Bancassurance: Blow up or wash out?

By Sunny Yi

The often talked about convergence of industries appears to have become a natural, logical and, foremost, an unavoidable phenomenon, especially with the advancement of technology. But even without technology, government regulations warrant industry convergence. One such example is the convergence of the insurance and banking industries, and the hottest debate these days surrounds the introduction of bancassurance in August.

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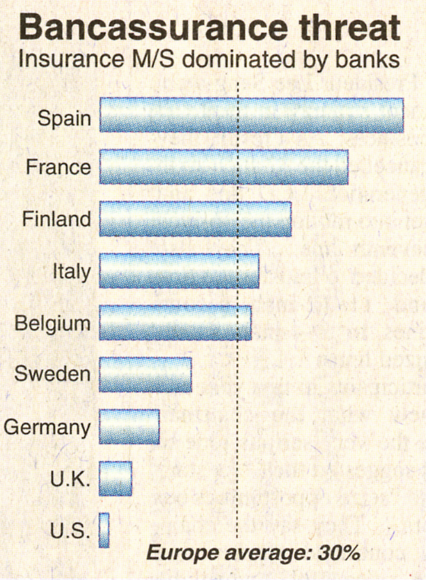
What is the big deal about bancassurance? The insurance industry fears that the life insurance industry as we know it could be wiped out if bancassurance regulations prove to favor the banking industry.

Banks in Europe pretty much dominate the life insurance channel, as most customers buy insurance products through banking channels. In the United States, however, bancassurance never took off. Bancassurance accounts for only a very small portion of the U.S. market and continues to be a nonfactor in the industry

In Korea, where both industries are still in their infancy and have not yet undergone a complete restructuring, the challenge is to determine a model that best suits both of the financial segments. Simply put, we have too many banks and too many insurance companies.

The new regulations will fundamentally restructure insurance distribution. One other important social factor is that unlike other countries, Korean insurance companies employ a large number of female sales agents, and the repercussions to this sales force will have huge socioeconomic consequences. Although the number of sales staff is decreasing, the new regulation will affect over 200,000 people.



Experience tells us that in most foreign countries, the end game will nearly always reveal that banking has the winning hand. This belief has led to many doomsayers prophesying the fall of the life insurance industry. I am more optimistic; I believe that we give too much credit to the banking industry. Despite its huge potential, bancassurance may not be a big factor for basically three reasons.

First, the cross selling of insurance products through banks is theoretically a nice way for banks to take advantage of their existing workforce's time and skill sets, but will it happen?

A good example is the credit card industry. If you look at who had the best potential to sell credit cards two years ago, it was the banking industry. But who won the battle? Samsung and LG. Why? The main reason was that banks were not aggressive enough. I believe the same situation applies here and that banking culture is still too static to aggressively market insurance products to potential customers.

Second, if you take out the margin and split it between the manufacturers (insurance companies) and the sellers (banks), the margin quickly erodes. Especially with IT investment, the jury is still out on exactly how much insurance companies and banks will bring in after deducting all related costs and expenses. Thus, the products themselves may not be as attractive as initially anticipated, which will eventually erode the interest and focus of top management.

Third, insurance is a push product, whereas banking products tend to be pull driven. In other words, insurance needs are often created, whereas banking products tend to be customer driven. This subtle difference, although changing quite a bit these days, has created two different ways for Korean customers to buy these products and will affect how bancassurance fares in the months to come.

Of course, all these predictions will be subject to how radical the regulatory changes are in the future. No doubt this will be a hot political debate for years to come, but no matter how the government drafts the regulations, I recommend that at least the following rules must apply.

First, the Financial Supervisory Commission must set strong principles upon which bancassurance will be based. The law cannot protect everyone, and trying to appeal to all parties will basically ruin the industry. Bluntly put, the government will have to sacrifice either small insurance companies or small banks.

Second, previous decisions must not be reversed. This is critical, as we have already begun to see positional changes in certain aspects of bancassurance. Although reversals may have worked during the economic crisis of 1998, these will be harder to pass in 2003, and Korea will lose credibility in the eyes of global financial institutions.

Third, regulatory changes should be kept separate from the life insurance industry restructuring that is already bound to happen. Although bancassurance may trigger this restructuring much earlier than anybody anticipates, bancassurance regulations should not be changed to accommodate the needs of the less fortunate players.

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