

## REALITY AND PROSPECTS OF BANCASSURANCE AS AN INSURANCE SALES CHANNEL IN THE REPUBLIC OF SERBIA

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### Abstract

The aim of every business activity is maximising profits, which explains the tendency of business entities to make products and services readily and easily available for customers. The insurance activity is not free of placement problems. In order to survive, an insurance company must constantly follow the trend of the development of services and distribution channels. As an emergence of global insurers has raised the issue of the placement of insurance services, innovations related to the placement of insurance services will be the subject of this paper. However, the success of the placement of services is dependent upon the fulfilment of the following preconditions: the service is of great quality; it is adequately distributed – available, its price – the insurance premium – suits the quality and is competitive; the service is presented to customers in a quality manner, while the sales personnel is highly motivated to do their job. The merger of a banking and insurance subject may result in the reduction of costs, as well as in spurring the synergistic effects and an increase in revenue. New technologies, new approaches and dexterities of businessmen contribute to delivering better business results.

**Key words:** bancassurance, promotional tools, sales channels, insurance services.

## РЕАЛНОСТ И ПЕРСПЕКТИВА БАНКООСИГУРАЊА КАО КАНАЛА ПРОДАЈЕ УСЛУГА ОСИГУРАЊА У РЕПУБЛИЦИ СРБИЈИ

### Апстракт

Циљ сваке делатности је максимирање добитка, због чега се настоји да се производи и услуге што више приближе купцу. Делатност осигурања није лишена проблема пласмана. Да би опстало, неопходно је да друштво за осигурање непрестано прати тенденцију развоја услуга и начина дистрибуције. Појава глобалних осигуравача актуелизирала је питање пласмана услуга осигурања, стога су иновације у пласману услуга осигурања тема овог рада. Међутим, успех пласмана услуга осигурања зависи од испуњености следећих претпоставки: услуга је квалитетна, правилно ди-

стрибуирана – доступна, њена цена – премија осигурања одговара квалитету и иста је конкурентна, услуга је квалитетно представљена купцима, а запослени у продаји мотивисани су за рад. Спајање банкарског и осигуравајућег субјекта може за резултат имати смањење трошкова, а долази и до остварења синергетског ефекта и повећања прихода. Нове технологије, нови приступи и вештине пословних људи доприносе остварењу бољих пословних резултата.

**Кључне речи:** банкоосигурање, методе промоције, канали продаје, услуге осигурања.

### *INTRODUCTION*

Specifics of the insurance service are reflected in the following features: its trust-based relationship (since it represents a written sales promise), the long-term purchasing opportunities and long-term payment, the legal obligation of buying certain insurance services (the services of automobile liability, for example), its complex structure (the service before concluding a contract, during the contract validity and after the expiry of the contract), the possibility of the use one and the same service by natural persons and legal entities (property insurance, for instance), the impossibility of its storage, etc. The above-mentioned facts serve as a confirmation of the view that every kind of a product and service has a unique distribution channel structure, and that every legal entity has its own distribution channels which best suit the specificities of the sale of its product/service, and, which are also a guarantee of its competitive edge. An inadequate choice of channels may result in a substantial loss, regardless of the quality and price level of the offered insurance service, since decisions which are the result of a distribution policy, in the long-run, belong to the group of strategic decisions.

The practice has shown that it is possible to distribute the insurance service to the potential policy holders by means of numerous channels (a personal sales network of an insurer, a sale with the help of insurance representatives and insurance intermediaries, etc.). Some scientists believe that an existence of “diverse services” accounts for a greater number of distribution channels (Barrese, Doerpinghaus, & Nelson, 1995), while others claim that such a great number of distribution channels is to be ascribed to a difference in transaction costs (Regan, 1997), the imperfection of the market, or differences in service qualities. For a channel to function efficiently and effectively, regardless of the channel opted for, a partnership relation among participants is required, which implies an efficient communication system, mutual confidence in partners, continuity in maintaining partnership relations and time-flow management. If a channel is a set of independent entities, interested in personal short-term objectives, this inevitably leads to conflicts, which result in damages, obstruction, and obtaining a benefit on the part of one channel participant to the detriment of others.

Insurance distribution channels in the Republic of Serbia are defined by institutional solutions (Law on Insurance, 2014). Accordingly, 25 insurance companies operated in Serbia in 2014, while 19 of them were majority-owned by foreign investors. Apart from insurance companies, the sales network was composed of: 19 banks which were licensed to perform insurance representation activities, 95 legal entities (insurance intermediation and insurance representation companies), 111 insurance representatives (natural persons – entrepreneurs), as well as 15,287 natural persons who were licensed to perform insurance representation and insurance intermediation activities (NBS, 2014). In the world, the prevalence of channels and channel structures varies from country to country. In Poland, for example, the dominant sales channel of insurance services in 2012 was insurance agents (152,200 agents), while there were 76 insurance companies in 2007 and 58 in 2013 (Zieniewicz, 2014). In countries such as Malta, Austria, Spain, Portugal and Italy the main sales distribution channel of life insurance is bancassurance, while the number of insurance companies in Spain ranged from 379 in 2004 to 264 in 2013 (Statistics European Insurance, 2014). In some neighbouring countries such as Croatia, the major insurance distribution channel during the period 2008-2012 was an internal sales network (direct writing) of insurance companies, the number of which ranged from 20 in 2006 to 27 in 2012 (HAFNA, 2013). In order to increase their profits, many insurers use several insurance distribution channels simultaneously. However, how many levels between the policyholder and the insurance company there will be depends on the decision of the company which is shaped by numerous factors. Taking into consideration the complexity of the problem of the choice of insurance distribution channels, the authors of the paper opted for considering the current state of affairs and prospects of bancassurance, as one of the sales channels in the Republic of Serbia. The basic hypothesis of this paper is that the advantages of bancassurance in the Republic of Serbia have not been sufficiently exploited in comparison to the traditional insurance distribution channels. This hypothesis has been confirmed by the data indicating a negligibly low level of the share of bancassurance premiums in the total premiums, as well as the share of fee and commission incomes on the basis of bancassurance in the total fee and commission incomes of commercial banks in the Republic of Serbia. Bearing in mind the fact that only those services which are compatible with the bank services have been sold by means of bancassurance, and that banks and insurance companies are in the initial phase of their co-operation in terms of the sale of insurance services, it is necessary to take measures which will promote this insurance sales channel.

