

BANKING INSURANCE AND FUTURE-SUSTAINABLE INSURANCE LITERACY

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Abstract: Bancassurance is an important channel for the distribution of insurance products. The stated advantages and disadvantages of banking insurance, also assessed by the importance of the cross-selling factor, determine conclusions and recommendations based on an insurance literacy survey. The great potential for the development of bank insurance through economies of scale and future sustainable insurance literacy of citizens responsibly connect and can be seen from the process of identifying and searching for customers by type of insurance and identifying their needs to enhancing distribution skills and actually improving the financial situation of each customer. The path of their mutual growth will be a highway.

Keywords: Insurance, Banking insurance, Insurance literacy, Life insurance, Innovation

JEL Classification: G22, G23, G52, G53

Introduction

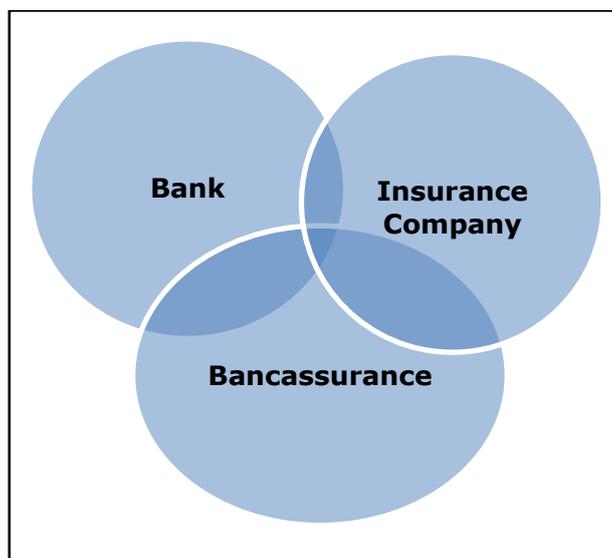


Fig.1. Bank insurance

According to a study by IMARC Group¹, the global banking and insurance market reaches \$1,191 billion in 2020, with an estimated value of \$1696 billion by 2026 at a CAGR of about 6% in 2021-2026. The main regions of the global banking and insurance market are Europe, North America, Latin America, the Middle East and Africa. Geographically, Europe is at

the forefront, with countries like France, Portugal, Italy and Austria contributing on a large scale to industry growth, while Luxembourg, Russia and Slovenia are potential markets for banking insurance in Europe.

In Bulgaria, banking insurance is achieving an ever-increasing scale. Individual banking and investment decisions adopted

¹ <https://www.imarcgroup.com/bancassurance-market>

by bank clients perfected with added life insurance products, as part of the general planning of personal finances and achieving tax breaks, leads to the realization of a human goal in life – regardless of the unforeseen circumstances ensuring the security of the individual and his family for a better financial future. This is one of the main reasons why banks, as an insurance intermediary for insurance companies, actively sell life insurance.

In order to exploit the image of banks and the high trust of customers in them, the practice of the Bancassurance partnership can provide numerous examples by type of insurance. Here are some of them:

- ZK Bulgaria Insurance is a partner in the development of the first exclusive co-branded international debit contactless card of Invest bank AD: Debit Mastercard Paypass with health insurance included Health Care Plus for cardholders²;

- Bulstrad Vienna Insurance Group JSC has created a new company NOVA Ins EAD, which will operate in the field of banking insurance. It was a fact just days after finalizing the transaction on the acquisition of the insurance company UBB-AIG by Bulstrad Vienna Insurance Group³;

- Postbank carries out insurance mediation for the conclusion of the insurance in its capacity as an insurance agent, on the basis of an agent contract concluded with the insurer with BNP Paribas Cardiff and Bulstrad Life TIG. The signing of the documents is done through the application of Evrotrust Technologies⁴;

- The Belgian KC Group is the largest banking and insurance group in Bulgaria. The companies, part of KS Group in Bulgaria, are UBB Bulgarian Bank, DZI Non-Life Insurance, DZI Life Insurance, UBB Interlease, UBB Asset Management, UBB Factoring, UBB Insurance Broker, KUS Branch Bulgaria. They offer the full range of financial services, including leasing, asset management and factoring. DZI develops and offers a full range of products in the non-life insurance and life insurance categories, as well as products related to covering health risks. DZI today

