



BANCASSURANCE IN EUROPE

Benchmark study 2018

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INTRODUCTION

While bancassurance is a booming business, proper supervision of the holding entity and its subsidiaries is required in order to be well managed. It is fundamental to grant effective disclosure of key information between the banking and insurance counterparties and to harness synergies between the two.

Leveraging from our strong position and expertise in the European financial services advisory market, Mazars was able to survey the bancassurance industry.

Our study was performed by interviewing CROs and CFOs of leading European Bancassurance companies on the principal organisational drivers of the business in order to build up benchmarks and trends. The interviews were based on both quantitative and qualitative questions with a focus on approaches used by Bank Risk Management and Internal Control Systems in controlling insurance subsidiaries.

The companies included in the sample were some of the main players from the major European bancassurance markets: France, Spain and Italy.

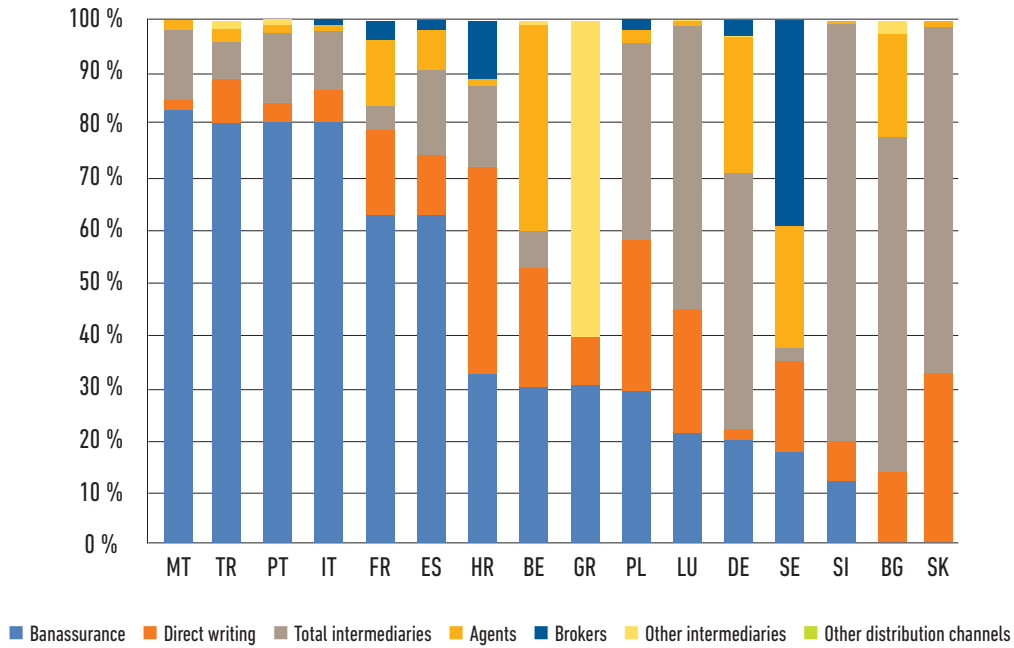
All the considered groups have a bank as a holding company and control subsidiaries operating both in life and non-life businesses. Life business is typical of the bancassurance channel, even if nowadays many entities are developing important non-life business.

1. BANCASSURANCE SECTOR OVERVIEW



Looking at a snapshot of the European bancassurance sector, it is interesting to note that bancassurance is the main distribution channel in Southern European countries including France, especially for life business. In Italy, about 80% of Gross Written Premium (GWP) representing €92.9bn is distributed via bancassurance; also accounting for around 80% of GWP are Portugal (€6.6bn), Turkey (€0.85bn) and Malta (€0.24bn). In France (€83.5bn) and Spain (€16bn) just over 60% of GWP for life business is distributed via bancassurance.

