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Critical success factors in the sales and distribution of bancassurance in South Africa

A research report submitted to the faculty of Commerce, Law and Management, University of Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

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Abstract

Bancassurance is widely viewed as being the future of business success, which spans both the banking and insurance industries. This research focuses on the critical success factors in the sales and distribution of bancassurance in South Africa. Interviews were conducted with senior executives in the fields of banking and insurance in order to establish whether this is the case.

The results that emerged from these interviews indicated that a strong organisational structure with executive support, together with simple products designed for bancassurance distribution, was essential in any successful strategy. In addition to this, a level of integration between the bank and insurer was necessary, with the retail network of banks being viewed as a potential contributor to success if certain challenges could be overcome.

Declaration

I declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other University.

_____

Nazeer Hoosen

19 January 2007

Dedication

To my wife, Mehroon, and children, Ilhaam, Isa and Muhammad, for their support and patience.

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1 Introduction

1.1 Background

Since the introduction of bancassurance in Europe during the late 1980s (Harrison 2002), the concept has been growing strongly, with Generali of Italy recording an increase of 47.8% in bancassurance premiums for its 2004 financial year (Life Insurance International London 2005, p.11–14).

Bancassurance covers a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products, as well as services from the same source or to the same customer base (Kumar 2001). Because there is a wide diversity of strategies available, there is also no standard model for bancassurance (Nigh and Saunders 2003–2004).

Bancassurance is not new to the banking industry and it is considered to be a tool to create market power, economies of scale and synergistic alliances. However, the prospect to obtain such competitive advantages is not an easy undertaking. Innovativeness, clear goals, risk taking, and the ability and willingness to think outside-the-box are critical to the success of insurance companies participating in a bancassurance partnership that are fostered by banks (Benoist 2002). Banks are historically known as the prodigy of trust and

effective mediocrity. This fact alone cannot prevail in the competitive insurance industry, where global brokers and insurers are aggressively saturating the market.

The appearance and development of bancassurance has been one of the most significant competitive developments in the retail financial services sector in Europe, USA, Japan, India, Australia, the Middle East, South Africa and Korea (Apel 2003). Many banking institutions and insurance companies have found bancassurance to be an attractive – and often profitable – complement to their core businesses. To date, the successes of bancassurance strategies have, however, been far from uniform across all companies and countries (Apel 2003). Nevertheless, the promise of being able to leverage the profitability of large customer bases and extensive distribution networks has attracted the attention of the retail financial services sector and encouraged more organisations to diversify outside their traditional competitive domains (Apel 2003).

The introduction of innovative products, the need for life insurance products to accompany a growing number of home mortgage finance options, increased awareness among customers about the need to get adequate cover for future financial stability, and a host of other factors have helped the bancassurance market to take roots in some emerging markets, such as the United Arab Emirates (UAE), as well as other developing countries (Laulajainen 2003). An increasing number of banks are entering into partnerships with insurance companies to develop appropriate products for their customers. By all indications

the strategy has helped the banks establish rewarding business relationships. These developments have seen a number of banks with bancassurance products combining life protection and savings plans. These banks include both local and international banks (Laulajainen 2003). It is a mutually beneficial relationship, as the insurance companies get access to the relatively big customer base of the market, while the bank is sure of the availability of products that are more suitable to the needs of their own customers (Laulajainen 2003).

Bancassurance has had mixed reactions in South Africa. Sanlam and ABSA did not pursue a formal relationship (Lunsche 1998), which has ultimately resulted in the sale of ABSA to Barclays. Most of the success in this arena seems to be where close ties or mergers between banks and insurers exist (Fields *et al*. 2004).

A survey by PriceWaterhouseCoopers in 2004 indicates that bancassurers expect growth in bancassurance to outstrip most other types of insurance for the foreseeable future in South Africa (Metcalfe 2004). Nedcor reported an increase of 57.2% in sales of assurance and investment products through its channels in 2004 (Life Insurance International London 2005, p.1) and still wants to stimulate sales of bank-based assurance business. This is indicative of the fact that South African bancassurers are looking to increase sales through this channel.

The growth of the low and middle income class in South Africa provides an ideal base for bancassurers to tap into for the sale of insurance products. The

relationship that exists between a bank and its customers enhances the approach by bancassurers to sell insurance to the customer (Hannover Life Re website).

Harrison (2002) investigated the factors that prevent bancassurers from gaining a competitive advantage in the life insurance market. The results of Harrison's work led to the following conclusions – there are three broad categories of factors that were identified as having varying degrees of constraints which hinder bancassurance from being maximised. The categories that Harrison identified are:

- the bank's extensive branch network;
- the customer base of the bank; and
- the reputation of the bank.

Harrison (2002) quoted the respondents as saying:

> *"If you do not get your distribution right, you do not have the right remuneration structure, you do not have the right incentive structure, you do not focus on who the right people are to sell what is right, you have a problem."*

This statement goes to the crux of any bancassurance relationship in that the importance of sales and distribution is often the cause of failure. Different skills levels are required for the diverse set of products that can be sold through this

channel. The sales method that is adopted to distribute the mix has direct consequences on the degree of success enjoyed.

1.2 The proposed research

This research will identify the critical success factors in the sales and distribution of bancassurers in South Africa. An analysis of these factors will be conducted through interviews and a literature review process to provide insight into the way in which an enhanced value for bancassurers can be realised.

The dearth of literature on bancassurance in the South African environment will certainly bring differing views based on the sample selected. It is the researcher's intention to attempt to interview executives who have direct line responsibility for elements of bancassurance. These interviews will enhance the knowledge base on bancassurance in South Africa.

1.3 Limitations and delimitations

The study will be conducted through a series of interviews. The respondents will be representatives of leaders in the industry, as well as senior practitioners of bancassurance in their respective fields with the relevant experience in the industry.

No attempt will be made to ensure that this is a representative sample of the population or that it is random, and will be limited to the respondents approached by the researcher.

The study will be conducted on the sale of life insurance products to individuals who are already customers of a bank or lending institution, and will be limited to the Republic of South Africa. The research will be limited to the lending and insurance industry and not be indicative of any other industry.

1.4 Relevance of the research

The study will enhance the sparse knowledge pool of bancassurance in the country. It will complement previous research done on the factors preventing competitive advantages for bancassurers. It will assist bancassurers by providing a broad based perspective from their peers in the industry on the way the industry view the critical success factors that exist in the sales and distribution of bancassurance in South Africa.

The study will broaden the available information to the academic community on a topic that is still in its infancy in South Africa. It will provide a platform for further research to be carried out in the field of bancassurance.

1.5 Assumptions

The following assumptions will be made in this study:

- Validity and reliability will be ensured by the available literature on the topic.
- The respondents selected will have sufficient knowledge on the industry to enable a satisfactory outcome.
- The respondents selected will be representative of the bancassurance industry.
- The wide spread of views from respondents will not lead to a distorted perception of the industry and affect the outcome of the research.
- Any geographic bias will not surface from the respondents selected by the researcher.
- A sufficient number of respondents from the banking and insurance industry will be agreeable to participate in this proposed research.

2 Literature review: Critical success factors in the sales and distribution of bancassurance in South Africa

2.1 Introduction

This literary review presents a possible source of competitive advantage for aspiring bancassurers, with particular emphasis on sales and distribution. No two banks would require the same assurance strategy, since each bank has to consider both internal and external issues when deciding on a strategy. This review necessitates comprehensive, maybe overlapping, discussions in areas that banks should assess before finalising their assurance strategy. Being a bank, it already fulfils the customer's first requirement, namely trust, which will prompt the customer to use his or her money to transact business. This review will also suggest other requirements, which provides a helpful reference on other issues that a bank could excel in to create a competitive advantage in insurance provision.

The review will consider the importance of the sales and distribution strategy that is adopted in the pursuit of success in bancassurance. It will then turn to the documented critical success factors in bancassurance, which have been identified in various markets globally, with specific reference to sales and distribution.

