

## The development of bancassurance in Jordan

Zahraa Salih Hamdi<sup>a</sup>, Dr. Rihab Bedoui Ben Salem<sup>b</sup>

<sup>a</sup> PhD Student of Institute of High Commercial Studies of Sousse (IHEC). Tunisia

<sup>b</sup> Member of the LaREMFiq Research Laboratory in Economics, Management and Quantitative Finance, IHEC of Sousse, Tunisia

### Abstract

The research aims to clarify the development of bancassurance in the Kingdom of Jordan, and track its growth as a distribution channel by measuring the growth of bancassurance for the period (2008-2019) By raising the problem of how to visualize the development of the bancassurance process in Jordan. The researchers reached a number of conclusions First: the penetration of bank insurance is significantly lower in public insurance Second: The main drivers behind the market volatility of growth due to the fact that insurance products do not have a significant competitive advantage in the financial sector Third: Limited models of convergence allowed in the Kingdom of Jordan, despite the importance of the diversity of forms of convergence in the interests of both parties. The most important recommendations of the research are the need to change the traditional banking method and amend the regulations and laws that distinguish between the bank and the insurance company.

**Keywords:** Bancassurance, Bank Regulation, Bancassurance models, insurance company, banking sector

**G22, G28**

### 1. Introduction

Bancassurance is a civilized global phenomenon and is one of the important changes witnessed in the global financial environment. Where both insurance companies and banks seek to apply them in order to increase their market share and obtain an additional source of income, the adoption of bank insurance has led to the bank not only providing its traditional banking services, but providing financial activities that contribute to compensating for some of the losses suffered, and diversifying sources of income.

This service spread in the early 1980s first in Europe, starting with France, Germany, then the United States of America, in addition to some Arab countries, such as Morocco, Jordan and Algeria by allowing their banks to provide insurance services (life insurance, non-life insurance).

Bancassurance is a concept for operating in financial markets that provide opportunities for intensive use

of the purchasing power of the bank's customer portfolio through significant improvements in financi

al products (Clipici & Bolovan,2012). The Bancassurance model therefore covers a wide range of activities, such as sales of the products through the online distribution of non-financial institutions (NFI) Provision.

products/services and distribution of through a common channel and/or using the same customer portfolio Constantinescu,2012). Bank insurance plays an important role for banks in investing their full resources by providing appropriate training for their human resources. And for insurance companies, Bancassurance is the most effective way to grow and reach customers (Kulkarni, 2012).

Banks and insurance companies agree with each other to distribute insurance products through strategic partnership, as banks do not take risks, but provide insurance products for a fee and leave product development to the insurance company, but gradually banks have begun to take full risks and distribution responsibilities despite the fact that proper implementation still faces some problems (Kumari & Dorthy, 2014)

**The problem of the research mainly** focuses on how to build a perception of the insurance products offered by banks, what products are more acceptable to customers, what are the Bancassurance models used in Jordan, and are there promising prospects for bank insurance in Jordan.

**The aim of the research** is to shed light on the development of Bancassurance in the Kingdom of Jordan and track its growth as a distribution channel for the period (2008-2019). Find out the preferences of customers and show the prospects of providing this new service in financial services.

## **2. Theoretical Framework**

### **2.1 Bancassurance features and determinants**

For Bancassurance features obtained by all parties: for banks, the offer of a wide range of banking and insurance products to the customer in one channel (Voutilainen, 2005) enables the bank to retain customers and attract new customers by selling a full range of financial and insurance services ( Bhushan & Murtza, 2014), This in turn encourages insurance companies to combine customer desires with Bancassurance products ( Žorković, 2016),By utilizing the network of branches owned by banks in all regions as outlets for the distribution of insurance products, these products can reach rural and remote areas (Bhushan & Murtza, 2014) ,Through this, the customer will receive a variety of services from one window at a low price because he will receive all insurance services provided by this channel (Paramasivan & Naidu, 2014) ,The products will also be with high quality (Ganesan & Eswari, 2016).

### **2.3 Bancassurance determinants**

Despite the advantages of the Bancassurance system, there are some obstacles that hinder the work of both the bank and the insurance company and prevent the customer from benefiting the Bancassurance products, Among the most important of these limitations are:

1- If the insurance product is poorly implemented, it will pose a risk to the bank and vice versa, if well implemented, the bank will enhance its competitive advantage compared to others, in addition, the interests of other products of the bank can conflict with insurance documents such as the refund policy, which may confuse the customer (Rani, 2014).

