

BANCASSURANCE – NEW OPTIONS FOR THE DEVELOPMENT OF SERBIAN FINANCIAL SECTOR

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Abstract. *In difficult conditions of the global economic crisis, the insurance market manages to grow faster than the long-term global gross domestic product (GDP). Traditional barriers between banking and insurance are being increasingly lowered in the last few decades. This is a result of deregulation and liberalization of the financial services market, as well as a consequence of the appearance of giant financial companies capable of rendering a wide range of financial services. Banking distribution of insurance products is growing faster than traditional sales channels both in the developed and in developing countries, first in life and recently in non-life insurance classes. Bank life insurance is strongly developed in some European countries and has reached high market shares, such as in France and Portugal. Bancassurance is also becoming a major component of the distribution system primarily of life insurance in developing countries, especially in Central and Eastern Europe, stimulated by the expansion of mortgage and consumer loans. In the past few years, bancassurance has been developing in Serbia, where it maintains an upward trend as a sales channel. In the near future, especially with the opening of new bank credit lines and the introduction of tax incentives by the state, this sales channel may bring significant benefits both to banks and insurance companies, as well as to clients in the form of offering all-in-one financial services aimed at saving time, lowering commissions and allowing premium.*

Key Words: *bancassurance, bank, insurance, banking products.*

INTRODUCTION

During the last two decades, bancassurance has been positioned as one of the key sales channels of insurance in several world markets. The aim of creating this sales channel is

the ability to offer various financial services in one place in order to have integrated performance of banks and insurance companies in the financial market.

In contemporary practice, particular distribution channels for the services of insurance companies have been singled out, including [4, p. 17]:

1. Direct sale - Sale of insurance through insurance companies, without intermediaries, using direct marketing. The sale in this way is done through a company's own sales forces - employees in insurance companies and distance selling (call centers - telephone sales, Internet, e-mail, etc.);

2. Brokers - agents who represent the interests of insurers.

Their activities can be performed as: captive agents - agents who have exclusive representation contract with one provider; multiple-binding agents - agents who represent several providers based on multiple contracts; brokers - intermediaries who represent the interests of clients and other intermediaries such as car dealers, travel agencies and similar who associate selling of their products and services with the sale of some of the services of insurance companies.

3. Bancassurance - provision of insurance services by banks, which will be discussed below. Traditional barriers between banking and insurance have been increasingly fading in the last few decades. This is a result of deregulation and liberalization of the market of financial services, but also the consequence of the appearance of giant financial companies capable to provide a wide range of financial services, from traditional banking, through investment, operations with securities and asset management, to insurance services. Competition, globalization, technological innovation and the increasing sophistication of customers have significantly supported this trend [6, p. 96].

This paper will deal with the development phase of bancassurance, the implementation modes of offers by insurance companies within the banking sector, their advantages and disadvantages, the benefits from the application of this sales channel for banks, insurance companies and clients themselves, as well as with its market share.

1. THE CONCEPT, DEVELOPMENT AND SIGNIFICANCE OF BANCASSURANCE

By definition, bancassurance actually implies a package of financial services that include banking and insurance services offered at the same time and in the same place [2, pp. 59-63], that is, bancassurance represents a strategy by which banks and insurers work together, in more or less integrated manner, in their approach to financial markets, including the distribution of insurance products by banks [10, p. 3].

The bancassurance development period can be divided into three stages, as shown in Figure 1.

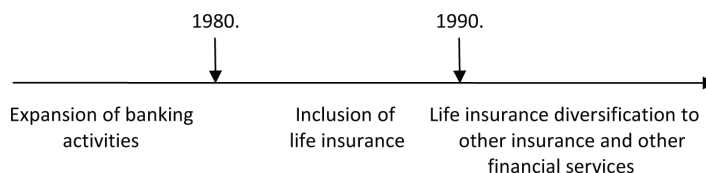


Fig. 1 Bancassurance development

Source: Vesna Babić-Hodović, PhD, "Bankosiguranje - konkurencija ili kooperacija bankarstva i osiguranja", Svet osiguranja 2003.

In the first stage, until 1980, banks were selling bank guarantees as insurance in the form of a direct extension of their banking activities. These services were not related to the insurance that is now being offered as a product by the banks. Therefore, this period of development is not considered as the proper offer of bancassurance, although for banks it represents a period of learning and acquiring good experience in this field.

