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### RESEARCH ARTICLE

## THE VIABILITY OF BANCASSURANCE: ITS DEVELOPMENT AND SIGNIFICANCE IN CAMEROON.

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### Abstract

Ardently, the purpose of this paper is to identify the critical drivers and viability of bancassurance as a distribution channel of insurances. In this light, a more theoretical and realistic industry outlook is defined, by taking into account the global comparison of bancassurance with respect to its different business models. The descriptive section is extended by an analysis of previous literature. It also provides an in-depth understanding of a country-specific development and the driving factors of the bancassurance system that need to be sought by the banks and the insurance companies, to optimize the structure and efficiency of the distribution channels. It highlights that credit institutions usually seek to obtain additional revenue by capitalizing the potential of their networks, initially configured based on their own marketing policies; while the insurance companies are interested to diversify without any significant capital investment, so that the products and services offered have access to a large number of potential customers. Equally, it accentuates that bancassurance is considered in this analysis as the original mode for the distribution of insurance products by the banking institution, with financial predominance as the chief characteristic of the banks in this recent time. Since it is contemporarily envisaged that banks are installed like actors with whole share in the distribution of insurance products, just like general agents and insurance brokers. In this perspective, the paper is not only based on the description of the various strategies of bancassurance, but readily assesses the extent to which bancassurance is embraced and practised in the Cameroonian financial system. From this, it proffers and reaffirms that in Cameroon, the sale of insurance contracts by banks is a reality, in spite of, the poor insurance culture and the lack of confidence by the populations to insurance products. More importantly, it highlights the potentials, prospects and significance of the bancassurance market to Cameroon, owing to the increasing solvency rate of its insurance companies especially with the advent of the CIMA code, which has greatly led to the reconstruction of the insurance companies and banks.

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## Introduction:-

It is interesting to note that one of the most significant changes in the financial services sector over the past few years has been the appearance and development of bancassurance. Aply, in its full holistic form, it reaffirms the full potential of the customer database of the bank, to develop an excellent customer focused service for consumers, and the highest value on returns for the bank and insurer. Besides, it is not just about selling insurance products to bank customers but exploits the true synergies between, and the respective strengths of the bank and insurer. Indeed, this concept that readily originated in France, contemporary constitutes a dominant model in a number of European and other countries; is fast penetrating the sphere of Africa in general and Cameroon in particular. Explicitly, it should be noted that banking institutions and insurance companies have found bancassurance as an attractive and often profitable – complement to their existing activities. In this respect, bancassurance has been a successful model in the European countries, contributing 35% of premium income in the European life insurance market. By the same token, it now contributes over 65% of the life insurance premium income in Spain, 60% in France, 50% in Belgium and Italy. Appositely, as reiterated above, the term bancassurance was use, for the first time, in France<sup>1</sup>, indicating simply the distribution of insurance products by bank branches. In fact, *Gonulal et al.*, postulate that bancassurance is the process of using a bank's customer relationships to sell life and non-life insurance products, thus, emerging as a natural pathway for the effective development of insurance.<sup>2</sup> Equally, according to *Elkington*, bancassurance is basically the provision of and selling of banking and insurance products by the same organisation under the same roof.<sup>3</sup> More so, *Swiss* asserts that bancassurance can be described as a strategy adopted by banks or insurance companies aiming to operate the financial market in a more or less integrated manner.<sup>4</sup> In a similar manner, the *Center for Insurance & Financial planning* provides that bancassurance assumes a wide range of detailed arrangements between banks and insurance companies, but in all cases, it includes the provision of insurance and banking products or services from the same sources or to the same customer base. In sum, *Shah and Salim* assert that bancassurance is a system in which a bank has a corporate agency agreement with one insurance company to sell its product and by selling insurance products bank earns a revenue stream apart from interest.<sup>5</sup> In fact, in order to provide a way forward for the realisation of a viable legal and institutional framework for the regulation of bancassurance in Cameroon; the paper is presented in three parts. With the first part dwelling on the theoretical framework of bancassurance - by perusing its historical evolution, motives, critical success factors and pitfalls; the second part considering the principal forms and products of bancassurance. While the third part explores the development and *modus operandi* of bancassurance in the Cameroonian set-up. This is aimed to provide a periscopic view for banks, insurers and legislators in Cameroon to learn from the extant experiences of the European bancassurers and other vibrant jurisdictions.

## Theoretical Framework of Bancassurance

Apparently, since bancassurance usually covers a wide range of detailed arrangements between banks and insurance companies, the provision of insurance and banking products or services from the same sources or to the same customer base has been the primordial motive of this initiative. Therefore, in the context of economic globalization, the overlap and integration of the international capital markets, of information and technologies; the insurance market has become one of the most promising options to expand the banking business. Thus, the bankers' interest in insurance capital is also determined by the significant incomes from insurance activities, obtained by domestic insurers, which is confirmed, at the payment level constituted on most insurance branches. In this regard, if, at the emergence of the bancassurance model, its definition referred to the distribution - through credit institutions – of the insurance products attached to loans and other banking products, currently the concept has a much wider sense, including both the sale of the products in question through the distribution networks of non-bank financial institutions and providing complex products/services distributed through a common distribution channel and/or

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<sup>1</sup> Its universal use reflects the fact that this business model is most developed in France.

<sup>2</sup> Gonulal S., Goulder N., Lester R. (2012). *Bancassurance—A Valuable Tool for Developing Insurance in Emerging Markets*, Policy Research Working Paper 6196, The World Bank, Financial and Private Sector Development, Non-Bank Financial Institutions, September, <http://elibrary.worldbank.org/docserver/download/6196.pdf?expires=1361777483&id=id&accname>

<sup>3</sup> Elkington W. (1993). *Bancassurance*, Chartered Building Societies Institutions Journal, pp.2-3.

<sup>4</sup> Swiss Re. (1992). *Bancassurance: A Survey of competition between banking and insurance*, Sigma No. 2, Switzerland, pp. 4.

<sup>5</sup> Shah H. A., Salim M. (2011). *Bancassurance Technology Road Ahead: Indian Perspective*, Global Journal of Enterprise Information System, Volume-3 Issue-IV, October- December, p. 1.

using the same portfolio of clients. In fact, beyond these definitions, bancassurance is a concept of operating in financial markets, which provide opportunities for an intensive use of the purchasing power of the portfolio of clients of the banks through a substantial improvement of the financial service offer, obtained with a minimum administrative and, implicitly, financial effort.<sup>6</sup> However, there is some disarray concerning the definition of bancassurance. The most apparent distinction is made between mere banks selling insurances over the counter and adversely insurers distributing banking products. The latter description is regularly referred to as '*assurfinance*'. But Germany, Switzerland and Austria use the broader definition of '*allfinanz*', which denotes that all financial institutions offer a whole set of complementary products next to their core activities. In fact, as reiterated above, bancassurance can be seen as a joint effort of banks and insurers to provide insurances to the bank's client base. Basically, this specification comes down to the concept of a 'one-stop-shop' financial institution<sup>7</sup>. Altogether, CEA<sup>8</sup> defines bancassurance as "*the provision of insurance services by banks in an integrated approach*". For the follow-up, this paper will adhere to this definition.

### The Conceptual Perspectives of Bancassurance

In point of fact, the theories of banking and insurance readily contain a number of similarities that contradict the traditional distinctions between the two businesses. In this regard, *Lewis* explained that banks usually take advantage of economies of scale in portfolio management, which arises from the law of large numbers.<sup>9</sup> Equally, insurance economics also rely on the law of large numbers, which states that the expected loss distribution approaches the true loss distribution as the sample grows. This for instance, enables insurance companies to pool individual reserves to protect against adversity. Similarly, banks provide the insurance of financial security for their clients; the insurance premium is reflected in service charges and the spread between interest rates on loans and deposits. Also, *Levy-Lang*, argued that insurance companies undertake some form of fund management through the investment of their technical reserves.<sup>10</sup> This function brings them closer to banking. Moreover, *Gumbel* summarized the affinities of banking and insurance as follows: Both operate with reserves, rely on the law of large numbers, use economies of scale, and have expertise in administration and money management.<sup>11</sup> They create liquidity and assume a risk-spreading function through reinsurance or refinancing.

In fact, the endowment policies have been a long-term financial tool to meet financial objectives that were the domain of banks. In the UK, 83% of mortgages were financed by endowment policies in 1988. In France, most insurers experienced growth through capitalization products, originally single-premium policies, which are very similar to time deposits of banks. Although these products are classified as insurance, they were in direct competition with the traditional banking products. As insurers developed more and more products with shorter maturities, savings became a focus of competition for banks and insurance companies. Another similarity between banks and insurance is that they often relate to the same purchase. They are in a sense complementary, if not similar. Banks require their borrowers to insure against various risks, including death, disability, unemployment and property damages. These guarantees become an inherent component of the loan that is granted. Both the banking and insurance products provide means of savings and insurance. In general, banks and insurers have more in common than their separation may suggest. The traditional view is that banks handle funds and insurers take risks. However, funds management and risk-bearing are clearly features of both types of activities. Thus, banking and insurance rely on the pooling of resources to protect financial security (banking) or protect against adverse events (insurance).

In practice, some insurance products are really savings vehicles. This is particularly evident in India, where a survey conducted in 2008, revealed that Indians consider life insurance as the most popular vehicle for long-term savings. In fact, banking and insurance are often complimentary, as is the case for mortgages that require credit and property insurance. Bancassurance therefore is a natural outlet for both businesses to diversify. The trend towards

<sup>6</sup> Ghetu D., Popescu, M. (2003). *A winning solution*, in "PRIMM Insurance Market Review" no. 3/2003 (24), p. 38.

<sup>7</sup> Business model aimed to fulfil all the financial needs of a customer in one place.

<sup>8</sup> The CEA (Comité Européen des Assurances) is a European insurance and reinsurance federation that consists of 33 member bodies, such as the Dutch "Verbond van Verzekeraars". The CEA represents all types of insurance and reinsurance undertakings, (e.g. pan-European companies, monoliners, mutuals and SMEs).

<sup>9</sup> Lewis (1990): [http://findarticles.com/p/articles/mi\\_hb6645/is\\_4\\_74/ai\\_n29400486/Is](http://findarticles.com/p/articles/mi_hb6645/is_4_74/ai_n29400486/Is)

<sup>10</sup> Levy-Lang, A. (1990). *Banking strategies for the 1990s*, Financial Institutions in Europe under New Competitive Conditions, *Kluwer Academic Publishers*, Massachusetts.

<sup>11</sup> Gumbel. (1990). *Bancassurance: Convergence of Banking and Insurance* (CIFP Knowledge series).

bancassurance or Allfinanz refers primarily to banks entering the insurance sector by offering insurance products to their retail customers. In this light, the definitions of the bancassurance concept focus on distribution and cross-selling. A broader definition of bancassurance was provided by *Swiss* as a strategy adopted by banks or insurance companies aiming to operate the financial services market in a more or less integrated manner.<sup>12</sup> However, in practice, the term 'bancassurance' is consistently used to describe a new strategic orientation of financial institutions in private customer business". *Morgan*, argued that a proper approach is one whereby financial institutions can be placed along a continuum denoting the degree to which an insurance company and a deposit-taking institution co-exist within a common structure (holding company), but also integrate their strategies.<sup>13</sup> Altogether, *Vaquin* has described the development of bancassurance along two dimensions; the degree of integration and the product profile.<sup>14</sup> Thus, the concept of bancassurance differs from one observer to another. This is because of the historical orientation of the integration of the insurance and banking sectors that usually vary from a simple distribution agreement to some type of capital link between the two activities.