2.2 The importance of sales and distribution

The implementation of a successful sales model should assist in the integration process, thereby ensuring the prolonged existence of the partnership. In selecting a distribution model, which is key in bancassurance, it is crucial that the model is compatible with the bank's customer base and the insurance company's strategic objectives (Kumar 2001). The three sales models that have been identified are:

- a separate sales force
- hand-in-glove
- fully integrated

Separate sales force

This model requires minimum integration between the staff of the partners and merely utilises the customer database for insurance product prospecting. Platform bankers help identify prospects, who are then contacted by an insurance professional. This process requires less training, but requires higher compensation to support the referral process. While this model has minimal issues on the cultural front, it is unable to leverage the customer knowledge and client relationships of the bank staff (Kumar 2001).

Hand-in-glove

In this model there is a greater level of integration. The bank staff sells simple, packaged products, but only act as introducers in the case of more complex products. The insurer's financial planners undertake the consultative selling process and final lead closure. This model exploits the client relationships and customer information present with the bank's employees and also leverages the selling skills inherent in the sales staff of the insurer. Theoretically, this offers 'one-stop-banking' and requires extensive training to the bank's branch staff. Since it requires higher interaction between the bank and the insurer's staff, cultural issues become critical for the success of this structure.

Fully integrated

In this model the bank staff wholly owns the insurance sales process, while the insurer acts only as a product and service provider. This model maximises the exploitation of the bank's strengths, but does not utilise the skills of the insurer. Therefore, bank staff buy-in to sales objective, effective training and strong information flow between the bank and the insurer become key drivers to the success of this model.

In each of these models it becomes necessary for the bancassurer to invest in focused training in the sales process, insurance and investment product knowledge (Boston Consulting Group 1999, p.5). In addition to implementing an

effective training programme, successful bancassurers also set branch sales objectives that include both traditional and non-traditional products to encourage branch personnel to give new products 'shelf space' (Boston Consulting Group 1999, p.5). A successful marketing strategy necessarily entails training and motivating banking staff to sell insurance products by informing them of the financial benefits (Gardener 2001).

There have been a number of drivers, which have lead to the development and success of bancassurance. For banks the driver has been pressure on the bank's profit margin (Schuster 2000). Bancassurance offers another area of profitability to banks with little or no capital outlay. A small capital outlay in turn means a high return on equity and a desire to provide one-stop-customer service (Schuster 2000).

2.2.1 Bancassurers – a 'one-stop-shop'

Today convenience is a major issue in managing a person's day-to-day activities. A bank that is able to market insurance products has a competitive edge over its competitors. It can provide complete financial planning services to its customers under one roof, for example opportunities for sophisticated product offerings, opportunities for greater customer lifecycle management, diversification and growth of revenue base from existing relationships, diversifying risks by tapping another area of profitability coupled with the realisation that insurance is a necessary consumer need (Islam 2002). The development of bancassurance in

Europe is a case in point – banks were faced with the challenge of finding ways to retain their customers. Consequently, banks had to identify what the customers needed, what they were worth and what it could do better to increase this worth. One way to resolve this issue was to create a combination of products, all of them useful to customers, to price them suitably and to embark on a mass distribution of these products. Today, with 30% of all life products sold through banks, Europe is the world leader in bancassurance (Chandra n.d.).

According to Benoist (2002), this shift from a product-based approach to a solutions-based approach, or 'one-stop-shopping' at bank branches, makes life easier for clients. Furthermore, selling a number of financial products to each client, covering all phases of the client's life, is the best way to build loyalty (Benoist 2002). This is, however, tempered by the fact that the banks in South Africa lack knowledge of their customers' propensity to purchase products that are not the core need. This is due to the nature of the data retained, which is not customer centric, and hampers the ability to cross-sell to the customer (Harrison 2002).

Since life insurance contracts are long-term in nature, with terms ranging from 10 years to 40 years and longer (Schuster 2000), this allows life insurance companies to establish a long-term relationship with their clients. Banks can benefit from this relationship, and retain and increase their customer base by offering life insurance products. The loyalty of bank customers can be increased many fold by offering a diversity of financial products. Banks need to consider the

customer's profile in order to determine the type of product that is most suitable for the client. If the profile of the customer is taken into consideration, the bank will have a better chance of a sale. The ability of branch counter staff to sell these products is limited by the expectation of quick service and confidentiality of possible questions that could be asked when processing a life insurance product (Harrison 2002).

2.2.2 Lower distribution and higher productivity

Bancassurance also offers lower distribution costs and higher productivity. Using a bank's branch network and its staff offers the banks a low cost distribution that is attractive from a pricing and profit perspective for both the customer and the bancassurers (Wilde and Singer 1993). Insurance products were traditionally sold by full-time sales agents. The commissions paid to the sales agents and the international productivity standard of four to six sales per month made this distribution channel an expensive one (Gup 2003). The reason for low productivity in the traditional sales agent distribution system is the amount of time the agent has to spend on prospecting or trying to find the right customer (Gup 2003). Almost 80% of a sales agent's time is spent prospecting. However, banks provide a cheaper and highly productive distribution system to insurance companies. The typical productivity per producer in bank sales is 20 to 30 per month (Gup 2003). This is due to the fact that no additional time is spent on prospecting and, with the cooperation of the bank, a ready market is available.

2.3 Critical success factors in sales and distribution

The critical success factors relating to a sales and distribution model are the organisational structure, systems, retail networks and the characteristics of the products sold. These factors are discussed further in this section.

2.3.1 Organisational structure

According to Saunders, a key ingredient for success in bancassurance is commitment. "*Because of the significant organisational changes required to adopt the bancassurance model, senior management must be actively and consistently involved throughout the redesign and cultural change process*" (Boston Consulting Group 1999, p.4). This view is supported by Harrison (2002), who found that management commitment is a crucial driving force behind a successful operation.

The highest levels of commitment are usually associated with a dedicated insurer and bank. Such relationships are typically seen in exclusive (or wholly or partly owned) relationships between bank and insurer (Saunders 2003).

Since its inception, bancassurance has assumed various forms, sometimes to the extent of cross holding of equity, takeovers and mergers between the partners (Saunders 2003).

There are three basic approaches to a partnership, with the level of integration of the manufacturer and distributor being the main distinguishing feature (Nigh and Saunders 2003–2004). Islam (2002) mentions three forms of bancassurance arrangements, which have an element of shareholding that supports the previous discussion on the models adopted.

The three forms are:

- strategic alliance
- full integration
- mixed models

Strategic alliance

Under a strategic alliance, the bank acts as an agent to one or several insurance companies (Nigh and Saunders 2003–2004). The bank only markets the products of the insurance company via a simple agency agreement with very little processes integration.

Full integration

This arrangement entails a full integration of banking and insurance services, focusing on full customer relationship management (Nigh and Saunders 2003–2004). The bank controls sales and insurer service levels, including the approach

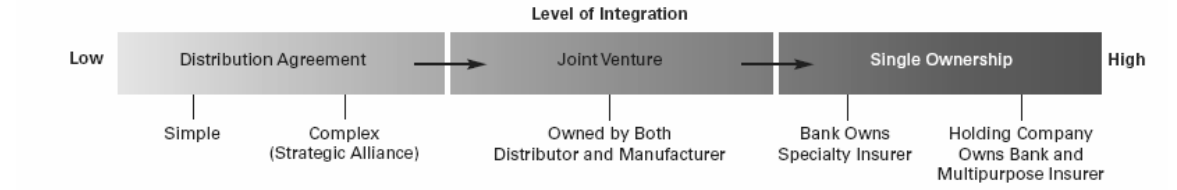
to claims. With such an arrangement the bank has an additional core activity, which is almost similar to that of an insurance company.

Mixed models

In this approach the insurer's staff does the marketing of products and the bank is responsible for generating leads only. In other words, the database of the bank is sold to the insurance company. The approach requires very little technical investment (Ngwuta 2006).

The diagram below illustrates the spectrum of the different levels of integration between banks and insurers:

Structure based on level of integration between bank and insurer:



Source: Bancassurance Around the World; John Nigh and Mark V.T. Saunders; 2003/4

The economic benefit derived from a bancassurance relationship through ownership of both streams of business in banking and insurance tends to a bigger buy-in from the senior structures and, as such, has a better chance of success.

Proposition

An integrated organisational structure is a critical success factor that leads to a successful bancassurance strategy.

