



## THE CONSOLIDATION STRATEGY BETWEEN BANKS AND INSURANCE COMPANY- CASE OF ALGERIA

Tarik Hamoul <sup>\*1</sup>, Wafia Zair<sup>2</sup> and Amine Mokhefi<sup>3</sup>

<sup>\*1</sup>Researcher in Laboratory of economics studies and local development, university of Bechar, Algeria. Editor-in-Chief of Journal Of Marketing Studies And Management (JMSM) ,Bechar university. Algeria.

<sup>2</sup>Doctor in Marketing, Researcher in Laboratory of creation, university of Lounici Ali, Blida2, Algeria.

<sup>3</sup>Doctor in international Economics, university of Mostaghanem, Algeria. POIDEX Laboratory (Industrial Policy and Development of External Exchanges).

DOI: 10.5281/zenodo.1139979

**Keywords:** insurance, bank, consolidation strategy, financial services, Bancassurance, Algerian insurance.

**JEL Classification codes:** G220, E500.

### Abstract

This is an era of unprecedented change for the finance sector. New technologies, new customer expectations, new regulations and new competitive pressures are rapidly disrupting the traditional finance business model. In this environment, insurance and bank organizations have no choice but to adapt. Insurers and banks have been working together for years developing and evolving some consolidations strategy as the bancassurance models. With whole-scale change around the corner for both parts of the financial services sector, to survive and thrive they now need to take what they have learned and adapt and evolve quicker and better than ever before. At the same time, insurers are increasingly starting to recognize that their current organizational structure and culture may not be conducive to achieving the type of real, sustainable and value- creating change and innovation needed to compete in this new world. New models, new ideas and new partners must be found. Executives are starting to recognize the power of alliances

### Introduction

At present, as we know the Algerian state needs a lot of financial resources for the construction of the country. We also know that insurance companies around the world contribute to the financing and development of the economies of their countries through investments in banks, insurance premiums paid by the population. This has given rise to a new form of financial business wherein two big financial institutions have come together and have integrated all their strength and efforts and have created a new means of financial products and services by what its has been called the bancassurance as a strategy of consolidation that make the margin between the bank and insurance, who lived together long, gradually disappear. This strategy has been one of the most significant changes in the financial services sector over the past few years. In its full holistic form it realises the full potential of the customer database of the bank to develop an excellent customer focused service for consumers, and the highest value and advantage on returns for the bank and insurer.

The aim of this work is to examine the evolution of bancassurance in world and identify the main factors required to achieve success of this consolidation or integration and how it can be successful to playing its true role (collecting savings and institutional investor) in Algerian economy.

Problematic: How does the partnership align to the group's corporate strategy and what are the factors required to achieve success of this consolidation or integration will be?

### Definition of the banc assurance strategy

Bancassurance in its simplest form is distribution of insurance products through a banks distribution channel. It is a medium for the cost-effective distribution of insurance and pension products by penetrating diverse markets. There is no clash of interest between banks and insurance companies as bank deposits are for current consumption and they only market insurance services to their customers. It can be defined as one of the multiple



## INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

distribution networks that create a range of opportunities for insurers and bankers to attract and serve customers in a differentiated way, keeping in mind the customer's preferred combination of product, pricing, service and channel. It is a way to reach customers who could not be reached before, and to extract more value from existing customers. It can be described as a strategy adopted by banks or insurance companies aiming to operate the financial market in a more or less integrated manner.

### The Bancassurance market revenue in the EMEA region 2013–2018

The dominant distribution channel. And in Germany, bancassurance growth is restricted by regulation. However, the market still shows strong signs of growth and is expected to enjoy a CAGR of more than 6 percent between 2013 and 2018 to reach a height of almost US\$200 billion. In part, this is because insurance penetration remains low in many European countries – Life insurance penetration in Spain and Italy is 5.2 percent and 7.6 percent respectively, compared to 12.2 percent and 10.7 percent in the UK and US, according to OECD stats. And less than a quarter of bank customers in Italy (28 percent of those in Spain) currently hold a life insurance policy. Clearly, there is significant room for growth in some markets. Africa and the Middle East The past few years have brought increased attention to these regions from major insurance players around the world. Rapid economic growth, emerging middle classes and improving regulatory environments are all contributing to an uptick in activity.