2- The lack of a good regulatory environment may hinder the emergence and spread of bank insurance, as specific regulations are needed to coordinate work between banks and clients, as well as the bank's ownership of the insurance company and the sale of insurance documents by the bank is a prerequisite for the success of bank insurance (Fiordelisi & Ricci, 2011).

3- The lack of adaptation of bank insurance products to the needs of customers. Therefore, it is necessary to constantly work on reviewing these products (Fiordelisi & Ricci, 2011, 789).

4- Differences in sales culture between banks and insurance companies and mismanagement of the workforce (Kumari & Dorthy, 2014)

5- Lack of interest in product modernization and development, and weak sales channel links.

#### 2.4 Bancassurance models

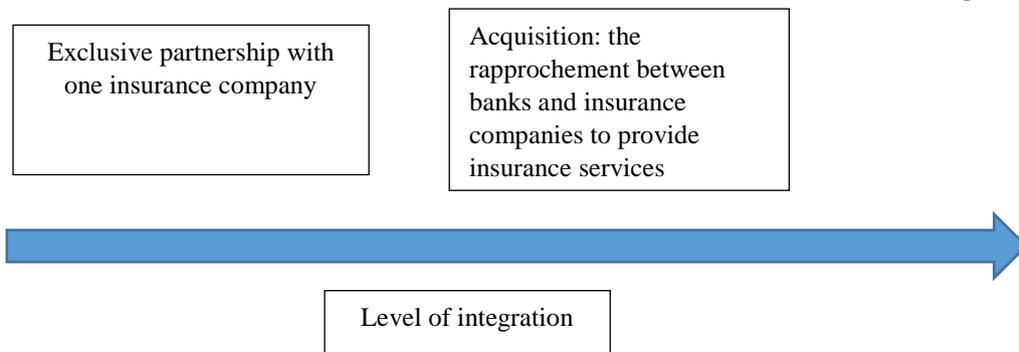
There are several Bancassurance models through which the bank can distribute its products (life insurance and general insurance), and these models have devolved at different stages and are changing from one country to another, this is due to different important features such as the legal framework, market conditions, the level of development of partner entities, the degree of internationalization of operations, and other factors that have led to a wide range of models (Clipici & Bolovan, 2012).

(Rao & Moorthy, 2014), in his research classified convergence models in financial services into six types (1) meta-markets : Is a concept that represents two or more markets that are somehow linked to a product or service., ( 2) Strategic alliances, (3) joint ventures, (4) mergers and acquisitions, and finally enter the green field where this method is considered the best method of convergence between companies, through which we can provide innovative, effective, hybrid, and integrated financial services .

The success of the Bancassurance model depends on several key factors: the level of integration required in the sales process, the bank's current organizational structure, the cultural differences between the bank and the insurance company, and the compatibility of the Bancassurance culture (Pahuja & Verma, 2006).

As for (Přečková, 2019), he presented in his research four basic models: (i) Insurance product distribution agreement under which banks are able to cooperate with multiple insurance companies, (ii) a strategic alliance or exclusive agreement with a single insurance provider, (iii) a joint venture where both the bank and the insurance company create a jointly owned company, and (iv) a financial services group, and (v) merger and acquisition.

**Based on the instructions issued by the Insurance Management Authority, the relevant bank insurance models in the Jordanian market have been identified shown in Figure No. (1) below:**



**Figure (1) Jordan's Bancassurance Model**

When evaluating the private Bancassurance model in Jordan with what was proposed by researchers (Clipici & Bolovan, 2012), (Rao & Moorthy, 2014), (Pahuja & Verma, 2006), (Přečková, 2019), we find that there is more than one a missing model such as : distribution agreement, holding companies, financial services group, joint cooperation, this is because Jordanian banks are not allowed to follow/adopt more than these two models and insurance companies are not allowed to provide banking services.

### 3. Results and Discussion

#### 3.1 Channels for distribution of insurance products by banks

The distribution channels of insurance products consist of: direct sales channels, agents, brokers, and banks, and the direct sales channels get the largest market share through the volume of premiums subscribed in 2019 followed by agents and brokers, then banks. This means that the new distribution channel is still in its infancy and its products still do not attract customers.