### The Historical Developments of Bancassurance

The historical evolution of bancassurance partnerships took place in different periods and countries with significant features regarding; the legal framework, the market conditions, the level of development of the partner entities, the degree of internationalization of the operations and other factors that generated a wide variety of models through which the concept in question was institutionalized, that is, from the bilateral agreements regarding the distribution of insurance policies through the network of a bank to the strategic partnerships, with property or brand assignments and transfers. Aptly, the first recorded settlement of bancassurance was in 1860, when the CGER savings bank from Belgium started to sell mortgage-linked insurances. However, bancassurance as a term first appeared in France in 1980, in a bid to define the sale of insurance products through the banks distribution channels. It is, thus, the arrangement whereby the branches of a bank distribute insurance products through an insurance company owned wholly or partially by the bank, or the branches distribute products developed by other insurance companies with which the banks have entered into selling arrangement. In this respect, bancassurance usually results from the simple distribution contracts and continuous with complex processes, such as acquisitions or mergers. Therefore, the diversity of the bancassurance models is therefore marked even by the cultural environment and the regulatory and supervisory systems, especially for multinational organizations operating within a given country.

Apparently, this strategy for using the established, entrenched distribution network for one product to market other new products has long existed in the consumer goods sector. With the networks for soaps and detergents having been used by companies to distribute newly launched food products; the distribution channel for radios has been used to market televisions and so on. Of course, the basic premise for this kind of cross-selling is the fact that companies keep diversifying their product portfolios, using established 'incumbent' networks to promote and distribute new product lines. Banks, too, have in the recent past adopted this strategy both in Cameroon as well as internationally. They have moved away from the classical model of deposit taking and credit disbursement through their branch networks and have begun to offer a wide range of products and services like security broking facilities and mutual funds. This is the phenomenon of 'universal banking' that builds on the principle of leveraging existing networks to broaden portfolio offerings. Also, the changes in regulatory regimes equally facilitate this diversification. Thus, the diversification of the banking services has been driven by a number of factors, all of which have threatened the banks' profitability.

In fact, earlier in the US, the banks were not allowed to sell insurance due to the restrictions imposed by the *1933 Glass-Steagall Act*<sup>15</sup>; which acted as a wall between the banking and insurance sectors. As a result of this, life insurance was primarily sold through individual agents, who focussed on wealthier individuals, leading to a majority of the American middle class households being under-insured. However, later on, the approval for bancassurance was granted in the U.S. financial system through the layout of the *1999 Gramm-Leach-Bliley Act*, which repealed part of the *1933 Glass-Steagall Act*, thereby opening the doors for banks to distribute insurance and cater to the large middle class segment. In this light, *Daniel* has equally provided an analysis of how 'bancassurance' products have

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<sup>12</sup> Swiss Re (1992), *op cit*.

<sup>13</sup> Morgan, G. (1994). 'Problems of integration and differentiation in the management of 'Bancassurance'', *The Service Industries Journal* 14(2): pp. 153–169.

<sup>14</sup> Cited by Vaquin, M. (1990). '*Une extension vers des activités para-bancaires, Banque stratégie*', n° 65, p. 11.

<sup>15</sup> The Glass-Steagall Act disallowed expansion across different service providers in the financial industry in the US.

evolved, which reflects the way the concept of bancassurance itself grew.<sup>16</sup> The analysis of *Daniel* is based on the French market with reference to other European countries. *Daniel* thus divided the evolution of bancassurance products into three periods. With the first period prior to 1980, whereby banks sold insurance guarantees that were a direct extension of their banking activities, but were not associated with life insurance. For example, credit insurance was not regarded as bancassurance. The second period commenced after 1980, whereby savings products that readily benefited from advantageous tax regimes associated with life insurance flourished in the banking markets. And the third period started around 1990, whereby the supply of insurance products by the banks became much more diversified in both the life and general insurance categories.

More so, it was during the second period around 1980 that banks started developing financial products of a very different nature, in what is considered as the true emergence of bancassurance. This is when banks started exploiting capitalization products, that is, endowment contracts, whereby a lump sum is repaid after a fixed-term period. Despite the existence of an insurance element, it was a secondary factor to the savings objective of these products. These products, according to some analysts were in direct competition to banking rather than insurance products. The third period around the 1990s is considered crucial in the development of bancassurance by *Daniel*. This is because banks tried to exploit more synergies between the banking and insurance sectors; as they started innovating, moving away from the very basic vanilla products to products that responded to customers' needs. These included unit-linked and investment-linked plans that came under variable life insurance categories. These policies were pioneered by UK insurers in the 1960s. In parallel, with the bancassurance innovations banks also started selling pure life insurance products. Thus, in other European countries, the banks started selling whole-life policies too. Bancassurance has now grown in importance over the years, embracing both the distribution and production of insurance. The evolution of bancassurance has led to the customer-driven approach to the delivery of financial products. The changing demands of an ageing population in Europe, as well as developments in the banking and insurance industries have been important factors promoting the bancassurance trends.

In general, the increase in the degree of competition in the financial services industry has been a crucial determinant in the emergence of bancassurance. To review the main competitive forces that have affected the financial services industry, we can use *Porter's* framework on industry analysis which identifies five main competitive forces, namely; Rivalry among firms, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of customers.<sup>17</sup> These factors encompass crucial elements of change in the competitive environment of banks. The general recession, experienced first by UK in the late 1980s and then throughout Europe in the 1990s, reduced bank net interest margins and forced banks to depend more on non-interest income as a source of income. These trends significantly altered the structure of the European banking markets. Thus, the changed of customer behaviour and preferences forced the banks to alter their cultural orientation towards retailing in the 1990s. Therefore, banks had been threatened in their traditional business by new entrants from abroad and across industry boundaries, by substitute savings and credit services. At the same time, the bargaining power of both their suppliers of funds and their customers improved, as they showed more awareness of alternative sources and uses of funds. These combined factors increasingly put banks under considerable competitive pressures, thereby reducing profits. In parallel, the life insurance industry experienced substantial growth rates and developed a range of products that included savings instruments that competed head-on with banks' traditional products. This made the life insurance industry an attractive alternative for banks seeking to diversify their earnings and make a more efficient use of expensive branch networks. These factors have promoted the generalization of the bancassurance strategy, with banks achieving a substantial share of the life insurance market in many European countries.

### **The Motives of Bancassurance**

Succinctly, for a better understanding of the bancassurance business model development, it is paramount to elaborate on the rationale for this specific cooperation between the retail banks and the insurers. In this light, the advantages of diversification, efficiency and other benefits shall be appreciated and explained within this framework, from the perspectives of the bank and from those of the insurer.

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<sup>16</sup> Daniel, J-P. (1995). 'Les enjeux de la bancassurance', Verneuil, 2<sup>e</sup> Edition.

<sup>17</sup> Porter, M. (1980). *Competitive Strategy*, Free Press, New York; Porter, M. (2008). *The Five Competitive Forces That Shape Strategy*, Harvard business Review. January.

### From the Perspective of the Bank

There are many potential benefits to be realized by bancassurance strategies. It has to be urged that 'potential' refers to the opportunities of bancassurance. Those opportunities do not always necessarily work out well. The current developments ask for an updated review. Nonetheless, there are also embedded risks that lie in the expansion into insurances for banks. This sub section however will solely elaborate on the potential advantages. In this regard, *Levy-Lang* found valid grounds for economies of scope based on observed close similarities (e.g. financial risk management, liquidity creation) between the banks and insurers.<sup>18</sup> Also, *Frinquelli et al.*, noticed in the same year that once banks have established a customer contact for one service, they could leverage this contact with small incremental costs to sell additional services.<sup>19</sup> This is a clear example of the potential economies of scope<sup>20</sup> that are often put forward by responsible managers. One of the best examples of economies of scope is probably a grocer that expands to become a supermarket. The investments in cash desks, marketing, staff training, location and workforce can easily be allocated over a larger product set. However, in order to maximize economies of scope, a close overlap in product input is favoured. This overlap is similar to bancassurance, since both components deliver financial services. Both saving products and insurance products are means of pooled savings. Economies of scale are also mentioned as a pivotal argument to adopt a bancassurance strategy. There are also cost reductions to be attained, but not as a result of combined input efficiencies. Thus, economies of scale are achieved when the output of a business is rather similar. The base of scaled economies in bancassurance lies for the mere part at the insurer. However, part of those efficiency benefits also applies to banks that have chosen for bancassurance. Basically, the more insurance products a bank sells, the more experience it will gain along with scale advantages, and ultimately the marginal selling costs can decrease. A research by *Staikouras* showed that banking and insurance businesses have more commonalities than differences.<sup>21</sup> Thus, this paper supports the motivations to attain economies of scope and economies of scale, which can be converted in cost reductions. Both categories of cost effectiveness put banks in an advantageous position compared to brokers and (tied) agents.

Another motive to opt for a bancassurance strategy to boost profits is additional revenue generation. Insurance sales offer a new source of turnover for a bank and are therefore considered to increase the earnings. Since insurance and commercial banking products are closely related to each other, banks could seek for cross-sell opportunities. Banks can spot developments in the customer's life cycle and seize the occasion by unlocking insurance opportunities. The assumption is that banks have all the financial information of customers. Hence, they are able to serve products that connect to the individual needs of the actual customers' base at the right time. For instance, clients may give signals that regularly correlate with the need of complementary products (e.g. mortgage application, career change, divorce, births etc.). Therefore, banks do not just have access to a large potential client base; the core operations also generate valuable 'warm-leads'. A 2006 *Milliman* research<sup>22</sup> found that cross-sell ratings are the highest in Italy, Spain and France, with a record cross-sell ratio of 99 per cent in Italy among personal loans (mortgages included) and creditor insurances in 2006. Essentially, creditor insurances on loans are mandatory in Italy unless the client has abundant reserves (i.e. savings). Creditor insurances cover the lender in the situation of deficient interest payments due to disability or death of the borrower. Likewise there are also 'tied-selling' practices on the Dutch market. For instance, specific property insurance is obliged to be taken together with mortgage contracts. The cross-sell opportunity contributes in profit via either build-in margins (ownership) or direct commission (distribution agreement/joint venture). *Young*, thus found evidence that insurance premiums in the USA consist of 14-19 per cent of the sellers' commission fee.<sup>23</sup> It has to be mentioned that increased earnings are not the single result of direct income due to cross-sell. Providing a set of financial products to the same captive client base stimulates customer loyalty, which in turn supports the long-term earnings. Besides, it enables the bank to improve the relationships with its customers. And, by being a one-stop-shop financial institution, a (commercial) bank seizes the opportunity to

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<sup>18</sup> Levy-Lang, A. (1990). Banking strategies for the 1990s, Financial Institutions in Europe under New Competitive Conditions, Kluwer Academic Publishers, Massachusetts.

<sup>19</sup> Frinquelli, A., Mitra, R., Alexandre, M., Davis, S. (1990). Banks and Insurance Companies Square off in a Distribution War, Salomon Brothers, New York.

<sup>20</sup> Economies of scope arise from similarities that may occur among the assets that are in place to run the business.

<sup>21</sup> Staikouras, S. (2006). Business opportunities and market realities in financial conglomeration. The Geneva Papers on Risk and Insurance 31. pp. 124-148.

<sup>22</sup> Milliman Research Report. Milliman is an US based independent actuarial and consultancy firm.

<sup>23</sup> Young, R. (1990). Insurance Company costs and cost allocation, A Guide to Insurance Management, The Macmillan Press Ltd.

grow in significance. The insurance operations can feasibly lift on the leverage of the bank's brand equity. The extended market dominance is beneficial for the brand awareness and is likely to appeal even more customers.