The second phase began after 1980, when banks started developing and offering services in the field of life insurance to their clients (France - 1980 - the first sale of life insurance through banks). In the late '80s of the twentieth century, the first unit-linked (policy benefits determined by reference to the value of a collection of investments) and investment-linked policies (policy premium portions determined by reference to a specified investment) appeared in developed European countries.

The third phase, which began in 1990, set in when banks' offers included brand new services, not only the services related to life insurance, but also all other insurance services. That same year the EU adopted the first directive on the sale of non-life insurance through banks as the sales channel.

The main reasons for the expansion of bank insurance are profit and competition. It is estimated that bancassurance already participates with 20-30% of the profits of banks in the continental part of Europe [1, pp. 12-14].

The intense competition among banks, in the conditions of margin reduction in interest rates, has led to an increase of administrative and marketing costs and limited profit margins for traditional banking products. This led to the need of banks to search for new products in order to increase their productivity and profitability [3, pp. 5-8].

At the same time, there was a change in preferences of bank customers in terms of reduced share of conventional savings and deposits.

Life insurance products, which are mainly supported by favorable tax treatment and contain a strong investment-related component, have turned out to be very attractive to customers.

Increased competition and a significant risk of an outflow of deposits due to increased mobility of clients have caused the banks to regard cooperation with insurers as a way to provide a "binding" of clients, through creating a diversified supply of financial services in one place. However, apart from the banks, insurance companies and clients themselves gain significant benefits from bancassurance, as well. The benefits reflect in the following [2, pp. 59-63]:

- Through bancassurance, that is, by diversifying their offers, banks have the opportunity to substantially increase the profitability of their network of branches and subsidiaries by means of increased productivity of regularly employed staff, thus providing additional and stable source of income in the form of increased compensations and commissions. This way, the reliance on interest margins (the difference between debit and credit interest rates) as the main source of operating income of banks is reduced.
- Bancassurance allows insurance companies to sell through banking channels the services that are not suitable for traditional distribution channels of insurance companies. Through this sales channel, insurance companies have access to a new client base - the bank's clients, who represent a completely different segment of the population (according to their buying habits) in relation to potential clients with whom the insurer had dealt earlier. Bancassurance allows the presence of insurance

companies in the territories where they have not yet been represented, but where the bank already has its branch offices. In this way, the insurance company does not have to build its own network of insurance agents that requires a lot of time and money.

- The benefits that bancassurance provides to clients are reflected in a complete supply of financial products and services (banking and insurance) in one place. Thus clients can save time and get lower premiums, since insurance companies transfer a part of the reduction of distribution costs to policyholders through reduced premiums.

a) Bancassurance models

There are four basic models of bancassurance [3, pp. 4-5]:

The first model - distribution arrangement - the distribution channel of one partner gets access to the database of the other partner. This model represents the simplest form of bancassurance, without any closer cooperation or need for more investment, which can easily remain unused as a sales channel if the partners do not cooperate sufficiently in the exchange of data. On the other hand, this model may prove very profitable, since it requires low investments. The precondition for improving the profitability of this model is that insurance products, which are the subject of marketing, must have a "brand" (although the bank may sell them under its own name) and have to be standardized.

The second model - strategic alliance - represents a higher level of business integration of the bank and the insurance company, with a coordinated management, joint product development and shared base of clients. It requires less investment, primarily in information technologies and sales staff.

The third model - joint venture - includes joint ownership of banks and insurance companies over products and clients (databases). It involves a long-term cooperation and significant investment, on the condition that each institution remains independent. However, a joint venture can also be established on a corporate basis, through the creation of a new insurance company by an existing bank and an existing insurance company.

The fourth model - creation of a new company for rendering financial services through acquiring the existing or establishing a new bank by the insurance company - so-called new start without association (each institution remains independent). This is a highly convergent model, the application of which results in a reduction of costs by sharing the distribution channel.