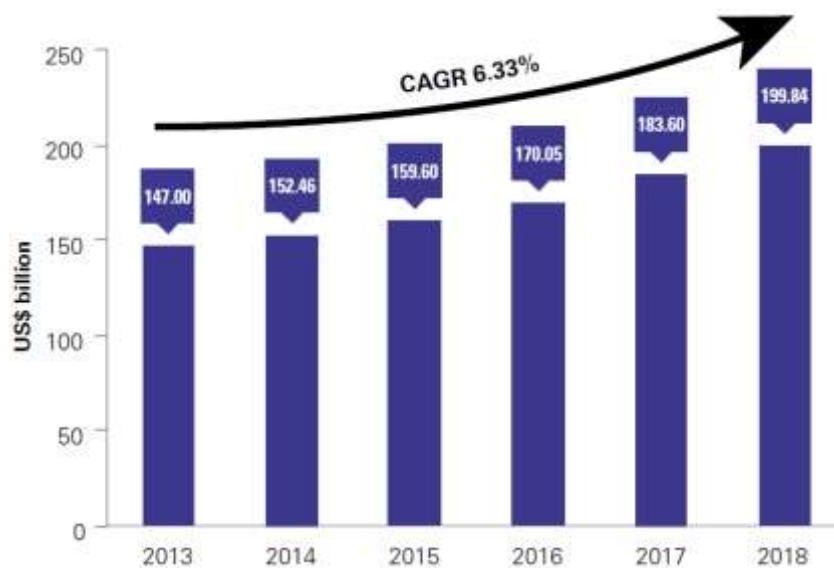


figure 01: Bancassurance market revenue in the EMEA region 2013–2018

Source: TechNavio Analysis

### Advantages and limitations of the consolidation strategy

#### The power of alliances

Thus at the product level, one of the ways to develop bancassurance as a consolidation strategy in Algeria would be to opt for one of these two strategies:

The first one that is the easiest or most apt to apply in this market is the packaging strategy, which consists in grouping several products (such as car packs) in pack form, whereas they are segmented into personal insurance.

The development of the packages makes it possible to provide obligatory guarantees for voluntary guarantees in order to guarantee better protection for the insured, such as integrating in one package consumer credit insurance or real estate loans for other bancassurance, for example, Of course at attractive prices. The other strategy that is more effective is the strategy of satisfaction of needs or the customer approach, which consists in creating products based on the needs of consumers.



## INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

In addition insurance is considered illegal from the point of view of religion. Because, the operations of some conventional insurance do not conform to the rules of Shari'ah as they may embody the elements of Gharar in the contract of insurance, Maysir as the consequences of the presence of uncertainty and Riba in the investment activities of the insurance companies. In fact, there are unknown or uncertain factors in operation of a contract in life insurance contracts for example about whether the payment will be accepted as promised, about how long the payment and about the exact amount the beneficiaries will get. And since the insurance company may acquire all the profits if no claim is not made, this operation can also be considered as Gharar which also occurs in any form of contract which is unbalanced in favor of one party at the expense and unjust loss to the other. However, some scholars consider that Gharar may be tolerated when the contract is restructured on the basis of cooperation or mutuality instead of a profit motivated insurance company. Maysir in the case of life insurance arises as the consequence of the presence of Gharar. In fact, the participant contributes a small amount of premium in hope to gain a large sum. If the life insurance policyholder does not die within the defined period, the participant loses its contributions. And if he dies after only paying part of the premium his dependants receive a certain some of money which the policyholder ignore the amount or the origin. Also if claims are higher than contributions, the company will be in deficit. However, gambling is remedied by the fact that it is a contract based on overwhelming statistical knowledge and the application of the theory of probability. Furthermore, a conventional life insurance policy premium may be invested in Riba-based assets and transactions. The element of Riba also occurs when on the death of the insured, he gets much more than he has paid. The solution would be to use policyholders contributions paid on the basis of profit-and-loss sharing system that is free from elements of Riba. so this belief is based on two religious prohibitions: "the bet on death" and the integration in the calculation of the premium of an interest rate. and if we talk about the Algerian we can find several companies that have managed to offer licensed (Halal) life insurance products like Salama Insurance with its Takaful products that are designed on Islamic concepts of " insurance; Unfortunately they do not have a great success, for lack of information and communication. However, these products have been very successful in Muslim countries such as Kuwait, the United Arab Emirates, Qatar, Saudi Arabia, Pakistan, Indonesia, Egypt, Sudan.

