insurers; ³Swiss Re; ⁴FDIC

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