



*Special Report about*  
***Bancassurance***

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On August 2000 the Commercial International Bank and ACE bought 47% & 51% respectively of the Egyptian American Insurance Company. In a step described as a further expansion of the bank activities in the non life insurance after the start up of Commercial International Life CIL early this year, where the CIB owns 40% and legal & general 40%.

It strengthens the long-term strategy of the bank to enhance shareholders value significantly through cross selling of insurance and banking products & services

The merge between Banking and Insurance is a worldwide phenomenon called (**Bancassurance**). In today dynamic global economy, they see expanding free markets, globalization mergers, privatization, the modernized regulatory environment, and the growing influence of technology as opportunities of the 21<sup>st</sup> Century. Financial Institutions are trying to be well positioned to capitalize on these opportunities.

Bancassurance is a subject of continuing interest to the financial services industry worldwide. Over the years, regulatory barriers between banking and insurance have diminished or fallen altogether, creating a climate increasingly friendly to bancassurance.

**Reasons for growing phenomena of Bancassurance**

1. Life insurance premium represents 55% of the world insurance premium, and as the life insurance is basically a saving market. So it is one of the method to increase deposits of banks.

One of the reasons why the Egyptian government is interested in developing the insurance market is to enhance its ability to generate insurance premium (and accordingly savings) to create the necessary funds for investment in Egypt

2. In Non life insurance business banks are looking to provide additional flow of revenues from the same customers through the same channel of distribution and with the same people.

3. Insurers have been turning in ever-greater numbers to alternative modes of distribution because of the high costs they have paid for agent services. These costs became too much of a burden for many insurers compared to the returns they generated.

4. Insurers operate through bancassurance own and control relationships with customers. Insurers found that direct relationships with customers gave them greater control of their business at a lower cost. Insurers who operate through the agency relationship is hardly have any control on their relationship with their clients.

5. The ratio of expenses to premiums, an important efficiency factor, it is noticed very well that expenses ratio in insurance activities through bancassurance is extensively low. As the bank and the insurance company is benefiting from the same distribution channels and people.

6. It is my belief that the prospects for increased consolidation between banking and insurance is more likely dominated and derived by the marketing innovations that are likely to follow from financial service modernization. Such innovations would include cross selling of banking, insurance, and brokerage products and services; the increased use of the Internet by consumers; and a melding of insurance and banking corporate cultures.

The degree to which banks devote themselves to the sale and servicing of insurance varies from country to country and among individual banks. Bancassurance, so far, has been principally a European concept. But Today, I will concentrate on three consolidations in three countries

1. **Citigroup** in U.S.A



2. **HSBC** in UK
3. **Credit Agricole Bancassurance Saga** in France

Recognizing that bancassurance is a phenomenon that has affected the entire insurance industry in almost all countries of the developed world.

## U.S.A.

The legislation are promoting and encouraging bancassurance which is confirmed by the Congressional passage of the Financial Services Modernization Act of 1999 allows for the consolidation of banks, insurance companies, and brokerages and is expected to lead to corporate and marketing realignments in these sectors over the next few years.

## Citigroup

Is ranked as the third insurance group in U.S.A. and the 8<sup>th</sup> Global Insurance Group by standard and poor and rated AA+.

Citigroup has 100 million consumers, corporations, governments and institutions in 100 countries with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, insurance, securities brokerage and asset management.

Citigroup has total assets of \$ 720 Billion and total revenues of \$ 82 Billion of which 13% is contributed by the insurance activities and net income of \$ 9.9 Billion of which 16% is contributed by the insurance activities.