Since the results of the application of bancassurance as a sales channel have not been published publicly yet, the data used in this paper represent a part of an internal database of the National Bank of Serbia (NBS), obtained upon the personal request of the authors. The methods of

descriptive statistics, interviews and questionnaires, have been used in accordance with the set objectives and hypothesis of the research.

#### *ADVANTAGES AND DISADVANTAGES OF BANCASSURANCE AS A SALES CHANNEL*

Various authors differently view the notion of bancassurance. Bancassurance is believed to be a package of financial services composed of one-stop-shop banking and insurance services (Babić-Hodović, 2003, p. 59-63). Given the importance of cooperation, some authors highlight that bancassurance is a strategy of inter-linkage between banks and insurers aiming to operate on financial markets in a more or less integrated manner, which implies the distribution of insurance products by banks (Swiss Re, 2002, p. 3). Analogous to this attitude is a view that bancassurance represents a full exploitation of the synergy between banking and insurance so that banking and insurance products can be economically placed to the common client base (Magdić, 2009, p. 7). The claim that could be found in literature is that bancassurance is an indicator of the disappearance of traditional barriers between banking and insurance, while the very disappearance of barriers has been caused by the following factors: the deregulation and liberalisation of the financial service market, the appearance of giant financial companies capable of rendering a wide range of financial services, competition, globalisation, technological innovations, and an increasing sophistication of clients' demands.

The contemporary concept of the development of bancassurance originates from France, when legal changes in this country enabled banks to penetrate the insurance market in such a way as to offer certain insurance services to their clients through the network of bank branches and bank counters. However, if we observe the evolution of bancassurance, we may differentiate among three developmental periods:

- prior to 1980, when banks sold insurance guarantees as a direct extension of their banking activities;
- after 1980, when banks started developing and offering life insurance services to their clients (Unit-linked policies and Investment-linked policies)
- after 1990, when banks diversified their product and service range and started offering brand new services, other than life insurance. During this period, the European Union (EU) adopted the first directive on the sale of non-life insurance products through banks, as a sales channel (2002/92/EC).

In spite of the fact that the practise has shown that there is no unified bancassurance model, the most commonly applied ones are (Dumm & Hoyt, 2003):

- an integration model which is carried out through banking channels with the help of bank employees – bank clerks, without greater investment and further co-operation;
- a specialist model in which the distribution of insurance services is conducted by the experts who are usually employed by insurance companies or who represent them, which implies a greater level of business integration as well as a higher degree of investment in information technologies and sales staff, and
- a financial planning model, characterised by a team approach to offering financial planning packages to every client with the aim of satisfying the clients' needs and in accordance with their financial capabilities. Moreover, this model also implies joint ownership of the clients' database and services, long-term co-operation and substantial investment.

There are also authors who believe that there is the fourth model of bancassurance which presupposes the establishment of a new company in one of the following ways: by bank acquisition or a merger/fusion of a bank and an insurance company on an equal footing, by the creation of a financial conglomerate which is composed of several dependent companies with a low integration level, for instance a bank, insurance company and broker association, aiming at offering incorporate financial services (Kapor, 2007, p. 320-321). Although the number of legal entities in a conglomerate may vary over 1,000, all the entities are under the control of the parent company which makes decisions and chooses a business strategy. However, there is a possibility of fraud in all these combinations, as well as the possibility that the business risk of one company within the conglomerate may affect the operations of other companies. The research based on the survey of 500 banks carried out in Belgium, France, Germany, Italy, Holland, Spain and Great Britain has shown that, for the time being, the first most common model is the one which implies co-operation with only one partner – the insurer. The second most common model is insurance companies – wholly-owned bank subsidiaries. In all other countries, except for Belgium and Great Britain, there are joint ventures of bankers and insurers. However, the starting point of the researchers was that the centre of banking and insurance business in the future will rest upon the co-operation of one bank with several insurers or one representative. According to their results, at the moment of the research this model was preferred by 26.6% of sample banks (Gonulal, Goulder, & Lester, 2012, p. 51-66).

The motives of insurance subjects for the use of bancassurance as a sales channel are diverse. Therefore,

- banks perceive it as a means of the diversification of services and as a source of additional fee income;
- insurance companies see it as a tool of increasing the market share and premium turnover;

- customers see it as an additional benefit in terms of reduced prices, high quality services and the possibilities of doorstep delivery (personal delivery) (Carry, 1998; Kumar,2000).

The advantages and benefits of partnerships through bancassurance may be represented by Table 1.

*Table 1. Advantages and benefits of partnerships through bancassurance*

Partner	Offers	Gets
Bank	<ul style="list-style-type: none"> <li>▪ Brand</li> <li>▪ Customer database/distribution</li> <li>▪ Complementary products</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in fee incomes</li> <li>▪ Additional exit barriers for customer retention</li> </ul>
Insurance company	<ul style="list-style-type: none"> <li>▪ Expertise in insurance and damages</li> <li>▪ Increasing the capacity for risk-taking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Access to the brand and customer database</li> <li>▪ Profit margin on the core business activity</li> </ul>
Customer	<ul style="list-style-type: none"> <li>▪ Brand loyalty</li> <li>▪ Identifying other products and services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Products of a known service supplier tailored to the needs of customers and cost reduction.</li> </ul>

Indicators of the success of co-operation between the insurance subjects in this sales channel are: the number of insurance policies sold by a bank clerk, the insurance premium amount on every type of insurance, average premium amount per every bank clerk, the number of cancelled insurance contracts, gross and net commission income per every bank clerk.

