*Proceedings of the Third International Conference on Global Business, Economics, Finance and Social Sciences (GB14Mumbai Conference) Mumbai, India. 19-21 December 2014*
*ISBN: 978-1-941505-21-2 Paper ID: MF454*

# Bancassurance Growth in Iran: A Case Study at Saman Bank

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## *Abstract*

*Private Banks in Iran began their activities from 1990s, and private insurance companies also have played her roles since 2000. Nowadays some Banks and Insurance companies, work independent and some of them behave as financial group include bank, insurance, exchange, stock brokerage and etc. Most of financial groups had same stakeholders or boards. These cause cooperation between a bank and an insurance company for selling all financial services in the branches. But the integration of financial services is in the first steps, yet. There are some experiences about insurance services in the branches of a bank. Here, we review structures of bancassurance in Iran and suggest some solutions for implementing bancassurance system in a financial institution. Finally, we review the experiences & challenges for development of bancassurance at SAMAN Financial Group.*

***Key words:*** *Bancassurance, Financial service sales*

## 1. Introduction

Bancassurance in its simplest form is the distribution of insurance products through a bank's established distribution channels. The result is a banking corporation that can offer banking, insurance, lending and investment products to its customers. Van den Berghe and Verweire (2001) explore various aspects of such phenomenon and discriminate between the financial and institutional aspects of convergence. They further analyze financial convergence in various levels and explore its regulatory implications. Due to the diversity of strategies available, however, there is no standard model for bancassurance. Accordingly, there is a range of possible descriptions and definitions of this phenomenon. The Life Insurance Marketing and Research Association's (LIMRA) dictionary defines bancassurance as 'the provision of life insurance services by banks and building societies'. The Association of British Insurers (ABI) defines it as 'insurance companies that are subsidiaries of banks and building societies and whose primary market is the customer base of the bank or building society'. Another common definition of such interface is 'the

Involvement of banks, savings institutions and building societies in the manufacturing, marketing or distribution of insurance products'.

In general, banks and insurers remain financial organizations with different risk profiles and dissimilar capital needs. Bancassurance may be potentially beneficial, since it allows commercial banks to diversify

into insurance activities and thus reduce the risk of failure. On the other hand, insurance activities may be riskier than banking activities when viewed on a stand-alone basis. Insurers are greater assumers of risk than banks and need to be more heavily capitalized. In recent years, catastrophes and man-made disasters have caused serious problems in the industry around the world. If so, then the bancassurance phenomenon may increase the probability of ruin in the banking sector.

## 2. Overview of the Literature

A number of studies have attempted to characterize the risk and related attributes of insurance and to identify the kinds of synergies that might exist between traditional banking activities and insurance brokerage and underwriting [Brewer (1989),Saunders and Walter (1994),Gande, Puri and Saunders (1999),Van den Berghe and Verweire (2001), Saunders (2004)].

Agency and brokerage is mainly a commission and/or fee-orientedbusiness. It is not a capital intensive activity and since the bank ismerely acting as a distribution channel there are little safety andsoundness concerns. It is assumed, however, that corporations, whichprovide brokerage functions, have taken into account elements ofoperational risk in their overall capital requirements. At this stage, one may also wish to recognize the importance of intangible reputationalcapital. The potential risks to the safety and soundness of a brokingfirm mainly relates to losses from a) its inability to earn sufficientcommissions to cover fixed and variable operational costs, b) thepotential opportunity cost of diverting scarce management resourcestoward an unprofitable area of business, and c) potential legal liabilityfor errors and omissions made in marketing such policies. In general,brokerage activities have been typically profitable with high yields oninvested equity – mainly in the form of incremental physical capital.

On the other hand, non-life insurance underwriting is capitalintensive and entails knowledge of  pecialized risks. For instance, thekey feature of claims loss is the actuarial predictability of losses relativeto premiums earned, which banks are not familiar with. In that case, theinsolvency risk may arise as a result of unexpected increases in lossrates, unexpected increases in expenses (legal costs, commissions, taxesetc.) and/or unexpected declines in investment yields [Saunders and Walter (1994)]. Life assurance underwriting is less risky than its counter non-life part, because the risks are “more predictable”. Nevertheless, life insurance profit levels have remained lower than in non-life insurance underwriting. The industry has been characterized by a rapidly changing product mix, as whole life policies decline in attractiveness relative to other products. The largest growth has been in annuity type products, which closely resemble long-term certificates of deposit [Eisenbeis (1995)].