The choice of appropriate bancassurance model depends on the business environment and manner of operation of banks and insurance companies. In any case, the bank and the insurance company have to agree on the sales channel to be used. In addition, banks need not be the only point of selling bancassurance products. It can also be performed in post offices, microcredit organizations, supermarkets, department stores and the like. From the past experience in implementing banking insurance, it has been observed that the best results are obtained by using the model of distribution arrangement in which an important role is played by experts trained in insurance and retail banking officials, with the established system of compensation over fixed salary, which is based on commissions and bonuses [3, p. 9].

b) Insurance products marketed through bancassurance

Through bancassurance, 3 to 5 times more insurance policies can be sold as compared to the number of policies sold through standard sales procedure [8, pp.18-19].

Products of life and non-life insurance are sold through bancassurance, but non-life insurance products are less important for the placement by bancassurance [10, p. 5]. The main reason for this is that both types of life insurance and banking products are directed toward the accumulation of funds and their management.

For this reason, it is easier for banks to sell products of life insurance than non-life insurance products. Another reason is a good understanding of the financial situation of clients and their needs, which allows bank officials to sell life insurance policies more easily, while this aspect is less important in the distribution of non-life insurance.

Simple standardized insurance products, such as car liability insurance, comprehensive coverage, household insurance, travel-health insurance and others, are sold individually or packaged with a banking product and are mostly represented in the initial phase of introducing bancassurance.

More complex insurance products can be sold at a later stage of the implementation of bancassurance as a sales channel. This is primarily the case of insurance types linked to investments in mutual funds, life insurance, accident or health insurance, income protection insurance, medical expense insurance, voluntary pension insurance, consumer loan and credit card protection insurance, etc.

Standardized insurance products can be sold by bank tellers without any special training. However, sophisticated products that are, for example, sold to corporate clients require specialized knowledge and, therefore, specially trained staff. These are usually the employees of the insurance company which is a partner in bancassurance.

The time that a counter clerk can dedicate to a potential policyholder is confined to his banking responsibilities, where he is focused exclusively to bank clients. Bank officials who are only passive sellers (sell only if asked for a product) have a limited domain, but if they are active and direct agents and insurance advisors to their potential customers, they can be valuable assistants.

As a rule, bancassurance is introduced through the banking sales channel in two phases [3, p. 19].

The first phase - a sales combination of banking and insurance products or individual sales of simple insurance products (travel insurance, supplementary health insurance, household insurance, etc.): the best results are expected if banking products get integrated with insurance products.

The second phase - direct sales by the bank clerks of insurance products independently of banking products: after having settled insurance selling into routine, the ability to sell individual insurance products, through adequately defined system of motivating bank employees who deal with insurance selling, by establishing a system of bonuses and commissions that would be paid over the fixed salary in accordance with the results achieved.

The integration of bancassurance, through a simultaneous sale of banking products and products of insurance companies in accordance with the defined needs of clients, is presented in the Table 1.

Table 1 Integration of bancassurance

Bancassurance integration		
Needs of clients	Banking product	Insurance product
Running costs	Current accounts, credit/debit cards	Collective life insurance, accident, travel, voluntary health insurance
Short-term savings	Deposits, treasury bills	Individual life insurance - risk, accident, travel
Purchase of goods and payment of services (furniture, travel, medical treatment costs...)	Short-term borrowings, short-term cash loans, consumer credits	Collective life insurance, accident
Buying/building a house, apartment	Long-term mortgage loans	Household insurance, individual life insurance
Buying a car	Leasing, loan for car purchase	Car liability insurance, comprehensive insurance
Savings as a form of investment	Purchase of investment fund units through banks	Individual life insurance, accident

Source: Research of the authors

2. BANCASSURANCE - WORLDWIDE COMPARISON

The market development level, local circumstances, different habits and legislation are the reasons why bancassurance, as a sales channel, has not developed equally in all parts of the world. Unfortunately, there are no precise statistics on the representation of bancassurance in the world, nor about related actual savings as compared to other distribution channels.

Non-life insurance sector

Non-life insurance products are sold in the European countries mainly through traditional intermediaries, that is, agents and brokers (more than half of non-life insurance premiums). The exceptions are countries like Switzerland, Holland, Croatia, Finland, Norway and Sweden, where direct selling is still the dominant sales channel. However, recent trends show a slight decline in market share of agents in most markets. This trend is closely linked to the diversification of sales channels: on the one hand, there are new channels of distribution such as bancassurance and Internet, and on the other, insurers have begun to implement a multichannel strategy that erodes the market share of leading distribution channels [4, p. 21].