The level of the development and use of bancassurance as well as gained experience in its practical application are differently viewed from the perspective of developed and developing countries. The group of factors that mainly determine the degree of the development of bancassurance comprises: culture, social status, demographic factors, regulatory frameworks, economic state, types of insurance businesses, the degree and method of bank and insurance organization. An observation of the European market points to the fact that banks were the dominant sales channel of life and pension insurance in Spain, France, and Italy. This situation is explained by the similarity of life insurance products and banking products, as well as by the possibility of claiming tax exemptions<sup>1</sup>, while the penetration of bancassurance in Germany, England, Holland and Switzerland is far smaller (Table 2), taking into consideration the regulatory provisions on bank control in insurance business with the aim of preventing possible abuses in business.

<sup>1</sup> In France, until 1995, life insurance products were granted tax exemptions, such as tax deductibility of up to 25% of premiums. Although the fiscal benefits were withdrawn in the same year, the bancassurance market share increased from 60% in 2001 to 64% in 2006 due to the high degree of elasticity of demand for life insurance products.

*Table 2. The share of life insurance premium distributed through a particular sales channel in a total life insurance premium during 2012 in some European countries*

Ref. no.	Countries	Sales channels				
		Direct writing	Agents	Brokers	Bancassurance	Others
1	Austria	24.6%	4.8%	19.0%	45.0%	6.6%
2	Belgium	18.0%	4.8%	29.2%	47.4%	0.6%
3	Bulgaria	18.7%	39.3%	42.0%	0.0%	0.0%
4	Germany	4.1%	50.0%	25.6%	18.0%	2.3%
5	Spain	8.0%	12.7%	6.7%	71.4%	1.2%
6	France	16.0%	7.0%	11.0%	63.0%	3.0%
7	Croatia	41.4%	33.2%	1.2%	20.1%	4.1%
8	Ireland	50.9%	8.9%	40.2%	0.0%	0.0%
9	Italy	10.7%	16.3%	1.1%	71.9%	0.0%
10	Luxembourg	11.4%	60.0%	3.7%	25.0%	0.0%
11	Malta	1.8%	52.7%	3.8%	41.7%	0.0%
12	Poland	28.8%	24.0%	1.6%	38.9%	6.7%
13	Portugal	6.6%	17.7%	1.3%	74.1%	0.3%
14	Romania	10.6%	55.0%	20.8%	13.6%	0.0%
15	Sweden	17.0%	1.0%	32.0%	10.0%	40.0%
16	Slovenia	5.5%	78.2%	7.9%	8.3%	0.1%
17	Turkey	9.0%	13.0%	0.6%	77.4%	0.0%
18	England	16.9%	22.8%	60.3%	0.0%	0.0%

*Source:* Calculation of the authors on the basis of the data provided by the European Insurance in Figures December 2014, Statistics N°50

In other world markets – South America, Asia, Australia, bancassurance is also used as a distribution channel of life insurance. As far as the US is concerned, the results of the supervision carried out by the American Bankers Insurance Association points to the fact that, even though banks have undertaken increased marketing efforts, the share of banks selling some forms of general insurance premiums has slightly increased; nevertheless, the bancassurance revenue is still unsatisfactory (bancassurance revenue is lower than 0.5% of the total banking revenue).

As for non-life insurance, banks' efforts to penetrate the property and accident insurance markets have been noticeable. The result of these efforts is the knowledge that in most European countries the household market has become a substantial market for bancassurance (in France, insurance companies sell these products through the network of Société Générale Bank), while the share of this sales channel for motor insurance is very small, under 5%, except in France and Belgium, where the market share is slightly bigger (Table 3). The reasons for such achieved results related to the sale of non-life insurance through bancassurance may be: lack of knowledge about these products, great oscillations in results in comparison to life insurance and a great number of claims.

Table 3. The share of the sales channel in non-life insurance in 2012

Ref. no.	Countries	Sales channels				
		Direct writing	Agents	Brokers	Bancassurance	Others
1	Austria	35.7%	18.2%	33.0%	5.7%	7.4%
2	Belgium	19.9%	10.7%	61.4%	7.4%	0.6%
3	Bulgaria	19.6%	34.4%	46.0%	0.0%	0.0%
4	Germany	4.6%	60.2%	24.8%	6.9%	3.5%
5	Spain	22.6%	35.3%	24.8%	10.2%	7.1%
6	Finland	46.2%	37.2%	4.5%	7.3%	4.8%
7	France	35.0%	34.0%	18.0%	12.0%	1.0%
8	Croatia	71.0%	17.5%	6.0%	3.1%	2.4%
9	Ireland	40.9%	0.0%	59.1%	0.0%	0.0%
10	Italy	8.1%	81.0%	7.6%	3.3%	0.0%
11	Luxembourg	13.8%	61.0%	24.2%	0.8%	0.3%
12	Malta	33.6%	42.5%	23.9%	0.0%	0.0%
13	Poland	15.3%	61.0%	19.3%	2.3%	2.1%
14	Portugal	10.7%	56.3%	17.1%	15.3%	0.6%
15	Romania	25.1%	36.2%	38.5%	0.2%	0.0%
16	Slovenia	30.0%	61.5%	5.5%	0.5%	2.5%
17	Slovakia	22.2%	64.3%	0.7%	0.0%	12.8%
18	Turkey	6.4%	67.7%	11.8%	14.1%	0.0%

Source: Calculation of the authors on the basis of the data provided by European Insurance in Figures December 2014, Statistics N°50