### **Advantageous of Bancassurance to banks, to insurance company and the customers**

It must be to the advantage of each stakeholder in the model (bank, insurance company, consumer and legislator) for the bancassurance model to develop successfully. Without these advantages, it is obvious that no collaboration would be possible.

#### **Advantages to banks**

the Bancassurance business have definitely proved to be an advantage to the banking industry because it helps the bank in generating additional income thereby providing them with an edge over their competitors and improving their profit position . So for banks it is a means of product diversification and a source of additional fee income.

- Increasing gross margins in products.

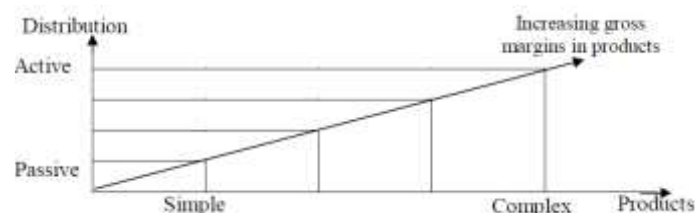


fig 02. Relationship between product complexity and required sales effort

Source: Munich Re Group, Bancassurance in Practice, p:09.

some studies as the FICCI survey of 2010 has found that Bancassurance is the most profitable non-interest income business opportunity for the banks (Fig03) .

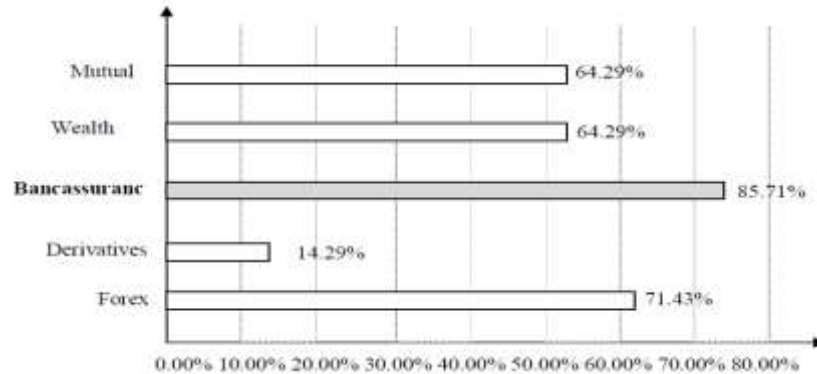


fig 03. Most Profitable Non-Interest income opportunities for Banks.

Source: FICCI (2010). Indian Banking system: Current state and road ahead.

First of all, the bank sees bancassurance as a way of creating a new revenue flow and diversifying its business activities. This advantage was all the greater in the early 1990s, a period characterized by increased competition between financial institutions and a reduction in the banks' profit margins and, therefore, the need to look for new business;

- The bank becomes a sort of "supermarket", a "one-stop shop" for financial services, where all customers' needs - whether financial or insurance-related - can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty;

- The distribution costs can be seen as marginal since, in most cases, it is the bank's existing employees who sell the insurance products. Amongst other things, the one-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.

