

Bancassurance in French means the selling of insurance products by banks through their own distribution channels. Bancassurance has been well established in Europe and insurance companies and banks in Asia are now gearing for this inevitable linkup. In Vietnam, ACB (Asia Commercial Bank) has cooperated with Prudential and AIA (American International Assurance) for bancassurance, and in the entrance of 2003, other leading banks in Vietnam are

that customers trust banks more than insurance companies. Insurance companies, in cooperation with banks, can leverage this "trust" factor.

Moreover, insurance companies also expect a better quality of sale through bancassurance. With a debit arrangement with banks, insurance companies can expect persistency of its products through a bank sale.

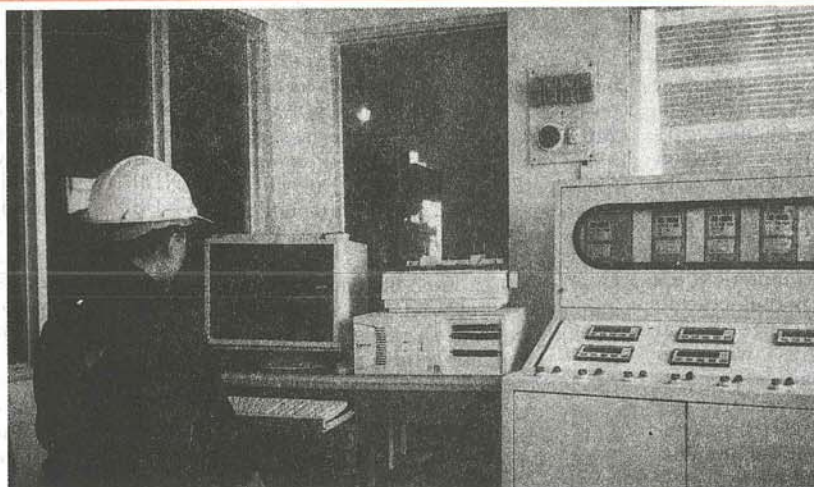
For customers, bancassurance offers convenience and a one-stop financial supermarket. The customer

ket insurance products to generate some income for themselves, which hitherto was not thought of.

Once bancassurance is embraced in Vietnam with full force, a lot will be at stake. Huge capital investment will be required to create infrastructure particularly in IT and telecommunications, a call center will have to be created, top professionals of both industries will have to be hired, the R&D cell will need to be created to generate new ideas and products. It is therefore essential to have a

A SWOT ANALYSIS OF BANCASSURANCE IN VIETNAM

by NGÔ VI TRỌNG & LÊ HỒ AN CHÂU



also preparing for bancassurance.

Traditionally, insurance products have been sold through full-time sales agents who then got commissions from insurance companies. However, international productivity standard of 4-6 sales per month made this distribution channel an expensive one. The reason of low productivity in the traditional sales agent distribution system is the amount of time the agent has to spend on prospecting or trying to find the right customers and sign contracts with them.

Meanwhile, banks provide a cheaper and highly productive distribution system for insurance companies. First, no amount of time is spent on prospecting or trying to find the market. With their brand image and existing customer relationships, banks can offer a natural market for insurance products. Analyses show

has the satisfaction of the brand strength of the bank, his/her existing relationship and trust on the bank. The products sold through bancassurance can give better value and offer cheaper premiums due to lower distribution costs.

Even though, banks and insurance companies in Vietnam are yet to exchange their wedding rings, bancassurance as a means of distributing insurance products is already in force in some form or the other. Banks can sell Personal Accident and Baggage insurance directly to their Credit Card or Debit Card members as a value addition to their products. Banks also participate in the distribution of mortgage-linked insurance products like fire, motor or cattle insurance to their customers. Banks can straightaway leverage their existing capabilities in terms of database and face-to-face contact to mar-

SWOT analysis done in the context of bancassurance experiment in Vietnam.

Strengths:

Vietnam is a country of 80 million people, so sky is the limit for personal lines insurance products. There is a vast untapped potential waiting to be mines particularly for life insurance products. There are more than 60 millions of lives waiting to be given a life cover. The worldwide insurance companies are eyeing on this, why not we preempt this move by doing it ourselves?

Our other strength lies in a huge pool of skilled professionals whether it is banks or insurance companies who may be easily relocated for any bancassurance venture. Therefore, the R&D department efforts to create new products will be minimal in the beginning.

Weaknesses:

The IT culture is unfortunately missing completely in all of the future collaborators i.e. banks. Elementary IT requirement like networking (LAN) is not in place even in headquarters of these institutions when the need today is for Wide Area Network (WAN) and Vast Area Network (VAN). Internet connection is not available even to managers of operating offices.

