

# Insurance Distribution Channels in Turkey: Effectiveness of Bancassurance

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**Abstract**—Bancassurance is basically the provision of selling of banking and insurance products by the same organization, under the same roof. In fact, the place always had insurance system. However, it is not common in the world. Now the sector bancassurance attaches great importance to the development. In particular pension applications, bancassurance work more efficiently, providing support for this trend. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance agents or brokers. Bancassurance is a known insurance distribution channel in Turkey but it may be preferred to use generally by banks not by insurance companies.

It was investigated in this study, the effectiveness of bancassurance in Turkey.

**Keywords**-bancassurance; insurance; insurance distribution channels

## I. INTRODUCTION

Insurance, one of the leading financial sectors, is highly sensitive to the economic development. Insurance sector in Turkey mostly lays out similar developments to emerging market.

The last decade has been a colossal growth period for the Turkish insurance sector. The sector has witnessed a considerable rise of equity capital surpassing even the increase rate of total asset size that has heightened by dozen times; this feature proves that the recent growth has a solid monetary basis. Furthermore, direct premiums have accelerated parallel to financial expansion Turkey has gone through rather successfully throughout the course of the last ten years. Besides, entrance of novel players to the sector from abroad has endowed the sector with new management styles, different approaches and most importantly wide experience [1].

The largest goal of the domestic and foreign firms which are operating production of insurance premium is to obtain a higher market share in this developing sector and to increase their profitability by increasing production capacity. For this purpose, these companies are making their organizational structure as a market-oriented for establishing different sale organizations to identify and dispel consumers' needs as a

distribution channels and they improve these opinions becoming widespread day by day [2].

Bancassurance, the provision of insurance services by banks, is an established and growing channel for insurance distribution, though its penetration varies across different markets. Europe has the highest bancassurance penetration rate. In contrast, penetration is lower in North America, partly reflecting regulatory restrictions. In Asia, however, bancassurance is gaining in popularity, particularly in China, where restrictions have been eased. The research shows that social and cultural factors, as well as regulatory considerations and product complexity, play a significant role in determining how successful bancassurance is in a particular market [3].

## II. DISTRIBUTION CHANNELS IN TURKISH INSURANCE MARKET

The structure of distribution channels in Turkey consists of agents, banks and brokers; and the change of these distribution channels for the last five years has been remarkable. Between 2007 and 2011, the agents have a constantly decreasing, whereas the banks have an ever increasing market share as channels [4]. The main distribution channel for Turkish insurance companies is agency networks.

As of August 2013, there were 61 insurance companies and two reinsurance companies registered with the Association of Insurance and Reinsurance Companies of Turkey. Seven of them are operating in the life insurance market, 17 of them are operating in the life and pensions market and 37 companies are operating in the non-life insurance market.

TABLE I. SHARES OF INSURANCE DISTRIBUTION CHANNELS IN TURKEY

Insurance Branches	Direct	Agency	Bank	Broker
Accident	12,15%	41,12%	42,26%	4,47%
Sickness/Health	19,94%	40,54%	10,39%	29,13%
Land Vehicles	0,76%	85,45%	7,75%	6,04%
Railway Rolling Stock	0,00%	100,00%	0,00%	0,00%
Aircraft	-22,38%	77,26%	15,09%	30,03%
Ships	9,88%	45,77%	12,06%	32,29%
Goods on Transit	12,45%	55,35%	5,41%	26,78%
Fire and Natural Forces	10,08%	47,75%	27,29%	14,88%
Other Damage to Property	14,08%	43,13%	33,09%	9,70%
Motor Vehicle Liability	0,96%	94,09%	1,13%	3,82%
Aircraft Liability	16,23%	39,58%	8,84%	35,34%
Liability for Ships	14,20%	10,11%	0,00%	75,69%
General Liability	16,84%	50,66%	8,92%	23,58%
Credit	40,12%	8,51%	7,23%	44,13%
Surety ship	45,17%	8,27%	16,76%	29,80%
Miscellaneous Financial Losses	21,02%	27,34%	29,49%	22,15%
Legal Expenses	0,42%	74,30%	21,92%	3,35%
Assistance	37,23%	60,64%	1,96%	0,16%
Total Non-Life	<b>7,73%</b>	<b>66,91%</b>	<b>13,89%</b>	<b>11,47%</b>
Life	<b>8,89%</b>	<b>8,91%</b>	<b>81,55%</b>	<b>0,66%</b>
General Total	<b>7,90%</b>	<b>58,46%</b>	<b>23,75%</b>	<b>9,90%</b>