Bancassurance if taken in right spirit and implemented properly can be win-win situation for the all the participants' viz, banks, insurers and the customer.

### Advantages to insurers

These advantages for insurers have been summarized as under:

- The insurance companies see Bancassurance as a tool for increasing their market penetration and premium turnover.
- Through this new distribution network, the insurance company significantly extends its customer base and enjoys access to customers who were previously difficult to reach. This is obviously a fundamental advantage, it is itself enough to convince an insurance company to consolidate with a bank;
- The insurance company has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network (as a risk management strategy: Diversification reduces risk);
- The insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks;
- The insurance company also benefits from the reduction of distribution costs relative to the costs inherent in traditional sales representatives, since the sales network is generally the same for banking products and insurance products. These cost savings have been recognized by many bancassurance operators around the world and are therefore carried over into the costs included in contracts. This means that products can be sold more cheaply;
- Through the bancassurance, an insurance company can establish itself more quickly in a new market, using a local bank's existing network.
- This contribution presents this new activity which seems to be an innovation in the financial system and recalls its vital interest in the development of insurance as well as its contribution to the banks.

### Disadvantages

- \* Deficit in terms of advice and information;
- \* Low commission rate;
- \* Low technology integration in distribution;



## INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

\* Weakness and limitations of information systems.

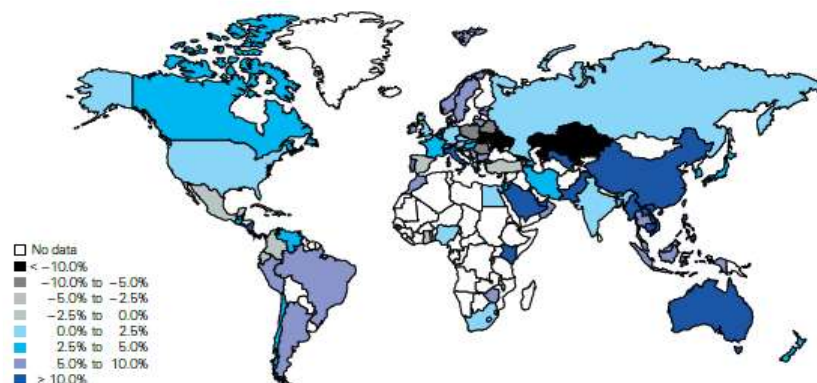
- The low purchasing power: The Algerian economy is one of the least competitive economies in the world. Its economic structure is comparable to that of other countries, but its economy is handicapped by several crises (economic crisis security crisis...). Algeria, one of the largest and most populous countries on the African continent, does not have the standard of living that should correspond to its immense natural resources (minerals, precious woods, agricultural...). The Algerian population, has a very low purchasing power. The primary concern is to obtain the basic necessities for survival. At the moment, consuming insurance services without being able to satisfy basic needs becomes an irrational choice. That's why we need to increase the purchasing power.

- Lack of insurance culture and confidence: The culture of insurance is not yet anchored in the Algerian mentality. People do not yet know the real financial services issues (the well-founded assets they can provide). they lives in a grave ignorance that must absolutely be fought. The challenges of bancassurance, taking into account the previous ones are evident in Algeria in the same way as what happens throughout the world. A policy to encourage the consumption of the finance product must be designed. It must also be well structured to ensure that the techniques and strategies produce the beneficial effects for the country. In addition, it is clear that the Algerian population, at least the majority, does not trust insurance firms (mistrust). This is due to the non-payment for those who are already insured after the claim has been declared by the insured, the insurer imposed in most cases a hostile and even tiring exercise, thus discouraging the insured to insure.

- The situation in Algeria (economic and security crisis): The economic and security situation in Algeria, which prevailed at the end of the 1980s, has bring the economy into a very deep degradation (No sector of the economy has escaped. A negative rate of growth and investment).

