

# The retrospect and prospect of Chinese Bancassurance industry

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**Abstract:** Bancassurance began in 1996 and gradually evolved from the initial agreement to a strategic alliance. With the development of global economic integration, The Bancassurance have been more competitive than common financial industry. At present, China's insurance market is experiencing the development stage of incomplete economy, immaturity of insurance industry and unsound financial system. In the essay, it analyzes the different development steps of Bancassurance, illustrating the motivates, operation models, Current situation and the hidden risk. In the end, some solution from micro and macro levels are put forward. As the Bancassurance is developing rapidly, the research about Bancassurance industry has a urgent demand to be completed and strengthened. Therefore, the essay aims in Bancassurance industry, which can provide some ideas with others on the exploration of Bancassurance industry.

## 1. Definition of Bancassurance Industry

Brief introduction about Bancassurance Industry

Bancassurance is banks, postal services, funds, and other financial institutions in cooperation with insurance companies to provide goods to customers through the same channels. It possesses there advantages:

For consumers:

1) Buying low-cost insurance products through huge banking branches can reduce the company's operating costs with the insurance products and bring more revenue to consumers;

2) Safe and reliable —— consumers check in in the bank, making consumer funds higher security;

At present, —— there are numerous bank branches in China, and consumers have more channels to buy products.

For the banks:

Sales agents sell insurance products and increase profit income

For the insurance companies :

Insurance companies can make use of many bank branches to reduce costs, and take full advantage of the excellent image of bank, and merge with insurance companies to develop customers.

## 2. The retrospect of the development of Bancassurance Industry

World Bancassurance originated in Europe in the 1970s. China's Bancassurance was first borrowed by Ping An Insurance from the European, and now it forms a prosperous situation, which has experienced about 20 years. During these 20 years, according to the product evolution and development characteristics, it can be roughly divided into the following four stages:

Product development process

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1) Budding stage (mid 90s-2000)

At that time, the domestic deposit interest rate was so high that the development of the insurance

industry was still in the early stage, and the desire for the business development of insurance companies was very urgent. In 1996, the privately operated company Ping An Insurance took the lead by learning from the European model and cooperated with Agricultural Bank of China, becoming the first company to try Bancassurance business in China. After that, Pacific Insurance company followed up, the new generation company, Xinhua Insurance company, Taikang Insurance company also followed the trend. At this stage, the product form is simple, mostly to single premium.[1]

#### 2) Preliminary Development (2000-2005)

At this stage, all companies gradually attached great attention to the development of Bancassurance, and began to expand Bancassurance channels actively. Most companies' headquarters set up special first-line teams and bank and insurance departments to improve efficiency. Xinhua Insurance, Taikang Insurance began to occupy the mainstream part of the market. In this period, bank-insurance products converted from short-term single delivery to long-term, beginning to appear simple period payment products, financial insurance dividends, universal investment insurance, and gradually occupied the mainstream of the market.

#### 3) Rapid Development(2006-2012)

At this stage, Xinhua Insurance company and other new sought companies seek a breakthrough, taking advantage of dividend period payment products, then caught up. Companies had transformed to develop regular premium, causing that regular premium sales surged initially in the Bancassurance market. However, due to the extensive original operation model and operation model, coupled with the decline of the capital market in 2008, the large-scale disputes over the dividend insurance buried hidden dangers.

#### 4) Mature Development (2013- -Today)

At this stage, the development of the insurance industry has a certain scale, and it is generally divided into two trends. One is a highly integrated form of Bancassurance. Two financial institutions, bank and insurance, began to share financial product research and development, sales and service resources, business integration, to provide more convenient one-stop service for insurance customers; the other is Bancassurance tending to professional business development, some banks split insurance products business and main business, and only engage in agreement sales.

