

## INTERVIEW WITH BANCASSURANCE EXPERTS

**Fleming Europe's 4<sup>th</sup> Annual Bancassurance Forum** which takes place on the **16 & 17 February 2011** in Rome will provide insight on Bancassurance as a stable distribution channel for Europe, product and channel innovation, bridging pension's gap in Bancassurance, adapting to high net worth client, offering global products in regional markets and additional issues.

We asked some members of the speaker panel for their views on the industry. Bancassurance experts **Marco Gorini (Credit Agricole Assicurazioni)**, **Jean – Pierre Wiedmer (HSBC)**, **Giovanni Tucci (Axa MPS)** and **Per Hagen (Nordea)** reveal part of their know how and experience in 7 questions.

**QUESTION 1:** *What are the advantages and disadvantages of a fully integrated product provider versus guided architecture in Bancassurance?*

**Marco GORINI:** By the second quarter of 2010, the average residential house price fell by 15-20% since peaks in mid-2008 (per sqm). Realized prices probably declined even more. In 2010, the residential housing market seems to have stabilized. But there has been no lasting rebound yet, as the last two quarters brought near-zero changes of the average prices. Despite lower house prices, the volume of new housing loans has surpassed levels seen in 2008, thanks to higher consumer confidence and refinancing by homeowners, who have taken of lower interest rates.

**Jean-Pierre WIEDMER:** The fully integrated model has proven success in Europe. Especially with regards to the major life insurance players. Life insurance is therefore fully integrated into a bank's range of savings and investment products. Insurance sales are one of the most essential pillars of a wealth management approach that must provide customers with products and advice on a lifetime basis. Moreover, using the branch staff to sell both banking and insurance products is more comfortable and secure for customers. They have the opportunity to speak and communicate with an agent who fulfills their needs with a global overview. In order to succeed in the integrated model, bancassurers have to give particular care to staff training, and maybe introduce into branches advisers dedicated to insurance issues who will support the network in the sales process. The hand in hand work between insurers and bankers creates trust and confidence that will make sales easier. Data or advice exchanged is eased and both sides can leverage the experience of the other. Last but not least, sales costs are significantly reduced. The common disadvantage of a fully integrated model is that sales staff are sometimes more driven by objectives than by a genuine will to fulfill the customer's needs. In order to prevent that and to avoid miss-selling, the company has to invest as much as possible in staff training. Regarding the open architecture model, it may be relevant in a certain regulatory environment, or in the need to respond to very specific customer demands with a larger range of products. This freedom of choice enables the adviser to select the most efficient or best performing products among its partners' product offer. But the additional costs generated by this model is questionable. As well as the knowledge the adviser has of each product. *\*(Réponse rédigée à partir d'un rapport de Milliman en 2004 « New Trends in World Bancassurance »)*

**Giovanni TUCCI:** Captive companies bring process and product efficiency but provide no additional brand value to banks. AXA, as an insurance expert, can reinforce the advisory role of the bank and deliver better products and services.

**QUESTION 2:** *How is it possible to manage and integrate the multichannel approach (internet, call center outbound...), that is fast and up to speed, often cold and with a limited consulting advice with the traditional branch (centre of the Bancassurance model) with its point of strength in the consulting service?*

**Marco GORINI:** The strength of the bancassurance model is the traditional bank branch due to the fact that the seller knows the customers and has different contact moments/ points to approach them. Direct channels like the internet, call centers or mailings can support the main channel but they absolutely cannot substitute it (at least at the moment). A possible multichannel and integrated approach is based on a mixture of these channels with direct channels focused on supporting the sales activity (e.g.: outbound call centers can support with marketing campaigns or they can directly contact customers to propose a new product or a product range enlargement) or offering a faster way of product acquiring to a specific type of client (e.g.: for high evolved customer, the home banking internet channel could represent an alternative way to buy insurance coverage in a more comfortable way. Often this customer has very little time to go to the branch to buy a product and prefers using direct channel). In general, regarding all channels, some key elements have to be considered before taking any decision in terms of channel strategy:

- Knowledge of the clients' information. The possibility to use and manage personal data of the client (like personal & financial data, other products, behavior, etc.) is an important requirements to achieve success in the sales approach;
- Personalization of the contact. An Italian direct company (Quixa of the AXA Group) provides an example of this kind of personalization. Even though the main channel is web based, the company assigns a unique and dedicated figure (similar to a personal advisor) to the client able to face and answer all kind of necessary question or needs coming from the client;
- Knowledge level of human resources. Bancassurance companies that want to build up direct channels (like contact center) has to invest in human resources by acquiring specific profiles from the market (expert of the non life products) or by training the resources;

A possible alternative strategy is to segment actual clients' portfolio and consequently to offer different products to different customers segment via different channels. Also in this case, the key elements above mentioned have to be considered in order to create an efficient sales strategy.

