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Bankassurance as a tool for protecting population during crisis Abstract The article discusses the concept of comprehensive and integrated cover of clients' monetary needs and necessities called the bankassurance. It is divided in parts dealing with contracting, importance, problems and place of bankassurance in relation with the financial safety during crisis, as its solution is acute, given the current increased occurrence of natural and anthropogenic disasters. Key words: Bankassurance, risk, insurance, banking, security, crisis management JEL: G220, D810, F52, H55, H12 Introduction Natural catastrophes and other threats have significant financial effects both on people's life and property. People usually expect to receive help from the national government or local authorities. However, such approach contradicts the general concept of national safety that takes into account a comprehensive approach and that assumes people acting actively to protect their lives and property as well as to eliminate the consequences of various catastrophes (URBAN, Optimizing of allocation of resources in support of protection of citizens 2012). Therefore, there is potential for adopting manifold measures and procedures starting from right place for house construction, generating necessary reserves and means for survival, reducing fire risk, etc. (SEDLAČÍK, ODEHNAL and FOLTIN 2015). Both the experience and history clearly demonstrate that the right choice of insurance covering one's life and property is the critical factor allowing individuals to overcome crisis impacts and to resume their original life style (URBAN and URBANOVÁ, Possible changes in attitudes of insurance companies by assessing risk and further planning of actions and resources 2013). Presently, a wide range of variable offers emerges on the financial market that are based on various risk assessment methods and that enable adopting preventive measures for individual types of threats according to one's financial possibilities (Štěpánek, Urban a Urban 2013). Such approach of the modern financial market is represented by the bankassurance. Bankassurance represents the concept of comprehensive and integrated cover of clients' monetary needs and necessities provided from one hand and for the entire life cycle. This leads to the reduction of the differences between credit institutions and insurers in the real life (Bank 2016). The primary impulse for the initial phase of banks and insurance companies integration was triggered by the significant change in clients' investment demand

(Daňhel, Ducháčková a Radová 6/2008). The driver was mainly the comprehensiveness of service and the efforts to provide the clients with one stop shop. Hence, in the financial service sector, the bankassurance is an example of individual entities (mainly banks and insurance companies) not limiting themselves to their typical activities; moreover they cooperate with other entities or use their subsidiaries to offer a wide range of financial service (Štěpánek 2011). History and development of bankassurance

Bankassurance, i.e. the sale of insurance via banks, is not a modern invention. Already at the end of last century, there was a close coexistence between banks and insurance companies (Gemünd 1995, 133) that has become again popular only recently. In the Czech Republic, the current form of bankassurance started to develop at the beginning of 1990's and the bankassurance pioneers remain the key players also these days. In the Czech Republic, the first bankassurance provider, i.e. the first bank to offer insurance products was Investiční a Poštovní banka, a.s. already in 1994 (ČEJKOVÁ, NEČAS and ŘEZÁČ 2003). The idea of new bankassurance model originating in the 1990's cannot be explained without explaining the American term of "personal financial services". In the environment of high interest rates in the USA in 1980's – in order to secure assets from interest rate fluctuations and customers from competition) – new combinations of products and distribution channels were introduced in the financial sector with the motto "everything under one roof". Modern associations of banks, insurance companies, shopping malls, organisations circulating credit cards and other products were established as the result of deregulation and new technologies; these associations developed and intermediated together new financial services with the customer being the central point of interest (Haller 1997, 56). In spite of the American financial service concept becoming outmoded and many of the then conglomerates being reorganised, this approach turned into the base of European efforts for launching bank insurance business. These efforts focused more intensively on providing such platform on global financial market and on domestic EU market that would allow combining successfully all financial transactions. In spite of the existing importance of bankassurance taking the form of distribution channels combination being rather small as compared to e.g. market share of all clients, a new picture should be presented soon. Sales of life insurance by banks amount to 30-50% of the new life business in several European insurance companies. Similarly, accident insurance sold in banks records significant growth, in spite of its share reaching only single per cents in the overall production. Also indicators based on actual production and portfolio data indicate similar development. Therefore, we will discuss the reasons for bankassurance being successful in the first place and then the ways for enforcing this concept as well as organisation challenges. Four basic reasons for the cooperation between banks and insurance companies: ? Credit institutions try to identify new profit sources. Traditional profit sources – mainly interest yields – are limited due to the growing competition. This situation could be compensated by the profit generated from insurance commission which helps the banks to stabilise their profit. As for insurers, this is a brand new distribution channel that allows boosting collected premiums in a simple and fast way ? The bankassurance platform often allows servicing the clients with similar or identical basic problems in sense of comprehensive financial services (Gemünd 1995, 133). Especially in the area of preventative measures for private clients where both banks and insurance companies represent - in interchangeable form - actually big tanks collecting capital, both bank and insurance companies clients have similar sometimes even identical goals (Gemünd 1995, 134). ? "Cross selling" is general practise with insurance companies; it also allows banks establishing closer tights with their clients. Each insurance policy contracted with "external" insurer may provide the bank competitors with crucial client's data and may jeopardise the entire bank-client relation. ? Common use of structural free capacities in bank branches and in insurer's exclusive organisation. Hence, bankassurance may influence positively the success, i.e. yield, and control the other side as wished, i.e. costs. Expensive stationary consulting capacities are present in bank branches anyway and they will be used to the maximum benefit of clients. ? Based on Pauluhn's calculation (Pauluhn 1995, 271), the costs per insurance policy in the conventional mobile area exceed the costs in the stationary area – counters

