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Abstract

From the time the human activity brought the degradation of the environment to the limit, the need of its preservation or restoration has become unquestionable. On the other hand, investments are critical as a driving force for the economy and investing in the environment has been seen as a way to stimulate economic growth and employment while promoting sustainability. This paper presents bancassurance as one of the sources of financing eco-investments which have been increasingly gaining the interest of policy makers, and discusses its utility for concrete bancassurance products with the perspectives for the evolution of the bancassurance channel in the European context bearing in mind the advances in the functioning of financial institutions resulting from the European integration process.

Keywords: *bancassurance, bancassurance models, eco-investments, European Union, Poland*

JEL Classification: *G2, Q01, Q55*

1. Introduction

Eco-investments are commitment of capital in companies from ‘green’ economy sectors such as clean energy, water management or recycling, and as any project raises a question of its insurance. Insurance protects the bank and the client, from eventual losses resulting from unpaid loans and an event covered by insurance, respectively. An increased meaning is hence given to a complete product offered to a customer and an example of such product is bancassurance.

Bancassurance constitutes a group of financial services that combine features of traditional products offered individually by banks and insurance companies. The accelerated competition has reduced margins obliging banks to seek other sources of revenue. Taking advantage of the substitutable character of their products, insurers use bank sales channels to sell their products to the banks client base. Thus, cooperation between banks and insurance companies means providing banking and insurance products to the clients of both (BikBrokers [online], 2006) resulting in mixed bank-insurance products (Śliperski, 2002), but, importantly, has a potential of spreading the customer portfolio through an increasing collaborative environment.

The potential underlying bancassurance has been argued in theory supported by market and practice in itself, however, scientific studies on bancassurance have been to a larger extent more of a descriptive than an empirical nature (Chen et al., 2009). Science lacks empirical studies challenging aspects of costs and revenues distribution and synergies, studies bringing actual evidence capable to confirm bancassurance efficiency.

Together with the movement around environmental concerns, the importance of the involvement of banks in the financing investments related to environment appears clear. As the central actors in the financial sector, commercial banks can play a key role in financing eco-investments and supporting the construction of the future green economy (Khalilun, 2015). A greater engagement of commercial banks in financing eco-investments has been observed especially after the accession of the Central and Eastern European countries to the European Union (EU). The long-term perspective onto European integration has simplified the procedures of the workflow and capital mobility facilitating the business climate.

In fact, the European structures provide specifically intended means for environmental protection of which the Phare (initially PHARE) program was the largest supporting instrument in the pre-accession period, refined later into more specific instruments with ISPA (Instrument for Structural Policies for Pre-Accession) prioritizing transportation and environment. In its understanding, the countries should provide each other support, especially in terms of cross-border water protection and water management. Achieving positive results in environmental protection is largely dependent on effective, integrated funding system.

2. Problem Formulation and Methodology

The European Union interest in the efficient functioning of the financial system bases on promoting a stable, secure and smooth transmission of the monetary policy throughout the euro area, and well-functioning payment structures with financial integration considered one of key phases of the EU integration strategy. One of relevant aspects toward financial integration was establishing the banking union and implementing non-standard monetary policy actions (European Central Bank [online], 2015). The markets of financial products are distinctive as highly influenced by country-specific settings deriving from legal and tax conditions, business climate and consumer behavior patterns. In this perspective, we intended to study the application of a specific financial instrument, engaging institutions from the banking and the insurance sector, for financing environmental investments.

We initiated the work with an extensive literature review of the bancassurance concept and its development seeking existing models and differences in their adoption focusing in particular on financing eco-investments. We searched international and national publications, databases, official reports and working papers. The paper has a form of a narrative review with the first part of discussion focused on bancassurance typologies existing in literature and applied in the European context also for financing environmental investments.

In the second step, we conducted an exhaustive Polish bancassurance market study with an objective to get a general vision of its dimension and diversity. Thus, the second part of the paper focuses specifically on the Polish market and its particularity, presenting the findings of the current situation of the bancassurance market for eco-investments we found the most remarkable and supported by existing norms.