Distribution of non-life insurance in European countries, members of the CEA (the European insurance and reinsurance federation) for 2009 is shown in the Chart 1:

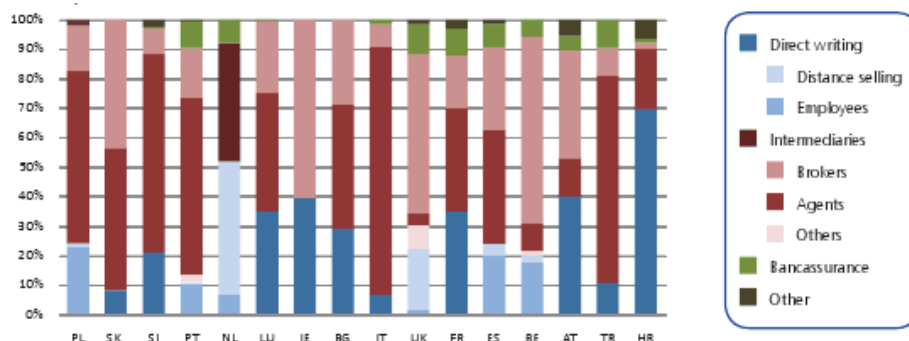


Chart 1 Distribution of non-life insurance

Source: CEA Statistics Insurance Distribution Channels in Europe, p. 9

As in Europe, bancassurance is not well developed in the sphere of non-life insurance sales in other parts of the world, too.

Participation of non-life insurance distribution channels for certain countries outside Europe in 2009 is shown in the Table 2:

Table 2 Distribution of non-life insurance outside Europe (%)

Country	Bancassurance	Agents	Brokers	Other
Australia	n.a.	21.0	74.0	5.0
Brazil	13.3	n.a.	71.6	n.a.
Canada	negligible	18.0	74.0	8.0
Chile	18.8	←	81.2	→
China	n.a.	45.4	2.0	52.6
Japan	n.a.	92.8	0.2	7.0
Malaysia	10.0	40.0	23.0	27.0
Mexico	10.0	25.0	50.0	15.0
Taiwan	n.a.	62.0	30.0	8.0

Source: CEA Statistics Insurance Distribution Channels in Europe, p. 15

Based on the table, it can be concluded that only a few Latin American countries had a market share of at least 10% (Brazil 13%, Mexico 10% and Chile 19%). In Chile, the market share of bancassurance was higher in non-life insurance than in life insurance, which is associated with cross-selling of insurance against losses from natural disasters, property insurance and credit insurance.

In the US, Canada, Japan and several other Asian countries, the low penetration rate of bancassurance was related to the legal environment that prohibited until recently the selling of insurance products by banks. This prohibition was lifted in the US in 1999, in Canada in 2006 and progressively, from 2001 to 2003, in Japan and in South Korea [4, p. 14].

The sector of life insurance

Bancassurance is the major channel of distribution of life insurance products in many countries of Western Europe. Distribution of life insurance for the member states of CEA (the European insurance and reinsurance federation) in 2009 is shown in the Chart 2:

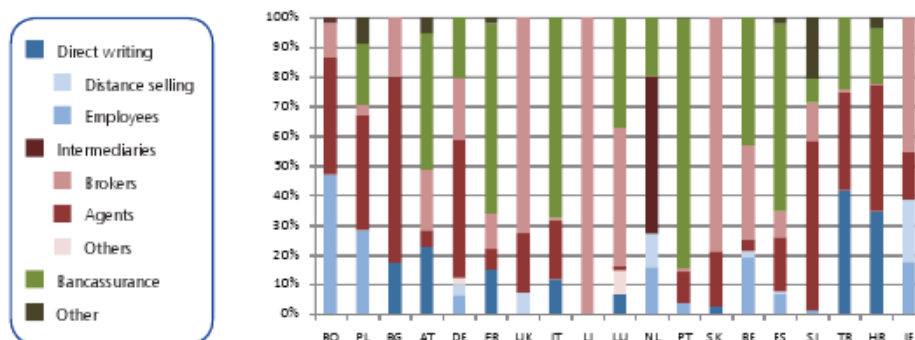


Chart 2 Distribution of life insurance

Source: CEA Statistics Insurance Distribution Channels in Europe, p. 12

According to the attached chart, bancassurance is most strongly developed in Portugal (85%), Italy (67%), Spain (65%), France (64%) and Belgium (48%). The role of bancassurance remained, however, limited in two large western European markets: Germany (20%) and the UK (less than 10%) [4, p. 25]. This low penetration in Germany may be related to the large number of small and regional banks, impeding the rapid and widespread distribution of standardized products throughout the entire country. In the UK, the extremely fast growth of direct sales through modern technologies (phone and Internet) limits any significant development of bancassurance.

Low market shares of the bancassurance channel were observed in Central and Eastern European countries (Slovenia 8%, Poland 21%, Croatia 19%), which is probably linked to the only recent development of bancassurance in these countries [4, p. 7].

In Russia, about 30% of life insurance is sold through banks, owing to their good reputation. An increased market share of bancassurance can be expected in the near future in the markets of these countries, in line with the growing number of consumer and housing loans granted by their banks [5, p.15].

While many European life insurance markets were dominated by bancassurance, it was not the case in other major world markets.

The share of life insurance distribution channels for individual countries outside of Europe for 2009 is shown in the Table 3.

Table 3 Distribution of life insurance outside Europe (%)

Country	Bancassurance	Agents	Brokers	Other
Australia	43.0	←	57.0	→
Brazil	55.0	n.a.	30.0	n.a.
Canada	1.0	60.0	34.0	5.0
Chile	13.0	←	87.0	→
China	16.3	←	83.7	→
Malaysia	45.3	49.4	2.4	2.9
Mexico	10.0	←	90.0	→
Taiwan	33.0	11.7	6.6	48.7
US	2.0	n.a.	n.a.	n.a.

Source: CEA Statistics Insurance Distribution Channels in Europe, p.16

The data given in the Table show a very low market share of bancassurance in the US (2%) and in Canada (1%). As in non-life insurance, this low penetration rate was related to the legislation having changed only recently (in the US bancassurance was provided by the law of 1999) and to the attachment of consumers to traditional intermediaries. The bancassurance model developed successfully in Brazil, where it attained a market share of 55%. It was less important in Chile and Mexico (13% and 10% respectively). A similar scenario was observed in Japan [4, p. 14]. However, in Japan as well as in most Asian countries, the bancassurance significantly increased its market share in time, as clearly showed in the Table 3. In India, the insurance market for banks was opened in 2000. Sale of insurance products through this channel increases significantly, but still there are no concrete indicators [5, p. 16].

It can be concluded that the bancassurance in life insurance has developed the most in Europe (Spain, Portugal, France). In other world markets this distribution channel began to rapidly develop and record a gradual increase in market share (Asia, Latin America).

3. DEVELOPMENT AND POSITION OF BANCASSURANCE IN THE FORMER YUGOSLAVIA AND SERBIA

Experience of most countries show that significant development of bancassurance and insurance in general can be expected only at the GDP level of € 6,000 per capita or \$ 8,359 per capita [7, p. 23]. The table 4 shows the level of GDP per capita in 2009 for the countries of former Yugoslavia.

Despite the fact that in Slovenia and Croatia recorded the highest level of GDP per capita, the experiences of these countries in the implementation of bancassurance are different. Nevertheless, bancassurance in these countries recorded a much higher share in the sales of life as com-

Table 4 GDP per capita in 2009

GDP per capita	
Countries of ex-Yugoslavia	2009
Slovenia	\$ 21,170
Croatia	\$ 14,258
Montenegro	\$ 7,619
Bosnia and Herzegovina	\$ 5,283
Serbia	\$ 5,060
Macedonia	\$ 4,089

Source: Miroslav Miškić, PhD, *Analiza sektora osiguranja u CEE sa posebnim osvrtom na bankoosiguranje*, Teslić, 2010, p. 23.

pared to non-life insurance, and it makes almost 20% of the market as a channel of distribution [15].

A more significant development of this distribution channel in the Republic of Srpska and the Federation of Bosnia and Herzegovina is expected in the coming years, being that they only recently reached necessary legal requirements (Insurance Law) [19, p. 21].