Citigroup is a very large groups under Citigroups trademark red umbrella that includes: -

- Citi Bank which is well known and neednt any clarification as one of the world major players in the banking world.
- Salomon Smith Barney (CitiFinancial) a leading provider of financial underwriting services, ranking second in the United States in total underwriting and third globally. Among one of the largest full-service retail, brokerage firms, maintaining client assets of more than \$770 billion as of year-end 1998. Having 10,800 financial consultants in 450 retail branches in U.S.A., SSB ranks as the financial advisor of choice for affluent investors throughout the United States. Brings top-ranked M&A expertise and investment-banking products and services across all capital markets. The potheyr of the pairing is demonstrated by more than 300 collaborative deals. Including two of the three largest M&A transactions in history - AOL/ Time Warner and MCI WorldCom/Sprint.
- SSB Citi Asset Management Group is a global alliance -- a dynamic union of three extraordinary industry leaders: Salomon Brothers Asset Management, Smith Barney Asset Management and Citibank Global Asset Management. Sounds complicated but its not. Broad investment solutions from a comprehensive mix of approaches. Theyre global, regional and local... active, quantitative and alternative. Quality and excellence in investment management is what drives their business philosophy. Depth is the potheyr of this alliance. Investors around the world agree. Theyve entrusted them with US\$364 billion of their money.
- Citibank is one of the largest issuers of credit and charge cards, with 53 million customer accounts and 98 million cards in force worldwide. In addition, Citibank has more than 23 million client accounts in 48 countries.
- Travelers Property Casualty and Travelers Life & Annuity is a member of citigroup since October 18 1998. It was the largest consolidation in the insurance history travelers as at December 31<sup>st</sup>, 1999 Total assets is \$ 50.5 Billion and Total revenue of \$ 10.5 Billion and net profit of \$ 1.4 Billion. Travelers contribute 15% of Citigroup net profit

Citigroup is the financial partner of choice for corporations and institutions and, in many, for consumers. In the emerging markets, most of which are growing significantly faster than the developed world, they have the strength and insights of a local, embedded financial-services company. This presence allows them to identify and understand trends in the global marketplace, and then act on them for the benefit of their clients, employees and stockholders. Their geographic reach combined with their embedded presence creates a true competitive advantage that, they believe, no other company will be able to replicate for years.



Their product breadth, together with their exceptional scale and financial strength, provides them a platform for leading a redefinition of how their industry does business. They continue to capitalize upon that breadth, scale and strength as their business work together toward their common goals and with a common vision of the future. By putting it all together, they truly have an opportunity to lead by example.

Today, they are investing substantial management attention to take advantage of the convenience, efficiency and reach afforded by advanced technology and the Internet, providing more services through these new channels and creating new services that could exist only in these new mediums. Accordingly they developed their (Internet touch points,) which include online banking in 19 countries and territories. This full-service virtual bank allows Comprehensive banking and investment activities, such as securities trading. It is also in development for markets where they do not have physical branches.

To show how Travelers are capitalizing upon their relation to the group and its management understanding of new technology and cross selling hereunder some examples

1. More than three million customers are already doing business with Travelers online, and with numerous initiatives planned for 2000, they are positioned to be leaders in the electronic delivery of insurance products to both consumers and corporations.
2. Their products also are offered through a gateway to Citigroup from the widest range of possibilities in their industry as Citigroup enjoy a world wide outlets in 100 countries and 100 Million clients: 1,400 Citibank branches and 3,800 Citibank ATMs worldwide, 1,200 CitiFinancial offices in the United States and Canada, and additional Citigroup-owned consumer finance offices worldwide, 98 million credit and charge cards, In addition, there are the 9,000 independent agents of Travelers Life & Annuity and the 5,400 independent agencies of Travelers Property Casualty.
3. A pilot cross-selling program with Citibank generated sales of 15,000 policies to Citibank credit cardholders in 1999 and more than 3,700 policies in January 2000 alone. The program, which is being rolled out in U.S.A. in 2000, allows Travelers to identify qualified credit card customers who, when they call a service center, can then be offered an opportunity to learn about Travelers products.

Travelers are not only basing service upon their relation to the group but they are also take the lead in several innovation in the USA insurance market provide better, integrated and layered services.