The average income of Vietnamese people isn't high enough while they have to spend on many things. Where is the money left to think of buying insurance products?

Another drawback is the inflexibility of the products, i.e. it can't be tailor made to the requirements of the customer. For a bancassurance venture to succeed it is extremely essential to have built-in flexibility so as to make the product attractive to the customer.

Opportunities:

In Vietnam, the banks' database is enormous even though the goodwill may not be the same as in cases of their European counterparts. This database has to be dissected variously and various homogeneous groups are to be churned out in order to position the bancassurance products. With a good IT infrastructure, this can be really do wonders.

Other developing economies like Malaysia, Thailand and Singapore have already taken a leap in this direction and they aren't doing badly. There is already an atmosphere created in the country for liberalization and there appears to be a political consensus also on the subject.

Threats:

Success of a bancassurance venture requires changes in approach, thinking and work culture on the part of everybody involved. Our workforce at every level are so well entrenched in their classical way of working that there is a definite threat of resistance to any change that bancassurance may set in. Any relocation to a new company or subsidiary or change from one work to a different kind of work will be resented with vehemence.

When banks and insurance companies list their securities on the stock market (HCMC Securities Trading Center), the investors may turn their faces off if the rate of return on capital falls short of the existing rate. Since banks and insurance companies have major portion of their income coming from finan-

cial investments, the return from bancassurance must at least match those returns. Moreover, if unholy alliances are allowed to come into being, there will be fierce competition in the market resulting in lower prices and the bancassurance venture may never break even.

There has been a number of factors that have led to the development and success of bancassurance. Motives behind it also vary. For banks, it's a means of product diversification and a source of additional fee income. Insurance companies see bancassurance as a tool for market penetration and premium turnover. Customers see bancassurance as a bonanza in terms of reduced price, high-quality product and delivery at doorsteps. Actually, everybody is the winner here.

In research, hardly 20% of all US banks were selling insurance against almost 70% to 90% in many European countries. Market penetration of bancassurance in new life businesses in Europe ranges between 30% in the U.K. to nearly 70% in France. Most banks in France are also selling insurance products.

We should take a leaf from experienced players and develop the bancassurance gradually. As happened in France, Italy, Germany and Canada, banks were only first allowed to distribute insurance products for a fee. This itself amounts to substantial income for banks since there were not carrying the risks and product development was also left to insurance companies. This seems fair since each player should contribute something he excels: banks in mass distribution and insurance companies in risk management. After stabilization, the roles may be expanded in opposite directions.

We need to develop innovative products and services. Canadian Imperial Bank of Commerce (CIBC) relieves the customer of having to report and resolve auto claims. The bank assumes responsibility for the process, even phones the police on behalf of customer at the time of accident. Banco Bilbao Vizcaya of Spain who offers a term life policy with simple premium payments and a clear contract that is designed to be sold, issued and signed at the point of sale within 15 minutes provides another example.

Banks and insurance companies in Vietnam wishing to pursue high aspiration insurance strategies would do well to learn from European bancassurers who have decades of experience managing insurance sub-

sidiaries. Some of them - Lloyds Trustee Savings Bank in the U.K., Credit Agricole in France and Spain's Banco Bilbao Vizcaya - are delivering outstanding results. These banks have profitably sold insurance products to more than a fourth of their customers while generating more than 20% on sales. Credit Agricole, the second largest life insurer in France, with US\$11 billion of premium in force, employs only 170 people in its insurance subsidiary. It is able to limit overheads by harnessing its existing resources and capabilities.

Bancassurance, e-commerce and all forms of non-traditional marketing channels are here to stay. All these developments are in response to customer needs due to the advances in technology.

The creation of bancassurance operations has a material impact on the financial service industry at large. Banks, insurance companies and traditional fund management houses are converging towards a model of global retail financial institution offering a wide array of products. It leads to the creation of 'one-stop shop' where a customer can apply for mortgage, pensions, savings and insurance products.

Discovery comes from looking at the same thing as everybody else but seeing something different. Banks' desire to increase fee income has them looking at insurance. Insurance carriers and banks can become part of the vision through strategic partnerships. Now is the time to position your company for the new millennium of insurance product distribution.

In developing the bancassurance in Vietnam, the following are some recommendations:

- With limited resources, commercial banks in Vietnam should research to cross sell their products along with insurance products in an effective way in cooperation with international insurance companies.

- Insurance products can be sold as a fee-based service. In an age where banks are trying to venture into selling mutual funds and other financial products besides stock brokering, etc., selling insurance products could also give an additional boost to the bank's bottom line.

- The insurance companies should research more new products suitable to Vietnam and products from banks.

- Banks should consider doing the bancassurance through the kiosk bank in supermarkets (shopassurance). ■