

## **BANKINSURANCE - AN OPPORTUNITY FOR DEVELOPMENT AND IMPROVEMENT OF FINANCIAL MARKET<sup>42</sup>**

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### **Abstract**

Banking and insurance are complementary parts of the financial system. Bankinsurance is relationship between a bank and an insurance company, whereby the insurance company uses the bank sales channels in order to sell insurance products, an agreement in which a bank and insurance company agree in a way that the insurance company can sell its products to customers of the bank.

The core goal of this paper is to analyze the level of bankinsurance in Republic of Macedonia because it brings many benefits in the times of increasing competition among participants in the financial market.

As a result of development of banking and insurance sectors in the Republic of Macedonia more often with every bank goes insurance company and vice versa. It is important to note that banking and insurance are the two sectors which are in constant and unbreakable connection when analyzing the financial sector as a whole. The actions are complementary in business activities in the market. Therefore, it is logical emergence of integrated delivery of banking and insurance services through the model of bankinsurance. This especially refers to special shaping of the products of life and non-life insurance adjusted for sales through the banking network.

**Key words:** financial sector, banks, insurance companies, bank products, life and non-life insurance

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<sup>42</sup> Original scientific article

## INTRODUCTION

Starting from the 90's of last century comes to change of classical operations of banks and insurance companies in the financial market for the reason that there are different and new customer needs, reinforcing competition, reducing costs, in order to gain competitive advantage, superiority and increase profit.

Having in mind that our financial market is still dominated by traditional channels of sales of insurance and the banking sector has the potential, through this paper we want to present a new trend in the distribution of financial products in the domestic market through - bankinsurance.

Banks as insurance agents of the insurance companies start selling insurance products on their sail places with their existing products, and thereby have the right to remuneration (commission) on the basis of the sales of insurance products. Insurance products that will be sold at sale spots of banks shall be determined by agreement between the bank and the insurance company. Considering the fact that there are similarities between banking and insurance products, these products can become competitive with each other. In practice, very often banks can sell policies of life insurance which can be a competition to bank savings.

The aim of insurance is through accumulation of funds to provide compensation or to pay the agreed amount in case of occurrence of the insured event. The insurance aims to compensate the insured good, or when it comes to insurance of persons, payment of a fee.

Contemporary insurance has the following functions:<sup>43</sup>

- Protection - provides protection of property and persons (the oldest function of insurance);
- Accumulation - insurance companies have significant funds established by previously paid premiums from policyholders for damage compensation;
- Social - protection and raising the standard of living through placement of assets, payment of compensation and application of sanctions and penalties for unconscious insured;
- International - dispersion of risk through reinsurance (from one country to another).

In terms of competition on the insurance market, the changed attitude of consumers and the development of technology, distribution channels of insurance products are extremely important for the successful operation of insurance companies. Adjusting to the market conditions, insurance

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<sup>43</sup> Mrksic Dragan, Petrov Zdravko, Ivancevic Katerina, "Pravo osiguranja", 2006 Novi Sad, pp 31

companies change the traditional way of working through the acceptance of new sales channels such as bankinsurance.<sup>44</sup> Banks stand out as channel sales with lower costs, which insurance companies use the existing distribution network of banks - counters in banks, branches and subsidiaries. By selling of insurance products through banks acquire new clients and retain existing ones, thus expanding the portfolio of insurance companies with lower costs compared to the traditional channels of sales of insurance products. Banks stand out as sales channel with lower costs, where insurance companies use the existing distribution network of banks - counters in banks, branches and subsidiaries. By selling of insurance products through banks, insurance companies acquire new clients and retain existing ones, thus insurance companies expanding the portfolio with lower costs compared to the traditional channels of sales of insurance products.

#### **BANKINSURANCE - IMPORTANCE AND REASONS FOR ENTRY IN BANKINSURANCE**

The growing financial market, development of new technologies, universalization of banking industry and the expansion of non-banking activities, has brought rapidly development of new channels of distribution on insurance products through banks, leading to a new concept called Bankinsurance. This has given rise to a new form of business and has integrated all their strength and efforts to generate new products for potential customers. The growth of bankinsurance depends on how well banks and insurance companies are able to conquer the operational challenges that are exposed.