Source: [5]

At the end of August 2013, 58,46 percent of TL 16 billion (8 billion \$) total market premiums were underwritten by agents; while 23,75 percent were underwritten by banks, and 9,90 percent by brokers, and the remaining 7,9 percent by company headquarters (see table 1).

### III. BANCASSURANCE

Bancassurance as a distribution model may need to reinvent itself as regulations unbundling banking products and insurance products are implemented. Without a bundled sale, bancassurers need to be more focused on customer needs. A key aspect of this shift involves developing a deeper understanding of customer profitability when insurance sales are separated from banking transactions. Some bancassurers may re-evaluate their business model and consider separating their banking and insurance operations [6]. Although bancassurance started with handling limited products, the sales of fire insurance moved forward smoothly because of factors such as the strengthened sales of housing loans as core products under the banks' retail strategies at the time and that the product is easy to understand [7].

At the beginning, the partnership was materialized almost exclusively on contractual basis and the activity of bancassurance was concentrated on the retail network of the

banks. Later on, the need of diversifying sent the bancassurance operations to other target-groups gradually, such as the corporate clients, the result being the enlarging of the scale of the products offered through this channel of distribution [8].

Banks possess a huge amount of personal and financial information on their customers. As well as this, they also have the opportunity of having contact with their customers during key events in their lives such as getting married or buying a home. An unrealised opportunity to provide insurance solutions in a timely manner exists [9].

Bancassurance definition is as follows;

- The provision of insurance products by a bank.
- The collaboration between banks and insurers to distribute insurance products to bank customers.
- The distribution of insurance products through a banks distribution channels
- A package of financial services that can fulfill both banking and insurance needs at the same time

Some definitions related to bancassurance.

#### A. Why Buy Insurance Through a Bank?

Today's banking business is no longer simply about loans and savings. Investment, wealth management, insurance and retirement pensions have become indispensable parts of individual financial planning services offered by banks. Banks are playing an increasingly important role in delivering insurance services, and enjoy one of the highest growth rates among insurance distribution channels globally.

Banks offering one-stop professional financial services provide the utmost convenience in addressing customers' protection needs.

Why Insurers Need Banks? [10]

- Penetration of banking services
- Extensive branch/distribution network
- Massive customer database
- Data mining abilities of the banks is enormous
- Banking is a daily need thus contact is regular
- Effective use of technology in banks (core banking systems, CRM, ATMs, e-banking, mobile banking)
- Banks are better at mass marketing and branding
- Lower cost per sales lead (large loyal customer base)
- Banks significant brand awareness within geographic regions
- Marketing and processing ability

- Access to multiple communication channels (Statements, Direct mail, ATMs, Telemarketing/call centres, Internet banking, Mobile banking)

distribution channel for life policies while in others like United Kingdom and Germany insurance agents and brokers have retained the majority of the market [13].

### B. Bancassurance in European Market

In the EU, the ratio of insurance industry to Gross Domestic Product (GDP) decreased to 7,7%. The country with the highest share of premium production in GDP was the Netherlands by 12,9%. While share of insurance industry in GDP in the Netherlands, England, Finland, France, Denmark, Belgium and Ireland was above the EU average which is 7,7%, this rate was rather below the average in the Eastern and Central European countries such as Czech Republic, Poland and Hungary (see table 2).

