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Strategic and Marketing Aspect of Bancassurance – Service Innovation in Hungary

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Abstract. The paper analyses the process of integration financial services – bancassurance – in service innovation and marketing aspect, focused on banking and insurance companies. New tendencies such globalization, integration, disintermediation and deregulation give the basis for new dimensions in the financial services industry and we cannot forget the effect of the financial crisis.

The concept of bancassurance is not clearly defined neither in theory nor in practice. Bancassurance can also be determined from a functional and an institutional point of view. Functionally means the range of financial services and includes the banking and insurance services. The institutional approach is based on the organisational cooperation between banks and insurance companies or non-bank institutions. For the customers the bancassurance primarily means the connecting of different service providers, which originates from the cross-selling.

Based on the national (Hungarian) data, we find that the penetration process, so the entry into insurance services – primary targeted life insurance services - industry is mostly driven by banks in Hungary. We analyze the marketing aspect of functional bancassurance services and determine the levels of integration from institutional aspect.

Keywords: Financial Mergers, Bancassurance, Marketing, Service Innovation, Brand, Strategy.

1. Introduction

Bancassurance means the connecting of those kinds of financial services, which could cautiously fulfil financial and insurance needs. Financial services consist of several components. In addition to the essential elements – such as savings, financing and insurance – this includes consultancy, targeted problem solving and the accessibility as well.

The convergence of banks and insurance companies varies country by country because of the social reforms, the supervisory influence and other factors. The continuous changes of the institutional, economical and demographic conditions, the intensifying competition, or the entrance of non-businessline related competitors could indicate the saturation of the markets. The emergence of new markets is due to the growth of prosperity, the innovation and technological development of services.

2. Financial Convergence – Strategic Aspect

Banks need to broaden their activity to be competitive, but success depends on several factors, on aligning the people, organisational, cultural and financial assets (Pintér, 2011).

The banks and insurance companies try to cost-effectively transform their existing markets and/or try to explore new markets. To do this, different strategies are available. One of these alternatives is the convergence of banks and insurance companies. The success of this depends on whether the providers of services (comprising different business lines) could manage organically uniting the different corporate and product philosophies. They must offer a total benefit, which is greater than to satisfy their financial needs with a separate bank and insurance company.

Basically there are two options to provide addition benefit to the customers. One possibility is that with the help of convergence they must realise a cost reduction in service training and in sales. Because of the

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pressure of the competition it is not necessary to count with the targeted cost savings would be used to rise the interest spread. A part of the cost savings reaches the clients in favourable conditions. The other possibility is to provide a surplus to the clients, to get to know precisely their financial needs and satisfy the financial needs as much as possible. Bancassurance service providers are offering those kind of integrated banking and insurance products, which are offered from one hand or independent service providers via one network, or if it is necessary only banking or insurance service can be sourced. So bancassurance doesn't mean the full linkage of the non-banking and insurance business, but a limited selection-deepening and expansion as well.

Table 1: Factors give rise to financial convergence

Factors	Consequences, effects
[1] Operating Synergy	
• Economies of scale	enhanced value, access human capital, capabilities, skills, enter new region
• Economies of scope	profil, expand product/service offering
[2] Financial Synergy	cost efficiency
[3] Diversification and market, product/service development	stabilizing returns New products/services – New markets, Current products/services – New markets, New products/services – Current markets
[4] Increased market power	anti-competitive effects
[5] Customer focus	distribution channel optimization ("under one roof"), better access to customers, segments

Source: own source based on Pintér (2007), DePamphilis (2011), Pilloff-Santomero (2007)

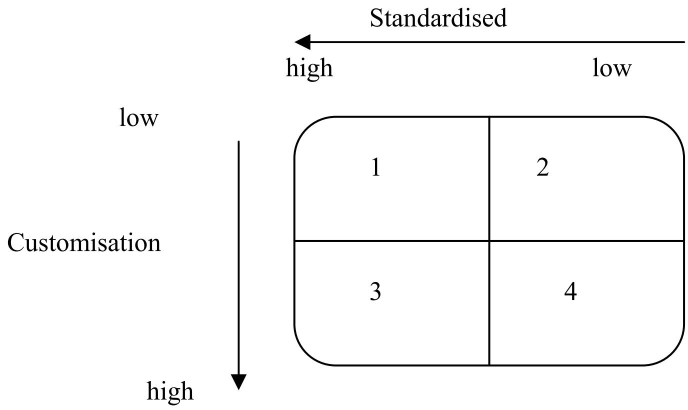
In a narrower and more practice-oriented sense we understand bancassurance as the approach of banks and insurance companies, which focuses on the better use of infrastructure and sales network.

