

PROBLEMS AND PROSPECTS OF THE DEVELOPMENT OF COOPERATION BETWEEN BANKING INSTITUTIONS AND INSURANCE COMPANIES

ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ РОЗВИТКУ СПІВПРАЦІ БАНКІВСЬКИХ УСТАНОВ ЗІ СТРАХОВИМИ КОМПАНІЯМИ

In this article the issues of cooperation between banking institutions and insurance companies are studied. The essence of "bancassurance" as a way of partner relationships between banks and insurers providing benefits for both them and their clients has been considered. The peculiarities of financial supermarket as the most perfect form of banks' consolidation with insurance companies comparing to others – joint ventures, strategic alliances, share exchanges etc. have been analyzed. Peculiarities of consolidation without formation of a single capital and requirements imposed to insurance companies by banking institutions to receive accreditations have been revealed. The author has formulated the problem and the prospect of the development of partner relationships between banking institutions and insurance companies and analyzed the factors, which can have an impact on the effectiveness of banking-insurance interaction in the conditions of the Russian invasion.

Key words: a banking institution, an insurance company, integration, the financial sector, the financial service market, competition.

У статті досліджені питання співпраці банківських установ зі страховими компаніями. Розглянута сутність «bancassurance» як способу партнерських взаємовідносин банків і страховиків, що забезпечує вигоди як для них, так і для їх клієнтів, для яких відкриваються можливості одержати в одному місці та із суттєвою економією часу необхідні кредитно-інвестиційні та страхові продукти і послуги. Проаналізовані особливості фінансового супермаркету як найбільш досконалої форми консолідації банків зі страховими компаніями в порівнянні з іншими – спільними підприємствами, стратегічними альянсами, обміном акцій та ін. Виявлені особливості консолідації без формування єдиного капіталу, що найбільш розповсюджена в Україні і ґрунтується на укладанні договору між довірцем (страховою компанією) та повіреним (банківською установою) щодо співробітництва – прийняття банком зобов'язання провадити від імені та за рахунок страхової компанії частину її діяльності. Розглянуті вимоги до страхових компаній зі сторони банківських установ для одержання акредитації та проаналізовані успішні приклади співпраці таких системних вітчизняних банків, як АТ КБ Приватбанк, АТ «УкрСиббанк», АТ «Ощадбанк» з акредитованими страховими компаніями. Проаналізована динаміка кількості активних гравців та банківському та страховому ринках та величини активів банків та страхових компаній за 2018–2022 рр. Сформульовані проблеми та перспективи розвитку партнерських відносин між банківськими установами і страховими компаніями. Проаналізовані чинники, що можуть чинити негативний вплив на ефективність банківсько-страхової взаємодії в умовах російського вторгнення. Виявлені можливості консолідація зусиль у воєнний та післявоєнний періоди в межах банківсько – страхового партнерства. Зроблені висновки, що, незважаючи на деякі виклики, обидва сектори можуть досягти успіху, спираючись на взаємодопомогу, технологічний прогрес та спільні стратегії. Регулятор також може відігравати активну роль у створенні сприятливих умов для співпраці між банками та страховими компаніями, що забезпечить стабільність та зростання фінансової системи в цілому. Важливою є роль держави щодо залучення банків та страхових компаній у програми по відновленню економіки.

Ключові слова: банківська установа, страхова компанія, інтеграція, фінансовий сектор, ринок фінансових послуг, конкуренція.

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Formulation of the problem. In the modern global financial world consolidated activities of banks and insurance companies has a significant impact on provision of financial systems stability and economic growth. By interacting with each other, these two areas of financial services allow to protect interests and satisfy the needs of consumers by providing them with products of high quality and attractiveness. The development of efficient cooperation between banking institutions and insurance companies is not an unimpeded task, however, it is extremely important in the conditions of comprehensive economic challenges faced by markets nowadays.

Analysis of recent research and publications.

The domestic scientists, among whom there are N. Avanesova, O. Agres, O. Kalchenko, L. Klavkiv, Yu. Makarenko, M. Novykova etc., have paid big attention to the issue of partner relationships between banking institutions and insurance companies.

Despite the significant scientific heritage, the issue of cooperation between banks and insurance companies still requires further investigation. Important is understanding of the ways of convergence of banking and insurance areas in the conditions of the Russian invasion and during the post-war period taking into account the peculiarities of formation of a demand for insurance and banking services as the grounds for realization of the acceptable model of banking – insurance relationships.

The purpose of formulating the article. The goal of this work is to analyze interaction between banks and insurance companies, identify problems existing in this area and reveal factors, which will contribute to the development of banking and insurance partnership.

Presentation of the main research material. Term "bancassurance" originated in France in the late 60s of XXth century and meant cooperation

between banks and insurance companies. Earlier in the German literature this type of cooperation was described by term “allfinanz” that is translated as “everything from one hand”. In the up-to-date economic literature term “bancassurance” is interpreted as involvement of banking institutions in production, marketing and spread of insurance services.

There are different definitions of term “bancassurance”, but prevailing is understanding of its essence as such a level of transformation of relationships between banks and insurance companies that opens up opportunities for consumers to receive a necessary credit, investment and insurance product at one place and with significant time saving. Banks and insurance companies work together on the basis of partnership to propose joint products and services to their consumers using main sales channels and customer databases. Such an approach allows both parties to provide maximum benefit from the cooperation, including due to increase of revenues and growth of market attractiveness [1].