² <https://www.bulgariainsurance.bg/bg/articles/news/bi-ibank-card>

³ <https://www.investor.bg/novini-i-analizi/339/a/bulstrad-syvdava-nova-ins-sled-sdelkata-s-obb-209342/>

offers dozens of innovative services in the product portfolio and customer service, which it imposes both through a well-developed commercial network and through digital solutions available in the company's e-portal;

- BEHIND Allianz Bulgaria offers for clients of UniKredit Bulbank AD property protection insurance, life insurance "Life Invest" related to an investment fund, credit protection insurance and others; Many more examples and good practices can be presented, which proves the significant level in the development of bank insurance on the Bulgarian market.

The author argues that individual financial literacy, and in particular the insurance literacy of citizens, is out of sync and is divergent with the rapid pace of development of banking insurance based on key factors.

The tasks set by the author are two: first, to present advantages and disadvantages of banking insurance and, secondly, to present empirical data from a survey on financial literacy, summarizing her understanding of the problems with conclusions and recommendations.

Exposition

The increasing digitisation in the banking and insurance sectors, the tidal wave of COVID-19 and people's increased fears about life and their health, the restrictive pandemic measures of the early 2020s and the phenomenon of forced individual savings, the deepening persistent inflationary processes, the incomprehensible complete banking consolidation, are part of the good reasons for citizens to step up their interest in life insurance, health insurance, and pension plans, as well as to make improvements to their property insurance by opting for maximum insurance coverage or to address their conscious need for insurance.

Banking insurance is divided into two main shares: life insurance and non-life insurance - non-life insurance, and globally, life insurance has a greater market share.

⁴ <https://www.investor.bg/biudjet-i-finansi/333/a/poshtenska-banka-predlaga-izcialo-distancionno-skliuchvane-na-zastrahovki-324145/>

For both insurance sectors, the five factors of success in the sale of insurance products by the banks that Bergendahl (1995) systematizes are valid: positive customer attitude, well-developed office network, number of sales consultants, skills and knowledge of employees and the degree of synergy expressed by the cross-selling factor (Bergendahl, 1995). The cross-selling ratio / selling ratio / expresses the number of additional insurance services offered to one bank customer, and it varies from country to country, banks and insurance companies. The management of this cross-selling factor provides information on the making of reasonable management decisions. It also answers the main challenges facing banking business models in the last decade: the low interest rate environment, the design of financial regulation and the emergence of digitization (Carletti, Claessens, Fatás, Vives, 2020).

Within an insurance company there is also cross-selling, and it is under the scheme: each insured client, already a customer of the insurance company, with a given type of insurance, to be insured subsequently with insurance of another kind or by upgrading the existing insurance policy with uncoated insurance risks.

Bank insurers need simple, fully automated and comprehensive processes that reduce barriers to sales through digital channels. These processes should also include upgrading capabilities and cross-selling, for example by generating a personal accident quote after a vehicle insurance sale is completed. Similarly, processes should facilitate the creation of product packages as well as modular offers to support decision-making by self-directed customers.

The advantages and disadvantages of bank insurance can be distinguished in three groups:

● *For the insurance companies:*

- The insurance company increases its premium revenues by types of insurance, taking advantage of the already-created customer base of the bank;
- The acquisition costs for insurance are falling sharply due to the realization of a trading process on target groups/clients of the bank/, which has already incurred its expense to attract customers and establish their needs in a broad sense;

- It licenses new and develops insurance products that have a close connection with banking activity. For example, insurance of debit and credit cards and belongings;
- Batch pricing; Possibilities for data leakage and customer confusion;
- Conflict of interest.

● *For the banks:*

- The Bank can generate higher revenues from the same clients, for which there is an information database;
- Bank employees - experts - the failure of one office or even just one "expert" to present or offer a particular service, can affect the reputation of the bank and quickly repel the customer from both banking and other offered products and services in the bank;
- Attracting and retaining the good customers of the bank;
- For each cross-sale, the insurance company pays a commission to the bank;
- Bank mobile applications have an impressive vision tailored to current trends;
- The unplanned inclusion of more and more products and services may lead to the non-development and modernization of the main products and services for which the bank was originally established or known.