Findings also show that risk is greater in non-banking than banking, while mergers of bank holding companies with life assurance or P&C firms reduce risk; whereas the latter increases with insurance broking [Liang and Savage (1990), Boyd, Graham and Hewitt (1993)].

Using accounting data, Brown, Genetay and Molyneux (1996) conduct a simulation study of banks and building societies diversification into life assurance.13It is found that building societies and mutual life insurers would be significantly risk reducing.

## 3. The Bancassurance Market

The structure of bancassurance depends upon the demographic, economic and legislative climate of the particular country. The demographic profile of a country decides the kind of products bancassurance will be dealing with, the economic situation will determine the trend in terms of turnover, market share etc., whereas the legislative, as well as the tax and regulatory, climate will demarcate the periphery within which the bancassurance operates. In fact, all these characteristics combined can explain the marked differences across the globe. Although it is clearly a predominant feature in some markets, representing over two thirds of the premium income in life insurance, other markets do not appear to have chosen it as their model. The degree to which banks devote themselves to the sale and servicing of insurance varies among countries and individual banks. Despite the fact that bancassurance has been predominantly a European concept, it has also been growing in other countries especially in emerging economies where the insurance and banking sectors are still evolving. Since the mid-1990s, cross-border links between banks and insurance companies have also become more common with foreign insurers taking shares in local banks or vice versa. In Brazil, five out of the eight largest insurance groups belong to banks, and in Mexico 16 out of a total of 64 insurers belong to a financial group. In Singapore bancassurance claims a market share of 24% of new business in the life insurance sector, while Malaysia and Thailand claim 6% and 2% respectively. Furthermore, Japanese (April 2001) and Korean (August 2003) banks are the newcomers in this market. The phenomenon is also well developed in Australia. The Australian Prudential Regulatory Authority (APRA) was formed in 1998 following the Wallis Committee’s 1997 report. It is worth noting that banks, which also have 56% of all premiums, own 43% of assets in the Australian life insurance sector.

Over the last two decades, the phenomenon made its presence felt in Europe with alliances being made between banks and insurance groups. This has concentrated the bancassurance market, which was originally highly fragmented. This new synthetic form of financial services has become widely recognized as a successful model in markets such as France, Spain and Portugal, followed by Italy and Belgium. It represents over 70% of the premium income in life insurance in Spain, over 60% in France and Italy and over 50% in Belgium. In some European countries the bank penetration enjoys a rate n excess of 50%, while the UK and Germany have opted for more traditional networks; The French life insurance market enjoys a big share in both European and global financial markets. Even as early as 1998, insurance subsidiaries of banks controlled some 70% of the new life insurance production in France. Here, the phenomenon is primarily tax-driven: some tax-advantaged insurance products are only available through banks. Over the last two decades, many banks have created their own life insurance subsidiaries and now there is not a single bank of a given size that does not have its insurance subsidiary for life products. In 2000, bancassurance accounted for 35% and 60% of life insurance and savings premiums respectively, 7% for property insurance and 69% of new premium income in individual savings. The French market has overtaken the UK and German markets, largely due to the development of distribution channels through banks. More recently, some banks have diversified into property and casualty (P&C) insurance. Today, new production of P&C is largely driven by bank subsidiaries, which are set to take a much larger part in writing personal insurance and usually excluding motor insurance. The overlap in the two businesses is even more apparent in modern capital markets, where products extensively used by banks, such as credit-default swaps, closely resemble a casualty insurance policy; albeit without either an insurable-interest requirement or any role for an insurance adjuster.

Furthermore, bancassurance in Italy, Spain and Belgium has been characterized by its rapid growth. In Spain, the phenomenon has developed swiftly because of the well-established network of regional building societies, which today accounts for 50% of life insurance premiums in the bancassurance sector. It represented over 65% of life insurance premium income in 2001 (approximately €17 billion), compared with 43% in 1992.

Portugal has recorded the highest penetration rate in bancassurance, with 82% of the market share, but it only represents approximately €4 billion in premiums on a limited life insurance market. The 1990 Amato Law coupled with the favorable tax environment (1995-98) launched bancassurance and further promoted life insurance products in Italy. In Belgium, bancassuarnce has dominated 56% of the market share in life insurance products, becoming the leading distribution network.