3. Problem Solution

Bancassurance products, substitutable and complementary at the same time, may bring advantages for banks and insurance companies as well as for other participants of the financial market (Rutkowska, 2009). Głodek (2006) indicates that the bank benefits for example from additional non-interest income, reduction of capital requirements associated with the business risk, and revenue from increased customer satisfaction and loyalty, and for the insurance company the benefits include reduction of the cost of product distribution through the use of the extensive network of bank branches, revenue growth by reaching new customers, diversification of product range and capacity to offer additional products which would not make sense without the cooperation with the bank, a higher public trust through cooperation with a well-established bank. For a customer, bancassurance constitutes an opportunity of receiving a comprehensive service at a reduced price (Rutkowska, 2009).

Another option involves the 'all finance' offer with a range of different, integrated and personalized products offered by financial conglomerates. The EU specifies a conglomerate concept in the Directive 87/2002/CE according to the significant involvement in both, banking and insurance activity through the total assets or capital requirements as a reference point (Sorina, 2012). In light of this act, institutions offering bancassurance products are under specific attention and the European regulations.

3.1 The European Models of Bancassurance

No officially recognized typology exists as the one the best reflecting characteristics of the widespread models. However, a number of classifications has been stabilizing, despite appearance and disappearance of some. Nowadays, several forms of bancassurance can be observed, considering solely Europe, and those can be divided into three groups, as identified in literature (Hoschka, 1994; Van der Berghe and Verweire, 2001; Staikouras, 2006).

Hence, it is assumed that bancassurance has developed on basis of three main models or that existing models, under different designations, take several features from the following typology: (a) a simple commercial agreement between the bank and the insurance company defining the conditions of the final product distribution; (b) a joint venture between the bank and the insurer supported by the agreement of the exclusive product distribution, with a potential of reaching synergy effects concerning scope economies, know-how and cross-selling as long as such interest is shared by both partners; and (c) the fully integrated model based on the assumption that the bank completely owns the insurance company using it to create the bancassurance product whenever and however it desires. The bank either buys already existing insurance company or eventually creates a new subsidiary entirely dedicated in its activity to the insurance purposes.

European countries have implemented two predominant models of bancassurance, adopting them to the country-setting, conditions and legislation. The southern model has been adopted mainly in Portugal, Spain, Italy, Belgium and France and is characterized by a close cooperation of the bank and the insurance company in the development of specific products (Chevalier et al., 2005). A key factor in this model is a strong position of the banking sector

together with a well-developed bank branches network throughout the country. A share of banks in the insurance distribution is high (from around 60% in France and Italy) and very high (around 80% in Portugal and Spain). Permanent capital ties between banks and insurers are common. The banking institution usually owns the insurer or a joint-venture is created. Any of these solutions considerably lowers the operational and administrative costs. One of the most relevant determinants for the development of the southern model were favorable macro, especially legal and fiscal, conditions. The regulatory factors can well explain differences in the implementation of bancassurance practices among countries (Chevalier et al., 2005; Ghimire, 2013).

Another model is characteristic for Scandinavia, Germany, the UK and the Netherlands. Relationship capital of the bank and the insurance company are present much less frequently comparing to the southern model, with the participation of banks in insurance sales of around 20%. On the other hand, distribution agreements between the parties are common. Insurance products are sold through agents or specialized consultants cooperating with bank branches, to which customers interested in buying insurance are directed, in contrary to the southern model solution which allows purchasing the insurance product directly from the banking institution.

