Alternative Distribution Channels

Of Insurance Products

Report by: - Partner Re

An Ongoing Revolution

Financial products are sold in general through specialized networks (banks, insurance agents). Thanks to technology, the client can now choose how he will contact his financial intermediary - via the Internet, call center, telephone, letter or bank teller. Diversification and the quickening spread of new technologies are changing the market place radically. As shown here, the percentage of people who adopt a new technology Within ten years after its introduction has increased sharply.

Insurers must react quickly to adapt their distribution networks. The last 15 years have seen already many changes (rise of mutual, banks and direct insurers), but new forces based on the use of technology may bring even more dramatic changes.

As late and relative newcomers to the insurance business, banks have nevertheless achieved a significant rate of market penetration, especially in the life market.

The banking networks share of the distribution of life insurance to individuals ranges from 10% in Switzerland to 70% in France (Italy: 55%; Spain: 50%; Belgium: 30%; and UK: 15%). In the non-life market, shares are between 3% and 10%. France ranks first overall with an average market share (life and non-life) close to 50%.

The Recognition of traditional Types of Distribution

Insurance is moving from traditional networks, selling in-house products with little technology and traditional insurance products, to a full offering of financial services with the technology component strongly integrated. This is evidenced by the wide use of call centers, the sale of online products, the development of banking-type products and an outsourcing of risk bearing to better focus on marketing functions.

We should expect a clearer separation between insurers and distributors and the risk takers, including reinsurers, to follow.

Four typical European business model breakers are demonstrating new and successful ways of offering services and insurance solutions. They might be referred to (barbarians), in that their business model poses a significant threat to the established players:

1 - The MLP concept is to offer online both life and non-life insurance products, banking and brokerage services. The organization only retains in-house the design of software and sales; the rest is outsourced. The sales force is composed of 1,500 specialists, advisors and Internet specialists (widespread from March 2000). The target clientele is management level employees and medical professionals, representing in all about 10% of the population.

2 - Banca Fideuram (BF) sells life insurance and savings products through an advisory network, brokers and banks. BF provides mainly banking and asset management. It has 3,700 financial advisors, 57 branches and 100 marketing offices, with a Web project for the second half of 2000. The target clientele is high net worth and affluent (with savings above €350,000).

3 - Mediolanum started in Italy and expanded into Spain. It sells savings products and life assurance through an advisory network, brokers and banks. The sales force is made up of 5,300 advisors (2,900 permanently licensed) and will start selling on the Web from February 2000. The target clientele is the mass market. Mediolanum has a private banking joint venture with Mediobanca.

4 - The April group is French in origin; it started operating in Italy in 1999 and Spain in 2000.Other projects are under way. The group specializes in personal lines insurance and insurance architecture under various distribution brands. April is basically a product designer. It delegates risk carrying to various insurers and reinsurers. The sales forces comprises 10,000 insurance agents and brokers. The group target is one million policyholders in 2000 and a 10% market share of French motor insurance by 2005.

These (barbarians) are ambitious and successful business model breakers, who bring a new vision focused on the concept of service. Still counted among the outsiders in European financial services, their flexibility and use of technology give them a significant advantage over traditional players.
The strategic importance of the financial distribution networks is increasing because of their proximity to the consumer. This is the new strategy applied by Axa,Aegon, RAS and other newcomers, but not yet quite by Allianz or Generali. Future moves will be aimed at accessing new networks.
Agency networks will have to adapt, increasing quality by adding services and products to compete with the banks and new distribution channels.

Bancassurance at Credit Agricole
Credit Agricole is the leading French banking network, with 8,000 sales outlets in France, 16 million clients and 93,000 employees. It is the leading bank for individuals (33% of French families have an account at Credit Agricole), and has a 25% share of the property loan market and a 21% share of the banking savings market.
The bank has €439.5 billion in total balance sheet assets, and €25 billion of capital. Credit Agricole is a united and decentralized multi-services group. The holding body is the CNCA Group (Caisse Nationale du Credit Agricole), which is composed of 11 specialized entities offering clients a diversified range of services through 48 regional bank networks.
Credit Agricole is a longtime bank insurer. It created Camca (a mutual for the banks own risks) in 1946, and added: ADI-CNP (a joint venture with CNP for the selling of credit life insurance for the banks property debtors) in 1955; Soravie (a joint-venture in life with Groupama) in 1972; Predica (an in-house insurance company for life) in 1986; and finally Pacifica, an in-house property and casualty (P&C) insurance company in 1990. Pacifica and Predica act with common resources drawn from the group to ensure better integration.
Bancassurance was one of the main new fields for Credit Agricole in the 1990s. Insurance was considered as an opportunity to diversify and enhance the profitability of banking outlets while increasing the loyalty of banking customers. Predica issued 8 million policies in 1999 for 4.1 million insureds.
Over the years, FFr421 billion has been invested, making Credit Agricole the third largest French life insurance company (after CNP and Axa).

Pacifica, an Approach Designed to Serve Regional Banks
In property insurance, the market priority for Pacifica is the individual market. Total P&C market insurance premiums for 1999 were FFr198 billion, of which 61% was for private risks and 39% for commercial risks.

