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Research on the Social Sustainability of China's Bancassurance

Minghui QIAN¹, Xiaoliang GONG², Yongbing ZHENG³, Fangqian WAN⁴

Abstract

The paper presents an analysis and an evaluation of the social sustainability of China's bancassurance. With the continuous development of China's financial industry, China's bancassurance has been developing in depth, expanding the original space of bancassurance, which form a variety of bancassurance models with Chinese characteristics and become important means to help China's Rural Revitalization and the development of small and micro enterprises. However, there are also many bottlenecks in the development of China's bancassurance, even fusing in some areas, which make the social sustainability of China's bancassurance facing huge challenges. Aiming at the social sustainability of China's bancassurance as the research objects, total 113 copies of questionnaire are distributed, and 105 valid copies are retrieved, with the retrieval rate 93%. The research results show that the government needs to increase subsidies, expand the space of China's bancassurance, optimize the risk-taking ratio of banks and insurance companies, make China's bancassurance more healthily and professionally, and then provide more convenient financial services for the majority of small and medium-sized enterprises, development trend.

Keywords: social sustainability, China's bancassurance, small and micro enterprise, cross analysis, social development.

¹ Laboratory of Experimental Economics, School of Finance, Dongbei University of Finance & Economics, Dalian, CHINA. E-mail: qianmh@dufe.edu.cn

² Dalian Office of China Banking and Insurance Regulatory Commission, Dalian, CHINA. E-mail: m0m1m2m3@sina.cn

³ School of Mathematics, Dongbei University of Finance & Economics, Dalian, CHINA. E-mail: zhengyb2013@sina.cn (*Corresponding author*)

⁴ School of Finance, Dongbei University of Finance & Economics, Dalian, CHINA. E-mail: 15226513670@163.com

Introduction

According Vineet (2004), bancassurance is an important part of financial Mixed Operation. The term bancassurance is a composite of French Banque (bank) and Assurance (insurance). Bancassurance is usually applied in the field of bancassurance led by commercial banks. As a kind of financial innovation, the meaning of bancassurance lacks consensus. In different countries and different periods, the meaning of bancassurance has many aspects and multiple kinds of interpretation. From the development of bancassurance, in 1971, Lyon Credit Union of France acquired Medicare Insurance Company, which specializes in health insurance, and started the bancassurance. Since then, many financial institutions around the world, such as CGER in Belgium, CaixaBank of Barcelona in Spain, and CNP in the French national life insurance company, have carried out bancassurance services. The banking and insurance businesses have achieved a high degree of integration. By the view of Rayala, Irala, & Aparna (2004) and Santosh (2008), after nearly half a century of development, the mixed operation of bancassurance has matured and formed a variety of business models. According to the latest global bancassurance analysis (Wise Guy Reports, 2019), Bancassurance Market Global Industry Analysis, Size, Share, Growth, Trends and Forecast 2019 to 2025), the global banking insurance business is growing steadily, and the Asia Pacific region has become the most important region in the world. The global bancassurance market in 2017 is about 1.1 trillion US dollars, which is expected to exceed 6.4% from 2018 to 2025.

With the recovery of China's insurance business in the 1980s, China's bancassurance has also been actively explored. Since 2006, with the gradual release of policy dividends, banks and insurance supervision are combined into one, the China's banking industry and the China's insurance industry has continuously broken through the existing boundaries. China's bancassurance has continued to develop in depth and expanded the original cooperation development space between banks and insurance companies, which form a variety of bancassurance models with Chinese characteristics and become important means to help China's Rural Revitalization and the development of small and micro enterprises, such as bancassurance model in Shanxi Province and rural microfinance insurance in Hebei Province. However, due to factors such as unreasonable risk sharing mechanism, China's bancassurance often triggers the fuse mechanism and the business cannot be fully developed. To this end, this paper makes a study on the social sustainability of China's bancassurance. By analyzing the risk sharing mechanism of China's bancassurance, this paper explores effective ways to enhance the social sustainability of China's bancassurance, solve the bottleneck of China's bancassurance and promote the healthy and sustainable development of China's bancassurance.

Literature review

Bancassurance concept

Nadege and Philip (2016) compare and analyze the commonalities and differences between banks and insurance, and believe that the definition of bancassurance is not static, but diverse. In the early stage, banks cooperate with insurance companies through agency sales insurance. With the cooperation continues to deepen, it gradually moves toward mixed operations. Alavudeen and Rosa (2015) affirmed the concept of bank insurance and believed that the development of the banking industry relied on how banks and insurance companies can overcome the business challenges. Sahlian (2015) consider bancassurance to be a comprehensive service through which banks and insurance companies can achieve a win-win situation. Sagaya et al. (2019) believe that bancassurance is one such medium to distribute insurance products through bank as an intermediary. On the one hand, the banks engaging in a variety of insurance selling activities can benefit from economies of scope, ultimately improving both their performance and market value. On the other hand, diversification could lead to the escalation of agency problems existing between corporate insiders and small shareholders, which would ultimately destroy the value of the firm within the market (Liu & Liao, 2019).