Life distribution channels by country (% of GWP) – 2015

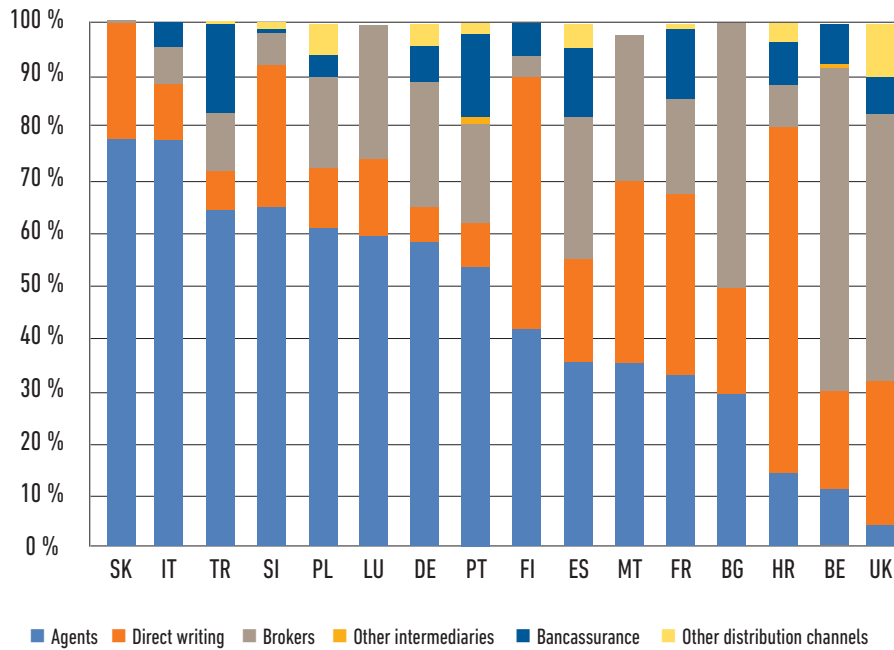


Source: Insurance Europe, Key Fact European insurance 2016 (Data at 2015)



Turning to non-life business, it is possible to see that bancassurance has a marginal distribution relevance in Europe with respect to life divisions, except France (€7.5bn), Spain (€2.3bn), Turkey (€1.2bn) and Portugal (€0.55bn), where bancassurance distribution accounts for between 10%-17% of GWP respectively.

Non-life distribution channels by country (% of GWP) – 2015



Source: Insurance Europe, Key Fact European insurance 2016 (Data at 2015)

2. THE SURVEY PARAMETERS



A sample set of companies in Europe was selected. Moreover, the survey was proposed only to bancassurance groups that have a bank as a holding company and control insurance subsidiaries operating both in life and non-life businesses, to obtain consistent and uniform evidence from companies interviewed. Using these parameters, Mazars analysed a sample of four French companies, four Spanish companies and one Italian company, as shown in *Chart 1*.

Nationality

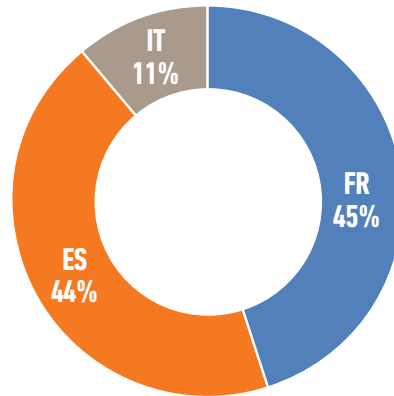


Chart 1

Chart 2 represents the number of owned subsidiaries per entity to give the total number of companies involved in the analysis.

The results clearly demonstrate that the most widespread model among the considered entities is to control one or two insurance companies. Nevertheless, it is not impossible to have entities controlling more than ten insurance subsidiaries.

Number of Insurance subsidiaries controlled by the holding Bank

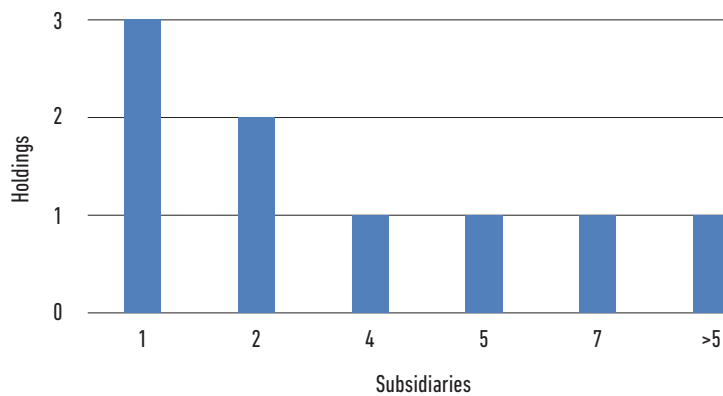


Chart 2

Analysing the investigated samples further, it was interesting to assess the size of the insurance subsidiaries by considering the total assets of insurance companies compared to the assets of the bancassurance group: in the majority of cases this was between 15% and 25%. (Chart 3).

Total assets of Insurance subsidiaries compared to the total assets of the Group (%)

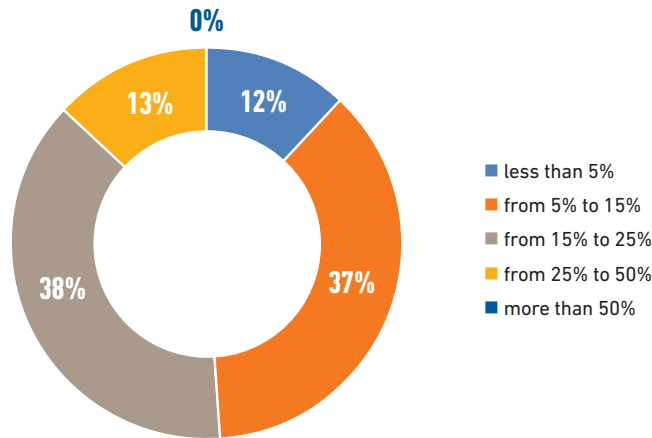


Chart 3

Another feature worth highlighting is the business in which the single subsidiaries operate. While the bancassurance groups always operate in both life and non-life business, they prefer to do so by using separated subsidiaries. According to our survey, 42% of the considered sample operate in non-life and health, and 46% operate in life business. While only 12% of the considered sample operate both lines of business through a single entity (Chart 4).