3.2 Implementation of the Bancassurance Products in the European Markets

The choice of the model is determined by several factors. A very interesting result from an empirical study is of Chen and colleagues (2009) and comprised 71 banks from 28 developed and developing countries, which were engaged in bancassurance activity. Its findings indicate that size of the national bank industry, inflation rate, size of the company, reduction in company risk, reduction in company costs, increase of revenues, and level of financial deregulation within the country are relevant constituents of the bancassurance system influencing its direction. Fiordelisi and Ricci (2011) point out aspects such as economic factors, internal institutional factors, type of business or objectives of the company. Teunissen (2008) goes further and argues that the model to be chosen is also related with aspects external to the proper entity that is, predominantly, socio-economic, environmental and cultural, the market infrastructure or customer preferences. With all these, the final voice belongs to the company. That said, a variety of models of bancassurance may exist within a country while one of them will be predominant as the most preferable (Teunissen, 2008). The typology applied by the involved entities will generally depend on the country and its specificity.

The most developed insurance market in Europe exists in France, where the existing banking-insurance networks have around 50% share in the European bancassurance market and 50% of the gross premium is taken by five largest banking insurance companies. The French bancassurance offer is attractive due to simplicity of products, mainly of its pension and saving character. Products from the bancassurance offer reach around 15-20% of bank customers and are also directed to more wealthy customers for whom special offers of assets management services combined with insurance are developed (Śliperski, 2002). Bancassurance distribution channel share for life insurance products reaches 63% and for non-life insurance products 12% (European Insurance in Figures [online], 2014).

Cooperation between banks and insurance companies on the German financial services market has a long tradition. Most banks distribute insurance policies of the insurance companies with which have long-term relationships. Individual branches and subsidiaries of insurance companies act as distributors of both, their own and bank financial products.

Bancassurance distribution channel share for life insurance products reaches 18% and for non-life insurance products 6.9% (European Insurance in Figures [online], 2014).

A well-rooted bancassurance system in the Netherlands led two from three leading Dutch banks, i.e. ING and Rabobank carry on insurance activity. ING decided to establish for this purpose one administrative board for banking and insurance. Rabobank on the other hand plays a role of a central bank for a group of cooperative banks. The system has been experiencing interesting changes affecting the bancassurance market and its share in last years.

3.3 The Polish Case of Bancassurance Applied for Eco-investments

The concept of bancassurance was implemented by Bank PeKaO S.A. together with its German partner Allianz TU (Barańska, 2003). Statistics point out that the most popular bancassurance products in Poland are life and accidents insurance. These products are offered to holders of a personal account or a term deposit. Moreover, as part of credit activities, credit holder insurance – including life insurance, accidents insurance, and credit object insurance, i.e. property insurance, can be offered within bancassurance products.

The recent market research has revealed that the Polish environmental technologies market is only in its early stage of evolution (Szpor and Śniegocki, 2012), and this might be particularly caused by educational and financial barriers. On the other hand, there is an increasing institutional support for eco-innovation, in which the sector of renewable energy sources is considered to have the biggest potential as it is growing the most rapidly. The challenge that needs to be acknowledged is the common belief that, while wind, solar, water and geothermal sources are the most friendly to the environment, only the wealthiest countries can afford them (Szewrański, 2012). Planning and carrying on environmental investments and business activities in an eco-friendly way is means to sustainable development (Fura, 2010).

Bancassurance is advantageous for entrepreneurs who intend to construct or purchase a property. Within several typologies of eco-investments, direct investments assume construction of new facilities and equipment within a broader infrastructure, while indirect investments focus on technological modernization of production equipment, machines, and processes. They are not mutually exclusive. A construction or purchase of a building is usually financed through a mortgage. Instead of charging a commission of granted mortgage, banks often propose insurance, whether from loss of property value, loss of employment, fire, or professional liability. Such solution is in fact beneficial for the bank as part of credit risk is shifted onto the insurer. For the client, the benefit is that insured mortgage enables a faster start-up while in a regular situation financial resources for the construction or purchase might be blocked until the official validation of mortgage. The business sector, while still a long way from approaching some other European partners, can count on formal, institutional support, projects and programs under implementation, such as the National Action Plan, the GreenEvo Green Technology Accelerator Project introduced by the Ministry of Environment and the Operational Programs, strategic programs of the National Center for Research and Development, among others (The Ministry of Environment, 2007; Szpor and Śniegocki, 2012), opening the door for the Polish bancassurance use for environmental purposes.