Last but not the least, there are advantages of risk diversification that can be realised from implementing the bancassurance strategy. Insurers face a specific risk profile that differs from operators in the market for traditional banking services. In fact, a traditional wisdom is that one should not put all the eggs in the same basket. Hence, insurances can be a matter of risk diversification as well. In this line of thought, *Estrella* found risk reduction for commercial banks that engage in non-traditional banking activities.<sup>24</sup> It should be noted though, that this risk reduction might be part of the increased size of a bank. In the end, like observed during the recent financial crisis, some 'systemic' banks are regarded to be too big to fail and were saved from bankruptcy by national authorities.

### **From the Perspective of the Insurer**

This part is explicitly not meant to sum up the perceived benefits of 'assurfinance' or 'assurbanking'; but is meant to represent the inverted bancassurance business model in which the insurer provides banking services. Overall, these arguments would be somewhat similar to the motives mentioned in the previously covered bank's perspective part. Moreover, the base for insurers engaging into retail banking services is less compelling, since basic banking products yield lower margins compared to insurance products. Thus, instead, it is more interesting to ascertain the financial performance of insurers that distribute their products via the banking channel. In other words, why should insurers engage in partnership agreements with banks to expand from more conventional distribution channels (e.g. direct sales, brokers and agents)? However, it is realised that the expansion in the distribution channels will not necessarily yield additional earnings but could also eventually cannibalize the conventional sales. Therefore, it is necessary to gain a better understanding of the sales channels that exist next to bancassurance. A direct sale is such a sales channel. The direct sales denote the part for which the insurance company itself is able to sell insurance products in a direct link to the customer. Next to banks, brokers and agents are seen to be key sales channels for insurances. Thus, the line between the brokers' and agents' channel is often blurred. Both act as an intermediary. However, one clear distinction nonetheless holds, that is, on the one hand, an agent acts as a representative of the insurer and made a prior engagement in a contract with the insurer that gives the right to sell a set of insurances against periodically fixed terms and conditions. While on the other hand, a broker has not, and, as such, the broker has more independency. In this regard, a broker provides the insurer with information about the prospect and vice versa. Moreover, the broker steps back when the contract is bound. Also, some other sales channels that do subsist (e.g. post offices, supermarkets, department stores), do not make up for a significant amount of sale since those channels are hardly represented in the more valuable life insurance market.

In fact, for an insurer, it does not matter that much a difference what intermediate distribution channel it appeals to as long as it contributes to the sales. This closely relates to the key drivers for insurers to facilitate in cooperation with banks. Thus, with little effort they can gain from extra sales points. According to *Cap Gemini*, a mature-market insurance customer holds on average 5.2 policies, though, the 'share-of-wallet'<sup>25</sup> for a single insurer is on average limited to the range of 1.1 to 1.5 policies. Therefore, multi-distribution – for instance through bancassurance – carries the potential to grant insurers an additional growth source. For insurers, it is critically important to retain and increase the 'share-of-wallet' in all possible ways as economies of scale occur mainly at the insurer's level. On top of that the diversification of the distribution channels clearly reduces risks for the insurer as well, since there will be representation in more varied pools of prospects. To date, literature on the risk effects that are potentially associated with insurers involved in bancassurance is – in contrast to the bank's perspective – not available. This seems obvious since banks usually initiate bancassurance and absorb most of the wealth effects too. Nonetheless, the rationale for risk reduction at the insurer remains evident. To summarise, insurers have the same motives as banks for bancassurance. However, the means of achieving them differ and are affected by different variables.

### **The Critical Success Factors for Bancassurance**

The business drivers and performance of bancassurance depend highly on numerous variables. In this section, we shall vividly discuss the most cited and critical factors to take into consideration for any viable and vibrant bancassurance model and framework.

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<sup>24</sup> Estrella, A. (2001). Mixing and matching: prospective financial sector mergers a market valuation, *Journal of Banking and Finance* 25, pp. 2367-2392.

<sup>25</sup> The proportion of consumer's total expenses for a product/service that is purchased at one individual supplier. See Capgemini, *World Insurance Report 2009 Customer Survey*.

### The Regulatory Regime

Across the world, the rise of bancassurance as a distribution channel for insurances has been impeded by regulation. The institutional regulatory environment is critically important for any bancassurance practices. If the condition of a supportive regulatory regime is not met, then banks are readily blocked from diversification into the insurance industry. This was seen in the USA from 1933 to 1999 as a result of the *Glass-Steagall Act of 1933*.<sup>26</sup> In fact, due to the regulatory constraints marked by the *Glass-Steagall Act*, commercial/depository banks, investment banks, security brokers and also insurance companies could not consolidate. Also, in the UK, the *Financial Services Act of 1986* put a hold on the up rise of bancassurance development. Thus, up till now, several markets still do not allow for full consolidation in the financial services industry. Moreover, some protectionism can be found in emerging markets in South-East Asia that force foreign investors into constricted forms of control (i.e. no further integration than joint ventures). Altogether, Canada is an extraordinary example since cross-equity holdings are allowed between the banks and insurers. But however, banks in Canada are *de facto* prohibited to sell insurances through bank offices. The Anglo-Saxon economies are considered to be relatively deregulated.

Nonetheless, traditionally powerful unions and also the presence of powerful insurance lobbies have restricted the national development of bancassurance<sup>27</sup>. For Europe as a whole, *Solvency II*<sup>28</sup> is set to mark a shift in the regulation for the insurance industry aimed to protect policyholders. Thus, *Solvency II*, which is inspired on *Basel II*, calls for governance towards more transparency, higher capital reserves and tighter risk management. Therefore, *Solvency II* compliance will put pressure on adequate portfolio management. A fundamental shift towards products with small capital requirements is expected. The higher costs associated with capital intensive services are expected to be passed on to the consumer. At least, *Solvency II* will certainly restrain an integrated bancassurance conglomerate practice due to the burden of stronger regulatory compliance. Another development in regulation is the *Basel III*<sup>29</sup>, which came into full implementation in 2013. Thus, the new Basel accord has replaced the *2004 Basel II accord*. Moreover, the *Basel III* is anticipated to tighten capital buffer requirements. Special attention has to be paid for the topic of so-called 'off balance sheet activities'. These activities will be further restricted in order to limit risk. The tendency is to set more stringent legislation in order to strive for a more resilient financial sector. As such, *Basel III* sets forth on the course of regulation as prescribed in *Basel II*. The most important lesson from *Basel II* for banks is that it is indeed necessary to focus on portfolios that create most value in respect to the regulatory capital they require<sup>30</sup>. There exists a strong agreement in academic literature on the effect of deregulation on business performance. It is either argued that deregulation shortens the pace of innovation directly or indirectly by pushing rather inefficient incumbent market players with relative inefficiencies out of the domestic market. Furthermore, Carow scrutinizes this for bancassurance and finds positive effects of deregulation for all parties involved (i.e. insurers, banks and consumers).<sup>31</sup> Equally, Chen *et al.* recently underlined this view, by stating that deregulation has a positive impact on bancassurance<sup>32</sup>.<sup>33</sup> Also, another global tendency can be found in the restriction of tied-selling, as a way of duty-bound product bundling. This form of coercive cross-selling should not be confused with preferential pricing in package deals. Preferential pricing implies that the supplier offers more favourable terms – such as a lower combined price – by linking services or products. The difference is that the customer is not given a separated alternative in tied-selling offerings. Okeahalam found empirical evidence that product bundling indeed

<sup>26</sup> Glass-Steagall Act of 1933 <http://en.wikipedia.org/wiki/Bancassurance>

<sup>27</sup> White, M. (1990). US bancassurance in the US and abroad, *Life Insurance International*, London. 1990.

<sup>28</sup> Solvency II is an EU directive that will come to effect from the beginning of 2013. It forms a set of requirements, which insurers in the EU will ultimately have to obey to.

<sup>29</sup> The Bank for International Settlements (BIS) designated the Basel Committee on Banking Supervision to continue in safeguarding banks stability by setting more rigorous regulation on banking. *Basel III* as a result will set more stringent requirements for the banking industry.

<sup>30</sup> *Insurance – Bridging risk and capital, Countdown to Solvency II*, PwC, 3 May 2008

<sup>31</sup> Carow, K. (2001). Citicorp-Travelers Group merger case study: Challenging barriers between banking and insurance, *Journal of Banking and Finance* 25. pp. 1553-1571.

<sup>32</sup> Bancassurance performance was measured by premium income of a set of 71 international banks.

<sup>33</sup> Chen, Z., Li, D., Moshirian, F., Szablocs, C. (2009). Expansion and consolidation of bancassurance in the 21st century, *Journal of International Financial Markets, Institutions & Money* 19. pp. 633-644.



reduce service fees to the customer.<sup>34</sup> Especially the more mature markets for financial services are increasingly restricting tied-selling.

### The Technological Pressures

The technological environment is changing rapidly. The fast pace of technological developments requires market players to adjust their strategies. Financial innovation in technology and products seems to increase in priority as a determinant to create a competitive edge in the financial services industry<sup>35</sup>. In fact, product innovation in bancassurance is driven by the embedded potential of product mixes and packages in which insurance and banking products are combined. Also, embracing technology allows for more advanced delivery methods of financial services. For instance, bancassurance can very well be applied to 'multi-dynamic channel' delivery. This model entails a service model design with multiple communication and sales points. Such format enables the bancassurance to reduce costs and to build closer relationships. However, adequate cross channel management is of key interest in this. All channels should be carefully integrated in order to share customer information. Hence, technological support for a 'multi-dynamic channel' network is essential. This means integrating and managing the infrastructure and systems architecture in channels to realize customers' expectations. The aim is to ensure that synergies between channels are realised to ensure that the same services are available from each one, and that customer experience is consistent. Software development, takes a leading role as a major source of channel alignment. Moreover, the rise of the Internet has changed the landscape dramatically.

According to ITU<sup>36</sup>, worldwide Internet usage rose from 444.6 per cent in 2000 to a penetration rate (measured as a percentage of population) of 28.7 per cent in 2010. Similarly, Eurostat computed that over the last 10 years the EU-27 region took a tremendous leap with an Internet usage rise of 257.8 per cent to a penetration rate of 67.6 per cent. Thus, in the EU-27 region, the Netherlands takes the second position with an actual penetration rate of 88.6 versus Sweden on the first position with 92.5 per cent<sup>37</sup>. This growth may be quite important since confidence in e-commerce<sup>38</sup> seems to increase similarly. E-commerce therefore serves customers that search for convenience and time saving. For a long time, consumers were fairly prudent in e-commerce purchase decisions. Previously, financial services were ranked among jewellery and healthcare products as items that consumers abandoned as trustworthy in e-commerce. As far as it concerns financial products, this barrier appears to be taken away soon though. Thus far, in the Netherlands – where Internet usage thrived quickly – more than half of the population<sup>39</sup> made at least once a purchase via e-commerce. Just less than 30 per cent of the Dutch consumers that purchased with e-commerce, claim that they would not buy financial services via Internet<sup>40</sup>. Additionally, this amount is expected to decrease when growth of confidence in Internet upholds. Internet Technology changes consumer preferences. Furthermore market research by GfK panel services demonstrates that consumers are becoming more and more inclined to buy insurances on the Internet. Simultaneously, an increasing proportion of people use the Internet-banking platform. These developments enable cross-selling opportunities for retail banks through Internet. Another example of technology application lies in the supportive function for enhanced e-customer relationship management. E-customer relationship management facilitates in comprehension of customers' needs and in turn intensifies relationships. This is of vital interest for servicing and retaining clients throughout their entire life cycle. Contrarily, though, the same technology can also give consumers access to alternatives and allow competitors to compete in key parts of the value chain of the bancassurance. An apparent example of this can be found in the intermediation channel 'independ.nl'. This website compares insurance products in the Netherlands. Internet technology changes customer preferences in a way that customers are getting more receptive for e-insurance. All in all, chances for bancassurance with respect to the technological environment are manifold and are widely seen to be the largest growth opportunity for the future. Altogether, embracing the opportunities of e-commerce and streamlining a multi-channel approach can benefit bancassurance significantly.