In which line of business does the Insurance subsidiary entity operate?

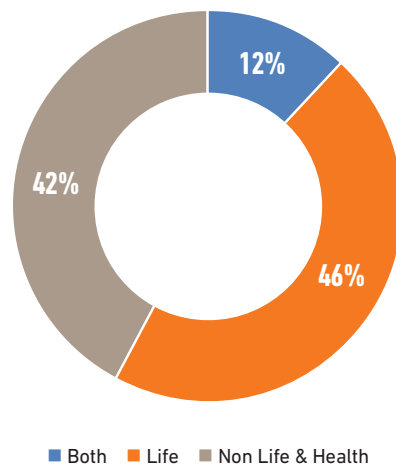


Chart 4

An additional observation that can be made about the considered entities in our analysis is linked to revenues. Almost all the groups have more revenues coming from life business, rather than from non-life. *Chart 5* shows the division in sub-samples relating to the total value of life premiums (Chart 5).

What was the total value of the Life premiums in BLN €?

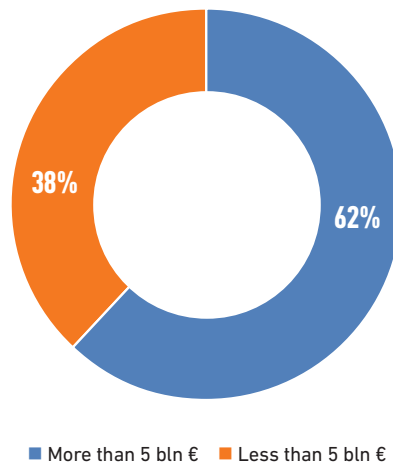


Chart 5

Finally, the two tables below show all the products offered by the insurance companies in both life and non-life lines of business.

Which of these Life products are sold by the Insurance companies (as defined by SII Directive)?

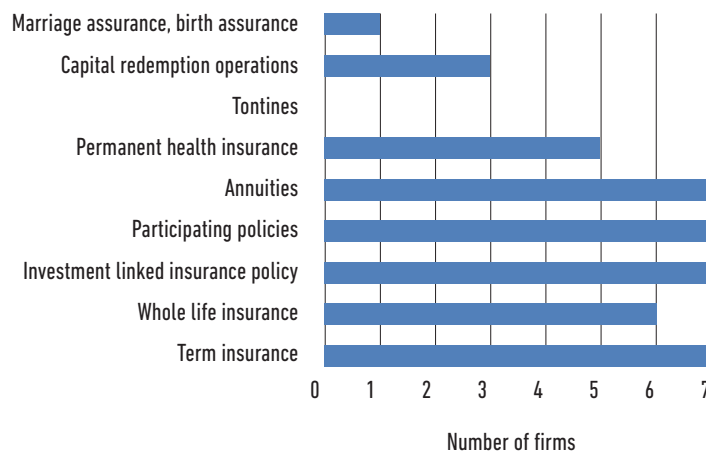


Table 1

Which of these Non Life and Health products are sold by the Insurance companies (as defined by SII Directive)?

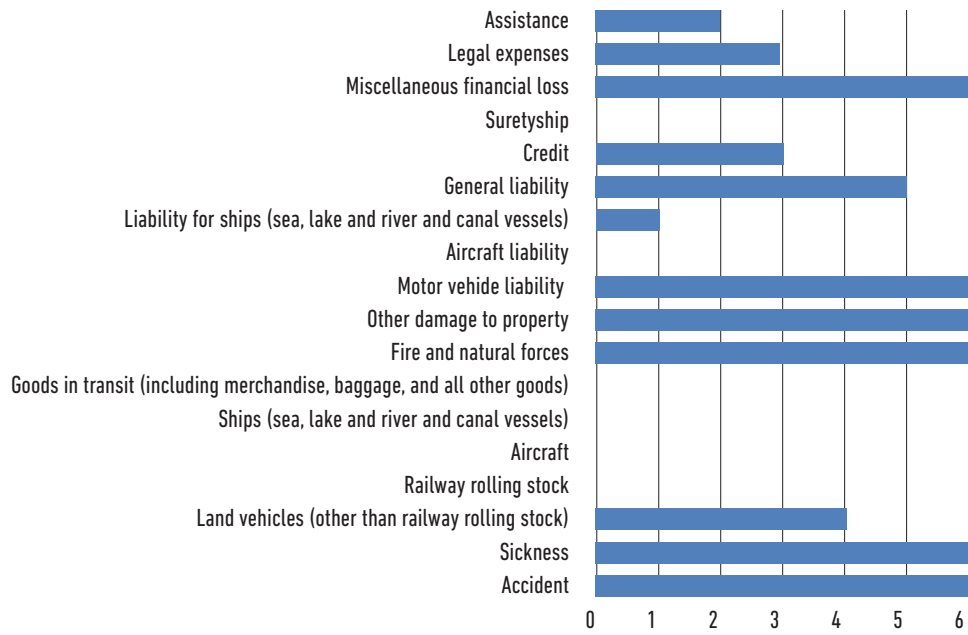


Table 2



3.