Bancinsurance is the main life distribution channel in some European countries including France, Italy, Portugal and Turkey. Agents, brokers and direct writing through employees or distance selling also play an important role in the distribution of life policies. The distribution of non-life policies in Europe is mainly carried out through intermediaries (agents and, to a lesser extent, brokers) and direct writing by employees and distance-selling.<sup>45</sup>

“Bankinsurance is a strategy in which the bank and the insurance company cooperate more or less in integrated way in participation of the

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<sup>44</sup> In various sources, such model is called bankassurance, bancassurance, bankinsurance, bancinsurance. In paper we will use the word “bankinsurance”.

<sup>45</sup><http://www.insuranceeurope.eu/sites/default/files/attachments/European%20Insurance%20-%20Key%20Facts%20-%20August%202015.pdf>

financial market, and this includes in essence, distribution of the insurance products by the bank”.<sup>46</sup>

There are several organizational models of bankinsurance.<sup>47</sup>

- The distribution channels of one participant gain access to the customer base of the other participant. This is the simplest form of bankinsurance and requires collaboration between the insurance company and the bank. Bank and insurance company concluded a distribution agreement that gives the bank and the insurance company the necessary data for existing customers;
- The Bank signed a distribution agreement with the insurance company, under which the bank will act as a representative. An appropriate implementation of this agreement could lead to satisfactory results for both partners, while the bank financial investment is relatively low;
- Undertaking an insurance company by a bank;
- Creating a company between the bank and the insurance company, where representatives of the two financial companies will join the board of directors of the new company;
- Establishing a new insurance company by an existing bank and vice versa. In this way the bank set up an insurance subsidiary and this approach may be profitable for the bank, if realized high profits by selling insurance products.

One reason for the entry of banks into the insurance sector is strong competition among banks, which leads to increased administrative and marketing costs, leads to limited profit margins of traditional banking products. With appearance of new products banks can significantly increase profitability, improve productivity and gain competitive advantage ahead of other banks.<sup>48</sup>

Banks may have financial advantages by entrance into the insurance sector, relating to increased income in the form of commission and profit from the business, as well as reducing the effect of bank fixed costs considering that some of the costs are dispersed to the insurance companies. Through entry to banks into the insurance sector are changing consumer preferences and return on investment. Regarding the medium- and long-term investments there is a trend of leaving the deposits and the use of insurance

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<sup>46</sup> Swiss Reinsurance Company: Bankassurance development in Asia shifting into higher gear, *Sigma* br 7/2002pp. 3

<sup>47</sup><http://www.insuranceeurope.eu/sites/default/files/attachments/StatisticsNo50EuropeanInsuranceinFigures.pdf>

<sup>48</sup> Banks: successful entry into the insurance industry on a worldwide basis, record of society of actuaries 1990 vol. 16 no. 4a

products where the return is higher than the return of the traditional deposit accounts. This change in investment preferences leading to reduced personal savings held up as deposits, which are usually the most important product for banks giving the greatest profitability.

By the appearance of bankinsurance, certain benefits have insurance companies, and the biggest benefit is the possibility of expanding the business through the gaining the previously untargeted bank clients, a wider range of products, including banking products. The combination of bankinsurance business with other businesses for the insurer can result in economies of scale, reduce administrative costs, which allowed the insurer to increase profitability and to offer products at lower prices, thereby strengthening the competitive ability.

The realization of bankinsurance products has certain advantages for consumers because in that way they get more complete solutions in relation to traditional banking and insurance operations.

#### **RECENT TRENDS IN BANKINSURANCE IN REPUBLIC OF MACEDONIA**

The financial system presents special institutional mechanism, which comprises all financial markets, instruments and institutions. The financial system is also particularly important in reallocating capital and thus providing the basis for the continuous restructuring of the economy that is needed to support growth. A financial institution is an establishment that conducts financial transactions such as investments, loans and deposits. Financial institutions are key participants in trading financial instruments. They may be direct participants or participants with whose activity allows normal flow of trade. The basic role of financial institutions is mediating between holders and users of accumulation (savings) if they are functionally separated.