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<sup>34</sup> Okeahalam, C. (2008). Does bancassurance reduce the price of financial service products? *Journal of Financial Services* 33, pp. 147-162.

<sup>35</sup> Goedee, J., Reijnders, W., Van Thiel, D., (2008). Bankieren in 2020: de impact van consumentenvertrouwen en technologische ontwikkelingen, *FT Prentice Hall*.

<sup>36</sup> International Telecommunications Union is the UN agency for IT and communication issues.

<sup>37</sup> ITU, June 2010: According to CBS this penetration rate will augment up to 95 % by the end of 2010.

<sup>38</sup> E-commerce stands for the digital market place for products and services via computer networks.

<sup>39</sup> 2010 CBS data: 8.8 mil. 'Adaptors' in 2010 vs. 3.2 mil. In 2002

<sup>40</sup> GfK Panel Services 2009

### The Complexity of the Product

In recent years, the product range in the insurance sector has grown tremendously as a result of a more demanding customer base. Customer empowerment has led to an increase in tailor-made insurance products. Moreover, the complexity stemmed from the multipart pension scheme. Thus, in an extensive pension provision, there are three pillars to be discerned. The first pillar is a mandatory participation in the pension system by the government. In most countries, this state pension is just a minimal compensation to protect the retired population against poverty. Other countries enriched this facility up to 90 per cent of pension arrangements<sup>41</sup>. The second pillar is build up by participation in an occupational pension scheme for which the employer can opt for pension fund asset management. The size of this second layer is determined by legislation, tradition – which is nurtured by culture – and the chosen social security partners. While the third one is when one accrues individual savings that are eligible for life insurances. Thus, as pension structures within these pillars get more complicated, the role for independent financial advisors becomes more viable. Complexity is therefore the way in which the pensions are structured. Countries like Germany, the UK and the Netherlands have more mature markets for private pensions. The maturity comes from a relatively long history wherein individuals and employers can influence, in which assets pension savings are invested. Often this maturity is enhanced by wealth and strict regulation on pension investments. Moreover, in general the previously mentioned developments have coincided with a trend for less opacity in insurances. For a long time, insurance companies gained from excessive margins due to the opacity in the insurance market. It induced ‘unethical behaviour’ which led to a wave of scepticism. E.g. in 2006 a turning point was marked in the Dutch market for life insurances when the national watchdog AFM revealed swindle with major domestic insurers. The AFM encountered extraordinary pricings dissembled by a disproportionate amount of opacity. At the same time, the UK competition Commission reviewed insurance distribution and simplification of Payment Protection Insurances (PPI’s)<sup>42</sup> and tightened the supervision in the insurance market. France and Poland similarly intensified product-tying restrictions that are now proposed in an EU directive to ban insurance-tied sales by the European Commission. A similar tendency is observed throughout the rest of the world. Consequently, it has led – and will continue to lead – to further restrictions forced by regulatory reforms. In fact, it will call for more transparency and thus put a downward pressure on fees and commissions. However, this does not necessarily affect the level of product features to be incorporated. As brought to by a company statement by Credit Agricole’s Life insurance undertaking, Predica: *“Long-term insurances are likely to develop more extensive features. However, with respect to the market demand and regulatory reforms, the requisite is to explain the purpose and concept of the product in simple terms. Even if the nature of the product entails complex features”*.<sup>43</sup> Another downward pressure on insurance’s margins is caused by Internet aggregation websites, which have shown a tremendous potential over the last decade<sup>44</sup>. In the UK, aggregators account for over 45 per cent of insurance policy sales<sup>45</sup>. Aggregators are especially dominant for relatively simple personal lines, such as motor and home insurance. At first glance, this trend seems to affect mainly agents and brokers. Bancassurance has a more dominant position in countries where insurance products are simpler and evidently have more similarity with banking products. Nevertheless, there is more to be reviewed. However, the competition from the lower-cost channels via Internet may have an adverse impact on the profitability of bancassurance.

### The Fiscal Treatments

Appositely, tax legislation can favour bancassurance development. In this regard, there are notable country examples in Europe where bancassurance took off as a consequence which are mostly characterized by certain favourable tax regimes. These are respectively; France, Italy and Spain. Together with Portugal, they form part of the so-called ‘Latin-Europe’ region in which bancassurance prospers. Tax incentives appeared to be stimulating the development of bancassurance amidst a low level of regulation. France, for instance, left life insurance products eligible for tax deductibility up till 1995, with tax advantages like: Exemption from inheritance tax, absence of tax from capital gains after eight years and deductibility of taxes up to 25 per cent of life insurance premiums. While Italy and Spain showed similar tax benefits. Though, heading towards the end of the 1990s, the associated tax agreements were mainly withdrawn. Thus, before, bancassurance have been able to leverage their captive base of banking clients. The

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<sup>41</sup> The ‘Latin-Europe cluster’ consisting of France, Italy, Spain and Portugal is known for generous first pillar pension compensations that range from 70 to 90 per cent. A rate of 40 to 50 per cent is more common in developed economies. Most former USSR areas have much smaller first pillar pension retirement perquisites.

<sup>42</sup> Retail Distribution Review, 2009

<sup>43</sup> Credit Agricole, Industry Outlook, 2007

<sup>44</sup> A good national example of aggregation can be found on [www.independen.nl](http://www.independen.nl)

<sup>45</sup> The British Insurer’s European Committee (BIEC)

positive tax treatment applied especially to simple single premium life products. Therefore, bancassurance were able to adjust low cost, simple products for long-term savings that proved to be an attractive alternative compared to the rather complex offerings by traditional channels. Yet, after the tax restructurings, bancassurance in the 'stimulated' countries showed strong resilience as seen by the French life insurance distribution figures from 2001 to 2006. Moreover, according to CEA, bancassurance gained market share from 60 per cent in 2001 to 64 per cent in 2006. The grounds for this enlargement can be found in the fact that bancassurance expanded the general sales force with more specialised financial advisors compare with the direct and intermediation channels. With Bancassurance in Spain and Italy maintaining akin results with growth respectively up to 63 and 68 per cent in 2006 in the distribution of life insurances. Besides, countries that did not offer tax benefits on simple life insurance products evolved in 'weaker bancassurance markets'. As a result, alternative distribution channels grew much more solid; especially in Germany, UK, and the Netherlands, where the established position of intermediaries became embedded in the market.

### The Potential Pitfalls in Bancassurance

Altogether, the perceived benefits of bancassurance have been extensively elaborated above. However, there are also challenges. There are certainly some risks related to the implementation of the bancassurance business model. First of all, the alignment with the insurer can bring far-reaching challenges. A management issue like - who is in charge of client relationship management, trade-off in product design as well as the split-up of product marketing expenditures and build-up of commissions should be resolved. Additionally the integration of back offices, databases and other information systems are defiant. Any form of rivalry among the merged entities may lead to 'ring-fencing'<sup>46</sup> of the products or client base fragmentation. In this regard, *Benoist* called these means as the "cannibalisation between the banking and insurance industries that represent a real risk for bancassurance".<sup>47</sup> Other setbacks that are linked with weak integration and operational deficiencies are brand dilution or so called image risks. Furthermore, pursuing synergies creates additional costs. In this respect *Nayyar*, distinguishes three cost drivers, viz.; incentive degradation, governance costs and bureaucratic distortions<sup>48, 49</sup>. Hence an aligned culture and reputation among the involved banks and insurers is of utmost importance for sound bancassurance setups.

Nevertheless, it should be noted that the mentioned factors of internal 'early failure' are manageable and should thus be able to be controlled. Still, there are some bottlenecks that are exogenous by nature and which possibly undermine the bancassurance model. Certain markets are saturated in terms of insurance penetration. In such circumstances, insurances might be oversold to the targeted client base. Also, sceptics doubt the nowadays' advantages of high street banks compared to sales channels without physical presence. For instance, *Fields et al.*, claimed that banks do not have unique selling points that are powerful enough to withhold other market entrants to enter in the insurance business.<sup>50</sup> The critics believe that it is rather difficult for banks to establish a competitive edge over other retailers. A recent *Ernst & Young* survey found that 45 per cent of the respondents lost faith in the banking industry after the 2008 financial crisis.<sup>51</sup> Adversely, retailers and even post-offices, at the same time, have some apparent capabilities to compete with bancassurance. For example supermarket chains like Tesco and Carrefour have for instance been successfully leveraging the strength of their trusted brands for financial services. Besides, alike retailers usually boast on more regular customer contact and extensive customer data. Furthermore the scepticism increased with concerns over customers that might be reluctant to bind all financial services with one and the same partner (i.e. lack spread in asset allocation). Adversely, proponents in bancassurance argue that product bundling is into fashion for due to package discounts and convenience. And they play down the threat of retailers, as new market entrants as they are merely seen to target the less profitable non-life offerings.

<sup>46</sup> Ring-fencing of product offerings illustrates a business' loath for product adjustments.

<sup>47</sup> Benoist, G. (2002). Bancassurance: The New Challenges. *The Geneva Papers on Risk and Insurance, Blackwell Publishers*, Vol. 27, No. 3 July, pp. 295-303.

<sup>48</sup> Incentive degradation addresses issues of moral hazard. Whereas, governance costs are driven by incongruent goals between management and subordinates. *Nayyar* (1992) refers to bureaucratic distortions when non-rational behaviour emerges from major changes in the corporate portfolio.

<sup>49</sup> *Nayyar P.* (1992). On the measurement of corporate diversification strategy, *Strategic Management Journal* 11, pp. 219-235.

<sup>50</sup> *Fields, J., Fraser, D., Kolari, J.* (2007). Bidder returns in bancassurance mergers: Is there evidence of synergy? *Journal of Banking & Finance* 31. pp. 3646-3662.

<sup>51</sup> *Ernst & Young.* (2005). Industry report, Bancassurance: a winning formula.

### **Principal Forms and Products of Bancassurance**

A point of attention in this paper is to consider the way in which bancassurance practice would function optimally. In sum, there are multiple ways to extend a company's activities. But, the aim one is to achieve optimised synergies and a smooth blend in of corporate cultures as the bancassurance model shifts towards a higher degree of integration. Succinctly, bancassurance structures vary widely, with the extent of financial control and the degree of operational integration being the most critical variables; with each business model having its benefits and limitations. It should therefore be noted that some countries do not permit bancassurance practices and thus admit fewer bancassurance business models due to regulatory constraints. Altogether, *Benoist* have described the adequate choice of an appropriate bancassurance business model as a key determinant for future bancassurance performance.<sup>52</sup> In this light, a bank that starts to expand its operations in insurances pursues a horizontal diversification strategy. In general moreover, there are four principal forms of expansion: The distribution agreement, the strategic alliance, the joint venture; and the merger and acquisition. Apparently, each form usually embraces a different level of acquirer's commitment and accordingly a different level of integration. Hence, every bancassurance business model should adhere to a specific strategy. Nowadays, there is a tendency of loosened ties between banks and insurers. Recent splits suggest that cross equity holdings have become a matter of the past. However, there is no single way of entering into bancassurance which is 'best' for every insurer and every bank. In fact, as in all business situations, a proper *strategic plan* drafted according to the company's internal and external environmental analysis and the objectives of the organization is necessary before any decision is taken. In this light, we shall consider the various forms of bancassurance before looking at the products and then their distribution channels.

