

Developing Bancassurance Distribution Channels in Vietnamese Life Insurance Companies



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ABSTRACT: The article provides an overview of Bancassurance, Bancassurance business activities in Asia and Vietnam. Through the method of data collection, analysis, and synthesis, the research team has evaluated the status of Bancassurance distribution channel activities at Vietnamese life insurance enterprises. The research team identified the development potential and challenges in developing Bancassurance in life insurance businesses. Concretizing the legal basis of Bancassurance business activities, requiring bank staff to learn carefully and be cautious in providing information about Bancassurance products, creating specialized products, and investing in technology platforms is the solution proposed by the research team in the article to solve the challenges in the development of Bancassurance.

KEYWORDS: Bancassurance; Life insurance enterprises; Vietnam

1. INTRODUCTION

The growth of the life insurance market in terms of scope, participants, product, business type, etc. requires more complete distribution channels. Faced with the limitations of the high cost of traditional distribution channels (commission costs, training, team management, staff salaries), customers require fast, convenient, and effective financial services. The trend of globalization and the mutual penetration of insurance companies and banks, as the increasingly fierce competition to dominate the market share of insurance companies has led to the development of Bancassurance. Linking and cooperation are popular and effective ways to help banks and insurance enterprises stand firm, develop, and grow stronger and more competitive in the market, the Bank finds business opportunities from insurance, and on the contrary, insurers also want to encroach on banks to promote their brands, increase competitiveness and increase profits, etc. Bancassurance has solved the limitations of traditional distribution channels by taking advantage of people, Bank's infrastructure, and the customer base. On the other hand, Bancassurance products are distributed mainly as simple and popular products, so insurance companies do not need to train many bank staff because they already have qualifications and an understanding of the financial market, reducing training costs for life insurance businesses. Although important and bringing many benefits to insurers, up to now, Bancassurance of life insurance enterprises only ranks second and accounts for 46% of total premium revenue by 2022 [1]. Therefore, the research and development of Bancassurance distribution channels at Vietnamese life insurance enterprises is necessary content. This research aims to solve the following objectives such as the basic theoretical problem of Bancassurance business activities; assess the status of Bancassurance business activities at non-life insurance enterprises in Vietnam; proposed measures to develop Bancassurance in life insurance enterprises.

2. RESEARCH OVERVIEW

2.1. Some Concept

Distribution Channel

According to the Law on Insurance Business (2022), insurance enterprises and branches of foreign non-life insurance enterprises are allowed to actively provide insurance products in the following forms: Directly; Through an insurance agent or an insurance broker; Through bidding; Through electronic transactions; Other forms following the provisions of Law [3].

Bancassurance

According to MunichRe (2001), Bancassurance is the provision of insurance and banking products through a common distribution channel and/or to the same customer base [6].

Developing Bancassurance Distribution Channels in Vietnamese Life Insurance Companies

Life Insurance Business

According to the Law on Insurance Business (2022), an insurance enterprise is an enterprise established, organized, and operated under the provisions of this Law and other relevant laws for the insurance business, reinsurance business, and reinsurance concession. Insurance enterprises include life insurance enterprises, non-life insurance enterprises, and health insurance enterprises [3].

2.2. Benefits of Bancassurance for Life Insurance Businesses

Bancassurance helps life insurance businesses reduce product distribution costs and increase customer data.

Building Bancassurance at the enterprise helps diversify distribution channels of insurance products, limits the disadvantages of other distribution channels, and distributes products more effectively.

Bancassurance helps to reduce risks for insurance businesses arising from cash transactions, well solve the problem of fee collection and payment of insurance benefits. Bancassurance is an effective way to promote brands and improve the reputation of insurance businesses.

2.3. Affiliates and Bancassurance Products

In terms of operational organization, there are four popular models: cooperative banking and insurance model, developing associated products and services and investment activities; Model of banking and insurance cooperation to establish joint venture companies; Banking model in insurance enterprises; Insurance business model in banks.