Bancassurance model

With the development of bank insurance, there are many kinds of bancassurance models. According to Rajeev, Kanti and Srikant (2015), there are three main types of bancassurance models: Distribution Agreement (USA, Germany, UK and Japan), Joint Venture (Italy, Spain, Portugal) and Full Integration (France, Spain, Belgium, UK, Ireland). Since there are obvious regional characteristics of bancassurance models, so the bancassurance models can be divided as follows: (1) *European Model*: it mainly relies on banks to sell insurance products through the network, and manages insurance assets by banks; (2) *Hong Kong Model*: banks and insurance companies establish joint ventures or wholly owned subsidiaries, or attempt to sign exclusive banking insurance agreements with only one insurance service provider; (3) *Bancassurance Business Model in Latin America*: banks have a strong business network. Foreign insurance companies should sell insurance products by purchasing bank shares and strengthening direct control; (4) *Bancassurance Business Model in China*: it can take one of exclusive distribution model, joint venture model, establishment of a financial holding company and development of integrated lines of business; (5) *Bancassurance Business Model in India*: At first, banks only introduced potential customers to insurance companies. With the further development of bancassurance, banks began to take an active part in expanding insurance business.

Key success factor

Padwal and Archure (2000) believe that the success of bancassurance depends not only on the formulation of rules, but also on a good government. OECD (2001) analyzed the success of bancassurance in France at the end of the 20th century. The key is that the bancassurance has more cost advantages than traditional insurance channels. Chaturvedi, Kumar, & Singh (2005) found that bancassurance is growing globally. In Europe, banks control 40-70% of the life insurance market and reduce channel costs by 30-50%. In India, the business volume of insurance companies has increased by more than 50% through bancassurance channels. Bancassurance has made the banks and insurance companies win a win-win situation, which is the fundamental reason for the success of Bancassurance compared to traditional channels. When Fan et al. (2013) seeks to identify the key factors affecting the success of the bancassurance, it is found that reducing management costs, providing low premium insurance, shortening the product innovation cycle, improving product quality and strengthening marketing partnership all have a positive impact on bancassurance performance. Fiordelesi and Ricci (2011) believe that the success of bancassurance lies in channel cost control when they analyzed the development trend of European bancassurance. However, influenced by the trend of financial market, special banking insurance policy will also determine the future of bancassurance.

Methodology

Unsustainability Analysis of bancassurance

Bancassurance fusing refers to the situation that the bancassurance has to be terminated because of triggering fuse, i.e. the number of defaults exceeds the upper limit. When bancassurance fusing occurs, the social sustainability of bancassurance faces great pressure. Because insurance companies are the main bearers of default risk, insurance companies, considering their own business costs, often hope to adjust the risk-sharing ratio between banks and insurance companies. When the government participates, they can adjust the Risk-loss compensation mechanism in order to make the cooperative business of bancassurance sustainable. In order to judge the reasonableness of insurance company's claim, this research makes a mechanism analysis as follows,

Assuming that the upper limit of overdue rate is 10%, the upper limit of the amount of compensation is 30%. In order to ensure the sustainable development of bancassurance, i.e. no trigger mechanism, the following requirements is acquired.

$$(1) \text{ Overdue Rate} = \frac{y}{Y} \leq 10\%, \text{ } y \text{ is default number, } Y \text{ is total number.}$$

(2) Payment Scale = Payment Amount / Premium = $\frac{ky}{CY} \leq 130\%$, k is the average amount of compensation, C is the average premium.

When the ratio of the average amount of compensation to the average premium, i.e. $\frac{k}{C} > 13$, there is no guarantee that the scale of compensation will be less than 130%. Therefore, in order to ensure the sustainable development of bancassurance, we must control this ratio in a certain range (less than 13), which can be achieved by reducing the average amount of compensation or the average premium by means of financial subsidies.

After controlling the scale of compensation, trigger fuse will occur only when the overdue rate exceeds 10% ($\frac{y}{Y} \geq 10\%$).

(3) Triggering Fuse Probability $P(y) = C_Y^y p^y (1-p)^{Y-y}$, p is the probability of overdue for each household.

The probability of triggering fuse $P(y)$ is directly related to the total number of business Y under the condition that the overdue probability p of each household is fixed. The total amount of cooperative business should be limited to ensure that the probability of triggering fuse is within a controllable range.

Through the above analysis, we can find that the social sustainability of bancassurance is not directly related to the proportion of risk sharing.