Using synthetic organizations of banking and insurance agency/underwriting activities, Litan (1987) measures the volatility of their return on assets. He finds that the returns on various insurance activities are negatively correlated with those of banking; arguing that in the right proportions, had banks been permitted to engage in insurance activities, their risk, on average, would have been reduced. Using IRS data in a mean-variance framework, Litan (1987) finds that banking clearly appears to be among the least risky activities with low variance and mean returns. Insurance agency operations appear to be the most risky, but the highest yielding, activity. Similar conclusions are also reached by Johnson and Meinster (1974). Boyd and Graham(1988) and Boyd, Graham and Hewitt (1993) employ accounting and market data, and extend their previous work to investigate the risk-return implications of expanding bank holdingcompany (BHC) activities. Profitability of agency (broking) andunderwriting of non-life insurance business exceeds that of BHC, but allinsurance activities are more risky according to their measures. Usinga simulation methodology, it is found that bankruptcy risk falls slightlywhen banks merge with life assurance, but rises when banks merge withP&C or insurance broking or securities or real estate firms.

## 4. Functions of Bancassurance Sales Management[1]

1. **Increase in non-common income:** in Islamic banking in iran there are two kinds of allowed income. First, Thecommon income which is the result of operations directly have been done by costumers' money.Thus, Every profit must share between costumers and stockholders. Second,non-common incomes of the bank which gain from commissions on transactions such as foreign exchange, transferring money, letters of credit and insurance. income from this issues has positive effect on profit & loss statement. Common incomes usually changed by central bank policies and some other political variables, but non-

[1]Functions that mentioned here is based on documents and activities in Saman Bank in Iran between 2012 to 2014 and based on formal annual reports of Bnacassurance Sales Management.

common income has less vacillation. Insurance sales, specially in life insurance, has considerable commission paid by insurance company. This commission is a part of non-common incomes in the banks, so it is attractive foe stockholders.

2. **Coaching Professional financial advisors:** development of private banking in last two decades in Iran, creates many alternatives for people. So, The more competitive environment in banking, the more challenges for profit making. Nowadays in Iran, If a private bank need new marketing and sales approach instead of just operational approach to make more profitability. Bancassurance sales personnel in the bank, trained in two phases. In phase one, every hired person learned insurance software for offering some retail policies such as life, marine, house and travel insurance . Then they trained continuously in sales skills, negotiation and sales planning. In phase two, they learned some products in retail banking such as gift cards, credit cards and investment accounts, so that they would be able to fine related customer and offer them both retail insurance and bank products.
3. **Financial resources with lower cost:** the main aspect of banking industry in the society is optimum mobilization and allocation of financial resources. If we want to calculate the cost of collecting money from people, we must assume the combination of guaranteed rate of return to costumers, operational and administrative expenses. The premium earned from insurance sales in the bank, collected in account belongs to Saman Insurance Company. Saman Insurance is in charge of Operational expenses and most of administrative expenses and there is no guaranteed return for this account. Thus, these financial resources have the lowest cost for the bank.
4. **Increased loyalty of customers:** As violaris(2001) mentioned, the number of financial services received by the customer is on of the most important things for loyalty. The rate of losing a customer is related to his number of accounts:

Table 1

| **Number of financial services** | **Rate of losing costomer** |
|---|---|
| Current account only | 1 of 1 |
| Deposit account only | 1 of 2 |
| Current and deposit account | 1 of 10 |
| Current, deposit and loan | 1 of 18 |
| Current, deposit and other financial services | 1 of 100 |

The more financial services in the bank lead to the less losing rate of customers. So, the customer who has both of bank accounts and insurance policies, shows more loyalty to the brand. we experience bancassurance established by a bank and an insurance company with the same brand which named SAMAN.

5. **New process for cross-selling:** branches of banks in Iran are a distribution network for financial services and money transactions. Insurance sales channels in iran are limited to retail agents, brokers and direct selling for special corporate or government policies. Despite of simultaneous historical development of insurance companies and banks in Iran, trust of people to banks is more than insurance companies. After more than 70 years working of banks and insurance companies in Iran, we can describe that banks have better operational systems and insurance companies have better sales systems. Establishing bancassurance sales in the organizational chart of Saman bank, makes new processes for cross-selling insurance to customers who expect to receive banking services and vise versa.

## 5. Bancassurance in Saman Bank

Saman bank first, opened its doors for business in September 1999 as Iran's first credit institution, at that time under the name Saman Eghtesad. Its growth was immediate, with a five percent return on equity in its first year alone. By August 2002, Saman Eghtesad had accumulated sufficient capital to obtain a banking licence from the Central Bank of the Islamic Republic of Iran. Today, Saman's capital stand at approximately sixty times its original share capital.The Bank's capital is more than 100 million dollars.