2.3.2 Systems

An information system that fully integrates insurance practices into the bank's culture is essential. It enables players to decentralise the underwriting process as much as possible in the bank, and centralise policy and claims management in the insurance company (Gardener 2001).

The banks' entry into the realm of insurance provision to its customers requires a strategy to deliver the service in a fast, flexible and reliable manner. Suitable information technology will give the banks an advantage. According to the study and review conducted by Gomez (cited in Pintar 2000), progressive on-line insurance offerings were characterised by interactivity and simplicity of insurance forms with the policy holder's ability to update their insurance through a secured log-in account. Simply put, insurance application and execution need to be customer-friendly.

According to Pintar (2000), insurance Internet carriers capitalise on e-commerce because of cost advantages due to the absence of overhead costs of maintaining branch locations and agents. They transact and serve customers on-line or by phone. Most banks are well known because of heavy marketing and the

establishment of several branches across the country. Also, there is a possibility brokers can infiltrate and "*steal valuable banking customers through virtual offerings*". Because of the cost-savings and security doubts relating to e-commerce in transacting insurance services, some banks opted not to sell insurance via the Internet, while others used cooperative strategies (for example First Union Bank's alliance to The Hanford) and acquisitions (such as North Carolina-based Wachovia Bank's purchase of Tampa-based Davis Baldwin, an insurance broker) wherein the risks became diverse and minimal. However, these cases were few.

Most insurance companies have difficulty in adopting an e-business model and strategy because of the likelihood of alienating the existing distribution channel that was built by the firm's agents, tedious application procedures, a lack of universality in business processes, and complex regulation from government intervention (Pintar 2000). Such factors serve as a disincentive for insurance companies to exploit the positive prospects of information technology.

The above challenges created a suitable condition for banks to pursue an integrated financial services model, which not only highlights the traditional lending and custodian services, but also advisory, brokerage, and now insurance offerings. Since several banks are evaluated to be limited on cost-savings and security aspects, a context strategy can spark opportunities to exploit the estimated 38% annual growth rate on bank insurance premiums that was forecast to start in 2004 (Pintar 2000).

During the past 20 years, French insurers experienced administrative problems when their computer systems became outdated. The high cost of evolving information systems, migration to new software and the necessity to change all products to compete with bancassurers, challenged traditional insurers (Sparkes 2002). Bancassurers were not concerned with such issues, as their administrative and information systems were strongly linked to their banking systems and were generally up to date. Moreover, the insurance policies built by bancassurers are simpler and easier to administer. The euro conversion was the first real problem bancassurers confronted, but traditional insurers faced the same administrative problem. This gave bancassurers a competitive edge with their modern, less costly software that is backed by their bank systems (Taylor 2001).

In contrast to this, consideration should be given to the contact time that is available with a customer in order to conclude a sale. This contact time is diminishing with the availability of electronic banking facilities. Electronic banking is part of the technology that is becoming more commonplace and that is eliminating the necessity for personal contact. This raises the concern of what the core offering should be that the salesperson concentrates on. According to Harrison (2002), if multiple products are sold, there is a limitation on how many and which products take precedent within the time that is available with the customer.

Proposition

An information system, which fully integrates insurance practices into the bank's culture, is essential (Gardener 2001). Insurance policies that are designed by bancassurers are simpler and easier to administer (Taylor 2001).

2.3.3 Retail networks

The most important factor of success for the bancassurers is the capacity of their retail networks to sell individual life insurance policies. The retail banking networks in France and other European countries have many advantages when it comes to selling savings insurance products (Gardener 2001). This is possible for the following reasons:

- saving life policies are integrated into the 'global' marketing approach to clients;
- retail banking networks in Europe have a strong presence in the distribution of financial products;
- retail banking networks appear to have a better image than insurers; and
- retail banking networks appear better qualified to sell savings products (Artis 2000).

Retail banking networks also had a significant amount of experience in selling mutual funds and were well positioned when unit-linked products became increasingly popular during the 1990s.

An extensive branch network in South Africa is a potential advantage, provided that issues relating to the products that are sold through this channel are addressed. The branding of the product should be seamless in order to maximise the value of the bank's brand (Harrison 2002). In order to leverage the retail network, banks should focus on products that fit the bank's distribution strategy.

Bancassurers also distribute their insurance policies for a lower cost than traditional insurers, since they pay lower premium-based commissions than the premiums that insurers pay to their agents or salespeople. While traditional insurers sell policies with high premium-based commissions, banks developed products where commissions on reserves represent the major remuneration to the banks (Artis 2000). This kind of commission works well with savings policies that provide a profit spread on reserves over the period of the investment.

The success of the banks' retail networks can also be explained by the kind of insurance products that are sold by bancassurers (Boston Consulting Group 1999). According to Artis (2000), the growth of insurance activities in bank networks during the 1990s was based on a new kind of simple insurance policy. It was purely a savings policy with low fees on premiums, which contrasted with the higher fee of traditional policies that was sold by insurers. These savings policies do not provide any life or death coverage other than a return of the reserve on death or surrender, but at maturity they often offer transformation into annuities of the accumulated policy amount (Artis 2000). The premiums may be

paid either as a single premium or as a recurring premium. Various savings periods are offered. However, to qualify for significant tax advantages, the savings period must be at least eight years. These contracts have been profitable to the bancassurers because of the spread between the interest granted to the policyholder and the yield earned on the assets (Harper 2000).

These policies were received well by elderly and wealthy clients, who paid large premiums to bancassurers. The average premium was over €40,000 for most bancassurers. Due to the good performance of stock markets, unit-linked products became the most popular products in 1999 and 2000 (Harper 2000).

For decades the French government refused to allow private pension funds. Consequently, saving insurance policies are an attractive approach for investors to prepare for retirement or to prepare estate transmission to inheritors.

This should, however, be considered against the backdrop that the difference between the commercial banking culture and insurance culture, particularly with reference to life insurance, is one of the difficulties that bancassurance faces (Venkitaramanan 2001). Life insurance is associated with marketing innovation, consultative selling and incentive compensation. Conversely, the commercial banking culture is one of relationship-building, little risk, stability and compensation schemes that are less related to performance.

To enable both the cultural transformation of banks and insurers, as well as ensuring the successful integration of non-traditional products into the bank product line, strong senior management and leadership is essential (Boston Consulting Group 1999, p.4).

The significant difference in the culture that exists between banks and insurers has to be overcome before any advantage can be extracted. The types of cultural issues that need to be addressed are sales culture, dissimilar cultures between banks and insurers and incentive structures. (Harrison 2002).

2.3.4 Characteristics of the products sold

Lastly, the characteristics of products that are sold are essential. The insurance activity of a banking network often begins with products that are linked to the banking activity, such as individual life insurance, credit and banking transactions insurance, such as mortgages, consumer loans, overdraft insurance and credit card cover (Gardener 2001). By distributing life insurance products, the bank increases its share of long-term savings, and by distributing credit and banking transactions insurance, it offers an additional service to its customers (Gardener 2001). It provides customers with easy access to insurance, a simple method of payment and advantageous financial cover due to group rates. Even when bankers widen their range of insurance products, the contracts on offer are easy for the customer and salesperson to understand since banks provide simple, low premium coverage with very few options, which afford a simplified underwriting