### **The Main Forms of Bancassurance**

Apparently, in bancassurance one party's distribution channels gain access to the client base of the other party. This is the clearest and most simplified explanation of any form of bancassurance, but however there can be a 'missed opportunity'. Conversely, if the two parties do not work together to make the most of the deal, then there will be at best only minimum results and low profitability for both parties. If, however, the bank and the insurance company enter into a distribution agreement, according to which the bank automatically passes on to a friendly insurance company all 'warm leads'<sup>53</sup> emanating from the bank's client base; this can generate very profitable income for both partners. The various bancassurance arrangements are:

#### **The Distribution Agreement:**

It is a formal or informal agreement or one through which a bank recommends clients to an insurer. The agreement is characterized by a single product or a limited relationship. The two different forms of agreement are: '*The non-exclusive distribution agreement*' where the bank basically has the role of a broker, selling the products of the associated insurance company, together with the products of other insurance companies; '*The limited distribution agreement*', where the insurance company provides one or more products or types of products exclusively for the associated credit institution; however, both sides may have different contracts with different partners only for products not covered by the bilateral agreement. Under this form, a bank signs a distribution agreement with an insurance company, under which the bank will act as their appointed representative. The proper implementation of this arrangement can lead to satisfactory results for both partners, with reduction in financial investment required by the bank. The products offered by the bank can be branded. Moreover, the distribution agreement can be considered as a formal and exclusive relationship in which the bank sells only the insurance products of its partner through its channels; so the credit institution acts as a designated representative of the insurer. Thus, in this form a bank and an insurance company agree to have cross shareholdings between them. A member from each company might join the board of directors of the other company. The amount of interest aroused at board level and senior management level in each organization can influence substantially the success of a bancassurance venture, especially under distribution agreements using multi distribution channels. The bank acts as a distributor, offering stand-alone insurance products from multiple insurance companies. Usually the regulatory constraints require banks to work with multiple insurance companies; customers prefer advisor independence The model requires limited upfront investments; little setup time, and the model avoids lock-in with single insurance company. The short comings are that the bank and insurer lack an integrated client view as customer databases are not shared; the insurer has little control over to

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<sup>52</sup> Benoist, G. (2002). Bancassurance: The New Challenges. The Geneva Papers on Risk and Insurance, Blackwell Publishers, Vol. 27, No. 3 July, pp. 295-303.

<sup>53</sup> Sales leads that if pursued can result in new business for the insurer

whom the products are targeted to, and the model does not foster proper product customization processes for banking clients.

#### **The Strategic Alliance:**

It emerges when between two parties there are common ownership and/or a consistent strategic objective. It preserves the exclusiveness relationship between the bank and the insurer. Also, in this form, the bank sells products from a single insurance company only. Thus, the model still requires a relatively low upfront investment and allows for customer database sharing. The short comings of this model are that there is a low level of integration, since involved parties still operate as separate entities. Some investments in IT, MIS and sales force are required, and administration issues may occur as clients are ignorant of who, is responsible for the product administration. Also, the regulation or tax treatments may not allow for a close integration of the banking and insurance activities.

#### **The Joint Venture Systems:**

This involves the creation of a new company by an insurer and a bank. Both parties have a well-defined economic interest, while the structure of the business, equity contributions, goodwill used, and the business longevity; may vary considerably. For instance: ICICI-Prudential Life, HDFC Standard Life, Kotak Life (with Old Mutual of South Africa), and SBI Life (with Cardiff of France). In this model, both bank and insurer create a jointly owned company and regulations allow a high level of integration and do not prevent for sale of insurance products by the branch staff nor the exchange of customer data between a bank and an insurance company. Thus, the bank and insurance company have mutual ownership of products and customers, they enlarged customer database through database mergers, and there is a strong and long term commitment, as well as investment from both parties. However, the model requires significant upfront investments; the insurer might feel a lack of control over distribution channel strategies; it is harder to balance power and separate contributions between involved parties, and it is a relatively slow market offering due to a more complicated model structure.

#### **Financial Services Group:**

In this model, the bank and insurance company are subject to a parent company. In fact, the operational benefits are enormous due to the full integration of products and systems with no limits to the utilization of shared customer databases, same corporate culture and a one-stop-shop that provides the full spectrum of financial products. Thus, the short comings of this model is that it calls for significant upfront investments, risk of brand dilution if one of the integrated entities performs poorly, and the up scaling could cause inefficiencies as a result of bureaucracy.<sup>54</sup> Also, it is known under the name 'mergers and Acquisitions' (M&A), and are established by the securities transactions of banks and insurance companies, through which the redistribution between the participants of the ownership and control rights on such entities takes place. The object of such transactions may be the takeover of a significant stock of the agreed partner (*acquisition*), or the reunion of two associates in the distribution process into a new company (*merger*). The role of the bancassurance partnership in the quality of the insurance product distribution. Therefore, the acquisition of a bank that is wholly or partially owned by an insurance company is also possible. In this case, the main objective is usually to open the way for the insurance company to use the bank's retail banking branches and gain access to valuable client information as well as to corporate clients, allowing the insurance company to tap into the lucrative market for company pension plans. Finally, it offers the insurance company's sales force bank product diversification (and *vice versa*). This form is used in many cases as a strategy by insurance companies in their effort not to lose their market share to bancassurers.

Altogether, it should be reiterated that the best way of entering bancassurance depends on the strengths and weaknesses of the organization and on the availability of a suitable partner if the organization decides to involve a partner. However, if the conditions for corporate agency tie-up are not fulfilled by the bank, the bank may enter into a referral mode of tie-up with the insurer, whereby its staff generates warm leads and offers it to the insurer's sales persons. In this regard, the remuneration for the bank would be higher in case of the corporate agency model than a mere referral mode of tie-up. Thus, whatever the form of ownership, a very important factor for the success of a bancassurance venture is the influence that one party's management has on that of the other. An empowered liaison between respective managements, with regular senior management contacts, as well as sufficient authority to take operational and marketing decisions, is vital. Regular senior management meetings are also a vital element for a

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<sup>54</sup> Grinyer & Yasai-Ardekani (1981): for governing purposes, large organisations require more expenses in overhead than 'monoliners' since there is an increased amount of communication links. On a certain point this effect outweighs the economies of scale/scope effects and will therefore result in organizational inefficiencies.

successful operation. There must be a strong commitment from the top management to achieving the aims in the business plan. In fact, to summarise, it is argued that the model should be tailored to the local market conditions. *Wu et al.* showed that executives generally prefer the financial services option.<sup>55</sup> However, this might be driven by personal incentive schemes. The issue in bancassurance remains that, it is difficult to determine what market conditions are prevalent in time and across geographic locations. Nevertheless, a sound understanding of what conditions and strategies drive the individual models success rate can be essential for the purpose of designing adequate bancassurance practices. For this reason, the impact of certain measures on the effectiveness of these separately classified models will show to be a major objective of this research. *Swiss Re's Sigma* differentiated that the socio-economic, cultural and the regulatory environments together with the market infrastructure and consumers preferences are the foremost determinants to take into consideration for developing the best performing bancassurance business model.<sup>56</sup>

### **The Products of Bancassurance**

Under this, we shall discuss the guiding principles for the development of bancassurance products and describes how these products are structured. In fact, all life insurance products are by nature products which belong to the wider financial services sector. For a bancassurance operation in particular, however, the decision on the types of insurance products which it wants to sell is very closely related to the methods of distribution which it plans to use. This is because the effort and expertise needed to sell a given product must be appropriate to the skills and cost base of the chosen distribution method. A product which is very hard for the available distribution channels to sell is not going to be successful for the operation, whether in terms of sales volumes or of profits. Apart from the traditional insurance products, bancassurers have developed special products in order to fulfil certain needs which emanate from banking transactions, or to improve certain products in order to make them more attractive and useful to the customer. These products can be broken down into three categories: Finance and repayment products; depositors' products and simple standardized package products.

### **The Finance and Repayment Products**

The concept of this group of products is fairly simple. A financial institution which grants loans or credit to individuals is concerned that, in the case of early death or permanent disability of the borrower, the outstanding loan or credit amount may not be recoverable. This will happen where; the financial standing of the surviving family means that outstanding amounts may not be easily recoverable, or when the repossession of the item purchased by the loan amount might not be saleable, or when any resale amount is not sufficient for the repayment of the loan. Indeed, along with the financial loss, the lender also runs the risk of damaging its reputation among customers, since it will acquire the reputation of repossessing items on the unfortunate death of its clients, and the harassment of the unfortunate spouse and family. The borrower on the other hand has similar concerns. He does not wish to leave an outstanding loan to be repaid by his family after his death. He is also concerned about his possible inability to repay the loan or credit amount if he becomes permanently disabled. A category of products that can satisfy both parties is the finance and repayment product. Some of the best known products in this category are:

#### **Credit Insurance:**

It can be offered in cases where a loan is granted to the customer and serves as additional security for the bank and financial protection to the customer's property in the case of his death prior to the repayment of the loan. This normally involves a decreasing term life cover with an initial sum insured equal to the amount of the loan. For example, if the amount of loan taken is 10 million francs CFA, then the policy will have an initial sum insured of 10 million francs CFA. The sum insured would decrease in line with the repayment of the loan amount. Upon the death of the insured person the amount payable would be equal to the outstanding loan amount, with or without the accrued interest at that time. If the outstanding loan amount decreases on a predetermined basis, then it is possible to calculate the appropriate premium at the date on which the loan was granted. In cases where the loan amount fluctuates according to the needs of the borrower or due to fluctuations in interest rates, a monthly premium based on the outstanding loan amount is a more equitable solution, provided that the outstanding amount is available for calculating the premium. Annual premium or single premium contracts can be offered in cases where the loan

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<sup>55</sup> Wu, C-R, Lin, C-T, Lin, Y-F., (2009). Selecting the preferable bancassurance alliance strategic by expert group decision technique, *Expert Systems with Applications* 36. pp. 3623-3629.

<sup>56</sup> Swiss Re is a consultant with global presence in economic research and has a strong expertise in the field of reinsurance. Sigma is the annually published Swiss reinsurance report on developments of the market for insurances by Swiss Re.

amount at all periods can be predetermined. Where the loan amount can fluctuate, single premiums are not permitted. In the case where a single premium is charged the premium amount is frequently added to the loan amount. Almost all loans covered under credit insurance schemes are of short repayment duration, that is, up to 5 years. In cases where this scheme is a compulsory part of a loan, the premiums charged can reflect the fact that there is no selection against the insurer on medical grounds. Thus, in such cases, the company can limit itself to simplified underwriting. The reduced processing costs can be passed on in the form of lower premiums. In cases where this scheme is not compulsory, however, further medical or occupational questions are asked for underwriting purposes. The extra work involved may force premiums to be increased. The permanent total disability benefit may be offered together with the decreasing term insurance since the ability of the borrower to repay the loan may depend on the borrower maintaining his income. In some cases, temporary total disability benefit covering the instalments payable is also offered. It is also possible for a bank to pay the premiums, which are very low, and use this as a marketing tool in order to attract new customers and sell its products more easily. The marketing tool is to offer 'free' protection in the case of death or permanent total disability. The bank will include the cost of protection in the interest rate charged to borrowers. Succinctly, credit insurance is suitable for arrangements such as; mortgage loans, business loans, personal loans, and hire purchase arrangements. This cover, however, can also be issued as a group policy covering all customers; with the master policy remaining with the bank and the certificate of insurance given to each customer.

