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The Effects of Bancassurance: Reviews from The Perspectives of Banks, Insurers, and Customers

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Abstract

This conceptual paper examines bancassurance from the perspectives of banks, insurers, and customers. In general, bancassurance refers to the collaboration between banks and insurers to distribute insurance products to bank customers. In Malaysia, bancassurance significantly contributes to the growth of the Malaysia market. As the nature of the banking atmosphere grows more competitive, the role of bancassurance develops more meaningfully in this industry. In the context of this concern, this study seeks to discuss the concept of bancassurance and its benefits to the banking sector, insurance industry, and customers. This study would be useful to insurance companies and banking institutions to formulate strategies for sustainability of bancassurance in the industry.

Keywords: Bancassurance, Banking Sector, Insurance Industry, Malaysia.

Introduction

The insurance industry sector is considered as one of the growing sectors in Malaysia. The insurance industry today has emerged as important because it contributes to the growth and development of the economy since it is one of the overall components in the Malaysian

financial system. Nevertheless, the insurance sector has been an important source to the economic development of Malaysia. Basically, there are a lot of contributions and efforts from the government and insurance practitioners around the world in order for the insurance system will become a strong financial system in the world.

Even though the insurance industry has grown rapidly in Malaysia, the penetration rate of general insurance should be taken into consideration. According to the industry report, as of 2019, the general insurance gap penetration only contributes 1.23 percent of the country gross domestic product (GDP). Obviously, this major indicator showed that penetration rate for general insurance in Malaysia remains low and there is still a large untapped market. Essentially, Malaysia is far behind as compared to other nations like Korea and Taiwan where the contributions is much higher, in the double digits.

Extending to the above paragraph, distribution channels are one of the ways to boost market share and insurance penetration for general insurance. In order to improve insurance growth and market penetration of insurance business a new concept called 'bancassurance' was introduced to strengthen this industry. According to Reportstack and Finaccord in their report "Bancassurance in the Asia-Pacific Region: Strategies of the Region's Top 150 Retail Banking Groups", as of 2015, some Asian countries such as Indonesia, Korea, India, Singapore, and the Philippines have shown the fastest growth market. Unfortunately, this is contradicting with Malaysia. Even though the existence of bancassurance in Malaysia has been more than two decades, there are still untapped markets compared to other Asian countries.

One of the challengers faced by the banks and insurance companies after implementing bancassurance is lack of awareness among the customers (Bansal & Anil, 2018). Creating awareness among the customers is a crucial challenge faced by the industry. Although there are many insurance products in the market, there are still limited people to purchase this kind of products. Therefore, this conceptual paper explores the concept of bancassurance and the benefits of bancassurance to the banks, insurers (i.e. insurance companies), and customers.

Concept of Bancassurance

Bancassurance refers to an agreement between a bank and an insurance company. In bancassurance, the insurance company can use the bank's distribution channels to sell their products. In return, banks would receive certain fee from the insurance company. According to Agbo and Nwankwo (2020), the term bancassurance is derived by compounding 'bank' and 'insurance'. Meanwhile, a study by Yuan (2011) indicated bancassurance as a process of a bank selling insurance products manufactured by insurance subsidiaries that are owned by the bank, either through its own distribution channels or through outside agents. By conducting a scan of materials on published studies on bancassurance, this study has found researches from many countries.

Table 1: International academic research studies on bancassurance

Country	Research Study
Algeria	Hamoul, Zair, & Mokhefi, 2018
Bulgaria	Ninova, 2018

China	Huo, 2016
Hungary	Pintér, 2013
India	Deepa & Rafi, 2020; Devi, 2020; Devi, 2019; Dua, Sahay, & Deol, 2019; Kale, 2019; Gujral, 2018a; Gujral 2018b; Kumar, 2017; Brar & Singh, 2016; Choudhury & Singh, 2016; Choudhury, Singh, & Saikia, 2016; Ranganath & Rao, 2016; Bhushan & Murtaza, 2014; Ali & Chatley, 2013; Mishra, 2012
Indonesia	Zahara, 2020
Iraq	Al-Ubaidy, 2020
Ireland	Brophy, 2013
Kenya	Dolvine & Muturi, 2019
Latvia	Dundure & Sloka, 2019
Malaysia	Boon, Chein, & Yittjia, 2012
Nigeria	Agbo & Nwankwo, 2020; Nwora, 2018
Spain	Guillem, 2020
Taiwan	Pang-Ru, Jin-Lung & Chiang, 2011
Turkey	Tunay, 2014