It is estimated that at the beginning of the 21<sup>st</sup> century life and non-life insurance premium accounted for 20-30% of the bank profits in the continental part of Europe (Agnus, 2002, p.12-14). The practice has shown that there are also insurance companies which use exclusively one sales channel (a bank) to place their services (life insurance), while the earned premium amounts per employee are high (Erste VIG – an insurance company from Croatia (Bertoncelj, 2010). In countries with undeveloped insurance markets, there is a tendency of foreign insurers to join efforts with the local banking network, since it is a cheaper way of entering the market in comparison to greenfield investment or buyout – acquisitions of local insurance companies (Latin America). The need for bancassurance development has not only been accompanied by the interest of insurance companies. Namely, intense competition among banks and a reduced margin of interest rates have brought about an increase in administrative and marketing costs and limited profit margins for traditional banking products, which, eventually, resulted in the need for diversifying the product range of banks in order to increase their productivity and profitability. At the same time, the preferences of bank customers have changed in terms of the reduction in the share of conventional savings and deposits. As a matter of fact, life insurance products, which are commonly supported by a favourable tax treatment in many countries and which contain a prominent investment-related component, have turned out to be appealing to customers. In other

words, increased competition and a risk of deposit outflow due to increased customer mobility have caused the banks to start co-operating with insurers in order to retain or “bind” the customers.

### *BANCASSURANCE IN THE REPUBLIC OF SERBIA*

#### *State of Affairs of Bancassurance in the Republic of Serbia*

The Law on Banks (The Official Gazette of RS, no. 107 of 2<sup>nd</sup> December 2005) explicitly enabled banks in Serbia to perform insurance representation activities. In terms of insurance business, a commercial bank may act in three ways: (a) as an insurance representative – bancassurance, (b) as the insured (the bank arranges the insurance of certain risks and pays the agreed premium for the insured risks to the insurance company which covers those risks) and (c) as the insurance beneficiary (when the bank conditions its customers to be insured so that they can be approved a housing loan or an overdraft). The above-mentioned roles of a bank draw us to the conclusion that it will be possible to start a business co-operation between banks and insurance companies and to create a legal framework for bancassurance. However, banks entered this sector only in 2007, when no more than five banks were present in the sales network of insurance services. The number of banks has increased over years. The biggest increase in the number of banks which perform insurance activities was recorded in the first years after the introduction of the Law – in 2008 (120% as much as in 2007) and in 2009 (36.36% as much as in 2008). The number of banks in the sales network increased in later years – by 6.67% in 2007 and by 12.50% in 2011, and has finally remained stable in the last 4 years with 19 banks performing the insurance representation activities (Table 4).

*Table 4. Insurance market participants in the Republic of Serbia during the period 2005-2014*

Years	Insurance companies	Banks	Representatives		
			Legal entities	Entrepreneurs	Natural persons
2005	19	-	40	35	2,578
2006	17	-	44	87	3,982
2007	20	5	59	123	5,002
2008	24	11	65	122	8,190
2009	26	15	69	122	10,124
2010	26	16	77	117	11,418
2011	28	19	79	109	13,363
2012	28	19	84	105	14,123
2013	28	19	87	112	14,457
2014	25	19	95	111	15,287

*Source:* The annual reports of NBS on insurance supervision activities (2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014)

The sales network of 19 banks comprised 1.097 points of sale (bank counters, branch banks, points of sale), with 2.271 authorised and certified bank clerks (NBS, 2011). The share of banks in the total number of representatives – legal entities and entrepreneurs increased, ranging from 2.24% (2007) to 8.09% (2011), and so did the share of premiums charged through this distribution channel in the total insurance premium – from 0.03% (2007) to 3.77% (2014). The insurance premium value charged through bancassurance multiplied from period to period (Table 5).

*Table 5. The percentage change in the insurance premium values, savings values and GDP during the period 2008-2014*

Years	% change in non-life insurance premiums	% change in life insurance premiums	% change in bancassurance premiums	% change in the savings value	% change in the GDP
2008	15.06	28.48	580.00	8.35	16.55
2009	-0.41	24.17	197.06	36.09	4.92
2010	3.32	18.68	117.16	28.84	6.50
2011	0.32	6.84	54.86	6.65	11.10
2012	4.83	18.63	29.34	16.67	5.18
2013	0.74	18.65	57.59	4.32	8.15
2014	6.85	13.79	26.05	7.12	0.83

*Source:* Calculation of the authors on the basis of the data provided by NBS (the annual reports of NBS on insurance supervision activities (2008, 2009, 2010, 2011, 2012, 2013, 2014) and internal database of NBS)

Based on the available information and promoted co-operation, Table 6 presents a business liaison of some banks and insurance companies in the Republic of Serbia.

*Table 6. An overview of some bancassurance market participants in Serbia*

Ref.no.	Bank	Insurance company
1	Alpha Bank Srbijaa.d.	Axaa.d.o.
2	BancaIntesaa.d.	Delta Generalia.d.o.
3	Erstebankaa.d.	Wiener Stadtischeosiguranjea.d.o.
4	Komercijalnabankaa.d.	Dunavosiguranjea.d.o.
5	OTP bankaa.d.	Basler a.d.o.
6	Raiffeisen Banka a.d.	Uniqaa.d.o.
7	SociétéGénéralebankaSrbijaa.d.	SociétéGénéraleosiguranjea.d.o.
8	Eurobank EFG a.d.	Delta Generalia.d.o. Wiener Stadtischeosiguranjea.d.o.
9	Hypo-Alpe-Adria Bank a.d.	Grawea.d.o.

Given the observed growth in the charged insurance premiums through various channels of distribution, the interdependency between

variations in both life and non-life insurance premiums charged through bancassurance and other distribution channels has been examined by the use of the method of correlation analysis. The degree of linear quantitative correlation between the observed variables has been computed by means of Pearson's linear correlation coefficient, which may be calculated by applying the following formula:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} \quad (1)$$

The obtained results show that the correlation between the observed variables is direct, i.e. positive (Table 7). High correlation coefficient values, which approximate 1 in the case of correlation between bancassurance premiums and life insurance, point to a strong linear correlation between all insurance premiums, regardless of the distribution channel and savings. However, the correlation does not reveal whether there is a causal relationship between the observed variables, i.e. whether life and non-life insurance premiums, and savings are conditioned by fluctuations in the bancassurance value or whether these variables are conditioned by some other factors which have not been identified in this paper. Therefore, for that purpose, we will use the causality test, i.e. the Granger cointegration test.

