

Banks and Insurance Companies: Facets of Interaction “Bancassurance”

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Abstract:

Over the past two decades, the global economic landscape has increasingly been influenced by the evolving interplay between banks and insurance companies, a phenomenon known as "bancassurance." This interaction, while still emerging in many regions, has already had a noticeable impact on the financial sector. While Western markets have witnessed significant mergers and acquisitions within this domain, fostering a robust bancassurance environment, the domestic market is only beginning to experience these shifts. This article explores the multifaceted nature of bancassurance, emphasizing the increasing integration of banking and insurance services. It examines how banks, as complex entities exposed to various risks, are increasingly relying on insurance to mitigate operational and financial uncertainties. This partnership encompasses a wide range of insurance products, from property and liability coverage to specialized criminal risk policies. Despite the progress made abroad, national practices often lag behind, primarily due to a lack of specialized expertise and high costs. The article further discusses the burgeoning demand for innovative insurance solutions and the transformative potential of bancassurance, highlighting its benefits for both banks and insurance companies. By leveraging extensive branch networks and investment resources, bancassurance offers promising opportunities for growth and efficiency in the financial sector. The study underscores the need for continued evolution and adaptation in the domestic insurance market to fully harness the advantages of this synergy.

Keywords: bank, banking, insurance, insurance companies, banking crimes.

Introduction

Throughout the history of the parallel existence of banks and insurance companies, the cooperation of these economic institutions has been obvious and very close. However, it was objectively limited to standard forms, which for the most part prevail today.

Any bank is a large property complex exposed to a large number of risks. Universal globalization and economic integration, the expansion of interaction between various forms of business have led to the fact that banking structures, as well as the entire monetary system, are in constant development: the range and geography of services provided, technical and technological capabilities of their provision are diversifying, areas of activity are expanding and merging.

On the one hand, all this contributes to the further development of the banking business, improving the speed and quality of customer service, accelerating the exchange of information and cash flows between banks in the domestic and international arena. On the other hand, there is a large concentration of monetary resources in both cash and non—cash form, a variety of financial services and instruments, and an expansion of the customer base, which inevitably increases the bank's risks. And first of all, their operational level.

In accordance with the authoritative classification of the Basel Committee on Banking Supervision, operational risks include: damage to the bank as a result of deficiencies in management, information systems used and information as such, internal control, personnel activities, criminal influences, damage to property and health of employees, as well as related to such direct losses of consequences, most often in the form of various types of liability. Any bank is a differentiated property complex, the stability of which largely depends on the ability to withstand such financial losses.

It is operational risks that are of a kind of "applied nature" and, unlike other banking risks from the same classification — credit, liquidity, market, currency, business reputation risk, they perfectly fit into the insurance scheme.

The bank's risks, as well as their management, are a complex concept, and traditionally a special role is assigned to insurance, which, due to its economic essence, fits very harmoniously into the bank's risk management mechanism and, most importantly, at a very reasonable cost, is often more cost—effective than such classical instruments as absorption, limitation or risk avoidance.

What kind of coverage can a bank receive as a client of an insurance company? The answer to this question is simple: almost anything. This includes the following types of services: insurance starting from standard property risks in relation to the bank's assets (tangible and intangible, movable and immovable) and ending with a variety of types of liability related to banking activities (for example, Professional Indemnity, liability of directors and managers (Directors & Officers Liability), in investment banks — the responsibility of stock brokers (Stockbrokers Policy). In a separate category, it would be advisable to single out such a direction as insurance of criminal risks of banks. About him — just below.

In general, foreign banks, as a rule, have comprehensive policies that provide them with the widest coverage. As a result, they receive an excellent guarantee of compensation for probable losses on a huge number of risks, which makes it possible to fully focus on their own business and "professional" banking risks from the plane of market conditions, economic policy, etc.

It is not surprising that with the development of the banking business, the demand for insurance is only growing, and in response to new requests from financiers, insurers increasingly have to offer something new.

In January 1998, a group of Lloyd's syndicates, SVB Syndicates, presented a Rogue Trading Policy to the banking community. The coverage covers the losses of the bank resulting from the secret

participation of its employees in the bidding, the results of which were hidden or falsified when registering transactions in the financial statements, and was the response of insurers to the demand that increased after the high-profile scandals with Barings Bank, Sumitomo Group, etc. Interest in it may grow even more, taking into account the story of a month ago with Allied Irish Banks, which lost about \$ 750 million as a result of operations conducted by its trader John Rusnak.

Unfortunately, national practice lags far behind Western practice. The main reasons for this circumstance are, on the one hand, the lack of qualified specialists-insurers in "high—tech" types of insurance, the high cost of such coverage and, on the other hand, the unwillingness of banks themselves to insure new types of risks.