The construction of your product must be suitable for the technological background, skills, costs of the distribution channel, and the target audience of the insurance business. Therefore, the design of insurance products should be consistent with the Bancassurance model, deciding the success or failure of the model. Products must be selected carefully and with the consent of the bank, suitable for the main borrowers at banks implementing the Bancassurance model. Currently, there are three main product groups of Bancassurance: Pure insurance products, Insurance products that support the bank's operations, and Products that combine banking and insurance.

2.4. Bancassurance Business in Asia Region

Bancassurance products were born in France in the 70s of the 20th centuries as an inevitable consequence of the impact of a series of socio-economic factors. The share of Bancassurance revenue in the European region was over 50% in 2016 [8]. Especially in Italy, the Bancassurance channel accounts for 86% of the total premium revenue of insurance companies [8].

According to the research team, the reason for the strong development of Bancassurance in the European region is because of its tax advantages, legal conditions, and legal regulations that tend to favor the sale of insurance products through banks. Nowadays, Bancassurance is becoming more and more popular in Asian countries, is an important distribution channel, and a significant growth opportunity for insurers across Asia, in Hong Kong, bancassurance accounts for more than 50% of premiums and about 33% in Singapore [9]. Bancassurance's contribution ranges from 30 - 50% of total insurance industry revenue [4]. However, Bancassurance in Asia is not as developed and dominant as the European market because Asia is mostly a developing country, and financial services have not been developed as strongly and fully as in Europe. On the other hand, living standards and consumption habits play a huge role in the development of this modern distribution channel. Therefore, most Asian countries have implemented Bancassurance but have not seen success. The average proportion of revenue from this channel is only 15% compared to 50% in Europe [7], showing that the market still has a lot of potentials and needs to learn from experience to further develop a distribution channel with many utilities such as Bancassurance.

3. RESEARCH METHODS

3.1. The Method of Data Collection

The research team has collected information from documents related to the Bancassurance distribution channel such as the concept, role of Bancassurance for life insurance businesses, affiliate models, and Bancassurance products. Next, the author synthesizes data on Bancassurance distribution channels in the world and Asia by studying the documents of the previous author. Synthesize business results, distribution channel size, and growth rate of Bancassurance revenue in Vietnam through documents of the Vietnam Insurance Association to assess the status of Bancassurance distribution channels in Vietnam.

3.2. Methods of Analysis and Synthesis

Based on data on Bancassurance revenue in the world and in Asia, the research team has a basis to compare and evaluate the possibility of Bancassurance development in Vietnam in the future.

Developing Bancassurance Distribution Channels in Vietnamese Life Insurance Companies

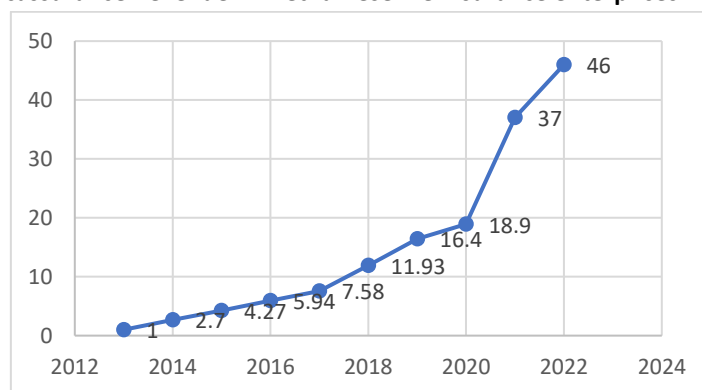
Identify challenges in Bancassurance development in Vietnam through Bancassurance market data for the period 2014 to 2022. From theoretical data on Bancassurance together with market data, the research team bases to propose solutions to develop Bancassurance in Vietnam.