Bancassurance Sales Management as the first formal structure in Iranian banks, developed since 2012. Now, after 3 years experience, bancassurance sales employee, focus on selling more insurance services to bank customer and propose some new bank products. Also, the other employee try to refer intended costumers to bancassurance employee. With this policy, we create the first cross-selling process in banking and insurance services. HR department, Branches department, organization and process department and bancassurance sales department, after many negotiations make the first sales remuneration procedure for insurance sales by employee. This procedure define selling rewards based on sales target of each branch. The first formal procedure issued in September 2012 and consider reward based on the sales target as shown in belew table:

Table 2: The first Rewarding measures

| Bancassurance sales personnel reward share | Non-sales employee share In branches | Bank income share | Target achievement |
|---|---|---|---|
| 22.5% | 17.5% | 60% | More than 80% |
| 17% | 13% | 70% | 70% to 79% |
| 10% | 10% | 80% | 60% to 69% |
| - | - | 100% | Below 60% |

The sales employee in each branch gain reward based on sales target. It means if he/she can earn more than 60% of target based on collected premium, then his/her income has been increased. their main salary of sales personnel was in the salary system at the bank, except reward system. So, the total income of each sales employee could be less than total income of others if he/she did not meet 60% percent of the target.

In 2014 related department revise the procedure to motivate not only the branches but also other departments.On the other hand, this procedure makes some challenges for HR departments. Non-sales personnel object about reward, because in some cases the sales employee reward exceeds even from the salary of branch manager. In operational viewpoint of these managers, the main value of the work stems from documents, but in sales orientation, the main value of work is results from negotiations.

Finallythe revised procedure issued in September 2014 and include some differences than previous version.

Employees at Private banking department, Corporate banking departments have been considered to pay rewards for selling insurance or referrals as like as branch personnel.

Moreover, if each clerk, introduce referrals and bancassurance sales department confirm it, he/she gain rewards from financial pool which derived from 1% of total commission income of the bank.

The main table of rewards, changed for making more motivation as shown below:

Table 3: The reviewed rewarding measures

| Bancassurance sales personı reward share | Non-sales employee share In branches | Bank income share | Target achievement |
|---|---|---|---|
| 30% | 20% | 50% | More than 130% |
| 24% | 16% | 60% | 80% to 129% |
| 18% | 12% | 70% | 70% to 79% |
| 12% | 8% | 80% | 60% to 69% |
| - | - | 100% | Below 60% |

A new level attached to the table that increased the reward percent if the employee achieve more than 130% of sales(premium) target. The rewarding procedure is core of selling insurance through the banks, so that we must make balance among goal setting process, reward measures and branch potentials.

**Active Branches:** since January 2001, the bank starts to sell insurance through 60 selected branched. 30 branches formed with sales employee who has at least three years experience in Saman insurance. other 30 branches start with new employee who interviewed by sales and insurance experience. This system developed to 70 branches, until September 2014. Each sales advisor from Saman Insurance, trained more than 60 hours in selling techniques specially in life insurance, negotiation skills and bancassurance strategies. New hired sales advisors, also trained more than 30 hours in insurance process, banking introductions and the strategy of Saman Bank.

2 senior supervisor and a manager as the management staff, monitor sales advisores activities, every week and coach them by telephone, email or face to face interactions.

**Collected premium:** collected premium, is the most important measure in insurance industry. As Bancassurance sales management, begins from 2012 and before that, there are insurance counters owned by Saman insurance, there are considerable increase in the quantity of premiums. In addition, the quality portfolio has changed; The Life insurance and travel insurance share in portfolio had growth between 2012 and 2014, while third party insurance, have decreased. although in the formal statistics published by Cent Insurance of Iran, there are about 9% share of Life insurance in portfolio, the Saman bank portfolio(below table) show the increasing trand of life insurance share, even more than 40%.

**Commission income:** insurance sales make commissions paid by Saman Insurnce, which include non-common incomes for Saman Bank. in 2011, there are no commissions, for the bank. the insurance company, only pays monthly rent less than 3% of premiums of each counter. As shown at the table 1, there is increasing trend in commission income, due to increased premium.