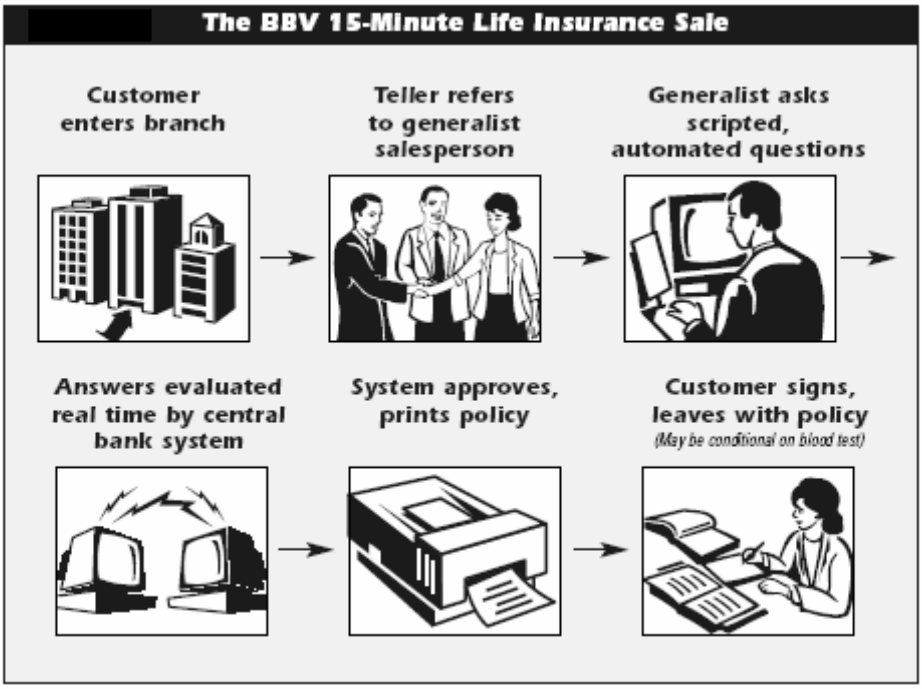
approach (Gardener 2001). This concept of simplicity has been reinforced by Harrison (2002), who found that the complexity of traditional insurance products should be removed in order to maximise the potential sales through this channel.

According the study conducted by the Boston Consulting Group (1999), bancassurers need to develop simple, easy-to-understand products in order to achieve success. Crédit Agricole, a European bank, offers only four products, thereby simplifying its life insurance sales. The bank eliminated all the 'fine print' from its insurance documents and drafted the literature in very straightforward language (Boston Consulting Group 1999). These products are easy for the consumer to understand and for the bank agent to sell (Wilde and Singer 1993).

The most successful products from a sales perspective are those that are linked to banking products (for example, loans and credit insurance) or that are very similar to banking deposits (certainly in the initial stages of the bancassurance operation) and that offer superior returns to deposits, albeit over a longer term than the usual time deposits. Furthermore, European bancassurers have found that off-the-shelf insurance products would be unsuccessful, given their mass-market customers. Bancassurers customise policies not only to meet the basic needs of their customers, but also to standardise the sales process by making products easy for both customers and salespeople to understand (Boston Consulting Group 1999, p.4).

The diagram below highlights a sales process designed by Banco Bilbao Vizcaya, a major Spanish bank.

The 15 minute life insurance sale:



Source: BCG, Convergence Strategies for Banking, Insurance and Investments

Proposition

Retail branch networks facilitate the sale of transaction-triggered products (Harrison 2002).

Simple and easy to understand products are the key to a successful penetration of sales (Boston Consulting Group 1999; Harrison 2002).

2.4 Conclusion

There are more failures than successes in bancassurance. Poor implementation is the most critical factor for the failure of bancassurance. Others factors include:

- shoddy manpower management,
- lack of a sales culture within the bank,
- lack of interest by the branch management,
- poor product promotions,
- failure to integrate marketing plans,
- improper database expertise,
- poor sales channel linkages,
- inadequate incentives,
- resistance to change, and
- negative attitudes toward insurance (Kumar 2001).

Bancassurance succeeds where strategies are consistent with the bank's vision, awareness of target customers' needs, a defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanisms, quality administration, synchronised planning across all business lines and subsidiaries, integration of insurance with bank products and services, extensive and focussed training, a sales management tracking system for reporting on agents' time and results of bank referrals, and relevant and flexible database systems (Kumar 2001).

Banks, insurance companies and traditional asset management companies are converging to form a one-stop-financial services shop, where a customer can obtain a loan, pension product and insurance at the same time. This convergence calls for complete integration of their distribution channels in accordance with an established model. By doing this, companies can substantially cut costs, enhance productivity and ensure that all stakeholders, shareholders, customers and staff are satisfied. Such an integrated distribution calls for the customer to be placed at the heart of the distribution network.

The prime objective of the companies is to always improve the quality of service to the customer at an affordable cost. A properly planned and implemented bancassurance model will assist to do just that.

3 Propositions

The propositions that are derived out of the literature review identify the critical success factors, which will be considered in the interview process undertaken by the researcher.

Proposition 1

An integrated organisational structure is a critical success factor that leads to a successful bancassurance strategy.

Issues that point to this are:

- Commitment from the highest level of the organisation (Saunders 2003).
- The type of partnership that exists between the bank and insurer (Nigh and Saunders 2003-2004).
- A relationship that has a whole or partial ownership structure between the bank and insurer has a strong bearing on the success of bancassurance (Saunders 2003).

Proposition 2

An information system, which fully integrates insurance practices into the bank's culture, is essential (Gardener 2001).

Issues that point to this are:

- Successful sales penetration by bank staff requires ease of use and integration of information systems (Pintar 2000).

Proposition 3

Insurance policies built by bancassurers are simpler and easier to administer (Taylor 2001).

Issues that point to this are:

- Knowledge of customer requirements and simplicity of products are key drivers of bancassurance (refer to page 24).
- Motivation of and incentives for staff (Gardener 2001).
- Products linked to banking activities have a better success rate (Boston Consulting Group 1999, p. 4).

Proposition 4

Effective use of a retail network leads to success.

Issues that point to this are:

- More cost effective than traditional channels of insurance sales (Artis 2000).
- Retail banks enjoy a better reputation than insurance sales agents (Artis 2000).

- Convenience of a one-stop-shop for financial services (Benoist 2002).
- Retail branch networks facilitate the sale of transaction-triggered products (Harrison 2002).

Proposition 5

Simple and easy to understand products are the key to a successful penetration of sales (Harrison 2002).

Issues that point to this are:

- Credit Agricole eliminated all the 'fine print' from its insurance documents and drafted the literature in very straightforward language (Boston Consulting Group 1999).
- Selling products that are easy for the consumer to understand and for the bank agent to sell (Wilde and Singer 1993).

4 Research methodology

The approach to be adopted in conducting this research will be the use of an interview process. This type of research lends itself towards a qualitative paradigm, which will be the paradigm that the researcher will undertake in this research.

4.1 Qualitative research method

A research that intends to understand the logic of individuals and their understanding of the subject matter requires a research paradigm that is qualitative in nature (Shaw 1999). A content analysis, together with elements of phenomenological study, is being proposed, as the research is focused on determining an individual's perspective on the problem and, as indicated by Leedy and Ormrod (2005, p.139), phenomenology attempts to understand an individual's perceptions of a problem or situation and a content analysis to identify patterns, themes or biases (Leedy and Ormrod 2005, p.142).

The following statements attempt to determine the reasons why a qualitative research paradigm is suitable to the research being undertaken.

- *"In contrast to the natural world, the human subjects of the social world possess the ability to think for themselves, comprehend their own behaviour*

and have an opinion of the social world of which they are a part." (Shaw 1999).

- Hyde (2002), in an article analysing deductive processes in qualitative research, reasons that a researcher expands and generalises theories in qualitative research instead of establishing the frequency of an event.
- The reality of each participant is individualistic in nature, which differs from each other and thus suits a qualitative research paradigm (Hill and McGowan 1999).
- A qualitative study attempts to unveil multiple viewpoints on the topic, rather than a particular truth (Leedy and Ormrod 2005, p.133).

4.2 Sample

The sample of interviewees to be selected will emanate from a population consisting of experts in the field of bancassurance, which includes executives that practice bancassurance with perspectives on banking, and those with a perspective on insurance.

The sample selected must be representative of the topic to be researched and should be purposefully selected to gather as much information as is possible on the topic (Leedy and Ormrod 2005, p.145). Therefore, the sample will not be random and will attempt to include broad coverage of industry experts, who will enable the researcher to obtain sufficient information to complete the research.

A descriptive research is used to describe a situation as it exists and does not intend to determine a cause-effect relationship (Leedy and Ormrod 2005, p.179). It is the intention of the researcher to use semi-structured interviews to conduct this research.