RESULTS

The aim of the analysis is to obtain consistent results that could be useful in understanding the trends which affect the market as a whole. Mazars divided its analysis into different areas of interests. Results are reported using this classification.

Regulatory models employed

9 entities replied to this set of questions

According to the Basel/Solvency II regulation there are three internal models that can be adopted by the holding bank and by the insurance subsidiaries: *Full Internal*, *Partial Internal* and *Standard*. The survey discovered that it should not be assumed that the controlled and the controlling entities choose the same model. While 92% of the insurance subsidiaries adopt the *Standard Model*, the holding banks mainly prefer the *Full Internal* model (Charts 6-7).

What kind of model, according to the ones proposed by Solvency II Directive, does the Insurance entity use?

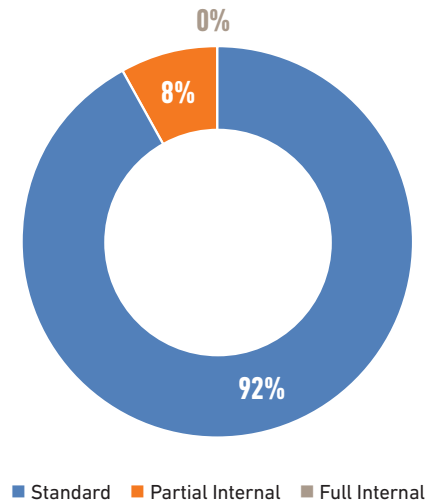


Chart 6

What kind of model, according to the ones proposed by Basel Directive, does the Bank holding use?

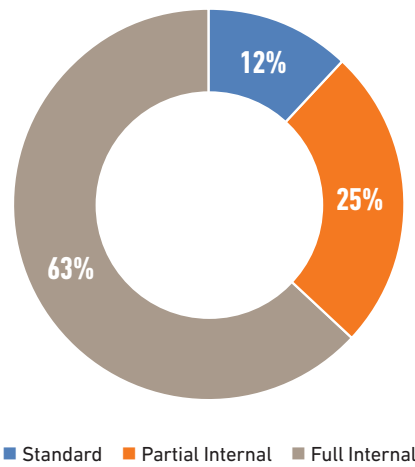


Chart 7

The banks' monitoring process on the insurance subsidiaries

5 entities replied to this set of questions.

There are several tools used by the holding banks to monitor the business processes of the insurance subsidiaries. The survey results indicate that not all the banks apply the monitoring process at the same level, even though each of them supervises the controlled companies at least through some dedicated reports. Having said that, it can be noted that most of the banks operate specific dedicated processes to monitor the insurance subsidiaries, in many cases using dedicated professionals (Chart 8).

**Does the bank have a specific monitoring process for Insurance supervision?
If yes, what kind of monitoring process is used?**

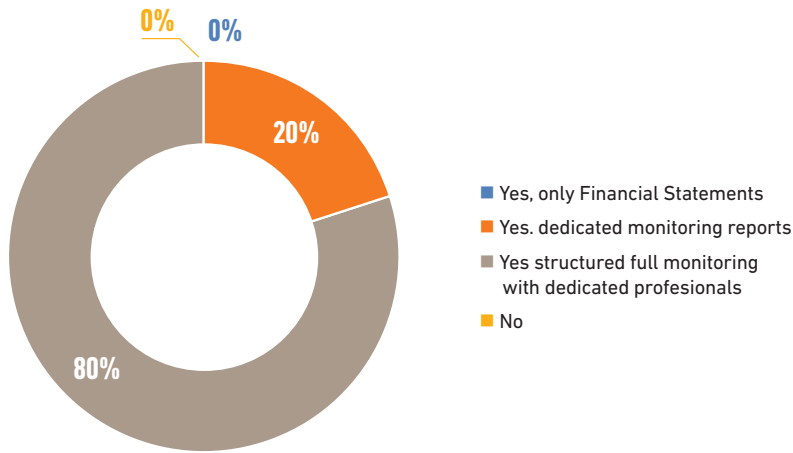


Chart 8

Chart 9 illustrates methods used by holding banks to monitor insurance subsidiaries. Nearly 80% of those surveyed use reports, which is the most popular methodology used in the monitoring process. On the contrary, only 40% use a high granularity database, maybe because it requires a lot of preparatory work and maintenance. In terms of other monitoring processes, 60% of the sample arrange periodic meetings, albeit with different aims.

How is the monitoring process of the insurance subsidiary arranged by the Bank?