Table 4: The insurance portfolio of Saman Bank in 2012 – Data retrived directly from Sman insurance software

| ratio | total premium ($) | number of policies | portfolio |
|---|---|---|---|
| 17% | 694,600 | 5,033 | **marine** |
| 37% | 1,513,111 | 18,042 | **motor** |
| 2% | 79,936 | 952 | **fire** |
| 3% | 130,148 | 711 | **liability** |
| 3% | 117,392 | 4,680 | **travel** |
| 12% | 483,210 | 203 | **other** |
| 27% | 1,103,159 | 3,075 | **universal life** |
| 100% | 4,121,558 | **32,696** | **total** |

Note: The Exchange rate :1$=26660 IR-Rial

Table 5: The insurance portfolio of Saman Bank in 2013- Data retrived directly from Sman insurance software

| ratio | total premium ($) | number of policies | portfolio |
|---|---|---|---|
| 22% | 1,921,229 | 7421 | **marine** |
| 22% | 1,918,350 | 15383 | **motor** |
| 1% | 114,908 | 885 | **fire** |
| 3% | 232,417 | 760 | **liability** |
| 3% | 295,060 | 9588 | **travel** |
| 14% | 1,272,105 | 65 | **other** |
| 35% | 3,119,405 | 13,505 | **universal life** |
| 100% | 8,873,475 | **47607** | **total** |

Note: The Exchange rate :1$=26660 IR-Rial

Table 5-The insurance portfolio of Saman Bank in 2014(9month) - Data retrived directly from Sman insurance software

| ratio | total premium ($) | number of policies | portfolio |
|---|---|---|---|
| 21% | 1,776,741 | 6,106 | **marine** |
| 22% | 1,853,770 | 12,715 | **motor** |
| 1% | 99,262 | 1,029 | **fire** |
| 3% | 214,839 | 539 | **liability** |
| 6% | 489,870 | 16,475 | **travel** |
| 6% | 539,166 | 55 | **other** |
| 41% | 3,488,410 | 13,272 | **universal life** |
| 100% | 8,462,057 | **50,191** | **total** |

Note: The Exchange rate :1$=26660 IR-Rial

## 6. Conclusion

Bancassurance experience in Iran, begins in 2005 by efforts from Saman Insurance company. Some other financial groups such as Parsian Bank, Karafarin Bank, Eghtesad Novin Bank and Mellat bank set their structure after that in different method. Both Parsian Bank and Karafarin Bank create an insurance agency from Parsian Insurance company and then hired some retail agency with only commission payment who stands in the branch of bank. ENbank make a contract with Novin Insurance and receive monthly rent per counter in the branches. Novin insurance allocates selected counters with its retail agents. Mellat bank make a contract with MA Insurance company for training personnel of branches to sell insurance. Despite of different models for bancassuranmce in Iran, Saman bancassurance is the profitable structure among them. Because it has the special organization in the bank, focus on sales of life insurance, suitable remuneration system and hires human resources with sales approach. As shown in table 6, there are increasing trends in performance measures during 3 years ago. we can see growth in Active counters, Collected premium, Commission Income and the number of policies. Life insurance is the most profitable product in bancassurance, so we assess some important data in life insurance. The payment method shows efficiency of sales, because the more installments in each policy, the more administration cost and the less persistency rate of policies.

The average premium and average death benefits in life insurance mean higher sales quality, because we can earn the more commission with fewer policies during a determined period.

Table 6- Bancassurance growth in Saman bank-Data retrieved from documents in Saman bancassurance sales management.

| **2014 Bancassurance sales (9 months)** | **2013 Bancassurance sale** | **2012 Bancassurance sales** | **2011** Saman Insurance Employee | **Performance in Summary** |
|---|---|---|---|---|
| 70 branches with 2 senior supervisor and 2 district supervisor | 66 branches with 2 senior supervis | 60 branches with 2 senior supervisor | 50 insurance counter with 1 senior supervisor | **Active Counters** |
| 6.114.000 $ | 10.465.000 $ | 5.393.000 $ | 2.475.000 $ | **Collected premium** |
| **1.303.000 $** | **1.385.000 $** | **616.000 $** | --- | **Commission income for the bank** |
| 27.000 | 30.000 | About 3500 | About 1500 | **Number of Policies** |
| 70 %annual 30 %other installment methods | 70 %annual 30 %other installment methods | 82 %annual 18 %other installment methods | 12 %annual 78 %other installment methods | **Payment method in life insurance** |
| 450$ | 450$ | 375$ | 288$ | **Average premium in life insurance** |
| 11.250$ | 11.250$ | 9000$ | 1800$ | **Average death benefit in life insurance** |

Note: The Exchange Rate: 1$=26660 IR-Rial

Although, in Iran there is no exact statistics about bancassurance sales, and insurance sales only measured by three channel (such as Brokers, Agents & direct selling), in this article, we try to show some information from bancassurance activities in recent years. Nowadays, many banks in Iran are in search of selling insurance in their branches. Central Insurance of Iran defines a project to regulate and benchmark of successful bancassurance models such as Saman Bank. Iranian financial institutes are at the beginning of this way and we hope to present the more accurate measures for growth in next years.

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