Cross analysis

Cross analysis is a basic data analysis method used to analyze the relationship between two variables. Because of its advantages in dealing with complex data relations, cross analysis is often used to analyze market research data. According to Goldstein, Wolf, and Dillon (1976) and Hosmane (1986), the cross analysis method is based on the longitudinal analysis and the transverse analysis method, from a cross and three-dimensional perspective, from shallow to deep, from low to advanced analysis method. Although this method is complex, it makes up for the deviation caused by the “self governance” analysis method, and by chi square test, it is easy to distinguish whether the two classifications have correlation. Therefore, it is more suitable for the research requirements and is widely applied.

Cross analysis design

The questionnaire was mainly filled out by online questionnaires, and the respondents were randomly selected from different regions, sex, age, education background and work background to conduct a questionnaire survey, which

ensured the objectivity and independence of the survey. In designing this questionnaire, this research fully takes into account the background of the respondents, the characteristics of bancassurance, the role of the government in China's bancassurance, and the effective ways to enhance the social sustainability of China's bancassurance. In addition to some basic information, this questionnaire mainly involves the following four questions:

- (1) Have you ever been exposed to bancassurance?
- (2) Do you think the bancassurance is reasonable?
- (3) Do you think the government should provide financial subsidies to participate?
- (4) Which of the following solutions do you think can effectively enhance the social sustainability of China's bancassurance?
 A re-enact business terms B increase business scale
 C re-divide banks, insurance companies and government risk-taking proportion
 D increase government subsidies and reduce the pressure of insurance companies

The subjects

The subjects of questionnaire analysis are different people who are interested in bancassurance. Total 113 copies of questionnaire are distributed, and 105 valid copies are retrieved, with the retrieval rate 93%.

Results

According to whether has contacted with China's bancassurance, make cross analysis separately on whether the government subsidies and the bancassurance mode are reasonable, as shown in *Table 1*. Then, makes a cross analysis on the effective ways to enhance the social sustainability of China's bancassurance. The results are shown in *Table 2*.

Table 1: Pre-cross analysis table of bancassurance (%)

Subject	Option	Exposed to bancassurance		Total	χ ²	p
		Yes	No			
Government provide subsidies	Yes	55(96.49)	45(93.75)	100(95.24)	0.432	0.511
	No	2(3.51)	3(6.25)	5(4.76)		
Bancassurance is reasonable	Yes	54(94.74)	36(75.00)	90(85.71)	8.289	0.004**
	No	3(5.26)	12(25.00)	15(14.29)		

Note: * stands for p<0.05 and ** for P<0.01.

Table2: Cross analysis on the sustainability of China’s bancassurance (%)

X\Y	A re-enact business terms	B increase business scale	C re-divide banks, insurance companies and government risk-taking proportion	D increase government subsidies and reduce the pressure of insurance companies	Subtotal
Yes	33(57.89)	32(56.14)	48(84.21)	34(59.65)	57
No	26(54.17)	17(35.42)	43(89.58)	37(77.08)	48

Conclusion

Based on the empirical results of cross analysis, the following conclusions are acquired. Most people have positive opinions about whether the government needs subsidies or not. According to the Chi-square test, it can be found that whether contact with bancassurance and bancassurance mode is reasonable or not, these two issues have significant correlation. It can be seen that whether contact with bancassurance is reasonable or not, whether contact with bancassurance is distinguished. Most people who contacts with China’s bancassurance think it is reasonable. According to the weight indices in the cross analysis table on the sustainability of China’s bancassurance, it can be found that the effective ways to enhance the social sustainability of China’s bancassurance, the choice of re-dividing the risk ratio and increasing government subsidies are better than other ways.

Suggestions

According to the conclusion, the following suggestions are put forward, expecting to provide definite guidance and directions for strengthening the social sustainability of China’s bancassurance.

- 1) Give full play to the role of government functions and increase the government’s investment in bancassurance. There are two ways to choose, one is to increase subsidies to insurance companies, or directly subsidize customers, and reduce the cost of customers buying bancassurance products. The other way is to improve the government’s risk-taking ratio in the bancassurance and reduce the risk pressure of the insurance company to promote the social sustainable development of China’s bancassurance.
- 2) Most people who have contacted China’s bancassurance know that the bancassurance has a natural complementary relationship. The insurance products have the advantages of long term and guarantee function. it is

- irreplaceable for the banking system. At the same time, the bank The omni-channel capability is also an effective means to promote the growth of China's bancassurance. Through strong alliances and complementary functions, it can effectively expand the financing channels of enterprises. Therefore, we should vigorously popularize the knowledge of bancassurance, promote the social sustainable development of China's bancassurance, and provide more convenient financial services for SMEs.
- 3) Advance the cooperation between China's banking industry and the insurance industry to continuously develop in depth, continuously break through the existing boundaries of separate operations, optimize their respective risk-taking ratios, transform China's bancassurance into a healthier and more specialized direction, and expand the original bancassurance. Develop space to help more small and micro enterprises solve financing problems.

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