Accordingly, so far the standard cooperation between banks and insurance companies is limited to the simplest forms. Traditionally, office equipment, various bank assets and real estate, and means of transport are insured. An integral element, of course, is the voluntary medical insurance of employees and the "notorious" life insurance, used for the most part to optimize taxation. You can also add insurance coverage for credit and leasing operations, where collateral insurance prevails.

The main reason for this "specialization" is that these products are to a certain extent standardized and well-developed by almost all insurers, as well as clear to banks. But they cover only a small part of the entire risk spectrum and are still very far from the full and comprehensive program through which banks in the West are protected.

The problems of criminal impacts on the banking business and its overall security are, as they say, timeless. This is not surprising, since it is the banking sector that is perhaps most susceptible to such risks. Indeed, the robbery of bank safes or vans with money by armed guys in masks has been a classic component of the plot of detective and gangster novels for a good one and a half to two centuries, and remains no less an "urgent topic" today.

The main determining factor here is the traditional specifics of banks' activities, which makes them the most attractive target for intruders of very different "specialization" and "caliber". Of course, it would be naive to believe that technical and intellectual progress has not affected, in turn, the criminal sphere. Due to this circumstance, "security" has every right to take its place among the standard characteristics of banking assets "liquidity — profitability — risk".

Risk managers and related analytical services of banks, as well as orderly internal control and an effective security system, are called upon to play a leading role in ensuring the security of the bank. This means: separation of duties and powers, document management, technical means, such as: electronic locks, zonal access control by magnetic cards, airlock doors, secret silent alarm buttons, television cameras, etc. Although all these tools are the main deterrents to intruders, they still have a limited scope and do not provide 100% protection against various types of criminal influences, which means they are profitable only up to a certain level.

For example, in France, banks have a fairly high level of technical security equipment by European standards, but with their help only about 10% of criminals were detained at the time of the crime or were forced to retreat, unable to overcome the protection system.

Insurance of banks against criminal influences in the world practice is a separate field of insurance. All over the world, such insurance coverage is extremely widespread: about 95% of banks in developed countries have it. And this is quite understandable, because the corresponding insurance policy, better known as Bankers Blanket Bond (BBB), or the bank's Comprehensive Criminal Risk Insurance Policy, is an obligatory and integral attribute of the bank's reliability and security, which significantly raises its reputation in the eyes of partners and customers.

The basis of the coverage provided by this policy is the disloyalty of the bank's staff. The policy covers the bank's losses from dishonest or fraudulent actions committed by any of its employees alone or in collusion with the aim of causing damage to the bank or acquiring illegal financial benefits for themselves.

According to statistics, up to 90% of crimes are committed with the participation, directly or indirectly, of the bank's own employees. It is "insiders" who are often secret or explicit participants in crimes; informants of intruders on the organization of security systems and internal control of the bank, document management; they themselves conduct fraudulent transactions with the electronic money transfer system or the issuance of loans to fictitious persons. Interestingly, they often turn out to be the most respected, trusted and non-suspicious people.

In addition, the policy covers the bank's losses due to the loss of cash, securities certificates, precious metal bars, precious stones and even accounting and financial documentation from safes, vaults, bank premises as a result of robbery, theft, unexplained disappearance, as well as death or damage for any reason.

Exactly the same coverage is provided for such valuable property when transported by bank employees or a specialized collection company in armored vehicles.

Attacks on cash collectors are still quite common even in civilized Europe. According to The Financial Times, since the beginning of the manufacture of new banknotes and coins of the single European currency in the European Union, a total of 5 million euros have been stolen in various ways, with the main "burden" falling on collectors in Belgium, Germany, France and the Netherlands. The largest of the robberies was organized in autumn in Germany, where 1.2 million euros and 300 thousand Deutschmarks were stolen by a driver from an armored van driven by him. An even more high-profile precedent was the robbery in November 2000 in Copenhagen. At that time, \$4.7 million was stolen from an armored car transporting the daily proceeds of a supermarket chain to the bank by one of the guards accompanying him. The robbery was the largest in the history of the country.

Another component of the BBB policy is to cover losses from transactions by banks based on forged checks, bills of exchange, other written or facsimile instructions and orders formalized for operational document management, as well as losses from bank transactions with counterfeit documentary securities and counterfeit currency.

Additionally, the policy provides insurance of the bank's premises against damage or destruction — the direct results of acts of theft (or attempts to commit it), vandalism and other illegal actions, with the exception of standard risks covered by a regular property insurance policy.

For about 10 years, electronic and computer systems of banks have been one of the main channels of crimes against banks. In the context of global informatization, they allow correspondent banks and their clients to distance themselves from each other over ever greater distances and provide direct access to account management or performing any operations for withdrawing, transferring funds, electronic clearing, etc.