● *For the clients:*

- Realization of the client's motivation to trust one expert in many financial issues;
- Opportunities for bonusing or de-receding of complex service services and products;
- The undeniable convenience for all people is the existing digital capabilities that have eliminated the "disarming" of financial institutions, especially in the context of COVID-19;
- Ease in maturity renewals and improved offers;
- Time saving;
- At one subsequent moment allows "blind" trust with possible over-reliance as well;
- It lowers the overall marketing awareness of the banking and insurance sectors with the justification "I have a good consultant in the bank".

The conclusion needed is that the potential of bank insurance is about to unfold. The restructuring of the insurance market requires changes in the management of the insurance company as the highest form of innovation and implementation of reengineering in the market policy. (Markova, 2016) In-depth knowledge of insurance can be obtained with thematic trainings, financial literacy tests, materials from the scientific fund on the topic, such as the monograph "Credit Insurance" (Jerusalemov, 2021).

Looking at the facts, we should start from the level of insurance literacy of current and potential clients of banking insurance. The Association of Bulgarian Insurers conducted in 2020 a nationally representative survey "Attitudes towards Insurance and Insurance Literacy⁵". Such a large - scale survey has never been done in Bulgaria before. It covered 1000 people aged 18-65 and was conducted using the method of direct semi-standardized face-to-face interview in the period 29.02. – 06.03.2020. One of the objectives of the survey is to give an objective idea of the level of insurance knowledge of the Bulgarians. The main conclusion is that the results are unsatisfactory. The vast majority, 76% of all, set their level of knowledge of insurance as low at 34% or an average of 42%. Only 7% thought their level was high and 13% said they had no knowledge.

Importantly, 70% of people with tertiary and semi-higher education define their knowledge as secondary or high, while for people with basic education this rate is 14%. People don't know all the possibilities that life-insurance provides, and the mass understanding is securing in adverse events, which is true but incomplete. Of those surveyed, 64% know that insurance is products that are only developed by insurance companies, and the rest of the people think that this is done by insurance brokers. Survey data show a misunderstanding of basic concepts.

One in ten of the surveyed considers that the insurer is obliged to pay compensation for property insurance in the event of an earthquake, regardless of whether the earthquake risk is included in the policy. Of those surveyed, 17% thought that if

their car was damaged by hail – motorists' civil liability insurance would cover their damage and 20% could not judge. This is a high proportion of ignorance in an answer to a question that applies to the most massive insurance in the country. It turns out that only 28% have the right answer for the meaning of the term "insurance premium" - with all sorts of options for the wrong answer – 17% think it is the insurer's bonus for good performance at work, 26% do not know at all and cannot judge, 29% think this is the amount they will receive in compensation.

The results translated to banking insurance suggest a difficult synergistic process for all parties – bank, insurance company, customers.

CONCLUSIONS

Banking insurance and insurance literacy go hand in hand. Understanding the products, processes and meaning of consulting must reliably create challenges for everyone insured. Self-training and participation in organized training forms will inevitably increase the level of insurance literacy. Professional trainings for insurance brokers starting work, pursuant to the Insurance Code Article 304 para. 4 and continuing education for experienced insurance brokers pursuant to Article 304 para 2 of the same Code are obligatory.

The combination of fewer customer visits to banks and the impact of COVID-19 and the increased emphasis on credit products reduces the ability to sell bank insurance products that are not relevant to lending. It is therefore essential that banks find smart ways to sell banking insurance digitally. The rise of ecosystems and platforms is a natural result of digitisation. Those who are adaptive and fast with strategy will use it to their advantage. Evolution has taught us that it is not the strongest species that survive, but those who are most responsive to change.

Multi-channel personal interactions with customers will repeatedly encourage cross-selling and proactively reach customers who are highly likely to drop out. These amounts of invitations will provoke an increase in personal insurance literacy.

⁵ Association of Bulgarian Insurers , <http://abz.bg> , accessed on 18.12.202

Product innovations will require, in addition to insurance protection, products to add non-monetary benefits, administrative assistance for medical visits, accommodation of loved ones if needed, etc. The potential for the development of banking insurance and the future-resistant insurance literacy of citizens will reliably be

found not only in the process of customer search by type of insurance, but also in the process of enhancing distribution skills based on unique economic solutions for distributors. The path of mutual growth will be a highway.

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