In Macedonia, the application of bancassurance recorded a great start (the second half of 2008), but it was followed by poor results in the later period [19, p. 20]. The good startup of applying bancassurance in Macedonia was contributed by the fact that Macedonian law regulates that car insurance policies can not be sold at the automobile inspection stations but only through agents. Therefore, part of the work on non-life insurance policy sales has been taken over by bank clerks. However, much weaker results were achieved in the sales of life insurance policies through bank counters, primarily because of low interest of banks for this type of distribution.

A significant potential for profit that banks could gain by using bancassurance, in a projection based on available data from some countries of former Yugoslavia, is shown in the Table 5.

Table 5 Potentials for profiting from the use of bancassurance

Countries in the region	Croatia - reality	Republic of Srpska - projection
Total premium	€ 702 mill.	€ 122.37 mill.
Bank channel share	5.5% or € 38.5 mill.	5.5% or € 6.7 mill.
Average commission	15% or € 6 mill.	15% or € 1 mill.

Source: Miroslav Miškić, PhD, Analiza sektora osiguranja u CEE sa posebnim osvrtom na bankoosiguranje, Teslić, 2010, p. 21.

The implementation of bancassurance in Serbia began in 2005, in accordance with the current legislation (Insurance Law) [11]. The results of previous bancassurance applications are modest, although every year an increasing number of banks choose this kind of contractual cooperation with insurance companies. In addition, in the second half of 2010, the first bank whose founder and majority owner was an insurance company (the "Dunav" Insurance) started to work in Serbia (the "Dunav" Bank). Results of the application of this sales channel have not yet been published, so it is still not possible to make any formal comparisons and analysis of them. However, it can be concluded from the practice of banks that the application of bancassurance, at its current level in Serbia, is mostly confined to selling simpler products, compatible with the services of the bank: life insurance (classic or decreasing term insurance), accident insurance, insurance against basic and additional risks to pledged property (real estate), total car insurance, car liability insurance, travel-health insurance that is sold along with the sale of certain types of credit cards and the like.

The Table 6 presents an overview of banks in Serbia which also perform intermediary activities in the sales of products of insurance companies.

Table 6 Overview of Serbian commercial banks which have concluded contracts on representation of insurance companies

Republic of Serbia		
Bank	Insurance company	Product type
Banca Intesa	Delta Generali Insurance	non-life insurances
	DDOR Insurance	life insurance
Čačanska banka	Dunav Insurance	life insurance
	Grawe Insurance	non-life insurances
Erste Bank	Wiener Städtische Insurance	life insurance
Piareus Bank	Alico Insurance	life insurance
Raiffeisen Bank	Uniqa Insurance	life insurance
Razvojna banka Vojvodine	DDOR Insurance	life insurance
Societe generale Bank	Societe generale Insurance	life insurance
	Uniqa Insurance	
Volks Bank	Delta Generali Insurance	non-life insurances
	Wiener Städtische Insurance	(special offer - credit
	AMSO	insurance for natural persons)
OTP Bank	Basler Insurance	life insurance
	Wiener Städtische Insurance	
EFG Bank	Delta Generali Insurance	life and non-life insurance
	Wiener Städtische Insurance	
UniCredit Bank	Wiener Städtische Insurance	life and non-life insurance (sale has not yet officially started)
Credit Agricole Bank	Axa Insurance	life insurance
Hypo Alpe Adria Bank	Grawe Insurance	life and non-life insurance
Privredna banka Beograd	Dunav Insurance	life insurance

Source: research of the authors, February 2011.

Managements of most banks and insurance companies operating in Serbia are aware of the benefits that bancassurance brings, so they work intensively on the development of this distribution channel. This activity is particularly important in the conditions of global economic crisis, since it will facilitate higher growth of those insurers and banks that are bound by capital and contract in the period after the crisis.

However, despite the unavailability of official data, research has confirmed small market share of bancassurance as compared to traditional channels of distribution in Serbia, in the sales of both life and non-life insurances. In this regard, significant results can be expected only with the increase of the living standards of citizens, their level of information and awareness of the need to ensure their own lives.