- Travelers innovative mobile claim offices vans fully equipped with communications and other systems needed to process and pay claim once. Introduced in 1997 and since expanded into a strategically positioned fleet of four, Travelers vans were on-site and functioning within hours, bringing help and relief to victims of hurricanes, storms and floods
- In addition, they have developed with Citibank an ATM debit card that can be issued to policyholders to provide secure, accessible funds to cover emergency living expenses and begin repairs and recovery to victims of hurricanes, storms and floods.
- 1991 introduced the first telephone reporting system for workers compensation.
- 1995 Pioneered risk-sharing arrangements with local medical providers in workers compensation managed care.
- 1997 Launched TravComp, the industry most comprehensive workers compensation claims management system. Launched the industrys first insurance policy to provide protection for individuals performing home banking transactions online through personal computers.
- 1998 First carrier to offer full quote-to-issue transactions for automobile policies over the Internet. Launched Synchrony, an integrated disability claims administration services in conjunction with MetLife, providing integrated administration for disability and workers compensation claims.
- 1999 First company to offer a cyber liability program for companies conducting business in cyberspace.
- 1999 Travelers offers first-ever protection for expenses consumers could incur clearing their name and financial records if they are victims of identity fraud.



## United Kingdom

The first move into bancassurance came in 1985, when Standard Life, an insurance company, purchased a 3000 share in the Bank of Scotland, a very small bank. Soon thereafter, in 1986 and 1988, changes in legislation allowed banks to market all types of insurance products and to set up insurance subsidiaries.

The provisions in the Financial Services Act, which radically changed the insurance distribution through independent agents, prompted that development. Today, new developments are taking place, especially with the building societies, which are in the process of setting up their own insurance subsidiaries. At the same time, many life insurance mutuals are demutualizing and are getting closer to banks. As far as personal life insurance is concerned, the distribution of such insurance is going to be largely controlled by banks in the coming years.

## HCBS

Headquartered in London, the HSBC Group is one of the largest banking and financial service organizations in the world. The Groups international network comprises more than 5,500 offices in 80 Countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. The Group provides a comprehensive range of financial services: personal, commercial, corporate, investment and private banking; trade services; cash management; treasury and capital markets services; insurance; consumer and business finance; pension and investment fund management; trustee Services; and securities and custody services.

The group includes more than 14 banks world wide where the principal member is Hong Kong Shanghai Bank Corporation (HSBC) in addition HSBC Bank Middle East, HSBC Bank USA Buffalo, Marine Midland Bank, HSBC Bank Canada, HSBC Bank USA New York, and Republic National Bank of New York. The recent member of the group is Republic National Bank of New York (Suisse) which joined the group in 1999 for US\$9.85 billion to reinforced HSBCs presence in highly developed markets. Republic is the fifth-largest deposit-taking bank in USA. In Egypt they have a large partnership in the Egyptian British Bank

Insurance activities represent 8% of the group profits coming from operations in 27 countries. Operations include

- General Insurance Underwriting;
- Life and Pensions Insurance Underwriting;
- General Insurance Broking;
- Personal Financial Services Advisory and Consultancy;
- Medical Insurance Underwriting;
- Insurance Agency;
- Risk Management services, (including captive insurance management).

At 31 December 1999, the Groups total assets amounted to US\$569 billion it has over 145,000 employees and 175,000 shareholders around the world.

Growth in insurance operations has been predominantly internal. In another word through the advantage of cross selling utilizing their group network.

HSBC started its insurance activities in 1982 through buying GHC which is now one of the top 20 insurance brokers worldwide GHC entered into the bank distribution market in as a (tied agency.) A tied agency is one that, owned by the financial institution, is tied to various insurance companies and sells their products exclusively. The concept is similar to what many of the U.S. financial institutions are thinking of doing.

Later, HSBC have entered a number of areas: life underwriting; life reinsurance underwriting; property & casualty underwriting. they continue to have various tied agencies, and HSBC have their insurance brokering and consultancy business.