Bancassurance in Malaysia has witnessed a tremendous growth in terms of demand, acceptance and development since the first arrangement was approved by Bank Negara Malaysia (Central Bank of Malaysia) in late 1993. Bancassurance is actively supported in Malaysia because it is seen to lead to a more efficient financial system. In Malaysia, bancassurance is considered as a second distribution channel behind agents and the products are broadly categorized into credit-related and noncredit related products. Bank staffs who sell insurance products are required to satisfy the same minimum qualification and continuous professional development requirement as insurance agents, and comply to the same code of ethics.

Benefits of Bancassurance to Banks, Insurers (i.e. insurance companies), and Customers

Basically, bancassurance gives benefits to banks, insurers, and customers. Bancassurance allow banks to cater to customers' specific needs, provide greater accessibility, when and where needed. Secondly, bancassurance is viewed as the distribution channels by the banks as it reaches out to different target groups. Thirdly, bancassurance gives benefits to banks by strengthening their position in providing end-to-end financing solutions for both individuals and small and medium enterprise (SME) community.

Hence, this would help banks to strengthen their capability to provide a comprehensive solutions for customers - businesses and individuals alike. Next, bancassurance offers greater income stability and a more stable source of fee-based income for banks. In addition, bancassurance would allow the bank to optimize customer information and infrastructure to provide insurance-based products to its clients.

From the point of view of insurers (i.e. insurance companies), bancassurance is one of the strategies to boost the insurance industry, as the current contribution from the insurance premiums to the country's Gross Domestic Product (GDP) is still low. Secondly, by partnering with banking institutions, insurers can tap the banks' large customer base as potential clients for insurance products. Thirdly, by pursuing new distribution strategies (i.e. bancassurance),

insurers will strengthen their expertise and resources, in order to manage and control the risks associated with that channel.

Meanwhile, bancassurance gives benefits to customers by allowing customers to compare products offered by different companies as easily accessible information is provided by the banks. This is because bancassurance products are basically more affordable due to the pricing structure. Secondly, bancassurance cater to customers' financial needs under one roof, especially customers who are from the lower- to middle-income earners who favor affordable products with the same level of coverage as those offered by the agents. Thirdly, customers trust their banks to sell them the right products. Hence, the propensity of the customers to buy insurance products from their banks is higher because they already know the reputation of the banks.

Conclusion and Recommendations

Generally, bancassurance is definitely a growing and leading distribution channel in Malaysia. Insurance companies are using banks as intermediaries to sell their products due to the wider network of the banks. Banks are taking this opportunity to grow their income in order to maintain their sustainability in the long run. Essentially, the strong business relationship with the bank partners and the ability to understand and work based on the banks' specific needs also contributed to the growth of bancassurance. Bancassurance is a distribution channel to ensure that insurance needs are adequate by providing accessibility and affordability.

Bancassurance has a bright future in Malaysia. It is recommended that banks and insurance companies look forward to implementing strategies to put bancassurance as one of the incredible products distributed in the industry. Firstly, it is recommended that banks provide appropriate training to their employees in order to build their employees' confidence when responding to customers queries in regards to bancassurance.

Secondly, it is important that insurance companies and banks implement product diversification strategy to increase their sales. Customers nowadays are more intellectual and they are interested to know what they will get in the future. Therefore, fulfilling customers' needs and wants by diversifying the products is one of the best strategies to leverage existing sales avenues. Thirdly, banks should ensure that they settle any claims promptly to make sure their customers trust them. Building a good reputation is important to ensure sustainability of the banks in this competitive industry.

Last but not least, this study contributes to a theoretical and practical standpoints. From a theoretical standpoint, this study explores the concept of bancassurance and therefore provides valuable information on the contextual applications. From a practical perspective, this study contributes valuable inputs to those in the industry for the development and implementation of strategies for bancassurance. As a key contributor to the economy, the performance of the insurance industry will indeed be crucial in ensuring the economic growth of the nation.

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