*Table 7. A correlation coefficient between the observed variables*

	Non-life insurance premium	Life insurance premium	Bancassurance premium	Savings
Non-life insurance premium	1.00000			
Life insurance premium	0.93829	1.00000		
Bancassurance premium	0.88862	0.98575	1.00000	
Savings	0.90341	0.96916	0.93481	1.00000

*Source:* Calculation of the authors

The Granger causality test is a method which may determine whether the fluctuations of one variable will affect other variables in the future. A simple cointegration test, which has been used in this paper, implies the determination of the relationship between two variables,  $X_t$  and  $Y_t$ , based on the determination of the parameters of the vector autoregressive model (VAR) as specified in the equation:

$$Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \dots + \alpha_p Y_{t-p} + b_1 X_{t-1} + \dots + b_p X_{t-p} + u_t \quad (2)$$

$$X_t = c_0 + c_1 X_{t-1} + \dots + c_p X_{t-p} + d_1 Y_{t-1} + \dots + d_p Y_{t-p} + v_t \quad (3)$$

Testing the assumption  $H_0 : b_1 = b_2 = \dots = b_p = 0$  proves that the variable  $X_t$  does not affect the variable  $Y_t$ , while testing the assumption  $H_0 : d_1 = d_2 = \dots = d_p = 0$  proves that the variable  $Y_t$  does not affect the variable  $X_t$ . It is assumed that all other information or factors are irrelevant. The results of the Granger test statistics, defined by the  $F$ -test and the significance level ( $p$ -value), draw us to the decision whether to accept or reject the  $H_0$ . The model is extremely responsive to the number of time lags determined exclusively by statistical analyses. If the number of lags is too small, the model will not be specified correctly. On the other hand, a great number of parameters makes the model complex. Due to the limited nature of the data in the time series, the lag 1 has been used in this paper.

Cointegration has been tested at the sample of the observed data series: non-life insurance premium (NLP), life insurance premium (LP), bancassurance premium (B<sub>a</sub>P), and savings (S), whereby all the data have been previously transformed by the application of the Box-Cox transformation, which comes down to the logarithmization of the baseline data. Since stationarity has been achieved by the differentiation of the baseline data (Table 8), the transformed data, which have provided the stationarity of the series, will be used in the further analysis.

*Table 8. The results of the Dicky-Fuller stationarity test*

Variable	Differentiation	Coefficient	Critical coefficient value	Significance level ( $p$ -value)
ln(NLP)	0	-1.4717	-1.95	0.7736
	1	-31.527	-1.95	0.01
	2	-5.3634	-1.95	< 0.0001
ln(LP)	0	-2.8062	-1.95	0.2653
	1	-1.3192	-1.95	0.8317
	2	-1.5792	-1.95	< 0.0001
ln(B <sub>a</sub> P)	0	-2.3567	-1.95	0.4365
	1	-1.0626	-1.95	0.9114
	2	-1.8348	-1.95	< 0.0001
ln(S)	0	-1.2058	-1.95	0.8749
	1	-3.3549	-1.95	0.08405
	2	-2.1709	-1.95	< 0.0001

*Source:* Calculation of the authors

However, in spite of the significant correlation implied by high Pearson coefficient values, the Granger cointegration test has not pointed to the causal relation between the observed time series (Table 9).

Table 9. The results of the Granger cointegration test at the sample of the analysed series

→	Bancassurance premium	←	Bancassurance premium
Non-life insurance premium	0.4306 (0.5791)	Non-life insurance premium	3.5590 (0.1999)
Life insurance premium	2.6138 (0.2473)	Life insurance premium	0.0191 (0.9026)
Savings	0.4484 (0.5721)	Savings	0.0573 (0.8330)

Source: Calculation of the authors

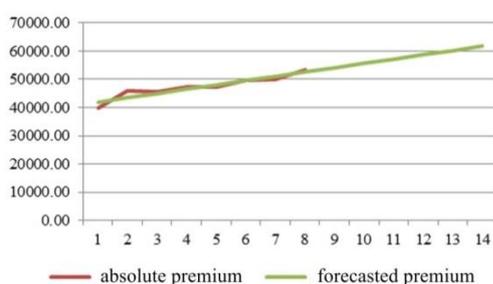
As the noticed correlation between the analysed variables cannot be used to explain the causal relation, and yet a linear upward trend in the premium value is observable during the analysed period, in the regression model, which may be presented in the following way:

$$Y_i = \beta_0 + \beta_1 x_i \quad (4)$$

the time will be used as an explanatory variable to model and then to predict the fluctuations of insurance premiums in the future period. The equation of a straight line described by the formula 4 is completely determined by two coefficients:  $\beta_0$  which shows the Y intercept of a straight line, and  $\beta_1$  which is the gradient/slope of a straight line, i.e. a tangent of an angle between the straight line and a positive arm of the X-axis. The value of the coefficients has been determined by the application of the method of least squares.

In the case of the regression model for non-life and life insurance policies, the value of the coefficient is  $\beta_0 > 0$ , so that we can conclude that the straight line indicates an upward trend (Table 10 and Table 11). However, in the case of the model of bancassurance premiums (Table 12), the value of this coefficient is lower than 0, so that we can conclude that the straight line shows a downward trend.