The expressions of Allfinanz, bankinsurance, assurfinance and Financial Services are also used to determine bancassurance. Our earlier determination was built on the extensive definition of Allfinanz. Bancassurance means the type of bank effort when the banks enter the insurance business with an own-established entity or with a cooperation to offer a comprehensive range of products from one hand. So usually they link traditional banking products and insurance services – life, accident and property insurance – and than sell those via the banking network. In contrast assurfinance describes a similar way startegy of the insurance companies. The bancassurance, assurfinance and Allfinanz usually appear in practice as supply-oriented strategy, which they try better using the currently existing market conditions. The US originated Financial Services concept is based on the idea of advising as per lifecycle. The financial needs of the individual, i.e. security, savings, financing, and need for care changes during of their life. These claims must be fulfilled effectively and efficiently as possible, using the help of integrated supply.

The clients and advisers are looking for those kind of opportunities that are covering as a combination of the investing, financing and insurance needs.

3. Marketing Aspect of Bancassurance

The banking and insurance marketing activity requires a unique approach given the wide-ranging nature of the services, with the development of the information technology (IT), and because of the services' (rather than the products) character. In practice must pay additional attention to the marketing of the insurance products and deposit collecting activity, and to the credit activity. The correct segmentation at the credit activity (supported with the discriminant analysis) has a fundamental importance, sales of insurances and at deposit collecting the relationship marketing approach are also especially important. So in the bancassurance process the manifold of the marketing activity – using the development of IT – gets a significant importance. The complexity of the activities has also contributed to the changed/broadened clientele, their fastidiousness and the role of the clients. "The segmentation of the retail market is so high, that this forces the financial services for a constant diversification." (Veres, 1998. p.289.) Because of the tighter and more focussed competition, the clients have an increasing role in the process of product development, which is helped by the wide-ranging availability of the electronic services. "The opportunity of the online connection weakens one motivating factor of the brand loyalty - the geographical closeness." (Veres, 1998. p.289.) The banks and insurance companies try to restore this brand loyalty through their websites.[1] This was confirmed when I performed international research examining all of the banks' websites in many countries. Accordingly the websites are needed to make more personal, and the products need to split into smaller modules, so that with the combination of the modules a more customised complex package may be created. Kenesei (1996, p.31.) assigned the services into four categories based on their standardisation and customisation (Figure 1.). The products gradually move from the third to the fourth quarter, which means a close cooperation/relationship with the service provider. It is important that, for example, the online connection would be robust, however according to research there are defects in Hungary, for example system shutdown, the slowness of the data transfer, the loss of the connection.



Source: Kenesei (1996)
Figure 1: The classification of the financial services

It is worth mentioning, that on a product level (based on the content of the services) it is difficult to compete, because they can be quickly and easily imitated and copied. The differentiation must be solved on another way, with the inner and exterior marketing of the company, with the creation of added value. It is necessary to train the employees to let themselves identify with the image of the firm, a spectacular and touching advertisement and PR activity is necessary for the clients and the price-value proportion of the product needs to be handled cautiously. In case of most insurance products the service/payment happens many years after the contracting, but maybe it does not happen at all (for example with car insurance if no accident occurs). This may then give the feeling that the client pays for nothing. Therefore the sales must strongly be attached to (in addition to the strong image) the quality advisory and communication policy. The development of the distribution channels efficiently supports the value creation.

Concerning to the pricing - the insurance commission, is tailored to the price level of banking products. An important pricing factor is the "branding", which is influenced by various financial and non-financial factors and can result added value for the cooperative partners (Takács, 2011). The insurance products are sold under a new name by the bank or the insurance company. We may accept one thing however; the name (brand) of the bank is a positive image for the clients. The application of the brand name of the bank brings about the alteration of the insurance product's name, as well as the change of all the documents and forms.