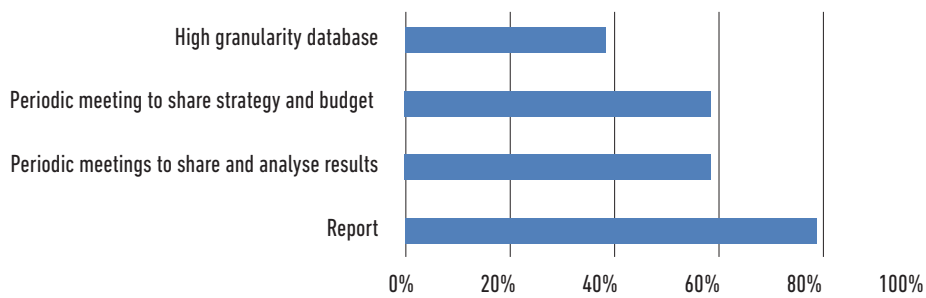


Chart 9

The survey investigated how the Risk Management and Actuarial divisions work within bancassurance and how specific insurance departments are integrated with banking functions. What emerges initially is that the holding entity puts more attention on the Risk Management division rather than the Actuarial divisions of the controlled subsidiaries.

Chart 10 shows that 50% of the companies operate a validation procedure for Risk Management models, while more than 60% of the sample achieves no validation at all for Actuarial models. Going further into the analysis, banks which validate Risk Management models mainly validate both regulation and operational activities. While banks indicating validation of Actuarial models generally validate only the regulatory models.

Are the Insurance Risk Management/Actual models validated by the Bank?

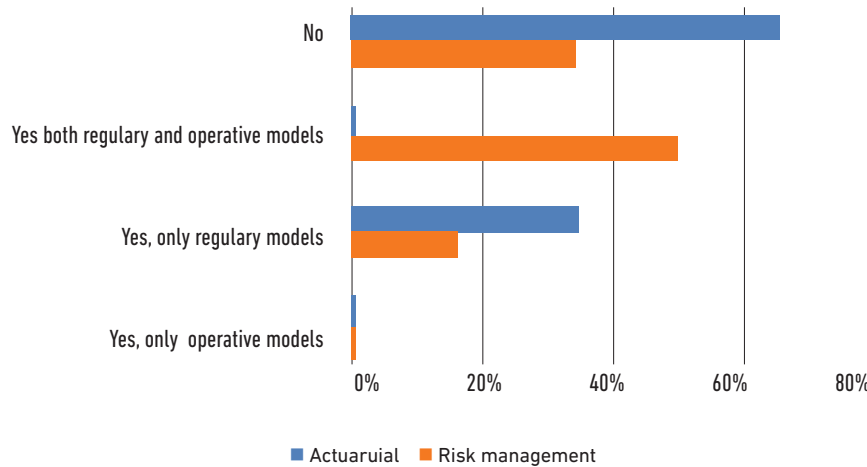


Chart 10

The holding entity's level of interest for the Risk Management division of controlled subsidiaries emerges also in Chart 11 which shows that the number of full-time employees (FTE) involved in monitoring functions is in 80% of cases between 1 and 5.

How many FTEs of the Bank are involved in monitoring Insurance processes?

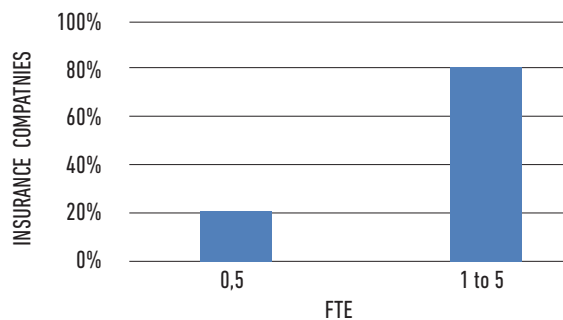


Chart 11

Monitoring Methods

5 companies replied to this set of questions.

The monitoring processes described above are implemented in different ways according to the size and the uses of the considered entities. It is interesting to note that not all the parent companies ask for the same kind of data to supervise the insurance subsidiaries, even though *Chart 12* proves a strong preference is present in favour of the operative data and the data validated by the insurance board (80% of the samples use this kind of data).

Which kinds of data are used by the holding Bank to supervise the Insurance entites?

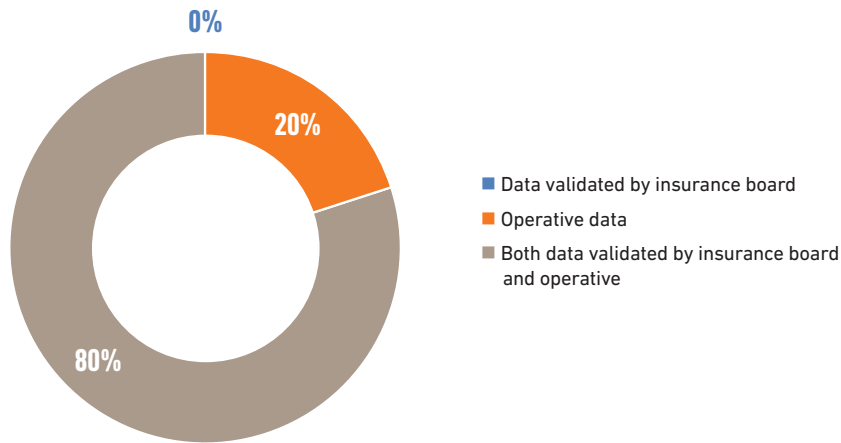


Chart 12

Another aspect which is interesting to highlight is how often data and reports are shared among the group. There are two main tendencies in the market: data shared **monthly** or **quarterly**. The first option is chosen by 60% of the groups while the remaining 40% prefer to share the data quarterly. Even if there is a preference for one frequency over the other, the market is almost in equilibrium and it does not present great disequilibrium (imbalance) (*Chart 13*).

