

Development of Bancassurance Distribution Channel of Military Insurance Corporation in Commercial Banks in Vietnam



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SUMMARY: Bancassurance is one of the new distribution channels and is currently a particularly effective insurance distribution channel in the world and in Vietnam. From the general overview of bancassurance, benefits of bancassurance to insurance companies, the article assesses MIC's current situation of bancassurance distribution channel development in commercial banks in Vietnam. The bancassurance channel's sharp increase of revenue and commission showed that MIC's bancassurance distribution channel grew year by year from 2016 to 2020. Along with that, MIC has signed bancassurance cooperation agreements with 5 banking partners such as MB, VP Bank... and some other banks. However, MIC's growth rate of bancassurance distribution channel is still slow compared to other insurance enterprises. Recognizing those shortcomings, the research team has proposed a number of solutions to develop bancassurance distribution channel such as establishing a specialized bancassurance department, strengthening coordination between parties and investing in dedicated technology for bancassurance, strengthen training, developing human resources and building a mechanism to promote bancassurance distribution channel operations.

KEYWORDS: Bancassurance, Distribution channel, Mic, Bank, Vietnam

1. PREAMBLE

Bancassurance is considered to bring many benefits to insurance enterprises. This distribution channel is operated in a way that banks sell insurance products to their own customers. The strategy of developing bancassurance distribution channel together with banks helps insurance companies gain many advantages in terms of markets, brands and facilities, etc. However, the development of bancassurance distribution channel in insurance companies is not really effective currently. Military Insurance Corporation (MIC), a member of Military Commercial Joint Stock Bank (MB) is also facing difficulties in developing bancassurance distribution channel. Being identified as a key distribution channel parallel to such traditional distribution channels as agents or brokers, the results are too different from the other ones. MIC has all factors to support the development of bancassurance distribution channel from MB such as potentialities, people or brand, but the total premium revenue of this channel currently reaches less than 11% [6]. From this problem, the research team has chosen to study MIC's development of bancassurance distribution channel in commercial banks in Vietnam. The question is what limitations prevent this distribution channel from developing as much as expected from insurance companies and banks. What solutions can be done for MIC to overcome difficulties and develop bancassurance distribution channel?

2. GENERAL OVERVIEW OF BANCASSURANCE

2.1. Bancassurance

From practical demand in the field of banking and financial services, bancassurance was formed in France as a combination of the two terms "Banking" and "Insurance". According to Steven (2007) "Bancassurance is the sale of retail insurance products to a bank's customer base" [10]. This concept was introduced by the author in the study of bancassurance in countries around the world, typically the market of developed countries. In fact, the bancassurance distribution channel appeared quite early in European countries since the 80s and then flourished in the United States, so Steven's research is typical of bancassurance. Countries in Asia develop bancassurance channel quite late, but the rate increases year by year. Topping is Taiwan, the market share of premium revenue from bancassurance channel accounts for more than 50%, followed by Thailand with more than 40%. Our Vietnam, after 15 years of distributing insurance products from insurance companies through banks, it accounts for 30% of total premium revenue [13]. Currently, insurance companies rely on integration and development levels to choose different

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bancassurance models linked with other banks. There are three main types of models: distribution agreement model, joint venture model and sole proprietorship model or so-called monopoly model.

According to statistics from the Insurance Supervision and Administration Department under the Ministry of Finance, Prudential, AIA and Dai-ichi are the insurance companies with the largest number of partner banks in the market. In terms of revenue from bancassurance channel in total premium revenue of insurance companies, Manulife is the first company with a growth rate of nearly 200% in the last two years [3]. Along with the development of insurance companies, Banks also benefit from 20% to 30% of commission from insurance service charge thanks to this distribution channel [13].