The researcher is proposing the following interviewees:

Table 1: List of Interviewees

Name	Title	Organisation	Industry
W Lategan	Managing Director	ABSA Life	Insurance
W Steffens	General Manager	ABSA	Banking
F Potgieter	Managing Executive	Hollard	Insurance
G Mokwena	General Manager	Wesbank	Banking
J Nagel	Managing Director	First National Life	Insurance
C Kroukamp	General Manager	Regent Life	Insurance
P Cushway	Director	Regent Life	Insurance
D van der Linde	Managing Director	Motor Finance Corporation	Banking
N Schutte	Executive	IDA	Motor industry
K Mcivor	Retail sales	Absa	Banking
A van Rooyen	CEO	Iemas	Banking
Dr B Benfield	CEO	SA Motor Loans	Banking/Insurance
G Wood	Director	Daimler Chrysler Financial Services	Banking/Insurance
S Casserly	Executive	Nedcor	Bancassurance

4.3 Data

The data will be collected by means of a semi-structured interview with a pre-prepared list of leading questions and further probes. A list of questions will be designed to elicit the appropriate response from the interviewees with further questions probing from the lead question. According to Leedy and Ormrod (2005, p.185), this method of data collection has the highest response rate and, as such, is the most appropriate to achieve the best result.

The researcher will approach each of the respondents with a request to participate in the research. A brief description of the nature and expectations of the research will be communicated to each of the potential respondents with the promise of confidentiality being maintained, together with a sharing of the results of the research document. If the invitation is accepted, the researcher will follow the invitation up with a written request. Once a confirmation has been received, the interview will be scheduled to take place at the location and convenience of the respondent and will last approximately an hour and a half.

The following guidelines, as suggested by Leedy and Ormrod (2005), will be followed:

- Questions will be identified and limited to approximately six questions.
- Attempts to keep the respondents representative of the population will be made.
- A quiet and unintrusive location will be used for the interviews.

- Written permission will be obtained from the respondents.
- A rapport will be established and maintained with the respondents at all times.
- The focus will be on the actual rather than on the abstract.
- Leading questions that illicit a favourable response will not be asked.
- The conversation will be recorded.
- The respondent must not be allowed to read the researcher's reactions.
- The fact that the responses are perceptions and not necessarily facts must be taken into account.

4.4 Analysis

Qualitative data is by nature interpretive and, as such, there is no correct method of analysing the data. The data will be analysed by means of a matrix with consistent themes to responses being categorised (Leedy and Ormrod 2005). If categories aligned to the propositions or key words linked to the propositions are evident, then the categories will be created into themes that support the propositions. The frequency of consistent comments will determine whether separate categories should be created.

The researcher will consider the possibility of inherent bias in the data and will carefully look for it in the analysis performed. Bias can exist in many forms in data and needs to be identified when any conclusion on the results are offered (Leedy and Ormrod 2005).

4.4.1 Researcher

The researcher is a practitioner of bancassurance and, as such, has to guard against the bias inherent in the process. The researcher will attempt to remove such bias by ensuring that the evaluation of the raw data is independently verified to the conclusions reached.

4.5 Reliability and validity

4.5.1 External validity

According to Leedy and Ormrod (2005), external validity is the extent to which results of a research can be generalised. The researcher's intention is to obtain data from a wide and varied set of respondents from the industry. This date would be indicative of the views on the critical success factors that drive successful bancassurance relationships in South Africa.

4.5.2 Internal validity

Internal validity aims to ensure that the research "*takes whatever precautions we can to eliminate other possible explanations for the results we observe*" (Leedy and Ormrod 2005). The results from the research will be circulated back to the respondents for their comments on the appropriateness of the outcomes in each area of the subject matter. This will also be compared to the literature review

conducted for consistency and to identify convergence of particular themes that emanate from the study.

4.5.3 Reliability

Reliability is the concern that the consistency of results could differ from each other, depending on the situational circumstances of the measuring instruments used. The results obtained from the research will be triangulated against proven theory on the subject, together with verification from the respondents. The likelihood of consistency in the measure is slim, however, as the subject matter is theoretical and it will enhance the knowledge pool for future study.

5 Research plan

The research will be conducted over the period March 2006 to July 2006. The timeline for the research will follow the following table:

Table 2 : Research timeline

	May	June	July	August	September
Contact and confirm respondents' participation					
Conduct semi-structured interviews					
Analyse results					
Compile results					
Finalise draft report					
Submit report					

6 Results of interviews

6.1 Introduction

This chapter will deal with the results obtained through the interview process that was conducted by the researcher with the interviewees identified in Chapter 4, Section 4.2. An analysis of common factors that were obtained will be highlighted in tabular format, with a discussion on these factors following. In addition to this, further endorsement or rejection of the propositions will also be discussed by way of quoting some of the key points elicited during the interviews. These quotations will lend credence to the discussion of the results.

6.2 Proposition 1: 'An integrated organisational structure is a critical success factor that leads to a successful bancassurance strategy'

Table 3: Respondents to proposition 1

Respondent	Level of commitment	Type of relationship	
		Profit JV	Ownership
Respondent 1	CEO	Yes	
Respondent 2	CEO	Yes	Yes
Respondent 3	First line report		Yes
Respondent 4	First line report	Yes	Yes
Respondent 5	First line report	Yes	
Respondent 6	First line report	Yes	Yes
Respondent 7	First line report	Yes	
Respondent 8	First line report		Yes
Respondent 9	First line report	Yes	Yes
Respondent 10	CEO	Yes	
Respondent 11	First line report		Yes
Respondent 12	First line report	Yes	Yes
Respondent 13	First line report	Yes	Yes
Respondent 14	CEO	Yes	Yes

All of the respondents are either the CEO, or a first line report into the CEO, and is managing the bancassurance strategy on behalf of their organisations. This

emphasises the significance placed on bancassurance at most of the major financial houses in South Africa.

Some of the respondents indicated that it is either a recent move or a more focused approach to bancassurance that has emerged, as is shown in the following comments:

> *"… recent successes have been driven by a strategic intent by the Board and the deployment of real capability on the assurance side …"*
>
> *"… bancassurance is only now in the last two years getting a strategic focus …"*
>
> *"It has only recently been enforced on the bank and mainly as a result of parentage forcing behavioural changes."*
>
> *"Bancassurance is now on every single agenda in the business."*
>
> *"For the first time in 2005, mention was made specifically of bancassurance in the annual report."*

As seen from the above comments, a common theme that is emerging is that success of bancassurance is being achieved recently and through the intervention of senior executives at the banks or the banks' shareholders. Individual business units in banks are including bancassurance in their agendas and performance criteria. Success of bancassurance is being measured by product profitability rather than commission income, and is indicative that ownership of the product and its profitability is the objective of banks.

Of the 14 respondents, 71% indicated that a formal ownership structure exists between the banking partner and insurer in their bancassurance relationship, whilst the other 29% have at least some form of access to the profit streams that enhances the value chain. In the latter instance it would appear that in all instances the profit sharing is from insurer to bank and would point to the value placed on having access to the end user.

> *"Both parties have an exclusive right to market into each other's base on a first right of refusal basis."*
>
> *"The principle always was one of vertical integration."*
>
> *"It contributes 20% of earnings and is key that it is done by inhouse providers or strategic partners."*

The existing formal ownership structures appear to exclude any external parties access to participate in exploring opportunities that can be offered within the group. Where the opportunity is currently not retained internally, the reciprocity that an external party can offer takes precedent over the general market place.

In the South African market that is dominated by four major banks, any significant innovation or deviation from the norm is invariably picked up on by the competitors. This was certainly what has happened over the last few years, where all major banks have now embarked on a bancassurance strategy that is embedded in their strategic intent.

> *"As time goes by we understand the needs and work smarter to achieve a win-win situation."*

“It is a journey and we are constantly enhancing our capability.”

“As the bancassurance model changes there is probably a need for the relationship [with insurers] to sit within the [internal] model.”

Even though bancassurance is now embedded, it is by no means without a continuous change process that is still evolving, as the parties establish themselves in this space.

This evolution is also ensuring that the bank has more control over the insurance providers in their environment. Independent insurance providers have to find innovative mechanisms to share in this space or establish partnerships that have an element of equity swop, profit sharing or reciprocation.

“As an independent, you have to look wider than distribution and find the touch points for the bank.”

“Our model is more flexible and adaptable to the bank's model.”