#### **Overdraft Insurance:**

Usually banks offer overdraft facilities to their customers. This is automatic credit up to a pre-agreed amount. For salaried customers, this amount is usually two or three times their monthly salary. Moreover, this facility has no repayment term provided the salary is deposited in the bank and the credit always stays within the pre-agreed amount. In the case where the customer who was using the credit facility dies, this amount has to be repaid by the heirs of the deceased. However, this practice usually creates problems for both the heirs and the bank. In this regard, the overdraft insurance can readily help. Also, the overdraft insurance can be offered in two different ways: (a) the cover is equal to the credit facility used and a monthly premium is paid according to this amount. In the case where the customer dies and this credit facility has been used, the outstanding amount due will be repaid to the bank by the insurance company. In deciding whether to offer this option, the insurer must consider the risk that people who know their health is very poor can sharply increase the amount of credit taken shortly before their death; (b) the cover equals the maximum pre-agreed credit facility. In case of death, the outstanding amount due will be repaid by the insurance company. If there is an excess between cover and the outstanding amount due, this amount will be paid to the heirs of the customer. Premiums in this case can be paid on a monthly or annual basis. Thus, in overdraft insurance, the premium is usually adjusted every year according to the age of the customer. A maximum age for this benefit usually exists. The premium can be paid by the customer or by the bank as an offer to its customers. This type of product is suitable for arrangements such as; overdraft facilities, credit cards, and unstructured debts.

#### **Capital Repayment:**

For loans offered for mortgage, educational, personal or business reasons a repayment scheme through an insurance policy is possible. The customer is granted the loan and he pays to the bank only the loan interest. He also takes out an endowment that has a cover equal to the loan amount and with a duration equal to the repayment period of the loan. The premium is selected so that the maturity payout is very likely to be able to cover the full loan amount. The policy is always assigned to the bank and serves as a repayment tool whether the customer survives or not. These products have proved particularly attractive to customers in countries where life insurance products enjoy favourable tax treatment, or where interest rates charged by lenders on loans repaid by insurance policy proceeds are lower than for capital repayment loans. Due to the high investment element of these products, the premiums for such products are much higher than those of the credit and overdraft insurance that we have mentioned above, although the total cost of the loan to the borrower may not be very different.

#### **The Depositors' Products**

The second category of these special products consists of the so-called depositors' products. Thus, the major types of depositors' products are:

#### **Depositors' Insurance:**

This benefit is designed to attract the public to deposit money with a particular bank. It can be offered in all deposit accounts but usually a minimum deposit amount is required. The level of cover is usually determined by factors such

as price and underwriting. A possible product is level term insurance with the premium rate changing every year. Another possibility is to offer accidental death cover. Reasonable limits must be set regarding maximum age and maximum amounts. The premium in this case is usually paid by the bank but it can also be paid by the depositor with a proper marketing approach. The amount of cover is usually a multiple of the cash balance in the deposit account. In the case of death of the depositor, this cash balance is increased accordingly.

#### **Objective Achievement Insurance:**

This policy can be offered in special deposit accounts where systematic deposits are required to reach a predetermined objective amount at maturity. If the depositor dies or suffers total permanent disability, the difference between his objective amount and the cash balance of the account is paid to the depositor or the depositor's estate in addition to the cash balance. This can be offered by a decreasing term insurance only or in combination with permanent total disability benefit. In cases where the deposit amounts are not predetermined, it is advisable to offer coverage that is a multiple of the average cash balance amount during the preceding 6 or 12 months, so that problems of anti-selection can be reduced. However, it would still be possible for a customer to increase the account balance rapidly and gain significant life cover without underwriting. As with depositors' insurance, accidental death cover is another option. Where reasonable limits are set regarding the maximum age and maximum amounts of coverage, this product can offer attractive profit margins.

#### **Pure Investment Products:**

These products have no "insurance" elements, that is, no risk. They have traditionally been the domain of banks, but in some countries they enjoy favourable tax treatment if they are offered by an insurance company.

#### **The Simple Standardized Package Products and Other Products**

These products are usually group policies which combine covers and which cost the customer less than if they are bought individually. These products are usually sold over the counter by bank employees, so they need to be uncomplicated. An example would be household insurance together with waiver of premium on death cover.

Equally, the objective of product development in most cases is to offer the widest possible range of products, so as to enable sales people to select the most suitable plan for each customer's specific needs. A further range of products and riders which the bancassurers want to offer to clients could include: the products are whole life, endowment, unit-linked products, term insurance products, accident and sickness products, hospitalization products and pension products. The Riders are; family income benefit, waiver-of-premium benefit, permanent total disability benefit, income replacement benefit. Thus, in deciding whether to offer these further products the bancassurer would need to consider whether these can be effectively sold by the employees and agents involved in the bancassurer's sales operation.

#### **The Distribution Channels in Bancassurance**

Apparently, the type of distribution channels that a company uses affects the design and pricing of its products, as well as the way in which the products are promoted and perceived in the marketplace. Some bancassurers started out by selling simple products which could be sold in large volumes but which usually had low margins to cover expenses and profits. If we compare how products and distribution are related to the profits of an organization, we will come to the conclusion that the more complex the products sold are, the higher the required margins will need to be. Many banks entered bancassurance with a defensive strategy in their attempt to avoid market share erosion by insurance companies. Very soon, though, they realized that they could gain market share if they expanded their product range, developed a sales culture within their organizations, created a multi-channel distribution structure and exploited the potential of the customer information that can enable the identification of customer needs. Thus, bancassurers make use of various distribution channels as: Career agents, special advisers, salaried agents, bank employees, corporate agencies and brokerage firm, telemarketing, worksite marketing, seminar selling, e-commerce, and direct response. Therefore, using the broker channel, where the broker advises the customer and selects from among products offered by a number of companies can also be attractive to banks. However, it is not understood as bancassurance (where there is a relationship with a particular insurance company). For the insurance company, this channel has disadvantages in that it is difficult to forecast how much business the insurer will receive from the broker. Insurers do not favour the broker channel in bancassurance. The main characteristics of each of these channels are:



**Career Agents:**

They are full-time commissioned sales personnel holding an agency contract. Although some insurance companies offer such contracts to part timers, within the bancassurance operations, such people are usually excluded. Career agents are generally considered to be independent contractors. Consequently an insurance company can exercise control only over the activities of the agent which are specified in his contract. Despite this limitation on control, career agents with suitable training, supervision and motivation can be highly productive and cost effective. Moreover their level of customer service is usually very high due to the renewal commissions, policy persistency bonuses, or other customer service-related awards paid to them. However, many bancassurers avoid this channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and/or incentive packages.

**Special Advisers:**

They are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. Usually, they are paid on a salary basis and receive incentive compensation based on their sales. Otherwise, they present the same characteristics as those of career agents, with the exception of their training which focuses on the group and business insurance sectors.

**Salaried Agents:**

They have the same characteristics as career agents. But the only difference in terms of their remuneration is that, they are paid on a salary basis and receive incentive compensation based on their sales. Some bancassurers, concerned at the bad publicity which they have received as a result of their career agents concentrating heavily on sales at the expense of customer service, have changed their sales forces to salaried agent status.

**Bank Employees:**

They can sell simple products. However, the time which they can devote to insurance sales is limited, e.g. due to limited opening hours and to the need to perform other banking duties. A further restriction on the effectiveness of bank employees in generating insurance business is that they have a limited target market, that is, those customers who actually visit the branch during the opening hours. In many set-ups, the bank employees are assisted by the bank's financial advisers. In both cases, the bank employee establishes the contact to the client and usually sells the simple product whilst the more affluent clients are attended by the financial advisers of the bank which are in a position to sell the more complex products. The financial advisers either sell in the branch but some banks have also established mobile sales forces. If the bank employees only act as 'passive' insurance sales staff (or do not actively generate leads), then the bancassurer's potential can be severely impeded. However, if the bank employees are used as "active" centres of influence to refer warm leads to salaried agents, career agents or special advisers, production volumes can be very high and profitable to bancassurers. The branch manager of the bank has a decisive position, that is, he has to generate the prospect lists, which are turned over to the sales people in the branch. Furthermore, he has to motivate his sales people to sell, to control the volume of business sold directly via the branch, and to monitor the warm leads.

**Set-up/Acquisition of Agencies or Brokerage Firms:**

In the US, quite a number of banks cooperate with independent agencies or brokerage firms whilst in Japan banks have founded corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and – in the case of brokerage firms – the opportunity for the bank clients to receive offers not only from one insurance company but from a variety of companies. In addition, these sales channels are more conceived to serve the affluent bank client.

**Direct Response:**

In this channel no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bancassurer by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products which can be easily understood by the consumer without explanation.

**Worksite Marketing:**

Vastly popular in the US, this channel is used to target employees of the insurer, or a group company. In this method, the insurer launches non-medical insurance cover for the employees of a group company and offers special discounts to all those who propose to take the cover. There is however no obligation on the part of the employees to buy the policy. Worksite marketing is easier to implement if there is a perceived positive image of the parent company itself among employees. Secondly, simple forms and simpler benefits illustration can go a long way to establish sales growth. Cultural and social differences, coupled with a below average company image, may be the major hurdles for growth. Worksite marketing channel has high chances of success, due to the trust and loyalty factor towards their 'own' company, as the insurer is perceived to be their 'own insurance company'. The premium payment usually is monthly mode, and deducted from the salary; thus making the entire process simple. The chance of lapsation of policy is therefore nonexistent, creating win-win positions for both, the insurer and the employee.

**E-Commerce:**

This channel is the fastest growing and most convenient way of purchasing insurance cover. Online sales of insurance policies can be encouraged by designing special non-medical term policies, which are easy to understand, and which do not warrant expert advice from trained advisors. E-commerce sites that offer the lowest quotes from all insurers are being introduced by entrepreneurs and they are slowly making their mark. Therefore, the growth of broadband connections and personal computers, will certainly fuel the growth of online purchases of insurance policies, especially by the white-collar employees, for whom time and convenience are top-most factors in any buying decisions.

Besides, it appropriate to reiterate that it is very difficult for a single distribution channel to successfully reach the bancassurer's goals and specific target markets. Thus, many bancassurers are using multiple distribution channels. In this way, they are avoiding of being locked into one channel and are, so, offering services to a greater number of target markets. Multiple distribution channels provide another valuable feature. They enable the enterprise to offer customers multiple options for access. Therefore, if a customer wants to see someone about a particular service on one day but wants to transfer funds at a later date, for instance, on a Saturday night, the availability of both branch office and 24-hour telephone access increase the service value to that customer.

**Development and Impact of Bancassurance in Cameroon**

Generally, in Cameroon, bancassurance is principally governed by the Insurance Code and other subsidiary regulations. Thus, the first laws on insurance in Cameroon emerged during colonization time. In this light, until 1992, the insurance industry in Cameroon was governed by the French Act of 13<sup>th</sup> July 1930, as well as Order N°90/1197 of 3<sup>rd</sup> August 1990. However, these texts were repealed by the treaty<sup>57</sup> establishing the integrated organization for the insurance industry in some African states, called the Conference of the Inter-African insurance market (CIMA). The objective of this Treaty is to foster the development of the insurance industry by putting in place a common legislation, to the benefit of the national economy of the country or of the sub- region; to continue the policy of harmonization and unification of the legislative and regulatory provisions to the technical operations of insurance and reinsurance undertakings as well as the control of insurance undertakings to national and sub-regional plans. This is in order to strengthen cooperation in the field of insurance in the member states by establishing an expanded and integrated market in the insurance industry. The CIMA has also created institutional bodies<sup>58</sup>

<sup>57</sup> This treaty establishing the integrated organization of the insurance industry in African States, was signed on the 10<sup>th</sup> July 1992 in Yaounde by the governments of the following States: Benin, Burkina-Faso, Cameroon, Central African Republic, Comoros, Congo, Côte d'Ivoire, Gabon, Equatorial Guinea, Mali, Niger, Senegal, Chad, and Togo. Before its signature, each Member State had a different legislation from that of the other States.