Table 1. List of bancassurance cooperation in Vietnam (Updated to the fourth quarter of 2020)

| Manulife | Prudential | Dai – ichi life | AIA | Generali | MIC |
|--------------|--------------------|------------------|------------|-------------|----------------|
| Techcombank | VIB | SHB | VP bank | Bac a bank | MB |
| ANZ | MSB | MSB | Citi bank | Techcombank | VP Bank |
| Shinhan bank | MB | Exim bank | ACB | SCB | TienPhong bank |
| TP bank | Standard Chartered | Lienvietpostbank | DongA Bank | OCB | Techcombank |
| SCB bank | PV com bank | | HSBC | | Pvcombank |
| | Shinhan bank | | | | |
| | UOB | | | | |

Source: Insurance Supervisory Administration - the Ministry of Finance

Also according to statistics of the Vietnam Insurance Association, the total revenue of original life insurance premiums in the first nine months of 2020 reached VND 89,915 billion, increased by 21% over the same period last year. This growth rate is lower than the growth rate of 25-32% in the last 7 consecutive years, due to the impact of Covid-19 and the change in strategy of some leading enterprises in the industry. Notably, the shift to distribution via bancassurance channel is becoming clearer in the life segment when the contribution of this channel in total new premium revenue in 2019 reached 29%, rapidly increasing from 10% in 2016[4].

2.2. Bancassurance with the development of insurance companies

For any insurance company, developing bancassurance operations brings the company both economic benefits and non-economic benefits. Developing bancassurance operations helps insurance companies reach new potential customer markets. Bancassurance allows insurance companies to diversify their products and differentiate themselves from other insurance companies. The insurance companies that develop bancassurance operations develop integrated products that combine banking products with insurance products provided to the bank's customers. At bank-owned insurance companies, bancassurance products have become key products that bring a high proportion of total revenue to these companies. The combination of insurance and banking brings customers the convenience of services, brings the bank non-interest income and gives the insurance company new business opportunities in a new market. Insurance companies can save costs when developing distribution channels through banks. As one of the financial institutions that provide services directly to users, most commercial banks have a wide network of branches and transaction offices in central areas. Finally, enterprises have an abundant and potential human resource market of employees of commercial banks and at the same time develop their brand name with the development of bancassurance channel

2.3. Bancassurance distribution channel

As aforementioned concept, the bancassurance distribution channel can be simply understood as the connection of banks and insurance enterprises in providing insurance products to customers through their network of branches and transaction offices. The unique elements of the bancassurance distribution channel such as the branch system, highly qualified staff or the bank's own brand make this distribution channel effective. In addition, customer's loyalty to the bank raises ability to sell insurance products, thereby making the sales of insurance through banks easier. This distribution channel is divided into distribution forms in many directions such as at transaction offices of banks. Here, the bank staff will take on the role of signing insurance contracts. The second direction is direct distribution. In this form of distribution, the bank's customers access insurance product information from the bank's transaction counters and then sign an insurance contract directly with the insurance company. The final direction of distribution is over the internet. The popularity of online banking will lead to more online transactions in the future. Customers

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will buy and sign insurance policies on the technology platform provided by the bank. Simultaneously with the distributional dimensions, there are different distribution organization models in each dimension. Distribution organization models should be mentioned as combination model, expert model and financial planning model.

3. MIC'S CURRENT BANCASSURANCE DISTRIBUTION CHANNEL DEVELOPMENT IN COMMERCIAL BANKS IN VIET NAM

3.1. MIC's current bancassurance distribution channel development

Realizing that bancassurance trend of development will be a new distribution channel that brings efficiency and high profits. With advantage that MB is a major shareholder of MIC, in October 2008, MB and MIC established a bancassurance work group. Up to now, MIC has signed cooperation agreements with many banks, but mainly are Military Commercial Joint Stock Bank and Vietnam Prosperity Bank.

In 2013, MB and MIC chose the strategic alliance model - signed a comprehensive cooperation agreement to provide insurance products through the bank. MIC has been building a sustainable foundation to implement business strategy in 2013-2017; create a strong change in growth, revenue and efficiency: improving financial capacity; expanding distribution channels; striving to become a leading insurance enterprise in the retail sector. The fact that MB holds 49.77% shares of MIC has turned MIC into a subsidiary of MB, MIC has many advantages in bancassurance operations, which are exploitation and promotion of outstanding potentials and strengths of MB compared to other investors: Strengths in distribution network, financial potential, customer base and MB reputation, brand in the market, MB's large scale advantage for network expansion [14].