How often are data and reporting shared?

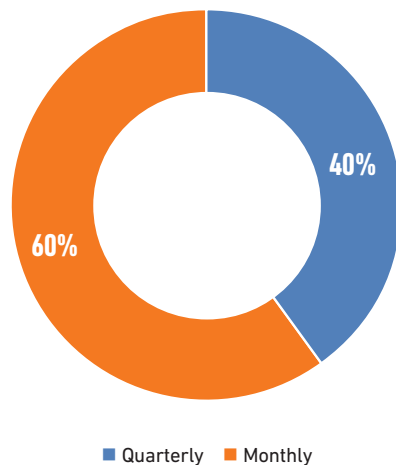


Chart 13

Regarding specificity of the data shared, our survey identified three main streams: *Business & Operative data*, *Risk Management/Solvency II data* and *Accounting data*.

While the last two streams of data are used for monitoring purposes by all the considered entities in the sample, only 80% of the sample use Business & Operative data. (Chart 14).

Which kinds of data are used by Banks to monitor Insurance subsidiaries?

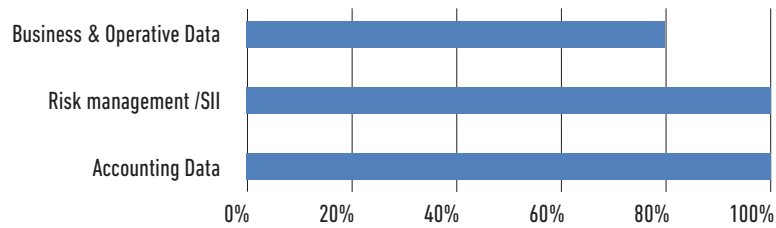


Chart 14

Monitoring the Actuarial function

5 entities replied to this set of questions.

Further into the analysis, the survey focused on the Actuarial function to investigate how the monitoring process happens for this division. Mazars incorporated a subset of questions to understand the mainstream tendencies for this function.

Firstly, where the Actuarial function for insurance subsidiaries is monitored, the Risk Management unit is in control in most cases. Indeed, by looking at Chart 15, it is possible to see that in 40% of cases the Actuarial function is monitored by the Risk Management unit, while 20% is monitored by the Banking Audit unit. The remaining 40% is not monitored at all (Chart 15).

Which bank unit is intended to monitor the Insurance actuarial function?

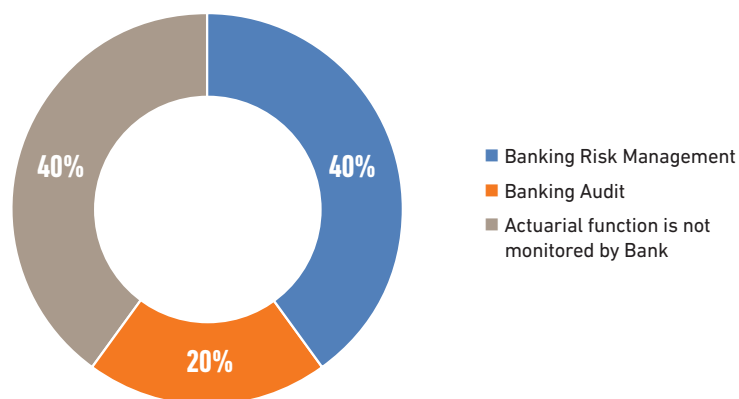


Chart 15

Moreover, by analysing how the monitoring process happens it can be noted that it is generally structured and consists of planning activities, reports and meetings (67% of the samples). The remaining 33% only uses reports and meetings to monitor Actuarial function (Chart 16).

If actuarial function is monitored by the Bank, how does the monitoring process happen?

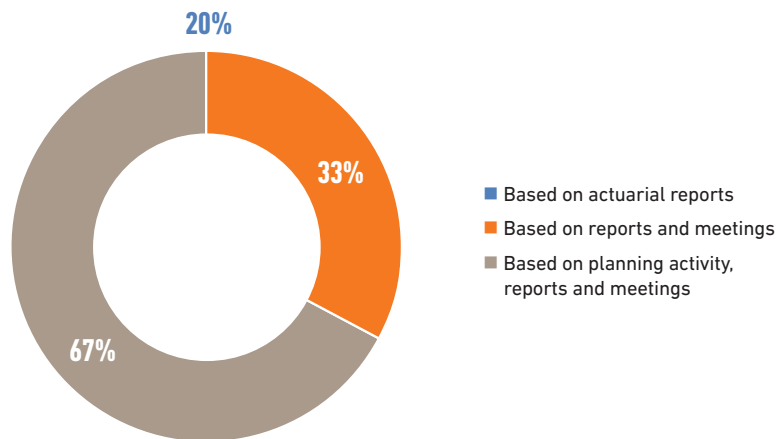


Chart 16

Danish Compromise

9 entities replied to this set of questions.