### **3. Motivate analysis of Bancassurance Industry**

Bank motivation involved in the insurance industry

#### 1) Help to build and excellent financial institutions:

Banks choose insurance business to provide services for consumers, establish and perfect the business system, and achieve sustainable development to meet customers' needs for "financial supermarket". In the history of global financial development, they are striving to become the omnipotent group of bank and insurance. Citigroup, which merged with voyager in 1998, has been the most profitable, diversified and largest financial group in the world for many years; Chinese securities companies are also corporating with insurance companies to form financial groups.[2]

#### 2) Seek a profit growth point:

As the global competitive environment gradually deteriorated and mobile payment rose rapidly, bank profits are constantly decreasing, and in order to keep operations, banks boosted profits by innovative financial instruments. Given the high profitability of the insurance business, the bank get profits by selling insurance products. Meanwhile, numerous sales channels and offline bank branches show that banks are expanding sales.

### **4. Current situation and Risk of the Bancassurance Industry**

#### **4.1 Current situation of the Bancassurance industry**

The development of bancassurance is based on the development of the insurance market. Only by mobilizing the market development, can we get higher profits and returns. The original insurance business was providing financial services by signing policy agreements with customers. In the

European, insurance business is very mature. There are pension products, investment-linked insurance products, home property insurance products, etc. to satisfy customers' demands. In the West, insurance is the most effective tool in the distribution and inheritance of family property. But it is less remarkable in China. On one hand, policyholders invest a certain amount of money as a cost to resist possible risks in the future. But whether the insured event occurs is uncertain, which leads to people's independence on insurance. On the other hand, this is due to the incomprehension of the insurance business and the unqualified employees engaged in the insurance industry. In addition, the poor economy of China in the past resulted in the situation as well.

## **4.2 The risk of Bancassurance industry**

### **1) Risk of Product development**

From the operation of Bancassurance, it can be seen that the development and usage of insurance products are independent system. It takes the long period and lot of material and resource, which any mistakes can result in the fault. Besides, due to the people's desire for high yield, innumerable Bancassurance dividend insurance occupying the market. What worse, Bancassurance will have some negative impact on traditional banking business, influencing the bank industry enthusiasm.

### **2) Risk of short-term cooperation**

Separate operation results the narrow and short-term cooperation between bank and insurance companies. At present, most Bancassurance sign the agreements for just one year in China. Therefore, It is tough for bank and insurance companies to come into being the long time cooperation, which can't guarantee the sales channels of Bancassurance. The shortage of steady premium gives a negative influence on operation and higher risk. Besides, the short-term cooperation can't boost strategic development planning. So it is impossible for banks and insurance companies to jointly develop products based on the advantages of both parties.[3] On the other hand, in the short-term cooperation, banks have the powerful right to choose different insurance companies, leading many insurance companies improve the handling charge to facilitate profit of banks to maintain the cooperation, even, using the improper means.[4] It not only cut down the profit of insurance companies but also boost the operating costs.

### **3) Risk of low professional level**

At present, the low level of computer networking connection between commercial banks and insurance companies, and the varied level of electronic management make it difficult to establish a comprehensive connection. All bank insurance procedures, including filling out forms, paying fees, signing and so on, must be undertaken manually, which incurs problems such as long insurance period, slow transference of insurance policy, low underwriting quality, loopholes in management, etc., curbing the enthusiasm of clients to purchase insurance at business outlets of commercial banks.

### **4) Risk of morality**

The risk of morality is the most prominent and special risks in Bancassurance. On one hand, customers, banks and insurance companies participate in the operation of insurance. The different goals and information asymmetry may make sales man to hide some customers' real information. On the other hand, banks may ignore some facts which can't control and govern the terms for higher profit.

## **5. Solutions of Bancassurance**

### **5.1 Reduce the risk from micro levels**

#### **1) Enhance the cooperation and development of bancassurance products and insurance services:**

It's better to get rid of the limitation of cooperation between banks and insurance enterprises, improve their collaboration to a new level, involve banks in the development and research of bancassurance products, systematically analyze the diversity and difference of clients' needs, and provide targeted banking products. This is the development prospect of bancassurance in the new era, and is also the inevitable evolutionary trend of the bancassurance cooperation mode.

#### **2) Strengthen resources integration:**

On the basis of market mechanism, integrating resources of the banking and insurance industry through the establishment of capital ties between the two sides, gradually realizing the transition from simple part-time agency to "long-term cooperation strategic alliance", and establishing professional bancassurance companies will be wise moves for the development of bancassurance.