The insurance sector in Macedonia is the third largest sector in the financial system. Its share in the total assets of the financial system in 2015 amounted to 3.6%<sup>49</sup>

In contemporary practice, as distribution channels to sell insurance products are commonly used:

- Direct sales - sales of insurance through insurance companies without intermediaries, using direct marketing. Sales in this manner through their own sales forces of the company, employees

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<sup>49</sup> (Annual report for Financial stability, 2015 NBRM).

of insurance companies and distance selling (call centers - telephone sales, Internet, email, etc.);

- Brokers - agents who represent the interests of policyholders, which mediate in arranging insurance and reinsurance coverage, as well as realizing compensation claims made by insured damaging event for the insurance and reinsurance in the name and on behalf of clients.
- Representation in insurance - is preparing and concluding agreements in the name and on behalf of one or more insurance companies, for insurance products which are not mutually compete. The representation of the insurance market in the country is done through insurance agents - individuals and companies for insurance representation.

The role of mediation in sales has a greater impact in the insurance sector. The table shows the structure of the sales channels of insurance policies according to gross written premium.

**Table 1.** Structure of the sales channels of insurance policies according to gross written premium (in 000 denars)

	2015	2014	2013	2012
Direct sales	3.910.590	3.451.376	3.540.011	3.521.997
Insurance brokerage companies	2.030.358	1.804.366	1.675.796	1.088.916
Insurance agents	1.284.643	1.184.301	1.293.283	1.268.416
Insurance agencies	768.199	679.296	422.155	293.167
Other distribution channels	175.102	416.430	176.128	166.628
Tourist agencies	38.095	37.761	34.397	34.685
<b>Banks</b>	62.650	49.326	40.906	30.002
<b>Auto salon</b>	7.848	7.648	7.178	6.184
<b>Total</b>	<b>8.277.485</b>	<b>7.630.504</b>	<b>7.189.814</b>	<b>69.995</b>

Source: Insurance Supervision Agency on RM

In the sales channel of insurance products at the level of insurance industry, the most common is direct sales. In total gross written premiums, the share of direct sales increased to 47.2% at the same time increasing the share of insurance brokerage companies (24.5%) and the share of insurance agencies (9.3%). According to the group insurance, the participation of direct sales of non-life insurance is much stronger and is 51.7%, while in

sector of life insurance dominated insurance - brokerage companies with a share of 56.7%.<sup>50</sup>

With the adoption of the Law for amending and complement the Law on Insurance Supervision in 2007, in Macedonian legislation is regulated bankinsurance.

But, the business cooperation between banks and insurance companies in the country was established before the creation of a legal framework for bankinsurance. Subject of cooperation were products of insurance, which bank provides to its customers, mainly as a insurer. In a package with existing banking products (current accounts, credit cards, loans) are included products: property insurance, travel health insurance, voluntary health insurance, etc.

The beginnings of the development of bankinsurance in Republic of Macedonia are associated with the legislation and adoption of the law of Banks<sup>51</sup> and the Decision for closely define the conditions that banks should fulfill to obtain approval for representation and insurance, brought by National Bank of Republic of Macedonia, as a Supervisor for banks operations and Agency for supervision in insurance as a supervisory body for the operation of insurance companies.

From the foregoing, banks can obtain permission for perform activities for representation and insurance (sale of insurance products), under condition, that the bank officers will get a license after passing the exam organized by the Insurance Supervision Agency on Republic of Macedonia. Until now have been issued three consents to commercial banks to sell insurance products through their network of branches as follows: Ohridska Banka AD Ohrid, Sparkasse Banka AD, Skopje and NLB Tutunska Banka AD, Skopje.

In order to perform the activities on bankinsurance, the above banks have established business cooperation with insurance companies on the market. Based on the provided information and promoted cooperation, the following table shows the business cooperation between banks and insurance companies.

**Table 2.** Banks that have received a license for insurance agents

<b>Bank - insurance agent</b>	<b>NBRM compliance</b>	<b>Represented insurance company</b>	<b>Gross written premium 000 denars</b>

<sup>50</sup> [http://www.nbrm.mk/WBStorage/Files/WebBuilder\\_FSR\\_MKD\\_2015.pdf](http://www.nbrm.mk/WBStorage/Files/WebBuilder_FSR_MKD_2015.pdf), pp 106

<sup>51</sup> Official Gazette of RM No. 67 of 01.06.2007

			2015*	2014	2013
Ohridska Banka AD, Ohrid	October 2012	GRAWE (life)	19.580	11.739	3.006
NLB Tutunska Banka AD, Skopje	May 2015	SAVA	6.980		
		CROATIA (life)	379		
Sparkasse Banka AD, Skopje	July 2015	VINNER			
		VINNER (life)	12.418		
<b>Total:</b>			<b>39.357</b>	<b>11.739</b>	<b>3.006</b>

\*predicted

Source: Insurance Supervision Agency on RM

According to the data it is obvious that the initial experiences in bankinsurance are positive, for relatively short period of time is noticeable rise in gross written premium through this distribution channel.

