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DISCUSSION

Bancassurance in Egypt

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Abstract

The bancassurance is considered as one of the modern measures to activate and stimulate the insurance sector, through taking advantage from businessmen gathering as individuals and/or companies in banks' branches existing all over the country considering it as points of marketing and sale of the insurance products allowing insurance companies to offer its services and making financial risks insurance contracts as well as the life and property and casualty insurance.

Keywords: Bancassurance, CBE decision, Basel 2 rules, Bancassurance new rules

1. Introduction

Bancassurance practice in Egypt started in September 2003. When the Central Bank of Egypt (CBE) issued through the supervision and control sector a decree that controls how the banks' advertise promoting the insurance products.

After four years of this activity's entry into force, specifically in 2007, the CBE stopped it following excesses and negative practices that provoked disputes between customers and insurance companies and banks have become party to it.

Although several years have passed since the CBE's decision in 2007 to stop the bancassurance for new insurance companies established after the issuance of this decision, but that decision is still adversely affecting the insurance activity in Egypt.

These companies has adopted bancassurance in a large part of their feasibility study, in addition to unequal competition between the old companies working prior to the CBE's decision which the decision did not prevent from practicing bancassurance, and new insurance companies established after this decision preventing them from engaging in bancassurance.

Therefore, until May 2013, insurance companies continued to demand the return of the bancassurance through both the Insurance Federation of Egypt (IFE) and the Egyptian Financial Supervisory Authority (EFSA) efforts.

2. Bancassurance Definition

Bancassurance is a kind of protocols and cooperation agreements between a bank and an insurance company that CBE decided to stop its practice and the IFE seeks years ago to convince the CBE with its return.

According to these agreements and/or protocols, the insurance company uses the bank branches to market and distribute its insurance products. That's the reason bancassurance is considered as a lifeblood for the life insurance companies.

3. Bancassurance effects on the insurance companies

The decision to stop the bancassurance activity practice affected negatively the life insurance sector, in particular for the insurance companies established after the issuance of the decision in 2007.

These insurance companies have been prevented from marketing their products in the various banks' branches like other insurance companies established before 2007, on which the above mentioned decision was not applied so they continued to practice bancassurance.

4. Executed steps and efforts to reactivate bancassurance

The IFE held a lot of meetings through technical committees and executive boards with a specialized committee comprising the insurance sector leaders and the CBE representatives, where they discussed altogether putting rules for bancassurance due to some excesses practiced in the past.

Such abuses and excesses were avoided in the new rules that have been decided. But the CBE decided not to cancel the pending of the Bancassurance practice till Basel 2 rules for banks are issued. Indicating that it's possible to change this decision but after the issuance of the aforementioned rules.

Insurance companies have objected to that for non-compliance date of the rules' application, as the deadline to be activated was postponed to January 2013, after being supposed in July 2012.

The CBE went to a different orientation for activating the bancassurance for life insurance companies, in which the Bank has a controlling stake.

The IFE refused this orientation because such approach is to be defined as a kind of investment, and not bancassurance, as it allows the bank to establish a life insurance company and to have a controlling stake in it.

In addition to that, this approach would only apply to a limited number of life insurance companies where there are current investments for some banks, while many of life insurance companies will not benefit from this trend, because no banks have shares or investments in.

The IFE continued trying with the CBE for the fastest possible return of bancassurance without waiting for the application of the Basel 2 rules.

The bancassurance is one of the important elements that contribute to raising the insurance activity and the proportion of its contribution in the GDP, because it is considered as one of the most important activities exercised by life insurance companies.

It also represents a large percentage of premiums, where its rate in some insurance companies reached around 60% to 70% of total premiums volume.

That is the reason why these new companies, established since 2007 and part of their feasibility studies was based on bancassurance, were adversely affected by the decision to stop the bancassurance activity.

Also, EFSA has requested the insurance companies to prepare a study illustrating the importance of the bancassurance in order to review the possibility of its return to be practiced with the CBE.

The return of practicing the bancassurance is a necessary step for both the banks and the insurance companies, because it helps the growth of insurance companies' premiums, as it offers good coverage for banks' customers.

When the insurance company's representative provides insurance services easily, the bank customer considers this as an added advantage to the bank. In addition to the administrative fees paid to the bank for the issued insurance policies.

5. An insurance company's case

Here, we refer to a specific insurance company's case, Solidarity Takaful Life Insurance Company, a subsidiary of Solidarity Bahrain, which entered the Egyptian market with the purpose of exercising the Takaful life insurance activity with a marketing plan based mainly on bancassurance.

But the decision to stop the activity came directly after the company received its license to work. Which at the beginning led the company to amend its plan, and at the end the parent company decided to exit life insurance business of its subsidiaries in Egypt.

A decision that made the Egyptian insurance market lose an existing company working with such a marketing plan, even if the company was bought by another one from Lebanon.

It is indeed regrettable that if the decision to stop bancassurance practice came after the entry of this company to the Egyptian market, after it received its operating license, the decision of its return in May 2013, is only a post factum for the above mentioned company.

As the decision was made after selling the company in Egypt since June 2012 to a Lebanese company which has a variety of companies in the insurance field, where all the procedures are completed and it only waits now for the approval of the Prime Minister to sell. Given the law requirement to obtain his approval in case of selling only 10% of the insurance company, (we are

talking here about selling the whole company), which was postponed due to the political circumstances taking place in the country since June 2012.