The evolution into these varied businesses came about through the easing of regulatory restrictions in the countries in which they operate, by listening to HSBC bankers and their customers and finding out



what their needs are, and through competition from the traditional insurance markets. Via HSBC Group insurance, they distribute and underwrite many products. Although their beginnings were in life insurance, the future, as HSBC see it, is very much on the side of non-life insurance.

HSBC Insurance Holdings in UK provides back office operation that controls all administration, underwriting, product development, sales training, and compliance - in short, everything having to do with insurance. They began this concept in the U.K. in 1982 and then exported it to Hong Kong in 1985; they are now expanding the concept globally.

Today, HSBC have life insurance and reinsurance underwriting operations in

- the United Kingdom through Midland Life LTD and Corinthian Motor Policies,
- Hong Kong through HSBC Insurance LTD, HSBC Medical LTD and HSBC Life LTD,
- Argentina through La Buenos Aires Seguros, Docthos, La Buenos Aires Newyork Life and maxima AFJP
- Brazil Bamerindus Seguros.
- Ireland. they have life reinsurance, that is, credit reinsurance underwriting,
- United States through Marine Midland.

In addition to the activities provided above, the HSBC Group also has smaller insurance activities in Singapore, the Cayman Islands, Oman, and Kuwait. Under agency arrangements insurance products are also offered to clients through the banks branch network in Taiwan, Australia, New Zealand, Philippines, Brunei, Indonesia, Mauritius and Thailand. It is expected that over the next five years, the numbers of countries in which HSBC are underwriting in the non life field will probably double or triple. They have pensions, actuarial and consultancy businesses in the U.K. HSBC still have tied agencies in many countries, and they have a growing brokering operation.

Whilst it has to be admitted that the South East Asian oriented antecedents of HSBC are relative late comers to bancassurance HSBC have been doing a little catching up lately with approximately 8 per cent of Group coming from Insurance operations in 27 countries and territories.

Insurance represents an important and growing part of the Groups recently announced (managing for value) strategy, where it aims to double total shareholder return over the next five years. The insurance businesses in HSBC currently employ approximately 8,500 full-time and 3000 part-time staff worldwide.

To show how HSBC are capitalizing upon their relation to Financial activities of the group and its management understanding of new technology and cross selling

1. Following regulatory changes that now permit banks to sell insurance products to clients, Marine Midland Bank has entered into an Agency arrangement with Commercial Union and Royal Sun Alliance, whose life, property and casualty products will be sold to the banks client base. By the end of 1999 the bank expect to have 1,100 staff trained in the sale of insurance products.
2. In a number of countries the Group has developed close relationships with international insurance companies which provide products that are sold to HSBC customers. In the USA an agency relationship has been established with Commercial Union for the sale of life insurance products.
3. HSBC are selling their insurance products through their international network comprises more than 5,500 offices to 15 million client in 80 Countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.
4. They developed an active web-site to sell insurance on-line which can provide information and quotation and even premium payment on-line.

As a central part of a global wealth management programme, the Group aims to install an effective insurance capability in as many of the Groups 5,500 outlets as is financially viable and regulatory permissible.

### France

The French market is the one in which the most significant developments in bancassurance - and especially in life insurance - largely because of bancassurance and to a considerable extent because of savings products and tax incentives, the French market is the number one life insurance market in Europe and the third largest market in the world after the Japanese and U.S. markets. In the past five or six years, the French market has overtaken the U.K. and German markets, largely due to the



development of distribution channels through banks. In 1998, insurance subsidiaries of banks controlled some 70% of the new life insurance production in the French market.

The pioneer marketer in bank insurance was a regional bank called Credit Mutuel, which created its own life and non-life insurance subsidiaries in the early 70s. For many years, the largest life insurance company in France has been a subsidiary of the Credit Mutuel bank.

During the 1980s, many banks created their own life insurance subsidiaries. Natio Vie, a subsidiary of BNP, was the first one in 1980. Predica started in 1986. Sogecap, a subsidiary of Societe Generale, the second largest French bank, started its own subsidiary in 1984. Now, there is not a single bank of a given size in France that doesn't have its insurance subsidiary for life products.