4. RESEARCH RESULTS

4.1. Bancassurance Business Activities at Vietnamese Life Insurance Companies

In Vietnam, Bancassurance appeared quite early in 1995 in the form of promoting non-life insurance products to customers. But in 2001, the Bancassurance distribution channel was officially launched with the milestone when AIA Vietnam's life insurance company signed a cooperation agreement with HSBC. Insurance businesses have realized that the distribution of insurance through banks is a promising new direction for development. Several Bancassurance models have been built and replicated in the Vietnamese market, such as a bank model that signs product distribution agreements with insurance businesses, a joint venture model to establish an insurance company, and a model of a joint venture to establish an insurance company financial services corporation. By 2022, there have been 18/19 life insurance businesses deploying Bancassurance distribution channels, of which three businesses will start deploying in 2022, namely Fubon Life and Shinhan Life, Phu Hung Life [2]. Vietnamese banks now have a wide market share and a large transaction network, which promotes cooperation between the bank and the insurance company. Although many businesses have successfully deployed this distribution channel in Vietnam, Bancassurance is still a potential channel for further growth because premium revenue only accounts for 46% [1], this figure is quite low compared to countries in the ASEAN region and European countries. This also shows that the Bancassurance market in Vietnam still has certain limitations, the modern technology platform has not been updated, and there are not many specialized products for Bancassurance distribution channels.

Table 1. The proportion of Bancassurance Revenue in Vietnamese life insurance enterprises



Source: Compiled from Insurance Market Data 2013-2022 [1]

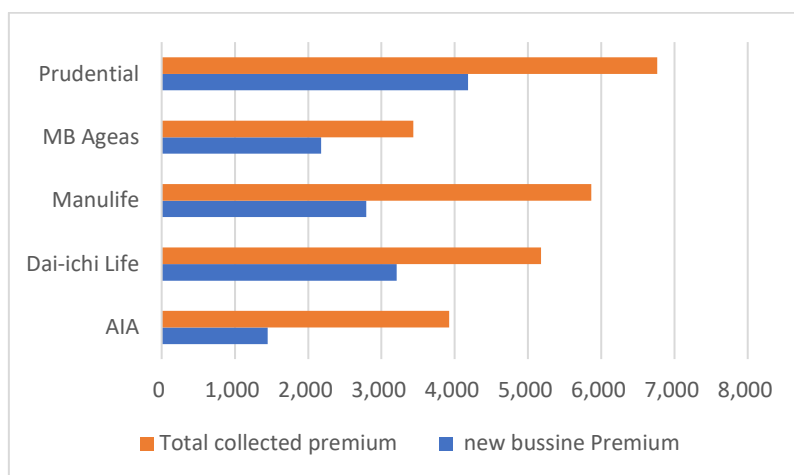
According to statistics from the Vietnam Insurance Association, the share of the revenue from the Bancassurance distribution channel increased rapidly in the period 2013 to 2022 from 1% to 46% [1]. Especially from 2019 to 2022, due to the influence of the covid pandemic and health safety concerns, premium revenue in this period in general and revenue from the Bancassurance distribution channel increased rapidly from 16.4% to nearly 50% [1].

Total premium revenue in the first nine months of 2022 of life insurance businesses reached 127,520 billion VND, of which the traditional distribution channel through agents was 90,056 billion VND, accounting for 71%, ranking second was premium revenue through Bancassurance with VND 34,148 billion, accounting for 27% [2]. The remaining distribution channels account for only 2% [2] of the total fee revenue, namely Other Organization Telemarketing and Other channel. The leading companies in contract mining and insurance premium revenue are Dai-ichi Life, Manulife, MB Ageas, and Prudential (accounting for 66%) [2] out of the total revenue of 18 enterprises. These are also the earliest enterprises implementing Bancassurance in the Vietnamese market.

Developing Bancassurance Distribution Channels in Vietnamese Life Insurance Companies

Table 2. Top 5 businesses with the highest Bancassurance premium revenue

Unit: Billion



Source: Vietnam insurance statistics - first nine months of 2022 [2]

Not only bringing great revenue to life insurance businesses, but revenue from insurance business services at banks also increased to trillions of billions of dollars. Data from the consolidated financial statements of banks in 2022 have shown that MB Bank is a bank with revenue from the insurance business of VND 10,184 billion out of a total of VND 14,243 billion in total revenue from service activities.

About the size of the distribution channel Board: In the nine months of 2022, the number of new links formed between the life insurance business and the bank was 11 units, increasing the total number of operating units to 52 units. The number of active Bancassurance-affiliated individuals is 127250 people [2]. Dai-ichi Life, FWD, and Manulife are currently the 3 businesses with the largest number of affiliated individuals with 26235, 16202, and 25184 people respectively [2].