Lessons Learned from Bancassurance at Credit Agricole
Insurance must be core to the banking approach to be efficient and successful. The approach must be tailored to banking distribution: products must be sold through the network and be simple to understand; services and procedures must be defined in detail to allow good cooperation to ensue.
The information system has a decisive role to play. It ensures integration in the banking management system, supports and assists in complexity, improves the quality of service and administration productivity.
Insurance training is a major investment for banks: practical applications are key to sales success and administration efficiency.

Conclusion
Bancassurance at Credit Agricole is a group target, a shared success and a clearly acknowledged leadership on the French market.

UAF (Union des Assurances F d rales) is part of the major French bank Crdit Lyonnais and includes several entities:

- Les Assurances Federales-Vie, the life company

– Federlux, a start-up located in Luxembourg
– Afcalia, specializing in bank related products
– La Medicale de France, a traditional non-life company.

Life Bancassurance within UAF

The French life insurance market has more than doubled since 1990, achieving total premiums of FFr 498 billion in 1999. The bancassurance market share has increased from 50% to 56%.
Banking networks have a number of advantages. Banks have a close relationship with their customers, as well as good knowledge of their needs, requirements and cash position. This allows for easier selection and provides the opportunity to offer the right products, at the right time, to the right people.
The Credit Lyonnais network is very strong with about 1,900 branches in France, a sales force 6,000 strong, six million customers and 700.000 life policyholders (around 12% of bank customers have an insurance policy).
Bancassurance as a distribution channel helps limit overall cost, thanks to the marginal use of the bank distribution network. Moreover, operating costs are reduced because of an efficient IT system and a common back office. This results in an intermediary ratio (operating expenses and commissions divided by average mathematical reserves) of less than 1 %.

New Channels

UAF main development will be through the bank network. their medium term target is to sell a life policy to one quarter of the bank customers. But they are also developing new distribution channels:

– The network of La Medicale de France, with 40 agencies in France, is dedicated to non-life policies for health professionals. they are presently recruiting employees to market life products
– An international network, through Federlux (their life insurance company in Luxembourg) will market their products in the European Union. they are looking for other partnerships in Europe. their objective for 2000 was premium income of FFr500 million
– a dedicated team is distributing specific and flexible policies through financial advisors, using an extranet communication system, with tailormade reporting - their site uafdirect.fr allows online subscription for specific products such as Federvie (savings with flexible unitlinked policies) and Federplus (death guarantee); they are developing connections with other financial portals and sites.We expect their Internet link to become a true distribution channel within five years.

Non-Life Bancassurance

Bancassurance companies are bank subsidiaries and start-up operations. They generally have an ambitious business plan but lose money in the early years due to portfolio growth and launch costs. These operations need reinsurance and financing support with more partnership, which means continuity and responsiveness.
Non-life bankinsurers concentrate on personal lines; products offered to the clients of the bank have small sums insured but are exposed to catastrophe events.
As the portfolio grows, the exposure to catastrophe events becomes significant: storm accumulation for householder policies and unlimited cover for motor.
There is a need for close collaboration with reinsurers for control of catastrophe accumulations and reinsurance capacity must be adapted to exposure of potential large losses.
The potential for growth is important with a captive clientele from the bank. The consequent fast growth produces negative results and a necessity to wait a few years before reaching the breakeven point.

Reinsurance Role

Thanks to light corporate structures and distribution by the bank network, acquisition costs are low, affording an ability to generate profitable business without too much pressure on prices.
Reinsurers can offer to set up a financing treaty on a sound basis, with regular control of accumulations. The treaty put in place by the reinsurer allows for planning the pay-back of the initial deficit over a period of 5 to 10 years.
The bank knowledge of the client allows a scoring approach, giving better selection than the average insurer. This approach usually provides good technical results but can also go wrong. The selection is not in line with the pricing.
The reinsurer gives support by way of a proportional treaty in order to limit the consequences of a wrong initial scoring approach.
Affiliates of banks usually start with low capital and surplus. Starting from scratch, it takes time to build reserves and financial income is low. The need for technical profits and additional capital is high.
The capital can be protected by proportional reinsurance from the beginning in order to limit the initial deficit and monitor the follow-up of the business plan.

There are degrees of risk aversion in the banking culture. To fully protect the start-up and its capital, there are sometimes low retentions and large reinsurance coverage for the non-proportional cover.

Reinsurance Solutions

The most adequate reinsurance structure for these operations is based on balance sheet protection provided through a financial quota share.

Non-proportional and proportional covers are set up to reduce the random risk of bankinsurers and offer financial support protecting the solvency margin.

The non-proportional cover is a protection for large losses:

- motor: excess of loss with unlimited cover
- property risk and catastrophe: excess of loss with a deductible on the range of 2% of the capital and a limit adjusted to the probable maximum loss.

The proportional cover is a financial quota share, net of excess of loss, providing balance sheet protection to the company at a time of high start-up operating costs.

This protection operates as a combined quota share on motor and household.