Banks in Serbia will soon have to be actively involved in the concept of bancassurance, considering that in the near future, if the world trends are to be followed, income structure of banks will mostly consist of revenues from fees and commissions, and to a lesser extent from the established margin between debit and credit interest rates. Beside that, greater awareness of citizens and the need of getting the complete range of financial services in one place, shall force banks to assume a proactive approach to the concept of bancassurance.

Since insurance stimulates the amount of long-term savings in the entire economy, it can also provide funding for economic development. Through premiums charged and funds managed, a huge amount of capital is mobilized for long-term development. Thirteen life insurance companies in Serbia - Metlife, AXA, Basler, Delta Generali Insurance, DDOR Novi Sad, Dunav, Grawe, Sava Life Insurance, Merkur, Societe Generale Insurance, Triglav Kopaonik, UNIQA and Wiener Städtische - gathered around the Insurance Development Fund, announced at the meeting in Valjevo, on October 16, 2009, that in the next five years they could raise a billion euros from the sales of life insurance policies. That money would be invested by life insurance companies into long-term government bonds [16]. In this context, the Republic of Serbia issued on February 14, 2011, a total of 200 million euros of treasury bonds with maturity of 15 years, with annual interest rate of 5.85% and with semi-annual payments. The amount of 97,371 bonds in the nominal value of 97.35 million euros were sold, which makes 48.7% of the issue. The next auction sale will be in March 2011 [20].

The funds thus raised in the form of share and debt capital, can be invested by the state in infrastructure financing, as well as funding long-term investments of private companies, through various funds, which may significantly instigate economic development. In support of this, the project of the development of life insurance in Serbia won the support of the World Bank and the International Monetary Fund (IMF) in order to quickly establish a necessary balance between the banking system and insurance in the financial market of Serbia [17].

Insurance companies in Serbia proposed to the Serbian Government to provide to citizens who choose to invest in life insurance a 25% refund of insurance through tax incentives [18]. Legal approval of tax incentives to the buyers of life insurance policies would significantly contribute in increasing their sales, across all distribution channels and especially through bancassurance, taking into account all the benefits that this channel offers.

Key preconditions for selling the products of insurance companies to take hold through the branch network of banks in Serbia are the following:

- higher living standards of the population;
- greater awareness and changed financial culture of citizens, as well as
- clearly expressed desire of banks for achieving significant results in the field of bancassurance.

Other factors of the success of bancassurance in the market of Serbia are:

- a joint strategy of presenting insurance products to the market;
- creation of joint client bases, both of banks and insurance companies;
- simple products and uncomplicated approach to customers;
- excellent customer service and highly skilled administration;

- joint planning and marketing (inclusion of bancassurance in the objectives and plans of the bank branches, with the introduction of internal competition between the branches);
- continuous education of bank employees in the form of trainings by the support teams set up by insurance companies;
- removal of other banking activities from the bank employees who will deal with mediation in insurance;
- setting up a system of bonuses and commissions for bank clerks in accordance with the level of sales plan fulfillment; and
- monitoring the sales plans realization, together with ranking the branches in line with the sales results.

Causes of the failure of bancassurance implementation are:

- offer of complicated and hardly understandable products;
- long and complicated administration - preparation of offers and policies;
- lack of a system of remuneration in the form of commissions and bonuses;
- inadequate training of bank employees to sell insurance; and
- insufficiently interested or aggressive approach to clients.

According to the authors, banks and insurance companies will have to pay significant attention to the above conditions in the future, in line with market trends, in order to make bancassurance be accepted in the financial market of Serbia, start seriously operating and begin yielding concrete results and profits.

CONCLUSION

Banking and insurance are the two inextricably related parts of the financial sector. The interconnections between banks and insurance companies are particularly strong in times of crisis, accompanied with the manifestation of the depreciation element that insurance companies provide by assuming themselves the risk that goes with the business. In modern economy, especially from the 90's of the last century, there is a growing presence of a model of integrated performance of banks and insurance companies in the market, which is reflected in the provision of banking and insurance services in one place, through the form of bancassurance. This distribution model implies creating specially designed products of life and non-life insurances, adapted to the sales through the banking network.