Table 10. The regression model of the non-life insurance premium

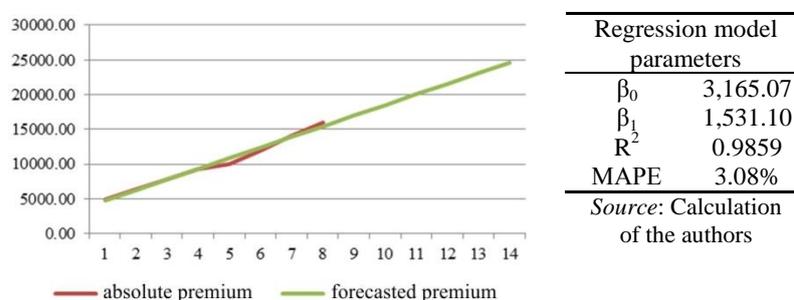


Regression model parameters	
$\beta_0$	40,514.57
$\beta_1$	1,519.18
$R^2$	0.8798
MAPE	1.84%

Source: Calculation of the authors

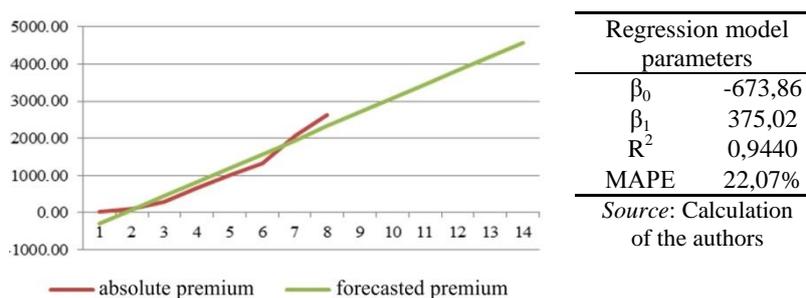
Despite the insufficient length of the time series, the described regression models show a substantial level of accuracy. In the case of the regression model for predicting non-life and life insurance premiums,  $R^2$  takes the values greater than 0.8, which means that the model accounts for 87.98% (non-life insurance), that is 98.59% (life insurance) of the variability of the dependent variable. The accuracy of these two models has been confirmed by the mean absolute percentage value (MAPE), which is 1.87% with the model of non-life insurance premiums, and 3.08% with the model of life insurance premiums.

Table 11. The regression model of the life insurance premium



However, despite the high  $R^2$  value, the linear regression model applied to modelling the bancassurance premium cannot be considered accurate enough. The mean absolute deviation percent of the values obtained by the model and real values points to the error of 22.07%, which is the reason why it will be essential to reconsider modifying the offered model or applying non-linear models in further research.

Table 12. The regression model of the bancassurance premium



Given the risk of error, the models have been applied to predicting the premium in the future period of 2015-2020. Based on the obtained results (Table 13), it can be concluded that both premiums of all types of insurance and bancassurance premiums will increase in the future period.

*Table 13. Forecasted values of insurance premiums in millions of RSD during the period 2015-2020*

	Y	2015	2016	2017	2018	2019	2020
<i>X</i>							
Non-life insurance premium		54,187.18	55,706.36	57,225.54	58,744.71	60,263.89	61,783.07
Life insurance premium		16,944.93	18,476.02	20,007.12	21,538.21	23,069.31	24,600.40
Bancassurance premium		2,701.36	3,076.38	3,451.40	3,826.43	4,201.45	4,576.48

*Source:* Calculation of the authors

However, when it comes to the prevalent attitude of the banks in Serbia, bancassurance is believed to be a low-profit business. That is the reason why their interest in the development of this sales channel is low. According to the available data (Table 14), the share of commissions earned through bancassurance premiums varied from 5.38% in 2007 to 32.93% in 2011, while this share plummeted in 2014 to 24.57%. The beneficiaries do not contribute to the development of bancassurance either, since they have not developed a pronounced interest in various types of insurance offered on the market, while the insurance companies are still focused on their sales network.

*Table 14. The share of the bancassurance premium in some categories (%)*

Years	% share of bancassurance premiums	
	in non-life and life insurance premiums	in total bank commissions
2007	0.033%	5.38%
2008	0.195%	12.50%
2009	0.566%	21.23%
2010	1.164%	30.26%
2011	1.778%	32.93%
2012	2.144%	31.51%
2013	3.243%	28.01%
2014	3.772%	24.57%

*Source:* Calculation of the authors  
on the basis of the data of the NBS – the Supervision Sector

The bancassurance model present in Serbia represents an integrated offer of bank and insurance services. Furthermore, an introduction of insurance to the standard portfolio of bank products means a step forward in the development of bancassurance in our country. The orientation towards this kind of business activity enables the banks to broaden their scope of business by performing activities of insurance representation, which will eventually lead to a better positioning on the market, and, hence, to an increase in the number of clients.

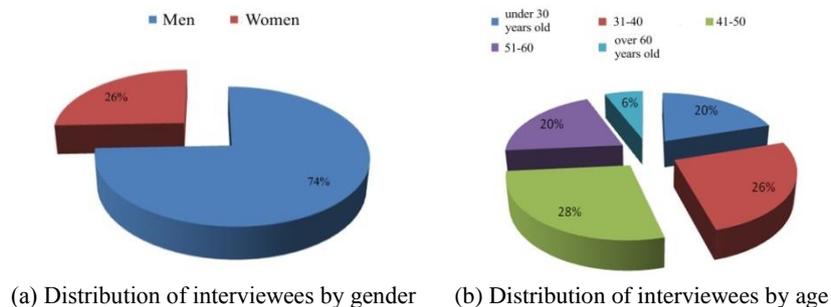
*Promotional Activities Related to Bancassurance  
as a Precondition of its Efficiency*

Effects of bancassurance are not only the result of modelling its mechanism, but also of promoting its advantages by means of:

- advertising, as a paid form of informing people and convincing potential policyholders through mass media communication,
- personal selling, as a way of personally informing and convincing potential policyholders by mutual communication,
- public relations, as an unpaid form of non-personal informing and convincing potential policyholders by media reports on insurance companies and their services, as well as by means of improving sales as a part of a promotional network which persuades buyers to make an additional purchase of an existing good or service.