The survey then focuses on the Danish Compromise. As stated in *Article 49* of the *Capital Requirements Regulation* (Part II, Title I, Chapter II, Section III, Sub-section II), which focuses on the “*Requirement for deduction where consolidation, supplementary supervision or institutional protection schemes are applied*”, there are some cases in which the parent entity is permitted not to deduct from its own funds calculation, the “holding of own funds instruments of a financial sector entity in which the parent [...] has significant investments”, after some preliminary conditions have been met. The Danish Compromise is made up of the cited regulation. Then, according to the regulation, the insurance subsidiaries can be considered as assets of the parent entity, thus reducing the CET 1 capital requirements for the holding.

Only 44% of banking groups benefit from the Danish Compromise. In terms of banking groups that do not benefit from the Danish Compromise, only one intends to apply to obtain it in the future (Chart 17).

What is also relevant to note is that if the Danish Compromise can be a useful tool to save some capital during ongoing periods, it ensures even stronger benefits in stressed markets.

Does the Group benefit from the Danish Compromise?

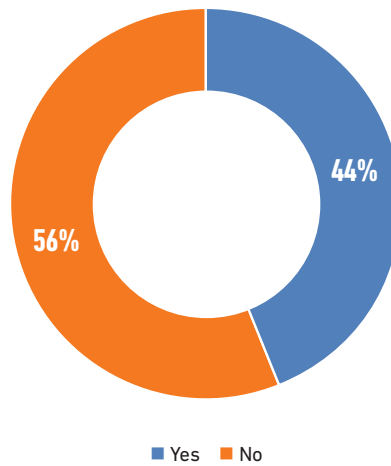


Chart 17

Risk Appetite Framework (RAF)

6 entities replied to this set of questions.

The last point of the survey is about the Risk Appetite Framework (RAF) and its definition. Both the holding bank and the insurance subsidiaries are required to set their RAF and Mazars' analysis is intended to determine if this level is mainly defined separately or jointly for the entities belonging to the considered sector, but also how the limits are applied for this indicator.

By looking at the results, it is evident that for 80% of the groups, the RAF is defined both at bancassurance group and insurance level, as we expected from the requirements coming from the supervisor.

As a matter of fact, only 20% choose a simpler framework by setting this limit at insurance level (Chart 18).

Has the Risk Appetite Framework been defined both at Bancassurance Group level and Insurance level?

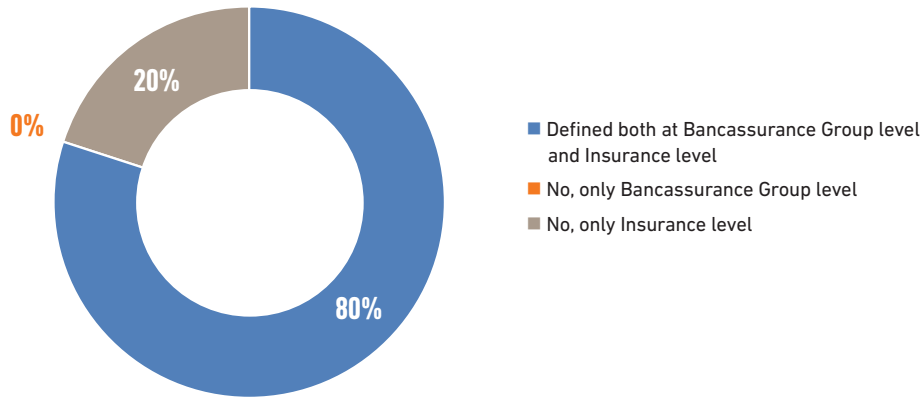


Chart 18

After defining the RAF at insurance level, the holding groups must decide how it should be integrated into the risk framework of the group as a whole. The most used method is to adopt limits for each single level entity which is part of the group, but this is not the only option banks can apply, as can be seen by *Chart 19*.

How is Insurance Risk integrated in the Group Risk Appetite Framework?

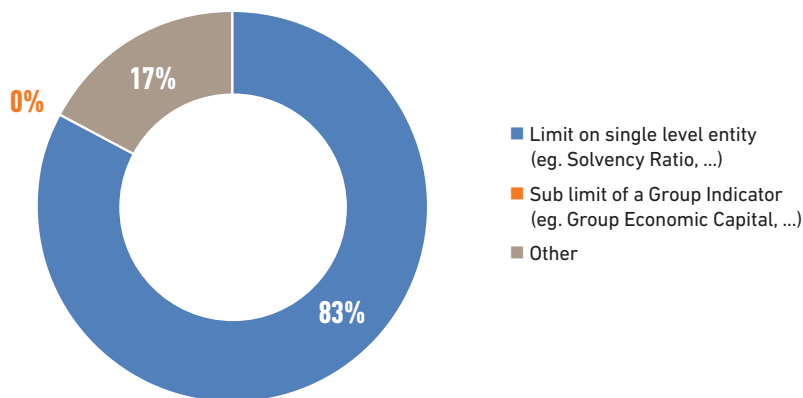


Chart 19

Chart 20 presents the main indicators used by the bancassurance groups to define the RAF at company level. According to the survey results, the most used ratios are the ones linked to the Solvency II regulation, hence *Solvency II Ratio* and the *Solvency Capital Requirement*. These are followed by ratios related to the time of the instruments, like the *Duration of the Asset* and *Liabilities*, but also to the liquidity, as the *Quick Liquidity Ratio*.