- Absence of information: The insurance company through its insurance direction does not provide enough technical, strategic efforts to make the product consume. Insurance is not the subject of permanent popularization among the population. It is then ignored. So it is difficult in these conditions to consume a product not known to consumers themselves because they ignore its economic and social importance

The absence of studies, information and statistics for this type of insurance as shown in the figure 04 below ,in Which we try to illustrate the absence of information related to the finance sector in Algeria in general and insurance in particular



Source: Swiss Re Economic Research & Consulting.

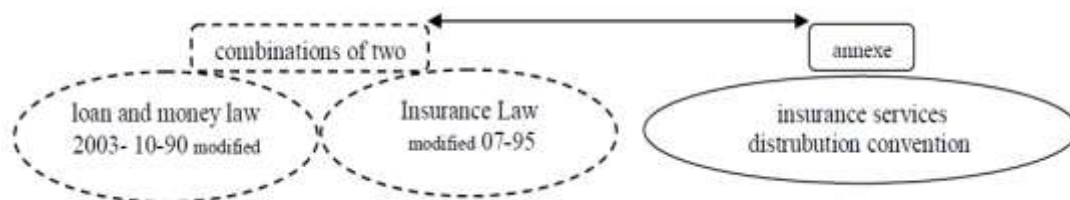
*figure 4 :information related to the insurance sector in the world*

- In view of the above, we can add the absence of financial markets in Algeria is one of the most important obstacles preventing the insurance sector from playing the role of collector of popular savings and institutional investor.



We believe that the insurance sector can really finance much of the development of the country.

Algerian's bancassurance market also faces significant challenges and growing pains. Issues related to fierce competition, constantly-evolving regulations and significant variations in market dynamics are all accentuated by product offerings that may not suit the long-term needs of consumers and divergent objectives of key banks and insurers. Generally speaking, current bancassurance products are savings-oriented with simple design structures that are widely accepted by Algerian customers. Selling the more profitable risk-oriented products is typically more difficult, although now being driven by legislation that create a combinations of two sectors comes under the purview of both the regulators (as its showed in figure 05) and t each of the regulators has given out detailed guidelines for banks getting into insurance sector. The Algerian ministry of finance requires any bank intending to undertake insurance business to obtain its prior approval. AMF guidelines for banks entering into insurance sector provide three options for banks. The Algerian legislator, conscious of the irreversibility of the progress of bancassurance in the world, has not failed to integrate it into law n° 06-04 of February 26, 2006 (art. 53), modifying and supplementing Ordinance 95-07 (art.252).



*fig 05. the Bancassurance convention*

Source: Prepared by the researchers based on a set of references

As regards prospects, a several measures related to cultural and institutional reforms are proposed. The improvement of the socio-economic environment and the liberalization of the finance sector in general and of bank and insurance in particular are essential to give a new impetus to finance in Algeria. To this must be added a degree of political will and good governance in insurance and bank sectors. The latter is an important element in the management of Algerian finance. Other strategic reforms such as consumer's motivation and the improvement of the working environment.

- Bancassurance has long been a fruitful area for partnerships as the synergies between banks and insurers are often very clear. Banks bring to the table customer connectivity by virtue of the frequency and quality of the customer data they manage. Insurers, on the other hand, bring specialized skills in areas such as insurance design, manufacturing and distribution.

- Insurers and banks have to working together to developing and evolving bancassurance models. With whole-scale change around the corner for both parts of the financial services sector, to survive and thrive they now need to take what they have learned and adapt and evolve quicker and better than ever before. For that, some critical success factors that tend to characterize the most successful bancassurance relationships can be identified as below.

### 1. Attractive Products

- Simple, standard products
- Bundled with banking products
- Complementary to the range of existing banking products

### 2. Effective Training

- Training included in the general banking curriculum
- Emphasis on recognizing cross-sell opportunities and bundling bank and insurance products
- Ongoing support provided by product specialists



## INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

### 3. Clear partnership strategy

- Well defined strategy on a win to win basis
- Clear understanding of decision-making authorities, benefits and risks
- Transparent division of responsibilities, including a mechanism for managing day-to-day operations and ensuring orderly dissolution at the end of the arrangement
- Sense of identity for the Bancassurance community
- Clear and compelling communications around insurance contribution to group value creation

### 4. Compelling Incentives

- Incentives at least on par with industry averages explicitly included in annual targets of banking branches
- Specific insurance incentives in line with banking products' remuneration scheme
- Potential referral incentives.