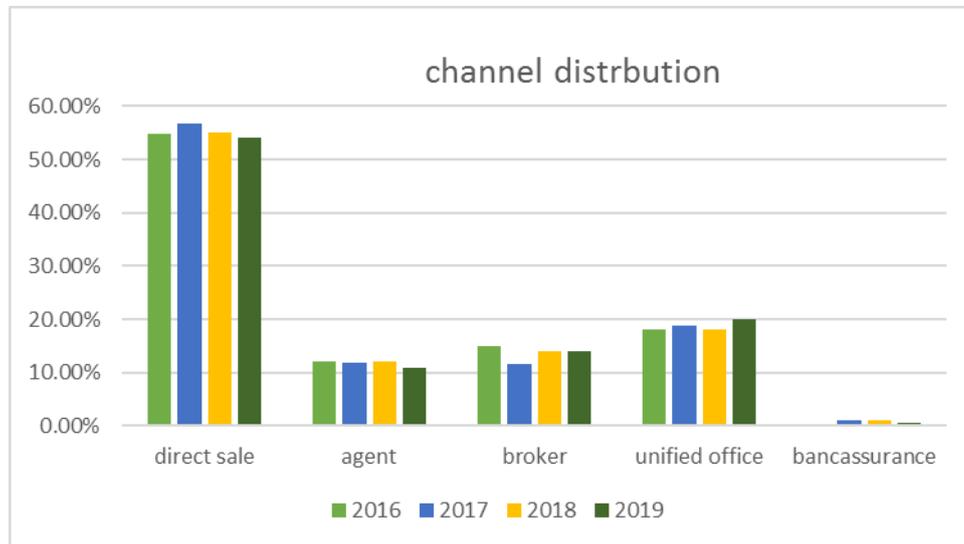


Figure (2)

**Source:** This form was prepared by researchers based on the data of the Jordan Insurance Authority

#### 3.2 Development of Bancassurance production

Bancassurance service began in The Kingdom of Jordan in (2005), The Insurance Authority (currently called insurance department ) issued a set of instructions for regulating cooperation between banks and insurance companies, under which the bank is authorized to sell insurance services to his customers, according to these instructions, banks are allowed to provide the following insurance services: promotion and marketing of insurance products offered by the insurance company, attracting insurance applications, submitting insurance offer prepared by insurance companies, receiving insurance applications or requests for renewal, amendment or cancellation of insurance documents, in response to the customer's inquiries and the insurance documents holders, receipt and transfer of correspondence exchanged between the insurance company and the insurance documents holders, In accordance with these instructions, the bank is an agent of the insurance company as it now provides

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life insurance and general insurance services, which include vehicle insurance, fire ,and theft... And so on.

However, there are a number of constraints limiting the spread of the service and may be due to a number of factors:

- 1- Bank's failure to comply with the instructions of the Insurance Department, which leads to the withdrawal of the license, or the expiration of the license period.
- 2- The lack of training programs for bank employees regarding the insurance service, as well as the difference of selling culture between banks and the insurance company.
- 3-Incentives and bonuses offered to bank employees who provide insurance services are insufficient.
- 4- The methods of advertising by banks about bank insurance services are unclear to the public if this is observed through the website of some banks that provide insurance services.
- 5- The Jordanian public's low acceptance of the insurance service due to religious beliefs.

### 3.3Bancassurance products

The insurance products that are offered by Jordanian banks can be classified into life insurance products, which made up the largest percentage of (77%) of bank insurance production, as well as general insurance products that include Educational /University Insurance, medical insurance, property insurance, as shown in Figure (3)