<sup>58</sup> The institutional bodies of the CIMA composed of the Council of Ministers, of the General Secretariat of the Conference and of the regional commission of the controls of the insurance: *The Council of Ministers* which composed of the ministers responsible for insurance in the Member States. Each State is represented by a minister in charge of the sector of insurance. The Council is responsible for the achievement of the objectives of the Treaty. In the framework of this mission, it may amend or supplement the CIMA Code by voice of regulations; it sets the rules of functioning of the organs of the Conference. It meets in ordinary session twice a year; *the General Secretariat* composed of a Secretary General and two Deputy Secretaries General designated by the Council of Ministers, they must justify technical skills in the field of insurance. It is responsible for the preparation, of the execution and follows the work of the Council and of the Commission. To transmit to the Council the records and report relating to insurance companies; and *the Regional Commission of the controls of insurance* which is responsible to monitor and

responsible for defining the policy of the Member States in the field of insurance, for the monitoring and control of the insurance companies.

### **The Regulation of the Bancassurance in Cameroon**

Apparently as reiterated above, the regulation of bancassurance in Cameroon is governed predominantly by the CIMA code, that is, the insurance companies are governed by that code. In this regard, Section 501 of the Code as amended by the decision of the Council of Minister of the 20<sup>th</sup> April 2004, allows a wide range of people to be involved with insurance operations and activities as follows: The Natural or legal persons having registration in the commercial register for the exercise of the insurance brokerage and approved for this purpose by the Minister responsible for insurance; general agents, natural or legal persons, or persons temporarily exercising the functions of general agent for a maximum and non-renewable term of 2 years; salaried individuals assigned to undertake insurance operations; self-employed individuals; and lenders, banks or individuals granting loans, in respect of insurance policies to guarantee repayment of the loan (life insurance, disability insurance, or job loss insurance). Also, according to Article 503 of the code as amended by the decision of Council of Ministers of the 20<sup>th</sup> April 2004, the following operations can be set up in the form of both individual underwriting insurance, and group insurance: Insurance Against the risks of death, disability, loss of employment or professional activity specifically and exclusively subscribed to serve as a guarantee to repay a loan, the lender or persons contributing to granting this loan; insurance for the transport of goods or faculties by river: freight brokers; and insurance Covering primarily, the costs of assistance interventions related to travel and by third parties: managers, staff travel agencies, banks and financial institutions and their employees. In fact, with respect to this section, the banks, financial institutions, licensed microfinance institutions, savings banks and the post office may have insurance operations in their branches, since the persons entitled to submit these transactions should hold a business card referred to in Section 510 of the code<sup>59</sup> as amended by the decision of the Council of Ministers of the 16<sup>th</sup> September 1997. Thus, the marketing of insurance products is in accordance with the law. Moreover, banks are allowed to market the life insurance<sup>60</sup> and general insurance products, but given the complexity for managing the life insurance, it is viable to the banks. Thus, to enter the marketing of the insurance products more banks have opted for the marketing of life insurance products in view of the ease of contractual management.

### **The Practice of Bancassurance in Cameroon**

For over a decade, several Cameroonian banks have engaged in the sale of insurance products and investment contracts in order to increase the volume of their commissions on the one hand and retain customers on the other hand. In this respect, we will discuss some practical cases of bancassurance activities in Cameroon before considering some recommendations for the way forward to improve this activity in Cameroon. In fact, in Cameroon, the main relationship between the bank and the insurance companies is based on the loan insurance. In this light, all banks operating in Cameroon are related to at least one insurance company. Moreover, there are several distribution agreements for insurance products among the various banks and insurance companies. Apparently, amongst the commercial banks operating in Cameroon, eight of them are selling insurance products in their window. In this case, we have the: “*Banque Internationale du Cameroun pour l'Epargne et le Cr dit*” (BICEC), the “*Cr dit Lyonnais du Cameroun*” (CLC), the “*Soci t  G n rale de Banques du Cameroun*” (SGBC), Ecobank of Cameroon (Ecobank), the Standard Chartered Bank of Cameroon (SCBC), Amity Bank of Cameroon (ABC), the Commercial Bank of Cameroon (CBC), and the Afriland First Bank (AFB). However, it is paramount to reiterate that only two banks -

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control the insurance companies on the spot and on the Parts, in the case of infringement of the regulation of insurance, it recommends to the company concerned to take measures that it prescribed. If the company is not running in the planned deadlines, it can impose disciplinary sanctions (warning, blame, limitation or prohibition to exercise all or part of the operations, suspension or resignation of the offices of the leaders responsible for the offense and may withdraw the approval to exercise). It may also impose fines and say the transfer of the door leaf of contracts to another company.

<sup>59</sup> Section 510 states that "the presentation of insurance operations is effective in obtaining a professional license issued by the Minister in charge of the insurance industry. The validity of this card is limited to two years renewable. It is consistent with a pattern defined by the Board of Control".

<sup>60</sup> Life insurance is an insurance of persons, that is, to guarantee the payment of a certain sum of money (capital or annuity), if the event relates to the insured person's death, accident, or illness. In this case, the insured wishes to protect his family against the financial consequences of the death or obtain sufficient capital to offset the decrease in revenues at the age of retirement. We present the case of life insurance, insurance in case of death and endowment insurance

the Union Bank of Cameroon (UBC) and City Bank, have not yet developed a project in this sense. Moreover, it is apparent that the Bancassurance has significantly influenced the insurance sector in this recent time, because a lot of contracts are made by this network. Unfortunately, no figure is available to assess quantitatively the contribution of the Bank in the marketing of insurance products. Similarly, in the various reports of the CCSA, we note that the distribution of insurance contracts by the banking networks does not figure, only the traditional intermediaries such as brokers and general agents are taken into account. The authorities of this association however argued that the insurance companies are important sources of their turnover in the distribution of their contract through the banking machines, with regards to the appropriations insurance and the products of life insurance. Equally, the insurance companies have taken stakes in the capital of banks. In addition, insurance companies have opened deposit accounts<sup>61</sup> with the banking institutions. However, the appropriate form most suited for bancassurance in Cameroon even though still in its embryonic stage, is the creation of an insurance subsidiary company by the banks. Thus, from the analytical point of view of the insured, it is realized that about 60% of the respondents do not trust in insurance products. This might be cause due to the bankruptcy of some insurance companies that occurred as early as the end of the 1980s. Because, as some insured persons have not been able to be compensated during the period of crisis in the sector of insurance. This situation has accentuated a phobia and a pessimism fort *vis-a-vis* the insurance products.

### **Some Principal Examples of Bancassurance in Cameroon**

#### **Bancassurance Practice of Crédit Lyonnais Cameroon:**

Crédit Lyonnais Cameroon offers various banking products to the public, and practice bancassurance in partnership with AGF Vie - a life insurance company.<sup>62</sup> Under this, we have the insurance products relating to the protected accounts and the capitalization operations. The protected account is an account for life insurance which guarantees the payment of capital in case of the insured's death, if the death occurs before the age of 60 years. However, in case of suicide before the first two years of the contract or death caused by a beneficiary, the insured does not receive the sum insured. This is in line with Section 66 of the CIMA Code which states that the insurance in case of death is void if the insured knowingly causes the death during the first two years of the contract. Similarly, Section 78 paragraph 1 of the Code states that the insurance contract shall cease to have effect with regard to the beneficiary who has been convicted of deliberately causing the death of the insured. While paragraph 2 of the same Section provides that the amount of the provision<sup>63</sup> must be paid by the insurer to the others, unless they are not convicted as an accomplice or perpetrator of the murder of the insured. The principle of this insurance is therefore that the amount of compensation is equal to twice the account balance. The conditions relating to this insurance are: The annual premium is five thousand (5000) FCFA; the warranty contract will be paid until the sixtieth anniversary of the account holder; the amount of compensation is three hundred thousand (300,000) CFA francs and a minimum of five million (5,000,000) CFA francs maximum. However, with the super-protected account, the insurance meets most of the requirements of the insurance on the protected account. But equally guarantees a capital in case of death by traffic accident.

#### **Bancassurance Practice of Amity Bank Cameroon:**

Apparently, Amity Bank Cameroon has integrated the sale of insurance products in its strategy of diversifying its wallet. Today, it has an agreement with ACTIVA insurance company to market the products of the latter and two insurance products are offered to customers: Insurance in case of death "Well Cover" which is a product of bancassurance and insurance of repayment of loans. The insurance in case of death "Well Cover" is an insurance policy for any account holder which guarantees the payment of the capital chosen by the insured in case of death from all causes with no geographical limitation. In addition, when the death is due to an accident, the capital to be paid to the beneficiaries is doubled. The contract takes effect upon signature and is renewed by tacit agreement, on January 1 of each year, unless notice of termination is sent by either party. Membership in the contract is opened to individuals aged between 18 to 65 years, at the time of subscription. The allowance and the premium depend on the capital chosen by the insured. The cover ceases on the date of closing the account, or when the insured reaches the age of 65 years, if the premium is not paid in case of breach of contract by either party. Equally, the loan repayment insurance is an insurance policy that allows the borrower to fulfil the financial obligations related to the loan in the event of disability or death. It provides for the reimbursement of the insured loan balance following the death of the

<sup>61</sup> It should be remembered that these accounts produce stable resources necessary to the granting of credit by banks

<sup>62</sup> From the Crédit Lyonnais prospectus Cameroon of 2004

<sup>63</sup> These are the amounts that insurance companies on life must be able to justify and which correspond to the difference between the current value of the commitments made by the insurer and those taken by the insured

insured. In 2004, 68 contracts (WC + AC)<sup>64</sup> were subscribed by Amity Bank Cameroon for a total amount of single premium 9.187.777 FCFA as presented in Table V. These premiums are divided into pure premium<sup>65</sup> plus premium loads. Thus, loads are amounts intended to cover the acquisition and management fees in addition to the pure premium. Therefore, loads for acquisition fees are intended to cover the commissions paid to intermediaries including those paid to banks as part of bancassurance. Specifically, the bank expects its insurance commission office of premiums collected. A question arises: Is Profitability the reason for bancassurance to ABC? According to sources from the direction of the bank, the arguments of loyalty and diversification of the wallet are the motivations of this activity. Therefore, regarding profitability, much effort is needed to improve the share of commissions from bancassurance in net banking income. Thus, new products should be offered to the public, such as education savings plan, the savings plan Retirement, insurance products in the event of life.

#### **Bancassurance Practice of BICEC:**

BICEC offers various insurance products to their clients. Among them, we retained the "*super BICEC retirement*" which is an insurance product marketed since June 2003 by BICEC in collaboration with AXA Life. The Super retreat ("*super BICEC retirement*") is a composite insurance contract with two guarantees: the guarantee of savings and the protection guarantee. It allows the constitution of savings for a background that can be used as a supplementary pension, or by monthly instalments minimum contribution of 15,000 CFA francs, or by payment in single premium, with a minimum of 5 million CFA francs, or by payment of a capital, or by exceptional payments. It covers the death of the insured by the payment of a capital. For the operation account, regarding the guarantee of savings, the insurer usually opens an individual account funded by contributions. These funds thus formed, are paid at a minimum rate of 3.5% plus a share in profits techniques<sup>66</sup> and financiers<sup>67</sup>. The insured has the option to make withdrawals in the form of redemption either: Partial: up to three times during the contract period; or Total: earned value with application of a penalty if the withdrawal takes place the first three years. In case of death before the contract expires, the insurer pays the earned value to the beneficiaries designated in the contract. The pension benefit may pay a lump sum to beneficiaries in case of the death of the insured or the insured himself, in case of absolute and permanent disability of the participant before the end of the contract. The benefit of the contract in financial terms is that the profitability is ensured by the minimum wage rate guarantee of 3.5% according to the CIMA Code and the insured also receives financial and technical benefits. Technically, the product of mixed character allows the insured to take full advantage of his contract in case of life or death. The advantage to the member "super retreat" is the basic saving for a supplementary pension. The contract has a capitalization of character and social interest. Premium collection is followed by transfers in an open deposit account in the bank's books in the name of the insurance company. We must remember that these stable resources enable the bank to provide long-term loans.