More recently, banks have diversified into property & casualty insurance. Today, new production of P & C is largely driven by bank subsidiaries, which are set to take a much larger part in writing personal insurance.

### **The Credit Agricole Bancassurance Saga: Life Insurance (Predica) and P/C Insurance (Pacifica)**

Credit Agricole is a leading retail bank in France with about one family out of three have an account with Credit Agricole, a 2500 market share of mortgage lending, a 2100 market share of banking savings collection, and already an 1100 market share of life insurance. It had a total balance sheet of slightly more than \$500 billion and equity funds of about \$30 billion at the end of 1999.

In the early 70s, Credit Agricole began to distribute life insurance, but another company handled the underwriting of these products. This arrangement lasted until 1985, when the group decided to fully integrate its life insurance business. Starting with that change, the group quadrupled its premium *from* 1985 to 1986, when **Predica** was launched. Then, in 1990, the group went one step further by creating its property & casualty insurance capability. to integrate the various insurance products -life insurance, property, casualty, and other products - supported by the same information hardware, easily accessible to the sales force.

In life insurance, Predica wished to capture this very fast growing market, which is basically a savings market. Note that about two-thirds of the additional savings of the French community have been allocated to life insurance; it would have been dangerous for a very large savings collector like Credit Agricole not to be in that business.

Today, more than 60% of the premiums collected in life insurance in France are collected by bank subsidiaries. Non-life insurance, on the other hand, is an emerging activity for banks. Less than 8% of total Non life premiums in 1998 were collected by bank subsidiaries. By the year 2005, that figure is likely to climb to 15% or higher.

Predica has been profitable ever since its launching in 1986. Today, it is the second largest insurance company in France, in terms of annual premiums collected.

Predica's total assets under management reached \$60 Billion in 1999; gross premiums, \$11.5 billion; and shareholders funds, \$2 billion. Net income was \$150 million.

The ratio of expenses to premiums, an important efficiency factor, is 4.12%, one of the lowest in the French insurance industry. Approximately 12,000 employees in the branches sell insurance products to customers. These employees are bankers, not life insurance specialists, dealing with other banking products.

The number of outstanding policies reached 5.6 million, and the number of policyholders was about 3.5 million.

In the French mass insurance market, the most efficient companies operate at a cost of about 25% of premium collected to cover distribution, managing of policies, and administrative cost of claim settlement.

The traditional agent companies, which represent slightly less than half the French market, operate at a more than 30% operating cost ratio.

Predica reached an 18% operating cost ratio within one or two years when distributing their products within the bank. Reaching that level will give a cost advantage, permitting to be competitive and attract more customers.

In the bank headquarters Predica implemented two functions.



- One is a sales training and support group to train the sales forces, maintain their competence, and help them market their sales on a continuing basis.
- The other is a portfolio management group. Each sale, each contract underwritten by the branch. Portfolio management groups are the guardians of the quality of the portfolio. They make sure that underwriting criteria have been applied correctly. This is an important function in the necessary tension that exists between the sales force, wishing to increase sales, and the back office, which guards the quality of the portfolio.

Predica have developed an unconventional concept for paying commissions to the regional banks. Their objective is to provide high commissions, in order to motivate those banks to fully integrate insurance within their business. Predica want the banks to be responsible for the quality of their portfolio. By delegating this responsibility, Predica avoid duplication of jobs and tasks, and are better able to control operating costs. Predica think it is important to integrate the field operations into the quality of underwriting, because most underwriting takes place at the level of the sales force. Predica pay commission to the bank by sharing the profits - the margin of the banks portfolio - with the bank. Every year, Predica compute for each regional bank the premium revenues, taking into account the claims of the portfolio. From that comes a gross margin, with some internal reinsurance factors, which Predica share. So, the regional bank will earn good money if its portfolio is of good quality. At the same time, each regional bank assumes all operating costs of its insurance operations. Each bank sells the products, handles portfolio administration, pays the operational data processing costs, and pays for the handling of claims //