In other words, the role of promotion in an insurance business is reflected in the communication with individuals, groups or organisation and in the facilitation of the exchange of information which will eventually persuade the target group, organisation, or individual that the offer is right. The decision on the choice of the promotional method is determined by available promotional tools, characteristics of the target market, aptitudes and dexterities of the sales personnel, available distribution channels and service features (Kotler, 2001). Nevertheless, a problem arises while determining the effects of a promotion, i.e. how to establish feedback loops between the service recipient and service provider. In order to have benefits from promotion, a particular subject must have an adequate plan of conducting, harmonization and communication supervision. One of the possible methods to achieve this is to carry out a survey, which the authors of the paper used to obtain an insight into bancassurance. There were 2,500 questionnaires sent to the clients of the banks' branches on the territory of the Southern and Eastern Serbia of which 1,560 participated in the survey. Complete answers received from 1,025 respondents are further analysed.

The greatest number of respondents of the survey is male 74.4% (Graph 1a). As far as the age distribution is concerned, the majority of interviewees (over 50%) belong to the group aged 30 50 (Graph 1b).



*Graph 1. Distribution of interviewees by gender and age*

More than 80% of the interviewees (87.20% to be precise) opine that there is a lack of media coverage and representation of the attributes of the bancassurance service, and this problem is accompanied by insufficient data on what banks offer this service, under what conditions and at what price. With regard to the media which could be used to promote bancassurance, the respondents (43.20%) believe that the joint use of television and the Internet will be the best means of advertising bancassurance, since those are the media that nowadays provide a wide range of users with fast and effective information. However, 23.20% of the respondents believe that television solely will be an ideal method of advertising, while 14.20% of the respondents give preference exclusively to the Internet. Such an attitude of potential bancassurance beneficiaries towards electronic media is understandable because the ability to reduce transaction costs of interaction between buyers and sellers of insurance products has always been a primary motivation of buyers. Furthermore, these media enable the very advertisement to draw attention and arouse interest of a potential user. The practice has shown that there is no marked interest of insurance beneficiaries in purchasing insurance products via the electronic distribution channels (Trembly, 2001), so that only fewer than 2% of insurance products have been bought via the Internet. Only 2% of the interviewees give preference to written media (newspapers) (Table 15). Brochures and leaflets printed by insurers and handed out at points of sale or sent to policyholders, big posters, and professional magazines belong to other means of public information and their share in the total media coverage is negligible.

Regardless of the chosen media of advertising, the interviewees (78.2%) believe that there must be a persistent and continuous bancassurance advertisement which will considerably shape the decision to use this insurance sales channel.

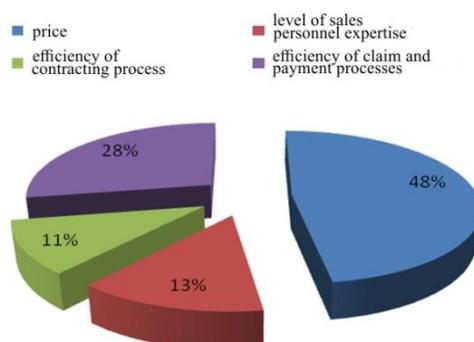
*Table 15. Media which might give the best results in promoting bancassurance*

Ref. no.	Media	% interviewees
1	TV and the Internet	43.20%
2	Radio	16.60%
3	TV	23.20%
4	The Internet	14.20%
5	Newspapers	2.00%
6	Other media	0.60%
7	Others (recommendations, etc.)	0.20%
8	Total	100.00%

*Source:* Calculation of the authors

For the time being, the insurance beneficiaries prefer to buy the insurance products from the very insurance company (a traditional sales channel), since, from the respondents' (63.4%) point of view, there is a difference in quality depending on the place where the insurance product is purchased.

There are several obvious factors affecting insurance beneficiaries' behaviour (Graph 2).



*Graph 2. Factors that affect the purchase of insurance products in the banks or insurance company*

The primary criterion on the basis of which policyholders living under conditions of low life standard decide to buy insurance services is the price of the insurance service and the conducted survey points to these findings. However, in spite of a strong competition among insurers, it is customary that a low price implies a low quality service. Therefore, policyholders must be well-educated, and that is the reason why it is upon the seller to interpret the best offer of an insurer and propose the best combination to the insured. As the insurance business rests upon the mutual confidence, the seller must be aware of the fact that it is hard to gain confidence, but is easy to lose it. Since the most important component of confidence in the insurance business is a fair and fast payment of claims for compensation or the sum insured, it is personal experience or other people's experience with one insurer, spread through the word-of-mouth, which brings about the enhancement of consumer confidence (Odalović,&Ugrinov,2012). In the respondents' opinion, this factor takes the third place on the hierarchical ladder of factors affecting insurance beneficiaries' behaviour. Motivational factors of sales personnel include: quantitatively measurable goals, an earnings possibility, an incentive system, a wish for business success, service attractiveness, service benefit assurance, job security and secure earnings, an inclination to friendship and establishing social contacts, written and oral recognition, paying attention to the sales personnel, self-confirmation of a person while competing with others, freedom to do the job in one's own way, the use of

personal creativity and initiative, good interpersonal relations. The degree of the influence of the above-mentioned factors is individual and depends on the traits of a particular person. In order to successfully sell insurance services, an employee should possess a high level of self-confidence and motivation which ensures an aggressive method of selling insurance services.

### *CONCLUSION*

The development of bancassurance as an insurance distribution channel has been considered a significant model of the development of the European financial structure since its appearance in the 1980s. Financial crises have demonstrated that the main concern of the insurance sector should not be an introduction of new services, but a better communication of existing services to customers, which would not only put greater expectations and pressure on the sales network, but also increase its responsibility. It is, therefore, commonly claimed that the value of every insurance company is as high as its sales network is. The concept of cross-selling banking and insurance products is a novelty for both banks and insurance companies, and is useful for both entities, since it enables not only a short-term, but also long-term broadening of the structure of assets and liabilities in the process of financial intermediation, as well as the attraction and retention of service buyers. In Europe, this distribution channel has enjoyed considerable success; in the US bancassurance started developing later, while it is relatively new for Asian countries. However, professionals and scholars agree that bancassurance has a future; yet it is necessary that the bank management knows to recognize it. It is a concept which was, is, and will always be an important sales channel of life-insurance policies in particular.