Which are the main indicators used by the Group to define Insurance Risk Appetite Framework?

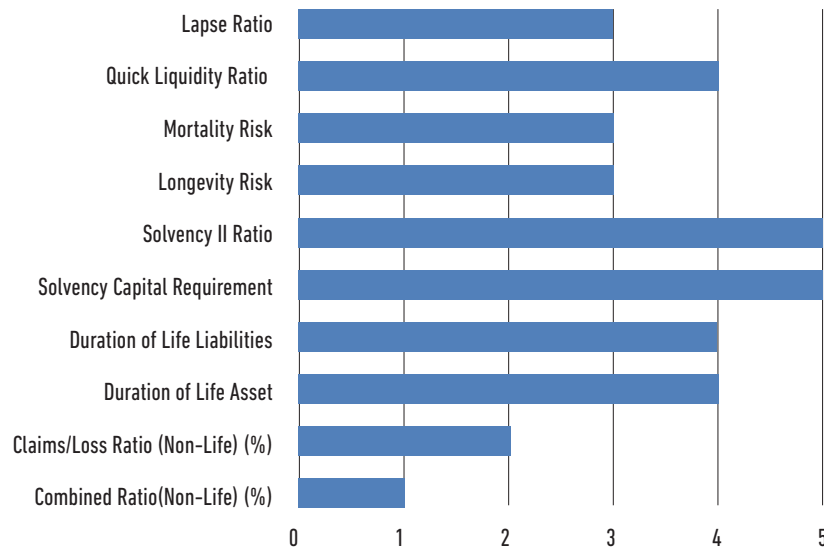


Chart 20

4. SUB-SAMPLES



To better analyse the trends of the bancassurance sector, Mazars' survey results have been divided in four sub-samples; the first two according to the adoption of the Danish Compromise or not by the whole group; and the other two according to the income volumes of the life business (above €5bn, below €5bn), to obtain a consistent measure of the size of the companies. Life business was chosen rather than non-life because almost all the groups in the survey have at least 70% of total income dependent on this line of business.

After dividing the sub-samples, some interesting conclusions underline that the companies which benefit from the Danish Compromise, as well as the ones with the higher volume, operate more consolidated, structured and complete monitoring processes on the controlled insurance subsidiaries, with the support of dedicated professionals and sometimes with a high granularity database.

Given this closer monitoring process, it is not surprising that the validation of the Risk Management and Actuarial models is also more effective within these two sub-samples. In addition, they adopt more FTEs for the purpose of monitoring insurance subsidiaries, particularly in the Actuarial division.

For the sub-sample of companies considered as big, it is relevant to highlight that, even if the insurance subsidiaries mainly adopt the *Standard Model* (like the *small* group sub-sample), within this group there are some insurance subsidiaries who use the *Partial Internal* model.

Finally, no relevant differences are present in the sub-samples regarding the monitoring methods adopted and the choices made by the group about the definition of the RAF.

CONCLUSION

To sum up, the main trends highlighted by the survey can be presented in brief as follows.

All the considered groups operate both in **life** and **non-life** business, even though the former one has more relevance. The surveyed entities prefer owning insurance subsidiaries operating in life or in non-life lines of business separately, it is rare that a holding group owns a single subsidiary operating both in life and non-life business.

Concerning the **regulatory model** adopted, it is clear that the **subsidiaries** generally have a simpler model than the one selected by the holding banks. Indeed, while insurance companies prefer the **standard** model, the full internal model is preferred by the parent entities.

The tools defined by Solvency II regulation are most commonly used to identify company risk, to set up the procedures for an efficient monitoring process and to define the RAF.

Furthermore, Mazars also discovered that the most relevant banking function used to monitor insurance subsidiaries is the **Risk Management Function**. This function is expected to operate full **control** of the subsidiaries, even employing dedicated professionals.

The analysis of the insurance **Actuarial Function** evidenced that holding entities, especially the ones that benefit from the Danish Compromise, have some professionals of the Banking Risk Management unit monitoring the Actuarial Function.

Lastly, the analysis suggests that the adoption of the Danish Compromise deeply influences two aspects of the **monitoring process** operated by the holding banks on subsidiaries. The first one is the level of complexity of the monitoring processes itself, which can be based on monitoring activities, strategic plans, reports and even periodic meetings between the holding banks and the insurance subsidiaries. The second one is regarding regulatory control of the insurance companies whereby, as a matter of fact, it is part of the bank's commitment of **validating** the *Risk Management* and *Actuarial* **models** employed by the owned insurance subsidiaries.



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