TABLE II. EUROPEAN UNION INSURANCE INDUSTRY (2012)

Country	Premium Production (\$ Million)	Year on year change (%)	Share of world market (%)	Premiums as % of GDP	Per capita premium production (\$)
UK	311.418	-2,10	6,75	11,27	4.350
France	242.459	-5,50	5,26	8,92	3.544
Germany	231.908	0,30	5,03	6,74	2.805
Netherlands	100.342	-2,50	2,18	12,99	5.985
Poland	19.038	5,30	0,41	3,82	494
Hungary	3.298	-11,90	0,07	2,44	332
EU 27	<b>1.402.293</b>	<b>-2,30</b>	<b>30,4</b>	<b>7,70</b>	<b>2.533</b>
Turkey	11.014	6,30	0,24	1,37	146

Source: [3]

Over the last 20 years, the convergence between banking and insurance activities has rapidly grown in Europe, evolving from simple commercial agreements to fully integrated models [11]. Bancassurance is the main distribution channel for life insurance products in many European countries, with Malta having the highest market share of 92%. Bancassurance continues to be particularly dominant in south European countries as well as in Austria and France [12].

TABLE III. BANCASSURANCE IN EUROPEAN MARKET

Country	Non-life insurance (%)	Life insurance (%)	Total (%)
UK	12,5	12,5	25
Spain	14	69,5	83,5
Italy	5,5	62,5	68
Germany	10,5	20,5	31
France	12,5	62,5	75

In many countries like France, Italy, Spain, Portugal and Romania bank branches have become the main

Countries with high bancassurance rates, such as France, Portugal and Spain, also had high bancassurance penetration rates in life business. However, the development of bancassurance in life insurance does not guarantee the success of this channel in the non-life market, as can be seen in Italy, where more than two-thirds of life premiums were generated by the bancassurance network while in non-life insurance the market share was less than 2%. The existence of a strong alternative network (agents in the Italian case) may explain such a situation [14].

### C. Bancassurance in Turkish Insurance Market

The distribution channels in Turkish insurance market are agents, banks and brokers. Considering the premiums underwritten by these channels and their market shares; agents get the biggest market share with highest amount of premiums during 2012, followed by banks, brokers, and central operations successively. One of the most significant changes in the Turkish insurance sector over the past few years has been bancassurance. Banking institutions and insurance companies have found bancassurance to be an attractive and often profitable complement to their existing activities [15].

In Turkey, private insurance agencies have a large weight in premium production. However, the share of brokers and bancassurance has been increasing for the recent years. Private insurance agencies generated approximately 60,24% of total premium in non-life branches in 2012. Bancassurance and brokers have followed private agencies with a share of 22,72% and 10,29%, respectively. The share of premium generated directly by insurance companies is approximately 6,75%. The following table presents the share of distribution channels for non-life branches (see table 4).

Distribution Channels	2008	2009	2010	2011	2012
Direct Production By Co.	8,85	8,81	7,09	6,73	6,75
Insurance Agencies	66,58	62,46	60,93	59,93	60,24
<b>Bancassurance</b>	<b>16,38</b>	<b>18,68</b>	<b>22,20</b>	<b>23,72</b>	<b>22,72</b>
Brokers	7,77	9,56	8,97	9,35	10,29
Others	0,42	0,50	0,82	0,27	-
Total	100,00	100,00	100,00	100,00	100,00

Source: [16], [5]

The value of commissions earned through bancassurance is expected to grow globally. The key

markets with high growth prospects include India, Singapore, Turkey, China and Chile. In Asia-Pacific, growth will be fostered by the entry of large foreign insurance players and a favorable macro-economic environment. In Turkey, the business is expected to grow owing to the growing demand for pension products in the country [17].

#### CONCLUSION

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There are many institutions in the Turkish insurance markets, founded with different objectives and operating in different areas. An effective distribution network in Turkey in recent years turned into bancassurance.

Stability of the insurance industry and the portfolio of the banks in terms of the presence of important activities. Insurance companies have the opportunity to benefit from banks' customer portfolio.

The bank's financial service of experience, the broad base consumer, technological underwork, prevalent branch network and bancassurance's undermining of distribution channel of cost, sharing of sources...etc; as the factors necessitate bancassurance in bank and insurance company.

As a result, banks became one of the attractive distribution channels for insurance products in the Turkish insurance market.

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