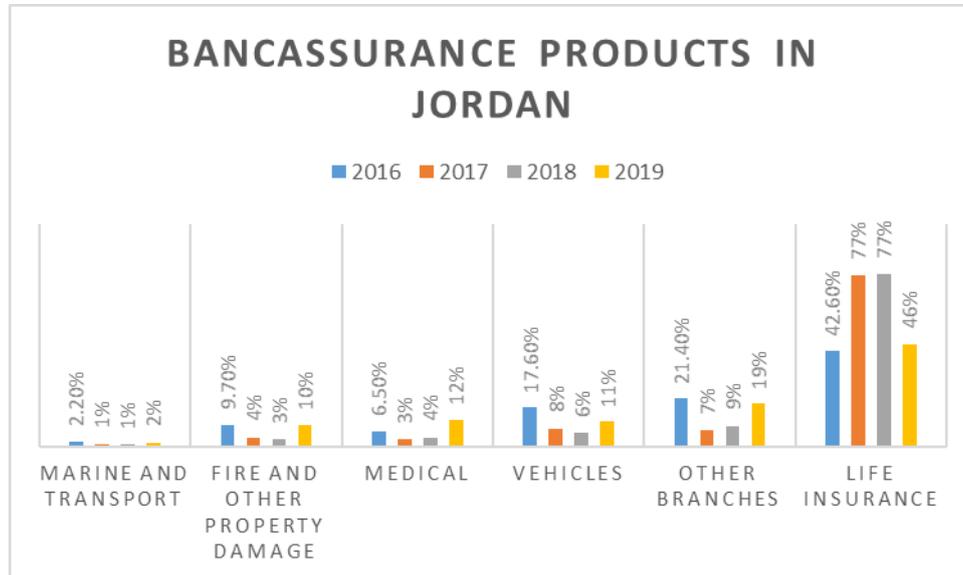


Figure (3)

Source: Figure prepared by the researcher

The figure shows that life insurance services are higher compared to general insurance services, and the reason for this is due to their somewhat similar nature with banking products, as both (banking products and life insurance) mean collecting individual funds for unexpected future events.

### 3.4 Bancassurance growth

The following is an analysis of the growth of bank insurance sector premiums in the Jordanian market during the period (2008-2019). Bank insurance premiums in (2010) amounted to (1,771,171) JD, or (0.4%) of the total premiums subscribed compared to (2009), premiums from total bank insurance increased by 23% As for the types of insurance, life insurance increased by (9%) Public insurance also increased by 11 percent.

As for the year 2013, the bank insurance premiums amounted to (1,676,033) dinars, or (0.3%) of the total written insurance premiums, while when compared with 2012, the realized premiums of the bank insurance overall decreased by (12%) as well as for the insurance branches, life insurance decreased by (12%) and General Insurance also decreased by (10%). For the year (2014-2015) there are no data on bancassurance was available by the Jordan Insurance Authority.

The premiums amounted to (2,465,345) Jordanian dinars (2016) representing (0.4%) of the total written premiums. In 2017, the bank insurance premiums amounted to 5,771,330 Jordanian dinars, which representing (0.1%) of the total written premiums While the subscription premiums in 2018 amounted to (6,194,323) which representing (0.1%) of the total written premiums, as well In 2019, the percentage decreased by (55%) compared to (2018) This decrease is due to the decrease in the total premiums of the investment related to the insurance branch (life insurance and general insurance), table (1) below shows the development of bancassurance in Jordan from 2008 to 2019.

**Table (1) Development Bancassurance in Jordan**

year	Life insurance	Non-life insurance	total	Growth rate
2008	750,290	140,369	890,369	5%
2009	997,070	442,510	1,439,580	9%
2010	1,215,941	555,230	1,771,171	11%
2011	1,963,111	887,929	2,851,040	18%
2012	1,826,071	107,606	1,933,677	12%
2013	1,585,887	90,146	1676033	10%
2014	N/E	N/E	-	-
2015	N/E	N/E	-	-
2016	1,051,231	1,414,128	2,465,359	15%
2017	4,438.7	1,332.5	5,771,330	36%
2018	4,785	1,409	6,194,323	39%
2019	1,264000	1,512000	2,776,000	17%

**Source:** The table was prepared by researchers based on the data of the Jordan Insurance Authority

### 3.5 The economic position of Bancassurance in Jordan compared to the countries of the world

The changes in insurance growth reflect the economic situation, the economic position of insurance can be measured through a number of indicators, including insurance intensity and penetration rate, table (2) below showing a fluctuation between a rise and a decrease in penetration rate in the Jordan (insurance premiums/GDP) public insurance was better than life insurance over the years of this study

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(2008-2019) at (2.22) percent. Jordan's average per capita insurance expenditure has been (\$92.63) and the market share stabilized between (0.01-0.02).