6. Bancassurance advantages and disadvantages

There are advantages and disadvantages for the bancassurance. We can consider the integration between different economic activities, achieving mutual benefits for both the bank and the insurance company, and achieving the benefit of customers' sharing and exchange as the primary bancassurance advantage.

When insurance services are easily available for the bank's client, he becomes a client in the insurance company, and vice versa, for the insurance company's customer. Specially that some banking services are related to insurance activity such as cars' loans, export credit letters, in addition to the fact that some insurance companies have shares in banks and contrariwise.

While bancassurance disadvantages are indicated in the actual practice which showed that banks were marketing for insurance companies.

The expansion of some banks in providing bancassurance services had a negative impact on these banks basic services, particularly in the case of granting high advantages for the insurance companies to facilitate their work.

This made the banks turn to marketing insurance services over marketing theirs, which led the CBE to issue the 2007's decision to stop bancassurance activity.

7. Bancassurance current status in Egypt

It was expected to continue applying the decision of stopping bancassurance, especially in light of the circumstances the Egyptian economy was facing, because most of the banks' moneys were destined to lend the government, beside the decrease of the customers' numbers in the banks.

This was till May 2013, when the CBE allowed the return of the bancassurance by issuing the rules controlling the banks practice for this activity.

Also, EFSA issued its own rules for the same matter in the same month a week after the CBE.

This was done after several meetings and negotiations between the related committees to this subject.

Experts believe that this regulatory framework will help opening a new market for the insurance companies to make up for their 2011 and 2012 losses, which are estimated at about 800 million EGP on one hand, and to avoid the disadvantages of the bancassurance previous experience on non-fulfillment of some insurers' obligations, which resulted in disputes with customers.

8. The experts also believe that the new regulatory framework confirms:

First: the necessity to reinsure the new coverages and what exceed the retention limits in order to ensure the insurance companies' ability to meet their obligations. Specifically with the insurance companies issuance of new products of which "the political violence insurance policy" is the latest success to be marketed by companies to compensate losses suffered by financial institutions and other, arising from accidents due to the prevalent political violence.

Companies' ability to meet their obligations cannot be checked in this domain were not the dangers of riots caused by political unrest had been reinsured with one of the registered reinsurers with the EFSA.

It is obvious that the riots are one of the uninsurable risks because it is not possible to predict its occurrence and severity averages. When riots rise, the insurance companies are required to follow and apply the international reinsurance companies' recommendations of militancy in conditions and prices when accepting to reinsure those risks. Where occurring risks exceeded the coverage conditions for dangers of regular riots added to the fire insurance policies and other, as happened in the wake of the January 25, 2011 revolution, after the companies had suffered from a deadbeat compensation.

Second: to avoid harmful competition among insurance companies, which may be exercised by some insurance products marketers to stimulate sales through uncalculated reduction in the price of insurance premiums to compete with other companies and catch the insurance operations.

In this connection, we must not forget that insurance is a promise to be fulfilled. Where competition goes to a decrease in the price of the so-called in insurance terms "the fair price" that is sufficient to the insurance company to meet its obligations, which led insurance companies to lose credibility with customers.

In insurance, it agreed upon, according to the supervision and control laws, the EFSA follow-up to the insurance risks pricing, in order to ensure the ability of the insurance companies to meet the policyholders' financial rights. Also, the insurance federations, being eager on the reputation of the insurance sector and its companies, are interested in this matter.

9. Expectations about the bancassurance

Bancassurance is a fleet marketing for insurance companies, but it needs to prepare trained, qualified, and trustworthy human cadres, due to the direct contact with customers. It also needs to companies possessing significant financial solvency. It is more useful to life insurance companies for the property.

Bancassurance is the black horse during the coming period; it will carry the growth and recovery of the insurance sector, as a result of the spread of insurance products marketed through banks.

Recently, the CBE and the EFSA agreed to issue new regulations to re-engage in bancassurance avoiding the cons revealed by experience and practice.

The CBE decree no. 1010/2013, with the "Regulatory framework for the banks practicing bancassurance" has been issued on 21st of May 2013, reactivating the banks practice of this activity, in order to stimulate the market and the liquidity. Followed on May 27, 2013 by the EFSA decree no. 36/2013, regarding "Marketing of insurance products through banks registered with the CBE".

Mr. Abdel Raouf Kotb, President of the IFE, declared that the CBE decision to reactivate the bancassurance represents a strong impetus to the life insurance companies that helps in marketing its insurance products, and supports its communication with targeted customers.

Mr. Kotb had expected that the companies' work with the bancassurance mechanism will contribute in increasing its business growth rates with steady rates ranging between 25% and 40% within two years from the beginning of the insurance products marketing, according to this mechanism.

While the companies operating in the Egyptian market see that the insurance companies rely on marketing their products in Europe on the bancassurance mechanism by 40%, and expect a breakthrough in the growth rates of the insurance sector, particularly the life insurance after reactivating it in Egypt.

The CBE requirement from the bank to contract with two insurance companies as a maximum will reduce the problems of harmful competition within the banks. In addition to the lack of promoting similar products, whether in the life or the property branch, and the possibility to the insurance company to get contracts with more than one bank to promote its products.