**Jean-Pierre WIEDMER:** The traditional one-to-one meeting with a branch adviser is one of the basic elements of the bancassurance model. However, traditional models have to acknowledge and face the recent competition coming from alternative direct marketing channels (in particular the Internet). The growing number of Internet insurance players shows a deep change in customers' needs and expectations who appreciate more and more the multichannel approach because it ensures them confidentiality, flexibility and speed. Moreover, direct marketing techniques facilitate teasing of customers on products as well as services and provides them with a choice regarding their financial planning. In this situation, to maintain its positions, the bancassurance model has to reinforce the consulting service and to improve the close relationships it already has with its customers by satisfying their new needs and preferences and catering to their requirements. The multichannel approach is a key to succeed in the environment where Internet has taken a leading position. It is important to note that traditional branch advice and direct marketing are not substitutable, they are complementary. Bancassurers need to review their traditional approach by adding multichannel techniques in order to maintain their customer base and attract new clients.

**Giovanni TUCCI:** According to the bank positioning (more focused on relationship or efficiency) additional channels could be used as alternatives - in order to create value or attract more customers – or supporting, mostly on servicing and education.

**Per HAGEN:** Develop tools which can be used by both the customer and the advisor, and where it is possible to stop in the process, and i.e. go further with an advisor.

**QUESTION 3:** *What are the real sales opportunities of an outbound call center in stand alone non-life products?*

**Marco GORINI:** The possibility to support traditional sales approach with a fully-developed outbound call center could assure some opportunities or benefits:

- To increase the contact's moment with the customer;
- To guarantee support and provide information to the customer;
- To perform specific marketing campaign supporting the sellers activity;
- To increase sales performance by proposing new products or a wider range of products. In this case, two possible strategies could be adopted in function of the clients:
  - o Already insured clients with product of the factory => contact center can focus on up selling strategies by proposing other products or a wider product range;
  - o Not already insured clients with product of the factory => contact center can contact new clients in order to present non life proposition and to suggest to the client to go to the branch in order to receive a consulting service from the bank employee;

**Jean-Pierre WIEDMER:** Sales opportunities of an outbound call center for General Insurance is very important. It is a strong pillar of a multichannel approach. It is particularly profitable when it comes to general insurance. These products combine low premiums and high gross profit. What is more, non-life products are the easiest to sell and don't need in-depth advice and the gross profit can cover the additional costs. Outbound Call centers are absolutely relevant into a multichannel strategy and certainly a profit opportunity.

**Giovanni TUCCI:** Based on strong customer loyalty, outbound sales could succeed in case protection is not exploited within the network commercial approach

**QUESTION 4:** *Solvency 2 rules will impact on guaranteed products; how can bancassurance players face customers needs and banks strategies in the new scenario?*

**Marco GORINI:** For sure, Solvency II will impact on the product structure due to the fact that different levels of risk will impact on the Solvency Capital Requirement (SCR level). The companies' main effort will be focused on identifying the right trade off between economical contribution (in terms of technical margin) and level of risk. This means that specific coverage or guarantee characterized by a low economical contribution and high level of risk will be deleted or reduced from the product. The product will include only profitable and low-risk coverage in order to produce a low impact in terms of capital requirements. Companies have to face another effort due to the necessity to define products following both economical contribution and level of risk and also customer needs.

**Jean-Pierre WIEDMER:** Solvency 2 regulations are perceived only through the constraints they imply. However, this new framework can provide all of us with various opportunities by forcing us to change our business and improve processes and product offers, always by taking into account policyholders' interests. Solvency 2 will help transform the insurance market. So rather than undergo the regulatory reform, bancassurance needs to lead the process, by involving all business lines. Solvency 2 will have 3 major impacts on our business:

- Solvency 2 will make us improve our knowledge of the risk we're exposed to and the capital that we will allocate to face these risks. Obviously, a deeper study of these risks will benefit our policyholders. It is likely that Solvency 2 will ultimately translate into a higher capital requirement for all insurers. In this respect, provided that Basel 3 does not come to distort competition, the model of bancassurance, particularly in France, showed that the synergies and economies of scale within a bancassurance group were an asset for the benefit of customers.
- Regarding the performance of the width-profit fund, Solvency 2 will encourage insurers to disinvest equity markets to pursue a more conservative investment and portfolio of high quality (AA rating). Less exposure to risk means less performance and that is obviously a disadvantage for the policyholders.
- The way products are designed should also change in the light of this new regulatory environment. The design and price should now take into account risk measurement. Policies' prices will be more closely related to the nature of the guarantees signed. It is also an opportunity to rethink innovation, and to consider products offering customers more than financial guarantees. The guarantees should be more related to certain stages of life and not on a lifetime basis. With the demographic changes, more of our policyholders seek to emphasize a guaranteed income throughout life rather than the short-term performance. From this point of view, Solvency 2 should be an opportunity for us to reinvent ourselves.

**Giovanni TUCCI:** Bankinsurers will have to change the risk balance, possibly orienting towards protection business but guaranteed products must remain at the core of bancassurance to complement and distinguish within bank savings offering.