3) Increase information technology cooperation in bancassurance business:

Intensifying information technology cooperation in bancassurance business to enable clients to inquire and renew their insurance business in a short time through the internet, which can not only addresses the worries of customers, but also make the after-sales service of insurance enterprises more user-friendly. We need to use new information technology to break through barriers in the transformation of the original business system, and improve the efficiency of bank insurance business.

4) Strengthen the ethics and professional proficiency training of bank and insurance business personnel:

Banks and insurance enterprises should work together to carry out regular training for bancassurance business servicers and deepen their understanding on products, so they can provide targeted and high-quality bancassurance products to clients, and at the same time, convey complete and real information of clients to insurance enterprises.

## **5.2 Reduce the risk of bancassurance business from the macro perspective**

1) Gradually ease the financial supervision over banking and insurance business:

In recent years, China has implemented the policy of "streamlining administration and delegating power". Accordingly, the relevant departments of banking and insurance business can also gradually ease the financial supervision of banking and insurance business. Having a glimpse of the successful experience of bancassurance business development in those countries, it's obvious that the realization of capital combination, including the combination of equity or property rights, is the driving force for promoting bancassurance business. Gradually loosening the restrictions on separated operation and supervision of banking and insurance products provides an important direction for developing banking and insurance business in China. At the same time, the advancement of relevant policies can create a favorable policy environment for its development.

2) Implement effective financial supervision:

There are many latent risks in banking and insurance business. To carry out scientific prevention and effective reduction, it is necessary for banks and insurance enterprises to cooperate wholeheartedly, establish a complete business supervision mechanism as soon as possible, conduct risk pre-warning and linkage analysis, and isolate risk factors. We should comprehensively use different regulatory agencies of banks and insurance enterprises to supervise the banking and insurance business, increase mutual communication and exchange, timely find the existing risks, prevent the amplification of risks, and eliminate blind areas in supervision.[5]

## **6. Future Prospects of Bancassurance Business**

1) Innovate the financial supervision system of bancassurance

The development of the financial supervision system of bancassurance calls for a relatively loose financial supervision system. We should also standardize the financial market, making players compete in an orderly manner, promote the capital integration of financial institutions in the banking and insurance industry, and provide protection in terms of the financial supervision system. We should adhere to a new operation principle of bancassurance, and formulate reasonable business strategies to maintain the orderly and healthy development of bancassurance business.

2) Promote the further integration of banks and insurance companies

An equity cooperation mechanism, as well as a benefit-sharing mode, should be established to avoid vicious competition between the two market players. Banks and insurance companies should also merge their culture and integrate their financial products to improve customer satisfaction. The banking and insurance industry should develop financial products to meet the needs of clients, and provide professional services to rise clients' trust in both institutions and products.

3) Innovating financial products and marketing methods

The products provided by the banking and insurance industry to customers should enjoy long-term reliability and security. Only in this way can financial products gain investment and savings. In terms of the sales of bancassurance financial products, flexible marketing methods shall be adopted to make customized sales. Besides, the corresponding financial and insurance products shall be introduced according to the needs of customers, so that customers can give feedback on the products, and the service and its quality offered by banks can also be improved.

## **7. Conclusion**

Bancassurance business is a significant innovation in the financial market in the new era. It's also an important measure to deepen cooperation between banks and insurance enterprises and improve market competitiveness. Taking banks as insurance sales channels can not only boost of integrated marketing and diversified financial services, but also, more importantly, form a "triple-win" situation among banks, insurance enterprises and clients. However, in their long-term development, banks and insurance enterprises also should act timely to avoid the risks that may occur in the banking and insurance business, in order to make banking and insurance business advance to a new level.

This paper first analyzes the four stages of the bancassurance business, then discusses its developing impetus, mode and utility, and explains the current situation of bancassurance industry and some existing risks: product development risk, short-term cooperation risk, operation technology risk and moral risk. Through analyzing risk factors, the improvement solutions are put forward from the micro perspective: strengthening the collaboration and development of bancassurance products, enhancing the integration of bancassurance resources, and involving more information technology of bancassurance. From the macro perspective: gradually easing the financial supervision of banking and insurance business and implementing effective financial supervision.

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