With VP Bank, MIC and VP Bank signed a cooperation agreement in October 2009 to distribute insurance products to MIC. Currently, all branches across the country of VP Bank are playing an important role in distributing insurance products linked between MIC and VP Bank. Along with that, VP bank and MIC have chosen a strategic alliance model to provide insurance products through the bank, the fact that VP Bank holds 10.7% shares of MIC has created many advantages in deploying bancassurance operations of exploiting and promoting the outstanding potentials and strengths of VP Bank.

Most recently, in 2016, MIC and Vietnam Technological and Commercial Joint Stock Bank (Techcombank) officially signed a comprehensive cooperation agreement. Thus, with the cooperation with Techcombank, MIC officially entered the list of the 5th bank to sign a comprehensive cooperation, marking a strong development step through bancassurance channel [14].

Table 2. MIC's bancassurance channel development result from 2016 to 2020

Unit: million dong

| Year | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-----------|-----------|-----------|-----------|-----------|
| Total Net Premium Revenue | 1,342,871 | 1,498,701 | 1,483,619 | 1,637,755 | 1,762,425 |
| Net premium revenue from bancassurance | 117,918 | 128,692 | 138,797 | 168,800 | 192,155 |
| Bancassurance channel commission | 21,227 | 26,254 | 27,866 | 39,492 | 34,175 |
| Bancassurance fee revenue proportion | 8.7 | 8.5 | 9.3 | 10.3 | 10.9 |

Source: Summarized from MIC's annual financial statements

From Table 2 about MIC's business results through bancassurance from 2016 -2020, the growth of premium revenue over years is seen. If the operating result for the first year 2008 of deploying bancassurance was VND 6,147 million only, up to now in 2020 (temporarily calculated) the net premium revenue from bancassurance channel was VND 192,155 million, accounting for 10.9% of total MIC's net premium revenue. The results show the change in the position of MIC's main sales channels and at the same time, it is also a evidence for the growing bancassurance in Vietnam. In addition, the corresponding bancassurance channel commission along with the bancassurance fee revenue proportion has also increased sharply over years. However, due to economic recession under the influence of the NCOVI -19 pandemic, the commission paid to bank agents in 2020 only increased slightly by VND 39,492 million in comparison with 2019 [5].

3.2. Inadequacies in MIC's development of bancassurance distribution channel at commercial banks

With the business results analyzed in Table 2, MIC has achieved some positive results when implementing the bancassurance distribution channel. MIC has signed bancassurance cooperation agreements with 5 banking partners such as MB, VP Bank, TienPhong bank and some other banks. However, with its potential, this result is still insignificant and if compared with the growth rate through bancassurance distribution channel of other insurance companies, it is quite modest. The reasons include:

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MIC does not have a dedicated department for the distribution channel, leading to a non-smooth business process in the bancassurance model. The customer information processing, circulation of documents in issuance of insurance application, collection or settlement of insurance claims for customers are still slow. If these problems are not handled immediately, it will greatly affect the development of the bancassurance distribution channel.

The coordination between MIC and banking partners has not been close, motivating and determining in the leadership. Because revenue targets are not imposed to each customer relation specialist, it is not actually cared. Bank staff is not regularly trained on new insurance products, so it is very difficult to advise customers.

The technology platform has not kept pace with the development of the Bancassurance distribution channel. The current application of technology is also a weakness of enterprises in general or insurance companies in particular. This is one of the limitations that are difficult to overcome in a short time because the costs for technology investment, suitable personnel training and stable operation are quite much, many insurance companies are still hesitant.

The exploitation and operation promotion mechanism of the distribution channel is incomplete. Salaries and bonuses are important motivating factors for enthusiasm, effort and ability development of each person. This structure should properly reflect the contribution of each individual, normally based on the revenue of insurance premiums recorded monthly. It is necessary to have a reasonable reward mechanism to encourage and motivate staffs' dedication and work if prescribed targets are exceeded.