**Per HAGEN:** When the Life Company gives the guarantee: Owners capital is required. Solvency 2 will influence in product development, with guarantees given in external financial instruments.

**QUESTION 5:** *Are bancassurance players developing hybrid coverage's like dread disease and long term care insurance? Are there any case histories of product design and successful business models?*

**Marco GORINI:** With regards to the non life bancassurance channel in the Italian market, the main players are focussing on a traditional offering in term of products and coverage due to the fact that the bancassurance segment is a restricted market (in Italy around 80% of the premium is sold by the agent channel) although characterized by relevant growth rate. Bancassurance players are mainly focused on two kinds of coverage:

- CPI product in order to take advantage the low purchase power of the client (often a client who wants to achieve a mortgage has to buy CPI coverage).
  - Insurance embedded product to be sold with banking products (credit cards, current account, etc.) in automatic way.
- Some players are starting to propose stand alone products to their customer. In general, the sales approach is based on simple and easily to sell product with a low impact from the claim and post sales point of view like P&C product (Home or Accident products).

**Giovanni TUCCI:** Long Term Care could represent a potential business according to several bancassurance experiences in Europe. This will extend and reinforce the product range if the bank puts protection as a priority.

**QUESTION 6:** *How can bankers and insurers work hand in hand and adjust their role in order to face the major preparedness gap to retirement among their customers and how can we adapt financial advice to ageing issues?*

**Marco GORINI:** Retirement products are basically life products. A possible strategy is the development of a Life Time Value approach to support sales strategy in order to offer the right products (or packages of different products) in function of the client's age.

**Jean-Pierre WIEDMER:** Ageing and demographic changes are among the great challenges our century will have to face. It is a worldwide issue and the developed countries are already experiencing difficulties dealing with the ageing issues. The preparedness gap to retirement is very concerning. Because of the financial crisis but mostly because they are not aware of their longevity risk, individuals are very unprepared to their retirement. A recent HSBC study underlined that 63% of the 20 000 people surveyed felt that they will have to work longer in order to ensure that they have a decent income at retirement and most people don't even know how much their pension will be! For these reason, bankers and insurers must work hand in hand in order to provide customers a global approach to their needs, including retirement. Branch advisers, with the support of insurance experts, must talk about financial retirement as soon as possible. Retirement is fully integrated in a wider wealth management approach. It is a stage of life that many young people don't consider because it is far off. But it is of our responsibility and duty, as bancassurers, to commit ourselves in an efficient partnership to provide our customers with the appropriate financial solutions. In order to reach this goal, the network must be very well-trained in retirement issues (both financial and social approach) and they must have access to clear information about demographic changes. The more informed they will be, the more legitimate they will be to face the customer and discuss his financial future. Moreover, branch staff might add retirement advice to its objectives, without necessarily a sales approach. Preparing a financial future is a long-term and complex process.

**Giovanni TUCCI:** Bankers and insurers should improve their language in order to make education in the field of retirement (especially for young generation); the establishment of a public-private partnership to face the new challenge of retirement is also important and necessary. In order to drive long term choices, banks should also integrate the technical expertise of the insurance partner in the financial advice process.

**Per HAGEN:** Pension issues have to be a natural part of the advice session (both upsavings and dissavings). Key factors will be: tools and management focus

**QUESTION 7:** *How can we match both bancassurer and High Net Worth customer's interests when the wealthier the customer is, the more volatile they are?*

**Marco GORINI:** The topic mainly involve life business with the possibility to develop a high value product (with a high price) to face specific customer needs. From a non life business point of view, in order to face High Net Worth Client's needs, a possible strategy could be focused on the development of tailored and highly personalized product to cover specific needs. An example could be an insurance product for arts (paintings, sculpture, jewelry, etc.). In order to develop these products, some key points have to be considered:

- Specialized back office staff (dedicated to product development);
- Strong focused on the reinsurance strategy (to reduce risk related to the objects insured);
- Dedicated and qualified selling staff (due to the necessity to rightly evaluate the risk);

In general, from a traditional bancassurance model point of view, it is difficult to focus on these aspects. The bancassurance model is mainly focused on simple and easy to sell products which can be sold by a generic bank employee with basic training. In general, banks cannot build up a dedicated and specialized structure to sell these kinds of products. These products are more comfortable for brokers or specialized insurance companies.

**Giovanni TUCCI:** Even high net worth individuals have property protection needs that could only be addressed with insurance solutions. Also to provide good advisory services, it could be key to include some guaranteed investments in riskier portfolios.

Marco Gorini, Jean – Pierre Wiedmer, Giovanni Tucci and Per Hagen and other industry professionals will take part on **4<sup>th</sup> Annual Bancassurance Forum**. To find out more about the conference, visit <http://www.flemingeuropa.com/financial-conferences/europe/4th-annual-bancassurance-forum> or ask your program directly from [barbora.kuckova@flemingeuropa.com](mailto:barbora.kuckova@flemingeuropa.com)