The losses here are significantly higher than due to "traditional" crimes: suffice it to say that the daily volume of payments made by banks around the world through electronic money transfer systems amounts to billions of dollars.

The demand for insurance coverage for such losses arose in the early 1980s, and in response to it, an insurance policy for banks against electronic and computer crimes (Electronic & Computer Crime Policy - ECC) was developed, which is an addition to the standard BBB policy and is not issued separately.

The ECC policy covers the bank's losses from hacking into its computer systems and subsequent damage or modification of electronic data stored and used in them. In addition, the bank's liability is covered for damage to its customers as a result of hacking their computers from the bank's computer system; damage as a result of hacking computer programs used in the bank; losses from theft, damage and destruction of electronic data and their carriers as a result of intentional actions, as well as losses resulting from exposure to a computer virus. Damage from transactions based on fraudulent instructions received using electronic communication systems (for example, SWIFT); from transactions with undocumented securities; from fake facsimile orders or instructions accepted for execution falls under coverage.

In practice, statistics on banking crimes vary from country to country. Moreover, each state has its own national character of losses: in some, more "intellectual" crimes (forgery of documents, computer fraud) prevail, in others, more traditional robberies and thefts. Such information, along with a detailed insurance questionnaire, is summarized by insurers and used to determine the cost of insurance for each specific bank. As an example, the fact that in both the United States and Argentina, the largest number of bank robberies occur on Fridays between 9 and 12 a.m. This is evidenced by the data of national law enforcement agencies.

The founder of criminal risk insurance for banks is such a world-famous insurance institution as Lloyd's of London, which, in fact, remains a confident market leader in this type of insurance today. Today, banks and insurers no longer just provide their specialized services to each other. There is a convergence and intertwining of banking and insurance businesses.

One of the characteristic features of this development was the creation of universal banks integrating under one roof a wide variety of areas of financial activity and, in particular, insurance. The main reason for this process — the emphasis on traditional purely banking products — no longer gives banks the opportunity to compete at the same level in the context of economic globalization, mutual penetration and integration of international capital markets, information and technology.

The parallel of the convergence of "banks — insurance" was initially clearly traced on the curve of banking business development precisely due to the fact that within the financial component of the global economy, only insurance can compete with banking capital in terms of volumes. Additional factors that initially attract such multipolar institutions are: insurance companies have significant investment resources that require adequate and professional investment opportunities, banks have the need for competent risk management, the presence of a huge client field that needs new services, for example, insurance.

The main benefits received by insurance companies from the promotion of bancassurance are as follows:

Getting access to the bank's extensive branch network and, consequently, a much larger customer database. In this case, the need for administration is reduced many times and, accordingly, the amount of costs, in particular, for the agency institute.

□ Bank assets play the role of additional collateral for operations during insurance.

Banks have much more experience in managing investment resources, whereas insurers have a risk aspect. All this together makes it possible to increase the efficiency of using insurance reserves.

The main product of insurance companies at Bankassurance is long—term life insurance. This type has two fundamental qualities for effective cooperation between banking and insurance businesses "in one bottle" — mass character and a first-class investment resource. Mass character is the main criterion for the distribution of policies through banks. A minimum of necessary baseline data for risk

assessment (mainly "mortality tables"), no need for risk management. Simply put, an insurance company can instruct local bank employees in remote branches to issue such a policy. Long-term life insurance provides an almost ideal investment resource, the ability to plan income and payments, and orient the rate of return included in the rate according to the bank's performance indicators.

From a marketing point of view, banking channels are best suited for selling simple, mass insurance products to customers with an appropriate level of inquiries, unlike those customers and products that require specialized expertise and trained and experienced agents. Even in the context of the widespread development of Internet banking, the expanded branch network remains a very significant competitive argument in the market, let alone the diversification of branch services in the insurance sector.

Unfortunately, such standardized, simple, as a rule, products provide a narrow margin of profitability and at the same time are subject to direct competition. So, as mentioned above, the market "window" for bancassurance is for customers with the simplest needs who have not yet clearly decided on their own choice. This is not the most rosy aspect, so it is not surprising that US banks do not give this area priority.

In addition, there are three basic factors justifying banks' disinterest in property and liability insurance:

- the risk-related return on capital (profitability) does not look attractive when averaged over the entire insurance cycle;

- The cycle of classic risky types of insurance is very unstable in itself;

- Banks do not have the necessary experience in managing relevant risks.

It is quite obvious that the development of cooperation between banking and insurance businesses has not reached its peak today. This is especially true for our country, where in this regard there is simply an "untilled" field, and in relation to both the exclusively standard placement of banks' risks in insurance companies and joint business. There are unconditional prospects in both directions, and it remains only to monitor the process of "maturation" of bankers and insurers to promote such a promising direction.

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