Independent insurers believe there is still a role to play in the bancassurance market, but alignment of interest with the bank is crucial in sustaining a relationship. There are, however, severe limitations placed by banks on the extent of participation of independent insurers in their captive market.

“In the complex space we do not really offer products, but offer advice and allow the customer to choose the best of breed.”

This statement from a bank reinforces the feeling amongst independent insurers that there is room for them to participate, however, it will be limited to those elements that the bank believes is appropriate.

The overriding principle in all cases does indicate that bancassurance and its distribution are being managed at the highest level in the participating organisations. Focused attention must be paid to maximising the benefit derived by the organisation. This can be done through an active monitoring process by executive committees and boards of directors.

6.3 Proposition 2: 'An information system, which fully integrates insurance practices into the bank's culture, is essential'

Table 4: Respondents to proposition 2

Respondent	Level of integration		
	None	Full	Partial
Respondent 1			
Respondent 2			
Respondent 3			
Respondent 4			
Respondent 5			
Respondent 6			
Respondent 7			
Respondent 8			
Respondent 9			
Respondent 10			
Respondent 11			
Respondent 12			
Respondent 13			
Respondent 14			

Most of the respondents indicated that they felt that integration would be beneficial to increase the value derived from their bancassurance strategies.

Some had plans in progress to enhance their integration process, whereas others felt that integration was only necessary to the extent where the offer was seamless to the customer. The latter approach was clearly the strategy adopted for 'embedded' insurance products that were simple and bank transactionally linked.

Of the respondents interviewed, 79% had a partial integration of systems and the remaining 21% had no integration. This is reflective of the view expressed in the preceding paragraph that the partial level of integration was sufficient provided that the offering to the client was seamless.

> *"Where integration enhances the cross sell ratio and customer experience, we do it."*
>
> *"Bank staff sell the more simpler insurance products, but specialists sit at the branches selling more complex products."*

Insurance sales staff is also being integrated into the branch management network of banks to achieve the right levels of expertise and culture into the banking environment. This enhances the offering to the customer and serves to provide a service level, which is superior to that obtained from a third party or the bank staff.

> *"A lot of work is done behind the scenes, but to the customer it is seamless."*
>
> *"We integrate the product offering, but not the systems."*

"The challenge is between offering best advice and an inhouse product, and this is where you need strong guidance and leadership."

Often it is purely the perception that the insurance is a bank offering, but it does enhance the probability of a sale due to it being seamless. The challenge arises from the after sales experience that the customer is exposed to. When the offering was entirely outsourced to an insurance company, the service quality experience on a banking product to an insurance product differed for the customer.

"We deploy an individual who has a dual reporting to both the bank business unit and insurer, to ensure that the businesses are strategically aligned and we drive the same priorities."

With the onset by banks to use inhouse insurance capability or strategic alliances, they have more control over the customer experience and therefore ensure that there is no difference in the way a customer is dealt with, whether it is an insurance product or a banking product being sold.

The introduction of the Financial Advisors and Intermediaries Services (FAIS) Act resulted in bank sales staff not being able to conduct certain type of sales, which requires insurance sales staff being integral in the branch network. This then makes the alignment of the interest of the bank and insurer ever more important and supports the approach of having a key individual performing a dual role in the sales channel to achieve this.

For bank transactional insurance products, such as insurance on mortgage loans, motor vehicles or personal loans, the bank sales staff is used to sell the insurance. This type of insurance does not fall within the category of advice given in terms of FAIS and is within the capability of a simple sale that can be concluded by a bank staff member.

It is also a type of product that is seen to be a core competency of bancassurance and has a high yield in terms of profitability or cost reduction in the banks ratio analysis.

> *"Systems are being changed to monitor and report on bancassurance."*

System enhancements are also introduced to ensure that there is sufficient management information available to integrate the success of bancassurance and manage implementation of the bancassurance strategy.

> *"There is a high degree of use of systems around telesales by outbound call centres or inbound call centres to further the penetration of insurance. So, for instance, you call in for a cheque query and you get asked a question on your mortgage insurance and the like."*

Every customer contact is used to further the selling of insurance products to the customer. The effective use of customer information in this regard is imperative to conclude such sales, and significant enhancements are being implemented to systems to support this type of sale.

6.4 Proposition 3: 'Insurance policies built by bancassurers are simpler and easier to administer'

The following comments were made with reference to this proposition:

"Credit life is an embedded product that achieves almost 100% penetration and is fantastic."

"On the protection side, such as flexi-loan, student-loan, micro-loan, the penetration is huge."

In all instances it was abundantly clear that simple, transactional-linked products were the mainstream of a bancassurance strategy. The highest penetration level, and resultantly the highest revenue generator, was products that are linked to lending transactions. These products are simple and easy to integrate as a seamless offering to the customer.

"The embedded model is a natural advantage that a bank has and doing it on a pay as you owe basis, where the balance due and the premium is calculated on a daily basis, cannot be replicated by an independent."

"On the unsecured lending side, products are bundled into the price of the loan."

This strategy is clearly aimed at retaining the opportunity within the banking environment and removes the ability of insurers that do not have a banking link to provide this service. Once again it proves that banking transaction related

insurance is viewed as the exclusive domain of banks with a leaning towards inhouse capability.

> *"We are trying to adopt both an innovative space, as well as an operational space, so there is a tremendous amount of research done to determine what customers want, what are they looking for and how we can deliver it ultimately."*

The tactical use of customer information is seen as a key opportunity that has not yet been effectively tapped into. Banks' databases on customer preferences, and socio- and economic behaviour are viewed as being the source for designing products that are suitable for specific target markets. These databases are also contact pre-selection for more effective penetration of sales. This indicates that, with the availability of customer information and the correct use of this information, banks are ideally placed to design products that match the customer's preference.

> *"We understand their transactional banking needs, what is their savings and investment needs, what is their relationship and servicing needs. This drives the product offering to the customer."*

There is a tremendous amount of effort being put into understanding customers and their behaviour, which is leading to product design and delivery. This verifies the previous comment that analysis of customer behaviour is driving the product offering in the bancassurance market. This is, however, tempered by the following comment, which once again verifies what was said under Section 6.2

for Proposition 1, namely that alliances, which have a reciprocity to the bank, will still get an opportunity to participate in this area, but with certain constraints. Those constraints are in effect that there is an expectation that the alliance partner must have a distribution channel that captive to it and lends itself towards a product fit.

> *"Alliances in the motor vehicle trade space have been tremendously successful, but increasingly alliances where there is an asset protection need that has a distribution channel, is increasingly becoming effective."*

Ten of the 14 respondents have a remuneration mechanism that is variable and linked to the sale of policies. One of the remaining respondents did not offer incentives to his staff and the other three used a basket approach in remunerating staff. The method used by the latter three is based on the staff selling a range of products, including banking and insurance, in order to qualify for incentives. This is a method selected to avoid any pre-selection of particular product sales.

> *"Remuneration [to sales staff] is a significant driver of behaviour. Is that behaviour desirable? Very often not, because it reduces management's ability to generate desired outcomes at specific points in time, such as at present with high credit demand a bank needs off-balance sheet funding, but do what you want, you will not achieve this if assurance products generates the remuneration."*

This highlights the challenge that bancassurers face in driving sales of products, but within the tactical constraints that can apply at times. The basket approach mentioned above will not be the mechanism to drive maximum sales, but is probably the most prudent approach to meet all criteria with regards to which products are sold.

6.5 Proposition 4: 'Effective use of retail network leads to success'

Table 5: Respondents to proposition 4

Respondent	Is the retail chain an effective channel?	
	Yes	No
Respondent 1		
Respondent 2		
Respondent 3		
Respondent 4		
Respondent 5		
Respondent 6		
Respondent 7		
Respondent 8		
Respondent 9		
Respondent 10		
Respondent 11		
Respondent 12		
Respondent 13		

Respondent 14	[redacted]	

Eleven of the respondents indicated that the retail network is an effective method of distributing insurance products to the client, but not the ideal method. This is certainly the one area where a high consensus was obtained in the interview process, which emphasises the importance of the retail chain as a means of delivery. However, it is also probably the single most contentious area in whether it is the ideal channel or not.