4. SOME SUGGESTIONS FOR DEVELOPING MIC'S BANCASSURANCE DISTRIBUTION CHANNEL IN COMMERCIAL BANKS IN VIETNAM

4.1. MIC's ability to develop bancassurance distribution channel in commercial banks in Vietnam

As part of its roadmap is to realize its development strategy in order to maximize position, advantages and system characteristics of the founding shareholders, especially MB as a shareholder proposing foundation and holding dominant right, to soon turn MIC into a special non-life insurance company with its own identity, with connection specialized products, bancassurance-based integrated products in addition to original insurance products deployed through traditional distribution channels. Therefore, in 2015-2020 period, MIC determined that its main bancassurance market is the customer system of affiliated banks, mainly MB. After 2020, MIC sets a new goal of comprehensively exploiting customer data from all associated banks implementing bancassurance. If the 2015 - 2020 period is considered as a prerequisite stage, establishing a process and technological foundation for bancassurance development, the goal from 2020 onwards is the bancassurance positioning stage in the connected bank system and at the same time establishing cooperative relationships with other banking partners with the following orientation:

Exploiting customer base from banking partners, enhancing MIC's ability and cooperation capacity in alliance forms.

Increasing premium revenue through bancassurance channel, setting a target that premium revenue deployed through bancassurance channel accounts for 15% of total principal premium revenue [14].

Increasing closeness in cooperation with banks, strengthening insurance professional training for banks' insurance consultants, designing specialized products to be deployed through bancassurance, attaching banks' services with the principal insurance product.

With specific goals and clear orientation as above, MIC is fully capable of better developing Bancassurance distribution channel of life enterprises at banks in the future.

4.2. Some proposals to develop MIC's bancassurance distribution channel in commercial banks in Vietnam

From the inadequacies in the development of bancassurance distribution channel mentioned above, the research team proposes some solutions as follows:

Firstly, establish a department dedicated to developing bancassurance distribution channel. Up to now at MIC, the staff at the principal insurance departments have concurrently taken charge of developing bancassurance distribution channel from designing products, contacting banking partners to planning bank staff training program. To make the bancassurance distribution channel systematic, it is necessary to establish a department dedicated to bancassurance distribution channel development and have a clear coordination assignment.

Secondly, strengthen coordination between the parties. In fact, after 10 years of cooperation between MIC and MB, VP Bank, obtained achievements are not much, because there is no thorough direction of the bank's leaders to branches/transaction offices. The cooperation contracts which have been signed was left beside without coordination for execution. In the coming time, MIC and its banking partners need to have deeper and closer cooperation. Upon availability of mutual cooperation agreement between leaders, this policy should be thoroughly communicated to the branches/transaction offices of the bank with registration

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of business plan for how much revenue gained each year from insurance premium, if not achieved, appropriate sanctions should be taken

Thirdly, invest specialized technology for bancassurance. Bancassurance is developed on the basis of modern technology, which is a software linking the bank and the insurance company so that the bank staff can perform and the insurance company can control the issuance of applications, charging, recording of turnover, accounting of invoices, stamps, monthly revenue reports between the two parties, payment and settlement of insurance premiums.

Fourthly, build a mechanism to exploit and promote the distribution channel activities. The salary and bonus policy changes depending on whether the bank staff or financial advisors are involved in the sales process or the bank staff only provide a list of potential customers... In addition to the commission for the Bank under regulations of the Ministry of Finance, the MIC needs to have additional amount to the Bank such as: revenue-based bonus, information technology support, infrastructure construction, etc. In case the bank's sales personnel is not directly involved in sales, but only provides potential and large customer data, the MIC also needs to design an appropriate compensation policy.

5. CONCLUSION

As mentioned above, the bancassurance insurance products distribution channel has been developing strongly worldwide, and Vietnam is not an exception to that trend. In Vietnam, bancassurance is not new but has not been fully developed. With the research team proposed solutions, it is hoped to partly remove difficulties in MIC's development of bancassurance distribution channel system in banks in Vietnam.

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