Banks offer to their customers life and non-life insurance. The offer usually includes:

- Insurance policy for property when the customer of the bank is the beneficiary of mortgage loans, when as mortgage appears movable or immovable property in beneficial for the bank (property insurance or car insurance);
- Policy travel insurance when a client of the bank is the beneficiary of a debit or credit card use when traveling abroad;
- Accident insurance;
- Life insurance;

More complex form of bankinsurance is the model, when the bank in cooperation with the insurance company formed product which in itself as an integral part have a certain type of insurance coverage (for example, credit complemented with risky life insurance). Because of the often long-term nature of mortgage loans, this form of bankinsurance is considered more difficult to manage in the long run because of the different life and development cycles that can be found both entities (banks and insurance companies).

The most significant difference between bankinsurance in Macedonia and bankinsurance in the developed countries, is that, this channel of the selling products of insurance is successfully applied to products from non-life insurance and as such it is progress, while the products of life insurance are less sold due to the low level of development of this type of insurance and because life insurance policy is usually not an obligatory element of credit products.



For successful development of bankinsurance several factors have a key impact:

- Management of banks and insurance companies must understand the importance of the project bankinsurance;
- Partnership between banks and insurance companies must be established in the long term;
- In the process of cooperation must be develop a model of sales strategy - types of supply and sales channels;
- Existence of IT support;
- Process of education and continuous further education of bank employees;
- Quality analysis of the database of customers, customer segmentation by age, level of income, area of employment, etc.

Through quality conducted segmentation of customers, is determined the access and sale of products.

Banks in Macedonia soon will have to be actively involved in the concept of bancinsurance, considering that in the near future, if the world trends are to be followed, income structure of banks will mostly consist of revenues from fees and commissions, and to a rates. Besides that, greater awareness of citizens and the need of getting the complete range of financia services in one place, shall force banks to assume a proactive approach to the concept of bancassurance.

## CONCLUSION

The development of bankinsurance, as a channel of distribution, is closely associated with the growth of the insurance market in Macedonia, of which the state can have long-term benefits. Money raised through the sales of life insurance policies should be invested by insurance companies in long-term government bonds that would finance infrastructure projects.

On Macedonian market the bankinsurance is in initially progress. The banks prevailing attitude that the insurance is low-profit business, and therefore not interested in developing on this channel sales. Also, end users still do not show much interest in various types of insurance products offered in the market. Insurance companies are still oriented toward development of its own sales channels and an additional problem for the development of bankinsurance represent software solutions to implementation the bankinsurance.

On domestic financial market is expected to grow bankinsurance, which is still of relative beginning of development. In order to provide space for functioning on this kind of financial product, it is necessary to intensify

economic development and increasing the economic activities of enterprises. The relationship between banks and insurance companies as financial institutions may have a significant impact on the quality of services in the financial sector.

As fundamental preconditions for an increase in sales of insurance companies through sales channels of banks in Macedonia are:<sup>52</sup>

- Increasing the living standards of the population;
- Increasing awareness and informing the citizens about the the advantages offered by bankinsurance;
- Creating a common strategy of banks and insurance companies to present insurance products on the market;
- Creating a common database of customers between banks and insurance companies;
- Simplification of procedures for combined use of bank and insurance products;
- Continuous education of bank employees through training organized by teams formed by insurance companies;
- Employee motivation by introducing bonuses and commissions for bank employees in accordance with the degree of fulfillment of the plan of sale;

It can be concluded that the insurance market in the country will grow up in the future and increasing competition between banks and insurance companies, in order to prevent the outflow of clients and retention of the deposit base, will inevitably strengthen the need for their stronger integration through improving bancinsurance as sales channel. This will ultimately result in greater customer satisfaction, which will be able to get together the most diverse range of financial services.

On Macedonian market is already established cooperation between banks and insurance companies, so in the coming years we can expect significant results in line with market trends, needs and ability to pay of consumers.

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<sup>52</sup> Borko Krstić, Nevenka Vojvodić-Miljković, Dejan Mandić, Bancassurance – new options for the development of Serbian financial sector, Borko Krstić, Nevenka Vojvodić-Miljković, Dejan Mandić, pp 12

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