**Table (2) The size of the insurance business number in Jordan (2008-2019)**

<b>Year</b>	<b>Premium volume (in millions of USD)</b>	<b>Insurance density</b>	<b>Insurance penetration</b>	<b>Share of world market (%)</b>	<b>World ranking</b>
2008	452	73.8	2.3	0.01	86
2009	510	80.7	2.3	0.01	84
2010	576	89.1	2.1	0.01	85
2011	622	99	2.2	0.01	84
2012	657	102.5	2.13	0.01	84
2013	686	105	2.0	0.01	86
2014	736	99	2.1	0.02	86
2015	778	102.4	2.13	0.02	83
2016	803	104.1	2.05	0.02	81
2017	836	79	2.09	0.02	81
2018	895	91	2.06	0.02	82
2019	865	86	1.89	0.01	83

**Source:**(Staib, 2009), (Staib, 2010), (Staib & Bevere, 2011),(Swiss RE Institute, 2020) (Sigma, 2012), (Sigma, 2013), (Swiss Re, 2014),(Swiss Re Institute, 2015), (Staib, 2016), (Swiss Re, 2017) (Swiss Re Institute, 2018), (Swiss Re Management Ltd., 2019).

### **3.6 Promising prospects**

1. The scope of insurance products, penetration level and applied models found in Jordan indicate a slow phase of the development of Bancassurance although bank insurance is a distribution channel for insurance products, a low percentage of the types of public insurance are dealt with in Bancassurance, in addition to the presence of a few integrated Bancassurance companies compared to the more developed countries.
2. Personal banking products (savings accounts and current accounts) dominate banking operations in Jordan, as banks can still benefit more effectively through their banking relationships with their customers and provide extensive insurance products to suit the needs of customers.
3. The high level of confidence of citizens in the banks makes them able to attract consumers to buy insurance products (Life Insurance), which makes the life insurance policy a natural extension of the range of products offered by the bank, as many Jordanian banks the life insurance have become required when customers get a personal loan from the bank, in spite of this, however, banks and insurance companies have not exploited the great potential and opportunities of bank insurance.

#### 4. Conclusion

Bancassurance is one of the leading financial, banking services of the banks worldwide, Where the modern concept of Bancassurance refers to a group of comprehensive banking services that serve all sectors.

In Jordan, in terms of the history of providing insurance service to the public is considered modern and is influenced by a number of factors that make the turnout low, including the economic level, the population, the insurance culture of the public, the level of development, the institutional framework determined by the regulatory and legislative regulations.

#### 5. The main conclusions of the research

- 1- The penetration of bank insurance is significantly less in general insurance, the main drivers behind the fluctuating growth of insurance products stem from the fact that they do not have a significant competitive advantage in the financial sector.
- 2- Limited convergence models allowed in Jordan.
- 3- Banks differ from insurance companies in several aspects: product life cycle and nature this requires people specific knowledge of insurance services.
- 4- Traditional distribution channels dominate in the sale and production of insurance services.
- 5- The tendency of the Jordanian bank to provide life insurance services compared to general insurance services due to the fact that public insurance requires a large investment in edification and motivation.
- 6- In order to maintain the provision of insurance services and business continuity between the bank and the insurance company, the insurance company requires a good understanding of the nature of banking operations in order to design products that attract customers.
- 7- In order for Bancassurance to succeed and continue in the future, it is necessary to invest well in technical improvements and human resources.

This study is one of the first studies that highlighted the phenomenon of bank insurance in the kingdom of Jordan in addition to being one of the modern services provided by banks.

#### Appendix Table (1)

<b>Channel distributions</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>direct selling</b>	54%	55%	56.67%	54.7%
<b>Agents</b>	11%	12%	11.93%	12%
<b>broker</b>	14%	14%	11.66%	14.9%
<b>Unified office</b>	20%	18%	18.77%	18%
<b>bank insurance</b>	0.5%	1%	0.97%	0.4%

**Table (2)**

<b>Bancassurance products</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Maritime and transportation</b>	2%	1%	1%	2.2%
<b>Fire and other property damage</b>	10%	3%	4%	9.7 %
<b>medical</b>	12%	4%	3%	6.5%
<b>vehicles</b>	11%	6%	8%	17.6
<b>Other branches</b>	19%	9%	7%	21.4
<b>life insurance</b>	46%	77%	77%	42.6%

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