Some of the respondents felt that the retail chain was the single most important factor in a successful distribution strategy, as the access to the customer was vitally important in selling products. One of the respondents felt very strongly that the retail chain was important in providing banking services to the customer, but insurance products are not sold at the retail level. However, it is an effective generator of leads to enable sales as a subsequent event.

"My concern would be that they have too many products on offer and on its own it is not effective."

"… products are sold over the counter, but it is not an effective channel …"

"I think the client base represents a huge opportunity, but the limitation of product distribution and legislation mitigate against the use of the retail chain."

"Penetration indicates that it is an effective channel, but legislation has an impact on the ability to manage this."

This particular view emphasises the view that the retail chain is key in providing access to the customer, but is overtraded in terms of the products on offer. It is limited in its ability to effectively sell insurance products. The effects of legislation in the guise of FAIS is certainly seen as an impediment to distribution through the retail network. However, the ultimate view that insurance is a product sold and not bought does result in efforts being made at the retail level.

> *"Very often an insurance product is a push product and not a pull product, and so there is no question that a warm body in front of someone is an effective mechanism for selling."*
>
> *"The retail chain is effective from more than one perspective. As soon as you have too many handovers, you reduce sales effectiveness, and secondly you can distribute at marginal cost, so you can offer it more competitively than the market and still make a higher margin."*

These two comments are at the other end of the spectrum, and portray an extremely positive view and endorsement of the retail chain as being effective. In addition to this a wide consensus view that emerged was that it is not only the retail network that is important, but that together with the one-stop-shop and brand loyalty, the retail network is an effective distribution channel.

> *"Client accepts the offer, because it is offered by an organisation that has integrity and the convenience of a one-stop-shop."*
>
> *"Banks are perceived as safer havens than insurance companies and looking after your interest better than insurance companies do, and secondly the importance of the brand of the bank plays a mammoth role."*

The perception of integrity associated with a bank was extensively highlighted as being key in distribution through a retail network. The view is that the typical barriers to a sale, such as price, benefits and so on, are less obvious, and it is diminished in a customers mind purely as a result of the reputation attached to the bank and its brand.

6.6 Proposition 5: 'Simple and easy to understand products are the key to a successful penetration of sales'

Table 6: Respondents to proposition 5

Respondent	Which product has the highest penetration?	
	Simple	Complex
Respondent 1		
Respondent 2		
Respondent 3		
Respondent 4		
Respondent 5		
Respondent 6		
Respondent 7		
Respondent 8		
Respondent 9		
Respondent 10		
Respondent 11		
Respondent 12		
Respondent 13		
Respondent 14		

Without exception all respondents said that simple products had the highest penetration in terms of volume and value in their bancassurance models. The basis of bancassurance success is driven by insurance products that are bank transactional and simple in all respects. They are simple in all aspects, ranging from benefits to premium and understandability.

A number of respondents said that they offer very few products in order to drive sales and keep it simple.

> *"… simplicity is the key, all the products are highly simplified …"*
>
> *"When a customer is asking you for a loan, he is very open to taking your insurance."*

These two statements have been a consistent theme among the respondents in that bank transactional, simple products are the source of successful strategies.

> *"The mortgage business is the core of our bancassurance offering."*
>
> *"In traditional space, such as home owners, penetration is high, but the rest is very poor."*

In the mortgage area of financing, which in private banking is the largest risk pool, insurance sales are high and are the foundation of their bancassurance strategy. These products are by nature simple credit insurance and banks that offer home loans are seen as the best insurance revenue generator. Banks where mortgage loans are not a significant component of their business concentrate on other lending transactions to up-sell insurance together with simple funeral products.

7 Conclusion

7.1 Introduction

Firstly this chapter will interpret the results obtained in Chapter 6 against the original propositions, as well as against Harrison's work on *"factors preventing bancassurers from gaining competitive advantage in the life insurance market"*, and will either support or reject the propositions that arose from the literature review. Secondly the chapter will make recommendations to management on the results of the interpretation. Finally further areas of research in the field of bancassurance will be suggested.

7.2 Proposition 1: 'An integrated organisational structure is a critical success factor that leads to a successful bancassurance strategy'

The most substantive conclusion derived from the results in the previous chapter was that bancassurance is receiving attention at the highest authority level at all of the organisations represented by the respondents. Some have recently focused on the model, while others had pioneered the concept in South Africa. In addition to this, the profit and/or ownership of the insurance element of bancassurance were in the hands of the banking partner in the relationship.

Harrison (2002) cited a lack of management support as an inhibitor to a successful bancassurance strategy. It is clearly seen by the results of this research that significant attention has recently been placed on this aspect of the business. This is indicative that it is a critical success factor for a successful strategy.

A further point raised by Harrison (2002), that *"corporate turf conflict"* was another inhibitor to a successful strategy, is also receiving attention by ensuring the ownership of both the insurer and the bank resides within a common structure. The profit streams should at least be controlled within the bank.

While bancassurance is still in an evolutionary phase in South Africa, some of the key concepts that will lead to a successful strategy are certainly emerging in the industry. An integrated organisational structure is at the top of the agenda, and has seemingly received the right level of attention and importance by bancassurance players in the market.

This supports Proposition 1, namely that an integrated organisational structure is a critical success factor in a successful bancassurance strategy.

7.3 Proposition 2: 'An information system, which fully integrates insurance practices into the bank's culture, is essential'

Systems integration was not necessarily viewed as being critical in all aspects of the business, but rather in pockets that were seen as being necessary. For simple, embedded products it was purely the seamless appearance of the insurance and banking products that was important, rather than integrating processes and insurance administration.

The ability to use the database of client information to distribute insurance products had a greater sense of importance attached to it. Once again it is purely the ability to access client information that is regarded as being necessary.

The management of information appropriately to address the consumer's needs from an insurance perspective is receiving some attention and does impact on a successful sales strategy. Harrison (2002) had also identified the use of management information as being a possible inhibitor to success in this channel. The results derived by Harrison indicated that the use of customer information was critical in the strategy employed, but was not important in the embedded environment.

In the final analysis all of the respondents indicated that they had some level of integration, from purely portraying a seamless offering to fully integrating the process, and this reinforces an earlier comment that the evolution of bancassurance in South Africa is still an ongoing process. This evolutionary process could ultimately result in a congruence of views with the literature review, but is not strong in support of Proposition 2 at this stage.

In the South African context one could then propose that integration is diverse and is dependent on the nature of the products. Therefore, integration varies based on current practice and what is seen as being necessary to portray integration instead of full integration.

7.4 Proposition 3: 'Insurance policies built by bancassurers are simpler and easier to administer'

There were some views on the use of information to develop products for a more complex need, but this was not prevalent amongst the respondents.

Prevalent amongst respondents was that the FAIS Act limited the ability of bank staff to provide advice and placed greater emphasis on the sale of simple products that fell outside of the definition of advice provided in FAIS. This made the selling of simple products even more important. This view was supported by the research of Harrison (2002) that FAIS limited the ability of bank staff to be adequately skilled to provide advice.

There was complete consensus in views from all respondents that simple products linked to bank transactions were easy to sell and administer. This is certainly an endorsement of the view that emerged from the literature review and proves high consensus with Proposition 3, namely that simple and easily administered products are the core of any bancassurance sales strategy.

7.5 Proposition 4: 'Effective use of retail network leads to success'

The results of this question to respondents were favourable on a high level. However, with a more substantive discussion the retail chain is viewed as a crucial delivery channel that is extremely difficult to manage. Harrison (2002) found that channel conflict might prevent bancassurers from leveraging the branch network. This had some degree of support from the respondents in this research. They intimated that the introduction of insurance products impacted on the sales of core banking products, especially if the incentive methods differed from insurance to bank products.

A similar negative view also emerged from Harrison's research, which showed that dissimilar cultures and management support highlights the need for mediation in the branch network. The view expressed by respondents to Proposition 1 has alluded to the support of management changing over the last two years, which could remove this particular constraint. In addition to this the significant ownership of both the banking and the insurance channel now vesting

with a common shareholder also leads towards addressing the concern raised about culture, but to a lesser degree.