Bancassurance brings many benefits in the times of increasing competition among participants in the financial market, both to banks and to insurance companies. Common benefits are reflected in:

- increasing sales/profits;
- expanding the base of clients;
- retaining the existing clients; as well as
- improving the supply through a creation of new products according to the structure and needs of clients.

Experience of most countries shows that significant development of bancassurance and insurance in general can be expected only at the GDP level of € 6,000 per capita or \$ 8,359 per capita. Also, the experience of developed countries regarding the implementa-

tion of bancassurance has proved that, for the success of this way of selling policies, it is most important to sell maximally simplified products of insurance companies at the bank counters.

In the next period, Serbian financial market will be facing an increase in the insurance market, but also an intensifying competition, as the number and quality of insurance companies increase from year to year (26 insurance companies are currently operating in Serbia). In the banking sector, a keen competition already exists among the large number of banks (35). All this will cause an inevitably stronger integration of banks and insurance companies in order to prevent the outflow of clients and retain deposits. Former weak results of the implementation of bancassurance in Serbia were primarily induced by a small interest of banks in the development of this sales channel. This is conditioned by the structure of their revenues, where return interest is still dominating.

However, in the future, according to global trends, we expect a significant reduction in interest margins, which will direct banks toward a greater development of those types of services that will result in increased income from fees and commissions.

For successful implementation of bancassurance in Serbia, it is necessary to fulfill some other conditions, such as:

- higher living standards of the population;
- greater awareness and changed financial culture of citizens;
- legal approval of tax incentives to the buyers of life insurance policies;
- top-quality education and continual trainings; as well as
- motivating factor, in the form of bonuses and commissions over the fixed salary for the banking sector employees who will be responsible for the implementation of this sales channel.

The development of bancassurance, as a channel of distribution, is closely associated with the growth of the insurance market in Serbia, of which the state can have long-term benefits. Money raised through the sales of life insurance policies should be invested by insurance companies in long-term government bonds that would finance infrastructure projects.

With respect to the above-said, it can be concluded that the insurance market shall grow in future, both in Serbia and in other countries of the region. Intensification of competition among banks and insurance companies, aimed at preventing the outflow of customers and retaining the deposit base, will inevitably necessitate their stronger integration by improving bancassurance as a sales channel. It will ultimately result in greater satisfaction of clients, who will be able to get in one place the most diverse offering of financial services, in the form of "all-in-one".

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BANKOOSIGURANJE – NOVE MOGUĆNOSTI RAZVOJA FINANSIJSKOG SEKTORA SRBIJE

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U teškim uslovima svetske ekonomske krize tržište osiguranja uspeva da se razvija brže od dugoročnog svetskog bruto društvenog proizvoda (BDP). Tradicionalne barijere između bankarstva i osiguranja se sve više gube u poslednjih nekoliko decenija. Ovo je rezultat deregulacije i liberalizacije tržišta finansijskih usluga, ali i pojave gigantskih finansijskih kompanija sposobnih da pruže širok spektar finansijskih usluga. Bankarska distribucija proizvoda osiguranja raste brže od tradicionalnih kanala prodaje, u razvijenim zemljama, ali i zemljama u razvoju, najpre u životnim, a odskora i u neživotnim vrstama osiguranja. Životno bankarsko-osiguranje se snažno razvilo u pojedinim zemljama Evrope i dostiglo visoke tržišne udele, kao npr. u Francuskoj i Portugaliji. Bankoosiguranje (engl.bancassurance) takođe postaje glavna komponenta sistema distribucije pre svega životnih osiguranja u zemljama u razvoju, naročito u Centralnoj i Istočnoj Evropi, podstaknuto ekspanzijom hipotekarnih i potrošačkih kredita. Bankoosiguranje se zadnjih godina sve više razvija i u Srbiji, gde kao kanal prodaje beleži uzlazni trend. U bliskoj budućnosti, naročito sa otvaranjem novih kreditnih linija banaka i uvođenjem poreskih podsticaja od strane države, ovaj kanal prodaje može doneti značajne koristi kako bankama tako i osiguravajućim kompanijama, ali i samim klijentima u vidu ponude finansijskih usluga tipa "sve u jednom" uz uštedu vremena, niže provizije i premije.

Ključne reči: *bankoosiguranje, banka, osiguranje, bankarski proizvodi*