### 5. Efficient Operating Model

- Clearly defined processes and interfaces (bank/insurer/agent):
  - Customer acquisition/sale
  - Cross-selling & up-selling
  - Post sales service and claims management
- Clear definition of responsibilities in the sale process (e.g. lead generation vs. sale).

Ultimately, we hope that these various reforms, applied in a transparent and good governance environment, will undoubtedly allow to the success the consolidation between banks and insurances companies by the bancassurance strategy and will thus contribute to the developing of the finance sector and the economy of Algeria

## Conclusion

With the opening up of the finance sector and with so many players entering the Algerian finance industry, it is required by the banks and insurance companies to come up with innovative products, create more consumer awareness about their products and offer them at a competitive price. New entrants in the finance services had no difficulty in matching their products with the customers' needs and offering them at a price acceptable to the customer. But the Consolidation has led to a greater concentration of payment and settlement flows among fewer parties within the financial sector. Indeed, consolidation tends to lead to the emergence of very large financial institutions and non-insurance service providers that specialize in providing a wide range of insurance services to third parties. Interbank and insurance companies transactions may increasingly become in-house transactions, which do not involve external exchanges of payment messages and hence tend to be cheaper to process. so, bancassurance; as a consolidation strategy, will definitely play a defining role as an alternative distribution channel and will change the way insurance is sold in Algeria. Then, the future bancassurance model in Algeria must be defined by a complex combination of strategic choices on each of the three axes (insurers, banks and customers). Algerian banking insurers must therefore define the most appropriate transformation strategy given their position and priorities, and identify, among the strategic priorities outlined in this report, which ones should be addressed first and at what pace. in addition of that, the global evolution of bancassurance in the last 3 decades has proved that it could assume many structures depending on the country of operation. Bancassurance, the result of insurance companies tying up with multiple banks, has emerged as a very important channel for distributing there products with nearly third or more of their premiums

## References

- [1] Alain borderie and Michel Lafitte, the bancassurance : strategies and perspectives in France and Europe,ed revue banque,France,2004p:47.
- [2] Swiss Re, Bancassurance: A Survey of competition between banking and insurance, Sigma No. 2, Switzerland, 1992, pp. 4.
- [3] KPMG International ,The power of alliances, Partnering for growth in the insurance sector, 2016 KPMG International Cooperative, Swiss, p: 12.



## INTERNATIONAL JOURNAL OF RESEARCH SCIENCE &amp; MANAGEMENT

- [4] Yazid Kahoul and Boualem-Ammar Chebira, The contribution of the marketing mix in the development of life insurance in Algeria, Insurance and Risk Management, vol. 81(3-4), October-December 2013,p;277-278. www.cna.
- [5] Yazid Kahoul and Boualem-Ammar Chebira, The contribution of the marketing mix in the development of life insurance in Algeria , Insurance and Risk Management, vol. 81(3-4), October-December 2013,p:278. www.cna.dz.
- [6] Munich Re Group, Bancassurance in Practice, p:09.
- [7] FICCI (2010). Indian Banking system: Current state and road ahead.
- [8] Hamoul Tarik, the role of bancassurance in developing the Algerian insurance market, doctorate degree in management, Algerian university,2015-2016.
- [9] Tarik HAMOUL.(2017), The analysis of the life insurance situation in Algeria Advantages and limitations, Journal of Business and Economics (JBE).
- [10] The Power of Alliances,p:10.
- [11] GROUP OF TEN, CONSOLIDATION IN THE FINANCIAL SECTOR Summary Report, January 2001, p:28.