4. Sector Analysis in Hungary

In Hungary only 11 out of the 41 banks provide life and non-life insurance activity, either through their own insurance company, or within a contractual cooperation. Considering the performance of the banks,

[1] The Frankfurt Euro Finance Week first published the results of a broad international research, led by the german ProfNet Institute for Internet-Marketing, and analysed the internet presence of the banks. This research is the first wide-ranging study in this topic. Researchers from international institutions took part in the survey, and analysed 2500 bank websites in 171 countries based on 141 criteria. According to the survey, two banks shared the first place: Bank Millennium (Poland) and the Wachovia Corporation (USA), and followed by the Raiffeisenbank Hungary in third place. (http://hvg.hu/gazdasag/20051124bankokinterneten.asp) (Rekettye-Pintér, 2006)

most of them have a ROE under 15%; the Return on Assets significantly falls between 0-3%. It is also important that 70,6% of the banks have less than 30 branches and only three banks have more than 150 branches. From this data we may predict the differences between the banking strategies and the pressure on the profitability. I have prepared the sector analysis with the application of multiple variable statistics, factor and cluster analysis. For the full survey of the banking sector I used the data of the PSZÁF (HFSA – Hungarian Financial Supervisory Authority) between the period 2005-2011 and I performed the analysis with the help of SPSS statistical analysing programme.

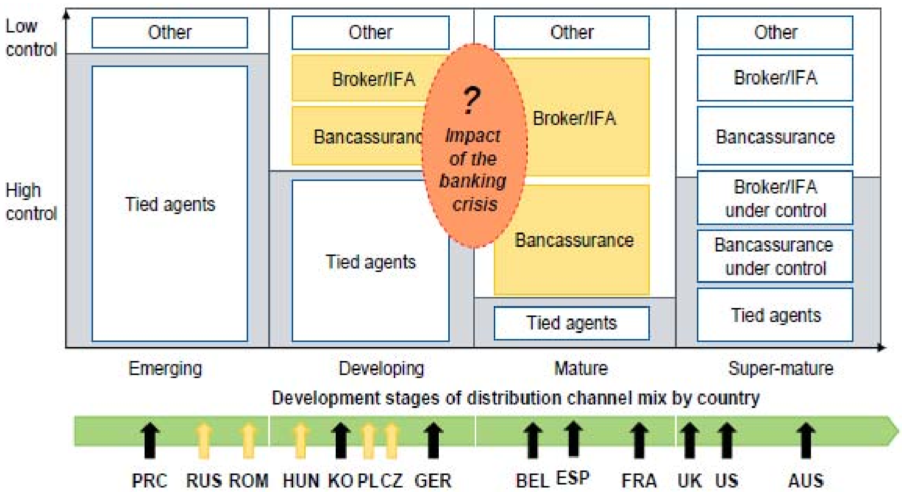
4.1. Research Findings

My practical research among the Hungarian banks and based on the knowledge of the regulatory environment it is also proved, that in Hungary only a few (althogether three) banks perform real bancassurance activity, with the own establishment of financial type service subsidiaries. In terms of the integration of the banks' and insurance companies' cooperation in Hungary from the cross-ownership, deeper integration form to the loosest form of distributional cooperation examples can be found. Beside the category "bancassurers", 10 banks formed another cluster named "universal or universal type of banks", they do not have an own established subsidiary, but they are in a cooperative agreement with other service providers. The previously mentioned two clusters are in my opinion, the representative of the Hungarian bancassurance activity.

From banking side basically the increasing saving function of the life insurance, the consumer need to expand the product range and the poor utilization of the branch networks gave the main reason for the development of the Hungarian bancassurance market. In turn the insurance companies saw the opportunity in the new cost-effective distribution channel provided by the bank branches. Of course in terms of the development of the bancassurance those factors must be mentioned as the aging of the population, the distrust towards the state-funded pension system, and the imported bancassurance experience of the banks and insurance companies with foreign parent company, or the rapid development of the banking infrastructure. However, the low level of customer loyalty, the initially low level of financial culture, the bankers' lack of insurance know-how and somewhat the regulation are all against the strengthening of the bancassurance as well.

5. Conclusion

Bancassurance in Hungary has detectable signals, but the extent of the barriers is also significant. All bancassurance models can be found in Hungary, but mostly driven by banks. The partnership and/or cross selling function is very strong between banking and life-insurance products, so bancassurance strategy and service innovation is focused on life insurance life cycle (Figure 2.).



Source: Stadler (2010)

Fig. 2: Global life insurance life cycle – Strategy of innovations

Hungary is an emerging bancassurance market in non-life business, and a developing bancassurance market in life insurance related business. There are no specific bancassurance consumer protection rules, the aggressive marketing policy by banks during the financial crisis and the poor financial knowledge of households effects negatively on the developing process.(Csiszárik-Kocsir et al., 2008; Gonulal et al, 2012)

The synergy potential is significantly bigger in the case of life insurance, than in the area of non-life insurances, because the economies of distribution are significantly more important in life insurance.

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