Table 1. Top 10 banks with the largest Bancassurance mining revenue

Unit: Billion

Credit institutes	Premium of new business	Total premium
ACB	1,307	2,597
MB Bank	217	3,445
Sacombank	1,720	3,092
SCB	465	1,405
Seabank	1,731	2,026
Techcombank	1,502	3,591
VIB Bank	1,275	2,783
Vietcombank	1,018	1,789
Vietinbank	825	1,698
VPBank	1,292	2,501

Source: Vietnam insurance statistics - first nine months of 2022 [2]

4.2. Challenges in Bancassurance Development in Vietnamese life insurance companies

Currently, insurance businesses focus on increasing the scale of Bancassurance through increasing affiliated banking partners and increasing the number of insured and insured subjects. Although the bancassurance distribution channel has kept increasing continuously for many years, the distribution channel may decline in the future if life insurers do not focus on in-depth development to improve the quality of Bancassurance insurance products. Here are some challenges facing the development of Bancassurance in life insurance businesses.

Firstly: There is no specific legal basis to protect the interests of customers and businesses. There is still the situation of using insurance products as a condition for approving customer loans, which adversely affects the image of the insurance enterprise.

Secondly, Selling Bancassurance products is not the main task of the Bank's staff, leading to subjectivity, providing false information about the terms, benefits, and conditions of the associated insurance products, and loss of customer confidence. Third, the insurance product deployed through the Bancassurance model is still incomplete. The number of integrated products is limited, there is no specialized product, and most of the life insurance premium revenue of the Vietnamese market is from

Developing Bancassurance Distribution Channels in Vietnamese Life Insurance Companies

savings products, thus creating a direct conflict with the product savings products from banks. The high-interest rate environment also reduces the attractiveness of investment-linked insurance products.

Fourth, for businesses that have not yet invested in technology platforms, Bancassurance distribution channels need to be established on a modern technology platform. The current application of technology is still a weakness of life insurance businesses, this is one of the limitations that are difficult to overcome in a short time due to the cost of investment in technology and personnel training suitable and large operations.

Fifth, there is a lack of linkage and cross-supervision between life insurers and banks before, during, and after each arising economic transaction, to take advantage of insurance fraud for customers and businesses.

4.3. Bancassurance development solutions in Vietnam life insurance businesses

Firstly, perfecting the legal basis for guiding Bancassurance activities: The Law on Insurance Business 2022 has amended and supplemented regulations on Bancassurance activities for insurers and banks. However, to create a solid legal corridor to protect the interests of customers and businesses, and to ensure the safe and sustainable development of the insurance industry, there should be detailed regulations on Bancassurance activities on the responsibilities of bank customers and insurance companies when engaging in this distribution activity. Consider adding regulations on insurance products distributed through the Bancassurance channel; regulations that credit institutions must not require/force borrowers to buy insurance; insurance premiums cannot be included in the loan without the customer's approval.

Second, improve the quality of the bank's staff in the field of insurance. Insurers and banks need to organize training courses to ensure that bank staff has the necessary knowledge, experience, and skills to sell the most suitable insurance products according to the need's client; and the same time take corrective measures and promptly handle violations.

Third, design insurance products associated with the trend of personalized financial products. Life insurers and banks need to develop a Bancassurance product distribution strategy based on researching and evaluating market trends and classifying customers to provide appropriate insurance services to the needs and habits of customers.

Fourth, banks and insurance businesses need to use modern techniques to analyze customer needs and find suitable customers for Bancassurance. Invest in developing a bancassurance interface on a digitized platform to help customers have a better experience in the process of learning and using the service.

Fifth, insurance enterprises and banks operating as insurance agents must strictly comply with the provisions of the law on insurance business; strengthen internal inspection and control over insurance agency activities throughout the system. Strictly handle cases of violations in insurance fraud, taking advantage of customers' trust to provide false information about insurance contracts.

5. CONCLUSION

As mentioned, bancassurance has been developing strongly in the world, and Vietnam is not an exception to that trend. In Vietnam, bancassurance is not new but has not been fully developed, especially in depth. With these impact solutions, it is hoped that any fake part will remove the formula in the development of the bancassurance distribution channel system at Vietnamese life insurance businesses.

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