For particulars, bancassurance products related to eco-investments are uncommon. Our results indicate the BOŚ EKOsystem product offered by Bank Ochrony Środowiska (BOŚ). According to the bank mission and strategy, BOŚ is actively engaged in financing environmental investment projects. The amount of pro-ecological loans has been steadily increasing accounting for 25.6% of the total of bank loans balance in 2014 comparing with

23.1% in 2013. Those loans were predominantly directed to a corporate customer (89.4% of the balance of pro-ecological loans) (BOŚ [online], 2015). The eco-investments in more than 80% support projects related with energy efficiency and renewable energy sources (Gazeta Ubezpieczeniowa [online], 2014).

Moving toward the client, the BOŚ EKOsistem was launched in 2014 as first product directed to an individual client. The target market of the product are households interested in investments in house renewable energy sources installations. The product includes installation insurance and house insurance, and covers an eventual decrease of assumed efficiency of photovoltaic installation (Gazeta Ubezpieczeniowa [online], 2014). The system has the ability to remotely control and continuously monitor the savings or potential profits using mobile device with the Android operating system.

In practical terms, the BOŚ EKOsistem constitutes a product concerned with the environment and supporting acquisition of a household while investing in renewable energy sources. The latter in this case includes equipping the house in renewable energy installation with an objective to minimize costs of heating and warming up. The experts estimate the increase of GDP as a direct effect of 0.4% with an annual decrease of production costs of the 'green' energy¹ of about PLN 2 milliards¹ (BOŚ EKOsistem [online], 2014).

4. Conclusion

The origins of the European environmental policy reach 1972 and the first discussion of the ecologic crisis. The formal consideration of the environmental protection as one of the objectives of the European Economic Community (EEC) took place in 1987 guaranteeing its position in further European policies .

Bancassurance as a complete product is beneficial to a customer and is becoming increasingly important as means for development of environmental investments. In its beginning, the success of bancassurance was based on gaining the customer trust. Relatively few advanced products were sold in order to create a positive image of a company and used as a basis for further and more profitable business relations. In its global aspect, it seems bancassurance is gradually putting down what the traditional definitions of a bank and an insurer product specified. Cooperation of the bank with the insurance company allows from one hand for providing the optimal insurance for a given product, and for enabling the insurance companies to distribute insurance policies within the banking network, on the other. Given an increasing competition in the financial market deriving partially from the deregulation and liberalization of the law, decreasing margins, which have been the traditional source of revenue for banks, and changing patterns of the customer behavior, who turn price-sensitive, more interested in market opportunities, aware of the market situation and demanding higher service quality, bancassurance services have evolved in order to meet market requirements.

Bancassurance has been so far implemented in a number of European countries, under different forms and with different operational patterns, with a potential of further business recognition. The differences of the banking and insurance markets cooperation between Poland and Western European countries have to do with the time discrepancy. The market development in Poland dates in 1990s while other European countries initiated that process around four decades earlier. The beginning of the 1990s in Poland was marked by profound structural changes in the national economy and the financial market started experiencing intense increase of intra-sector competition accompanied by changing customer preferences

¹ Equivalent to EUR 465 749 618.62 as for the official exchange rate from 13 March 2016.

obliging a response through an extended range of products and services including combined, integrated products.

The implementation of the BOŚ EKOsistem product in Poland has revolutionized the bancassurance market of eco-investments. It is expected to bring significant long-term savings to the State budget, ecological benefits and result in the GDP growth. A proper preparation of both, banks and insurers to cooperate within bancassurance activity can bring tangible benefits to both sides, as well as for their customers. That is the reason why it is important to develop cooperation in the field of bancassurance within the framework of the European integration.

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