In the Republic of Serbia, as in many other developing countries, this insurance distribution channel has not been sufficiently exploited. A modest share of premiums earned through the bancassurance distribution channel is among the lowest shares of all observed shares in other European countries. Nevertheless, the conducted analyses demonstrate that the noticed continuous growth of premium will continue in the future and significantly contribute to an increase in the revenue of insurance companies. A substantial correlation, implied by high Pearson coefficient values, between bancassurance, life insurance, and non-life insurance premiums does not indicate a causal relationship between these values, so that the identification of the determinants of insurance development requires further research. One of the factors affecting the development of this distribution channel is sales promotion, as the effects of bancassurance are not only the result of modelling its mechanism, but also of promoting its advantages. The results of the survey carried out among the financial service beneficiaries in the Republic of Serbia point to the insufficient media coverage and

representation of the services which can be obtained through bancassurance. As for the media which might be used for sales promotion, the interviewees (43.20%) believe that the joint use of television and the Internet would be the best tool for advertising bancassurance, since those are the media that provide a wide range of users with fast and effective information. For the time being, the policyholders are more inclined to buying insurance products in an insurance company, because the respondents (63.4%) hold that the quality of an insurance product depends on the place where it is purchased. The price of the insurance product, which is by rule lower when it is distributed through the bancassurance channel, significantly affects the choice of the purchase channel. Other factors determining the choice of the channel include the speed of meeting the insurance claims, the level of staff expertise and the speed of completing the procedure.

Bancassurance is a perspective mode of co-operation of financial institutions, which reduces the price of services and enables the use of a set of synergistic effects – insurance companies use the bank's clients' database and its extended branch network in order to maintain a contact with buyers, while banks, by offering new products, bind their clients more closely and strongly, and generate income through commissions. If the financial situation and credit activity of banks are stable, it is certain that bancassurance may be one of the generators of premium growth, particularly in the area of life insurance. In the developing countries, factors of insurance growth and, hence, of bancassurance are specific, and, yet, the insurance premium growth will significantly contribute to an intensive development of bancassurance in the Republic of Serbia in the forthcoming period.

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## РЕАЛНОСТ И ПЕРСПЕКТИВА БАНКООСИГУРАЊА КАО КАНАЛА ПРОДАЈЕ УСЛУГА ОСИГУРАЊА У РЕПУБЛИЦИ СРБИЈИ

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### Резиме

Пракса је показала да је услугу осигурања кориснику могуће дистрибуирати путем бројних канала (властита продајна мрежа осигураваача, продаја уз помоћ заступника и посредника итд.). Неадекватан избор канала може као резултат имати значајан губитак, без обзира на квалитет и ниво цене понуђене услуге осигурања, јер одлуке које су резултат политике дистрибуције, дугорочно посматрано, припадају групацији стратегијских одлука. Концепт продаје услуга осигурања кроз понуду банкарске услуге јесте иновација и за банке и осигуравајуће компаније, која је корисна за оба ентитета и омогућава како краткорочно тако и дугорочно ширење структуре имовине и обавеза у процесу финансијског посредовања, али и привлачење и задржавање купаца услуга.

Степен развоја и коришћења банкоосигурања, као и стечено искуство у практичној примени, различито се може посматрати са аспекта развијених и земаља у развоју. Посматрањем европског тржишта може се закључити да су банке доминантан канал за продају производа животног и пензијског осигурања у Шпанији, Француској и Италији, док је ово учешће у Немачкој, Енглеској, Холандији, Швајцарској много мање због одредаба закона о контроли банака у пословима осигурања у циљу превенције могућих злоупотреба у пословању. Када је реч о неживотним осигурањима, очигледан је напор банака да освоје тржиште осигурања имовине и осигурања лица од последица несрећног случаја. У већини европских земаља, осигурање домаћинстава постало је изузетно значајно тржиште за банкоосигурање, док је учешће овог канала код продаје услуге осигурања моторних возила на ниском нивоу, испод пет посто, осим у Француској и Белгији, где је проценат учешћа нешто већи.

У Републици Србији канали дистрибуције услуга осигурања дефинисани су институционалним решењима, а Закон о банкама (Службени гласник РС, бр. 107 од 2. 12. 2005. године) експлицитно је банкама у Србији омогућио да се могу бавити пословима заступања у осигурању. Међутим, банке су у овај сектор ушле тек 2007. године. Од тада до данас број банака које обављају послове дистрибуције услуга осигурања се из године у годину увећавао, као и премија наплаћена овим каналом продаје. Међутим, учешће премије стечене од продаје услуга осигурања путем овог канала је међу најмањим у посматраном узорку европских држава. Спроведене анализе указују на чињеницу да ће се уочени континуирани пораст премије наставити и у будућем периоду и значајно допринети повећању прихода осигуравајућих компанија. Значајна корелација, коју имплицирају високе вредности Пирсоновог коефицијента, између премија банкоосигурања, животног и неживотног осигурања не указује на узрочну везу између ових величина, тако да одређивање детерминанти развоја осигурања захтева додатне анализе. Један од фактора који утиче на развој овог канала дистрибуције јесте и промоција, јер ефекти банкоосигурања нису само резултат моделирања његовог механизма већ и промовисања његових предности. Резултати спроведене анкете међу корисницима финансијских услуга у Републици Србији указују на недовољну медијску заступљеност информација о услугама које се могу добити банкоосигурањем, због чега се највећи број испитаника одлучује за куповину услуга осигурања директно од осигуравајуће компаније. Испитаници, корисници финансијских услуга, мушког пола старости од 30 до 50 година показали су највећи степен интересовања за банкоосигурање и мишљења су да је најбоље за рекламу о банкоосигурању користити телевизију и интернет, јер су то у данашње време медији који пружају брзе и ефектне информације широком кругу корисника.