A further concern that was touched on in Section 7.4 is the impact of regulation on the ability of bank branch staff to sell insurance products. The limited ability of bank staff to meet the criteria to provide advice to the customer, as laid down in FAIS, limits the ability to deliver a comprehensive range of products through the retail chain. This has led to the retail chain being used to sell the simple products, which are extremely successful.

Therefore, there is some degree of support for Proposition 4, that the effective use of the retail chain can be successful.

The evolution of regulation and the infancy of bancassurance in South Africa results in this particular proposition enjoying varying degrees of support, which will change as the landscape matures.

7.6 Proposition 5: 'Simple and easy to understand products are the key to a successful penetration of sales'

Without any doubt this was a view that was strongly expressed by all respondents in their assessment of what was successful in terms of sales and ability to penetrate the customer base.

These products generally are transactionally linked insurance products and there is an element of a forced sale, as the convenience of the offering that is usually a requirement for loans does lend to an easier sell that is likely to be taken up by the customer.

The need for insurance products to take on a look and feel similar to the banking product was a key factor in distribution. This reinforces Harrison's (2002) recommendation that insurance products should appear and behave like commodities in order to pursue a successful strategy.

This would then lend itself to Proposition 5 being true in that simple and easy to understand products are a critical success factor.

7.7 Recommendations to management

Bancassurance has been touted as the next revolution in banking and, as such, all possible participants are entering this market. However, due consideration is not being given to the challenges posed by the intricacies associated with finding a commonality between banking and insurance.

The challenges that the bancassurance model face encompass the full spectrum, from organisational fit to remuneration differentiators that is in existence in the fields of banking and insurance. The ultimate goal of both banks and insurers is a profit motive and this must be weighed up against the cost of overcoming the

challenges faced in order to pursue what can be an extremely lucrative source of profitability.

The first proposition in this research alluded to the need for an organisational structure that requires alignment. A prerequisite of a successful strategy is ensuring a strategy that is top down. This means that the strategy has to have full support from the executive driving the process and managing it through all lines of staffing. This must include appropriate management criteria that are incorporated in the overall strategy of the business. In addition to this, the cultural differences between bank and insurer must be understood and a convergence of these cultures must be pursued.

Harrison (2002) recommended that transactional banking insurance products, which have a look and feel of being banking related insurance, is a key strategy to follow and is endorsed by this research. The propensity to purchase a transactional linked insurance product was found to be the one that has the highest penetration by the respondents and this must form the core of any strategy in bancassurance.

A key consideration has to be the development of an adequate method to utilise the considerable infrastructure that exists in the branch network. This is possibly the most significant distribution channel available to a bancassurer.

Some of the key considerations in achieving this are adding more products to a channel that is seen as being saturated, finding a remuneration structure that fits the banking method, and training branch staff to be multi-skilled in banking and insurance.

The first consideration of adding products to the channel could be creating a further link in the chain that a customer must pass through, which will also address the skills problem. The second consideration could be addressed by linking insurance into a basket remuneration method with appropriate weightings that will encourage the sale of insurance, but not to the exclusion of the core banking products.

Very clear distinctive approaches need to be in place for products that are transactionally linked and those that need advice. This is necessary from a regulatory perspective of the FAIS Act, which recognise that some financial advice needs a highly skilled individual to conduct the sale. This also has serious implications for an organisation that does not provide this advice in a manner that is fair and appropriate to the customer's situation. Transactionally linked products do not place such an onerous restriction on the sale process.

These transactional products must be simplified and take on the form of the bank's other products to create uniformity and that is not perceived to be any different from the ban's other products. This should enhance the possible sale with minimal effort apart from the normal approach adopted by the sale staff.

Clearly the type of staff selected to conduct the sale is important and this must not be left to very low level of staff, who are not necessarily skilled to sell or do not have a good understanding of the underlying benefits of the product.

7.8 Further research opportunities

The following areas for further research emerged during the course of this research, which could be considered by individuals wanting to pursue bancassurance as a discipline for their research.

7.8.1 A comparison of bancassurance distribution models in South Africa to global practices

With South Africa now being part of the global community for a decade, it would be appropriate to measure the practises of local bancassurers to their peers internationally, which could provide insight into whether we are following best practices that are currently in place internationally.

7.8.2 Evaluation of the retail network

A thorough and substantive investigation in the various parts of the retail chain would provide an insight into the appropriate methods in utilising the retail chain effectively to pursue a bancassurance distribution strategy.

7.8.3 Regulatory constraints

The impact that legislation, such as FAIS, The National Credit Act and The Consumer Protection Bill, will and has had on the ability of bancassurers to continue operating successfully, as well as the disruption or cost associated with complying with legislation.

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9 Appendix 1

9.1 Consistency matrix

Research problem: Identify the critical success factors that create a competitive advantage for bancassurers			
Proposition	**Literature**	**Data source**	**Data analysis**
Proposition 1 An integrated organisational structure is a critical success factor that leads to a successful bancassurance strategy.	• Commitment from the highest level of the organisation (Saunders 2003). • The type of partnership that exists between the bank and insurer (Nigh and Saunders 2003–2004). • A relationship that has a whole or partial ownership structure between a bank and insurer has a strong bearing on the success of bancassurance (Saunders 2003).	Semi-structured interviews. Questions 1 and 2 of draft interview outline.	Content analysis

Proposition 2 An information system, which fully integrates insurance practices into the bank's culture, is essential (Gardener 2001).	• Successful sales penetration by bank staff requires ease of use and integration of information systems (Pintar 2000).	Semi-structured interviews. Question 3 of draft interview outline.	Content analysis
Proposition 3 Insurance policies built by bancassurers are simpler and easier to administer (Taylor 2001).	• Knowledge of customer requirements and simplicity of products are key drivers of bancassurance (refer to page 24). • Motivation of and incentives to staff (Gardener 2001). • Products linked to banking activities have a better success rate (Boston Consulting Group 1999, p.4).	Semi-structured interviews. Question 3 of draft interview outline.	Content analysis

Proposition 4 Effective use of retail network leads to success.	• More cost effective than traditional channels of insurance sales (Artis 2000). • Image portrayed by retail banks enjoy better reputation than insurance sales agents (Artis 2000). • Convenience of a one-stop-shop for financial services (Benoist 2002). • Retail branch networks facilitate the sale of transaction-triggered products (Harrison 2002).	Semi-structured interviews. Question 4 of draft interview outline.	Content analysis

Proposition 5 Simple and easy to understand products are the key to a successful penetration of sales (Harrison 2002).	• Credit Agricole eliminated all the 'fine print' from its insurance documents and drafted the literature in very straightforward language (Boston Consulting Group 1999). • Selling products that are easy for the consumer to understand and for the bank agent to sell (Wilde and Singer 1993).	Questions 3 and 4 of draft interview outline.	Content analysis

10 Appendix 2

10.1 Draft interview outline

Question 1

What is the nature of your bancassurance relationship?

Is this a strategic focus that has attention from the most senior level of the organisation?

Who is responsible for driving the process?

What are the key indicators of success that are monitored and managed?

Is there a shareholding between the bank and insurer?

Question 2

Do you consider the model used as being ideal for your organisation?

Are any enhancements to the bancassurance relationships being considered?

What would you do to improve the working relationship between insurer and bank in this partnership?

Question 3

There are various sales models being followed to maximise the potential of bancassurance. (Name them to respondent.) What model does your organisation follow?

Do you integrate your banking systems to the insurance systems?

Is it a seamless offering to the customer?

Does your organisation achieve a penetration level that is seen as being satisfactory or can it be improved upon?

How many products do you offer?

Are the products complex, simple, or a combination of both?

Of the products mentioned, which ones achieve the highest penetration in terms of volume and value enhancement?

What remuneration or incentivisation method do you use for the sales staff, and is it the ideal method or not?

Are any surveys done to determine your customers' insurance needs?

Does this drive your product offering?

Question 4

How are your products sold to the customer?

Is the retail chain an effective distribution channel?

Do you use any other channel?

Are there cost synergies achieved by introducing insurance as an additional product set to the retail network?

Is your pricing market related or do you offer a cost saving to the customer?

Is your customer likely to accept the product offering due to the convenience of a one-stop-shop?

Does the offering of insurance enhance your reputation/relationship with the customer?