#### **Bancassurance Practice of Afriland First Bank:**

Indeed, Afriland first bank and SAAR - life designed a bancassurance product called "*Have millennium*". Thus, "*AS Millennium*" is an education insurance contract that guarantees the financing of higher education of the child which are the vagaries of life (job loss, illness, death, disability, etc.) in Cameroon or abroad. This is a savings product for which the insured determines the amount of the premium and the frequency of the contributions. The contract offers the choice to the subscriber upon signature of the contract to choose the quality of training and higher education institution of the child. In the operation contract of "Have Millennium"; the subscriber sets with the help of the client advisor the amount of the premium, the duration of contributions, and the frequency of paying minimum monthly premium of 5000 CFAF. The subscriber equally chooses the amount of capital he wants to be for the child and the bank or SAAR-VIE calculates the amount of the premium to be paid depending on the frequency (monthly, quarterly, semi-annual) chosen. The constituted capital is paid either in full to the insured (the child) at the end of the contract, or in the form of annuities.

<sup>64</sup> WC (Well Cover) and AC (Credit Insurance)

<sup>65</sup> The pure premium or premium is the technical part of the premium intended to meet the commitments made by the insurer. The pure premium is the amount to cover the loss.

<sup>66</sup> These are the benefits of mortality and management benefits. Insurance companies realize the mortality benefit when the actual mortality is less than that which emerges from mortality tables that were used to calculate the premiums. The benefits of management are realized when management costs are lower loading that have been performed on the pure premium.

<sup>67</sup> They consist of interest income whose achievement results from the difference between the rate of interest on investments and interest are those credited the policy liabilities and net capital gain from the realization of investment values.

### **The Contribution of Bancassurance to the Development of Life Insurance**

In Cameroon, the insurance market achieved a turnover of 84 billion CFA francs in 2004. Life insurance accounted for 15% of this value and casualty insurance 85%. This volume in terms of turnover placed Cameroon in second place in Africa in the CIMA zone, after the Ivory Coast who realized 110 billion CFA francs (life and damage) during the same period. Cameroonian insurance companies paid 29.276 billion CFA francs in respect of claims, representing 31% of turnover and were used to 7 billion FCFA<sup>68</sup> as commission. We must remember that the intermediaries are essentially made up of the banks, brokers and the general agents. The life insurance market is experiencing remarkable growth in Cameroon. This trend may be due to the advent of the CIMA Code and especially the distribution of insurance policies by the banks. Indeed, the unbanked clientele has contributed to the popularization of insurance-message. Succinctly, for banks, the marketing of the insurance contracts by their agencies, enable them to secure their loans, have customer loyalty and improve profitability.

Aptly, regarding the insurance coverage for a loan agreement, the Cameroonian bankers generally require: Life insurance, fire insurance and loss of employment insurance. In this light, the banks are generally remunerated by commissions on sold insurance contracts. The cost of distribution is usually marginal; with the commissions improving the net banking income. However, compared to other fees charged by the bank (commission on international transactions, commissions on domestic operations, commissions on contingent liabilities etc.), the commissions on insurance products remain marginal. Thus, the grounds to cover credit and diversification are the motivations of the practice of bancassurance by the Cameroonian banks. Usually, credit institutions are subscribing group insurance for all of their clients. This is in line with Section 95 of the CIMA code, whereby group insurance is a contract signed by a legal person or an entrepreneur, to the membership of a group of people meeting requirements defined in the contract to cover risks relating to the length of human life, risk bearing bodily integrity of the person, risk of incapacity, disability or unemployment. In this case, the participants must have the same relationship with the subscriber. Thus, the group insurance is intended to guarantee future borrowers against the risks of death, illness, disability or unemployment. The insurer will reimburse the remaining balance upon the occurrence of one of the insured events and the link with the subscriber is the loan agreement. In this type of contract, the insured does not deal directly with the insurer; the contract is between the policyholder and the insurer, so that the insured is not able to discuss the conditions and guarantees 'exclusion. This is why Section 98 of the CIMA Code imposes a disclosure obligation on the applicant. Therefore, the insurer must give the participant the document which defines the modalities of the entry into force and the disaster formalities. The insurer must also inform the members of any changes to their rights and obligations.

### **The Barriers to the Development of Bancassurance in Cameroon**

The development of bancassurance in Cameroon is closely linked to the insurance market. However, there are some barriers in the marketing of the insurance products. The insurance market in Africa in general and Cameroon in particular is very complex because of the ignorance of the functioning of the insurance products on the one hand and the phobia of the population to engage in the insurance on the other hand. Thus, the three main factors hindering the marketing of insurance products in Cameroon are: the bankruptcy of insurance companies, the activity of tontine and the lack of crop insurance.

### **The Bankruptcy of Insurance Companies:**

In fact, of the ten companies that counted the ASAC in 1990, five have disappeared. Companies in bankruptcy do not have that on the side of private capital to companies such as the Ombudsman, the Company of the Provinces Together, Trans African Insurance. The first shot was fired toward the para-statal high state participation: Mutual Insurance of Agriculture of Cameroon (AMACAM), its colleague, the Cameroonian Insurance Company (SOCAR) could not resist. Some policyholders have not been compensated due to the failures of insurance companies thereby increasing the phobia and strong pessimism vis-à-vis insurance products.

### **The Activity of Tontine:**

Tontines are the associations and groupings of individuals organized according to the rules established by mutual agreement. The most known function in these types of associations is the savings and credit and micro insurance. The tontine insurance is a compulsory savings which the contribution of each member to the different boxes "relief" (emergency health emergency death, school bank) allows it to receive aid and assistance in case of illness or events happy in his family. *Shrieder and Cuevas (1992)* taken back by *Essembe (2005)* estimated that about 70% of the

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<sup>68</sup> Source: report ASAC 2004

Cameroon's population participate in informal financial associations with members of these beneficiary groups setting up informal insurance systems.

The adherence of the Cameroon's population to the tontine insurance is probably because of the close relations that exist between members, the obligation to join the system if one wants to be part of the group and especially the rapidity of benefits in case of disaster. These associations have virtually the same basic structure. This is usually a group of individuals who share a link (family, friends, tribe, ethnicity etc.) come together to pool their resources in order to receive aid or a loan in an emergency or unexpected situation for themselves or for their families. These associations are involved in cases of death, marriage, illness and schooling.

#### **The Lack of Crop Insurance:**

In most developed countries, individualism is the rule. Therefore, each takes its provisions to guard against the consequences of a catastrophic illness, death or retirement. In Africa with Cameroon inclusive, the descendants are given the duty to support their retired parents in recognition and gratitude. Also, economically, most households that typically address life insurance have an income that barely covers the immediate subsistence needs (nutrition, health and housing).

#### **Conclusions:-**

At first glance, it is appreciated that the ability of financial institutions to diversify their activities in related sectors has readily contributed in the reduction of their systemic risk. In this light, banks will be able to benefit from a reduction in the volatility while the insurance companies could obtain additional capital in order to permanently cover the required solvency level. In addition, however, for the partners involved, the bancassurance system diversifies the income sources so that the business becomes more stable and implicitly safer for both the shareholders and customers. On the other hand, the very increase of the level of complexity of the activity is likely to induce additional sources of risk, which is why in some countries; the authorities are reluctant to allow supervised financial institutions carry out other operations outside the core activity.

In fact, at the level of the European area, we have witnessed a trend of gradual and progressive liberalization of the financial system in this regard, that is, the balance between risk and opportunity begins to tilt in favour of the bancassurance system. Thus, the bancassurance phenomenon that is unquestionably one of the most important trends in the evolution of the European financial services industry and it is considered as a consequence of the progressive relaxation of the regulatory barriers to the financial conglomerates. Bancassurance therefore brings many benefits in the times of increasing competition among participants in the financial market, both to banks and insurance companies. Common benefits are reflected in: increasing sales/profits; expanding the base of clients; retaining the existing clients; improving the supply through a creation of new products according to the structure and needs of clients.

In fact, despite the flourishing development of bancassurance in the past decade, we still realize that it faces problems, such as highly intensive products, the lack of professional, the operation of new personal information privacy law, and the legality problem of bancassurance. In this light, we recommend that the governments and bancassurance participants should work together to find a better solution to achieve a win-win situation. Thus, in this paper, we have offered some suggestions to ease the problems of bancassurance in Cameroon and other countries. Firstly, the governments should clear up the jurisdictional issue by enabling the Insurance Bureau or Department to be in charge of bancassurance including the regulations of its products and selling behaviour. This is because the co-selling models as well as the cross-selling model are not able to clear up the relationship between banks, insurance companies, insurance agency and customers. Thus, there is the need for to double-track and gradually establish bancassurance operation structure authority and responsibility. Secondly, there is no need to combine the bancassurance supervision regulations to the single structure. But there is the need to institute the law to clear up what responsibilities banks should take in bancassurance. Thirdly, the banks should raise the quality of the insurance seller by using trained professional from outside the finance training institutions. Fourthly, constant inspections are necessary for bancassurance, especially on mis-selling issues. The government should publish inspection reports, so the public can make wise decisions to buy insurances. Finally, the banks should select its partners and models depend on their development strategies.

Succinctly, the marketing of insurance products by banks is a reality in Cameroon. In this regard, several life insurance products are offered either by the banks or by insurance companies. However, the bancassurance damage,

that is, the sale of the damage insurance contracts by the banks remains meanwhile still limited. Meanwhile, assurance is not yet developed in Cameroon. Aply, banks in Cameroon have an extensive network, which is an important asset for the marketing of life insurance products. However, to recoup the marketing of insurance products, the banks have established a volume strategy. Since the commission income on insurance contracts sold may be significant from a considerable number of contracts concluded. For this purpose, bank executives must introduce customer managers for the sale of insurance products through training courses so that they fully integrate insurance products in their service offering to customers. Credit institutions must choose this activity as a means of prospecting and safeguarding customer loyalty. Indeed, customer loyalty increases with the number of contracts signed in a company. Loaded customer must offer insurance products in the same way that a housing credit, overdraft or an overdraft facility. Moreover, they should not apply to their entire customer base, but target customers able to pay premiums for a long time. The distribution of insurance products is a powerful way of enhancing the Loyalty of the customers of the bank to the extent that the life of a contract is generally greater than 5 years. With their financial power and information available to them, banks can exert a major influence on their customers and sell enough insurance products easily. It is then relatively easy to charge bank customers to introduce insurance products and to argue them. Furthermore, it is important for the banks marketing teams to draft contracts easier and simpler to understand their business one hand, and to stand out from the traditional insurers whose contracts are more complicated to 'somewhere else.

Besides, it should be noted that the bank - insurance relationship can be a source of risk for the banker. Equally, poor risk management can tarnish the primary relationship of the bank with its client. It is appropriate for the bank to integrate this element of risk and to focus on the quality of service by ensuring the prompt compensation of the customer after the occurrence of the risk, because poor treatment of customers may lead to the termination of its relationship with the bank (account closure) or to spread a negative image of the bank. That is why the bank should assist the customer and ensure impeccable compensation.

Lastly, from the analysis of this paper on bancassurance, we have provided the following recommendations for the way forward of bancassurance in Cameroon. In fact, the "*Association des Sociétés d'Assurance du Cameroun*" (ASAC) and the Insurance Division of the Ministry of Economy and Finance in their regulation endeavours should always consider in their statistics the proportion of insurance contracts underwritten by the banking network, to take any restrictive measures or incentives. Also, the State should promote insurance products because the health insurance sector will allow insurance companies have the resources to investments that will perform and animate the financial market operations including through the subscription of bonds issued by companies.