sales – by 30 - 50%. This is reasoned by the mobile costs being defined by the need to acquire all business transaction “actively from the clients”. In case of counter sales, the transaction is initiated by clients, i.e. the success rate is quite high and the costs comprise only time needed for acquisition and provided consulting (Pauluhn 1995, 273). In other words, banks profit in terms of costs from the structural benefit where insurance compared to bank products represents follow-up or secondary products in certain sense. Given the manifold advantage of bankassurance, it is surprising that the actual concept implementation that is not unique in the real life, is usually missing in the literature or discussed only superficially. There is an agreement that the implementation of this concept has excellent preconditions starting from framework conditions (Benölken 1997/9, 581). High quality bank consultants are intensively trained in analytical sales focusing on target groups. Banks endorse initiatives in product sales. Problems of bankassurance and their solution Efficient enforcement of the bankassurance idea struggles with three basic issues. Which products or product groups and which form of cooperation between banks and insurance companies should be offered to clients via banks? Höhmann/Venohr/Wouterse (Höhmann, Venohr a Wouterse 1997/9, 516) tried to answer the questions above with creating “three product classes” based on two-dimension segmentation of the insurance products. They proposed for each class differentiated, yet harmonised programmes covering their organisational implementation. The figure below depicts the described relation. In the first dimension, there is the “sales approach” matrix, i.e. the proximity of the insurance product to already offered classical bank services and the availability of clients’ information in the bank. This allows the sales of certain types of insurance arising from a certain incentive (e.g. providing mortgage in relation to life insurance and other risks that may incur in one’s life). The second dimension uses “contracting and consultancy costs” from the prospective of bank employee. Based on the criteria above, the following three insurance transaction classes can be differentiated from the bank perspective: First class, so called basic products, comprises life and accident insurance and hence also the function of “preventive provisions for third parties”. Providing property and prevention advice is a part of bank basic competences and it grants them traditional good approach to life and accident insurance clients. Salesmen usually know how to contract respective insurance policies and providing consultancy as they know the local conditions well also in terms of disasters predictions (Höhmann, Venohr a Wouterse 1997/9, 516). Banks may and should cover the entire scope of personal insurance independently and without external help from insurance companies and brokers both in terms of intermediation as well as follow-up processing. In order to facilitate insurance intermediation at bank branches extensively, respective bank consultants must be trained thoroughly in advance. Sales of personal insurance should be standard activity of each and every consultant similarly to payment transfer or deposits. The second class is represented by so called occasional products, i.e. insurance business related to typical bank services and provided by banks at certain occasions, and always with “central approach to the sales as well as to the acquisition/consultancy costs that are not part of the basic bank competences. Banks should be able to contract occasional products such as property insurance fully independently (Höhmann, Venohr a Wouterse 1997/9, 518). Banks possess data necessary for the identification of needs, riskiness of individual operations based on the concept of individual life phases and for providing consultancy. However, they must be organised efficiently to cover occasional sales (e.g. based on written consultancy plans, integration of “occasional products” into bank product application forms, improving support by IT technologies, simplification of “occasional products” for bank sales, etc.). The after-sale care for parallel business appears to be more cost demanding; given the absence of know-how and necessary consultants’ capacities, the care should be – if possible – outsourced with insurance partner also in terms of assessing the riskiness of insurance categories, i.e. generating value should be split up among the partners. All third class insurance products (related neither to persons nor to certain occasions) “have and will have relatively non-banking nature (e.g. motor vehicle insurance, insurance of apartment houses and home equipment unrelated to bank transactions, to corporate clients). Given the

difficult access to the clients and high complexity of the products one cannot expect that this potential will be made economically available” (Höhmnn, Venohr a Wouterse 1997/9, 520), and therefore they will not represent a future sales potential for banks. High Occasional products Basic products Property insurance Life Liability insurance Personal Availability accident of product Casco insurance Low Other property insurance without relation to bank Other liability insurance without relation to bank Counselling intensive products High Contract and counselling costs Low Figure: Segmentation of insurance products sold by banks, source: (Höhmnn, Venohr a Wouterse 1997/9) Bottom line, the concept of Höhmnn/Venohr/Wouters allows efficient segmentation of products that are and are not suitable to be sold by banks. It shows main challenges of organisational nature when introducing this concept such as implementation of efficient IT support, standardisation of product scope offered in order to cover extraordinary or emergency situations, training of counter staff, modification of forms, etc. Introducing the bankassurance is the diversification decision to be taken by the insurance company, and which is to be implemented in the existing distribution channel concept both in terms of organisation of internal structure and production processes, if seen as positive. A competition between distribution channels is not necessarily a must. Conclusions People are aware of and perceive the consequences of catastrophes or emergencies only upon restoration. At such moment, they are confronted with the effects on the psychical, physical and material level. Pro-active approach, mainly regarding prevention, is crucial and it can be taken by market financial services too. One of such options is the so called bankassurance. If banks focus on their primary business and insurance companies on “qualified business transaction”, i.e. on products with high level of consultancy, both private institutions may cooperate with a synergy effect generating value added when covering people’s needs, namely solving emergencies in their lives. References Bank, Czech National. www.cnb.cz/. 04. 28 2016. https

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