Creating the conditions for the development and promotion of new financial products the bank and insurance consolidation provides the growth of participants’ business and extension of client service spectrum [2]. “Bancassurance” interaction is beneficial for both financial institutions and clients who can get complex servicing, a larger range of financial services from one source and a possibility of their cost reduction [3].

In expert’s opinion, the financial supermarket is the most perfect form of consolidation between banks and insurance companies that not only based on the integration of their structures at the level of separate structural subdivisions, but also at the level of a head office that enables to provide clients with various services – bank, insurance, investment services etc. [4].

A capability to extend a range of services, e.g. additionally including services such as leasing, consulting, real estate, auditing, factoring depends on the current legislation, the level of client interest in getting up-to-date financial products, the financial capability of potential participants of the financial supermarket and their capability to provide the high quality service and individualized approach to consumers [5].

Except the financial supermarket consolidation of activity can exist in different forms: creation of joint ventures, new institutions, share exchange, formation of strategic alliances [6].

The main differences of various consolidation forms are the absence or availability of a single capital that determines the peculiarities of joint functioning of banking and insurance business and the capability to receive the maximum synergetic effect.

Consolidation without formation of a single capital is most spread in Ukraine and is grounded

on conclusion of an agreement between a principal (an insurance company) and an attorney (a banking institution) regarding cooperation – acceptance by a bank the obligation to carry out a part of its activities on behalf and at the expense of an insurance company. The agreement specifies the parties’ obligations, terms of agent’s remuneration and the order of mutual settlements, ensuring information confidentiality, guarantees of the contracting parties and their responsibility.

The agreement is signed as a result of a bank’s decision to accredit an insurance company; to receive accreditation a company has to comply with a number of requirements and confirm this compliance by providing required documents. Among the traditional requirements imposed by banks in the case when an application for accreditation has been received there are the following:

- availability of a definite term of presence at the market of Ukraine (as a rule, at least two or three years);
- availability of the license for providing insurance activity by those types of insurance, by which cooperation is expected;
- providing information on the real (beneficial) company owners;
- positive reputation at the market grounded on evaluations of insurers, reinsurers and the Bank; absence of negative cases in the history of the company’s activity (violation of insurance terms, legal disputes with the Bank),
- existence of a branch network in the regions complying with the locations of the Bank’s departments;
- the amount of own capital and assets depending on whether the company belongs to category “life” or “non-life”;
- reliability of reinsurer partners, existence of agreement for cooperation with them regarding compulsory reinsuring of property risks;
- evaluation of the insurance company’s financial status directly by the bank.

Nowadays the largest domestic system banks got convinced in the advantages of cooperation with insurance companies. There are well known successful examples of bank and insurance consolidation. The partners of JSC CB PrivatBank are leading domestic insurance companies VUSO, UNIQUA, NASK “ORANTA”, “Universal”, TAS, ARKS, “ARSENAL INSURANCE”, “Euroins Ukraine”, INGO, “Kniazha Life Vienna Insurance Group”, “Ukrainian Insurance Group” etc.

In JSC “UkrSibbank” the following companies were accredited, such as ARKS, “Universal”, “PZU Ukraine”, “Ukrainian Insurance Group”, “Kniazha”, “Cardiff”, “Express Insurance” [7].

In JSC “Oschadbank” three life insurance companies were accredited (“MetLife”, “ARKS LIFE”,

“PZU Ukraine Life Insurance”), 16 property and liability insurance companies, five companies for working with partners (“ViDi-Insurance”, “Express Insurance”, “Krayina”, “European Tourist Insurance”, “NIKO Insurance”) [8].

For the last five years there has been a decrease in the number of active players at the bank and insurance markets. The number of banking institutions has been reduced from 77 to 67, and the number of insurance companies – from 281 to 128. The process of reducing the number of banks was significantly caused by “cleaning” the bank sector by the regulator, which took place due to the reforms conducted and establishment of strict regulations for the market participants.

The similar situation occurred to insurance companies – the National Bank of Ukraine has reduced a number of participants at the market due to the increased effectiveness of insurance company activity control. Among the criteria used to withdraw licenses of insurance companies there were non-compliance with capital adequacy and solvency standards, insufficient level of liquidity, unsatisfactory quality of assets and implementation of risk operations.

The dynamics in the number of insurance companies and commercial banks of Ukraine is shown on fig.1.

Within the period 2018–2022, despite the reduced number of participants at the insurance and banking

service markets, the total amount of assets of both banking institutions and insurance companies showed a trend to increase (Fig. 2).

Though in 2022 the amount of net payments received by insurers decreased by more than 16% comparing to the year of 2021, and net payments decreased by 28%, according to forecasts, the insurance industry will grow by 20% in 2023.

As in the current year the activities in many sectors of economy have been recovered, this, most likely will cause the growth of demand for insurance products, such as car insurance, health insurance, property insurance for corporate clients, collateral insurance due to the improved situation in the crediting area.

It is expedient to consider the problems and prospects of the development of cooperation between banking institutions and insurance companies.

Problems of cooperation between banking institutions and insurance companies:

1. *Competition.* In some cases banks and insurance companies can be competitors at the financial service market. It can cause conflicts and make it difficult to establish trustful and friendly relations for cooperation.

2. *Difference of statutory and regulatory environment.* The activity of banks and insurance companies is regulated by different statutory and regulatory acts. This can create legal barriers and the need in additional approvals for joint projects.

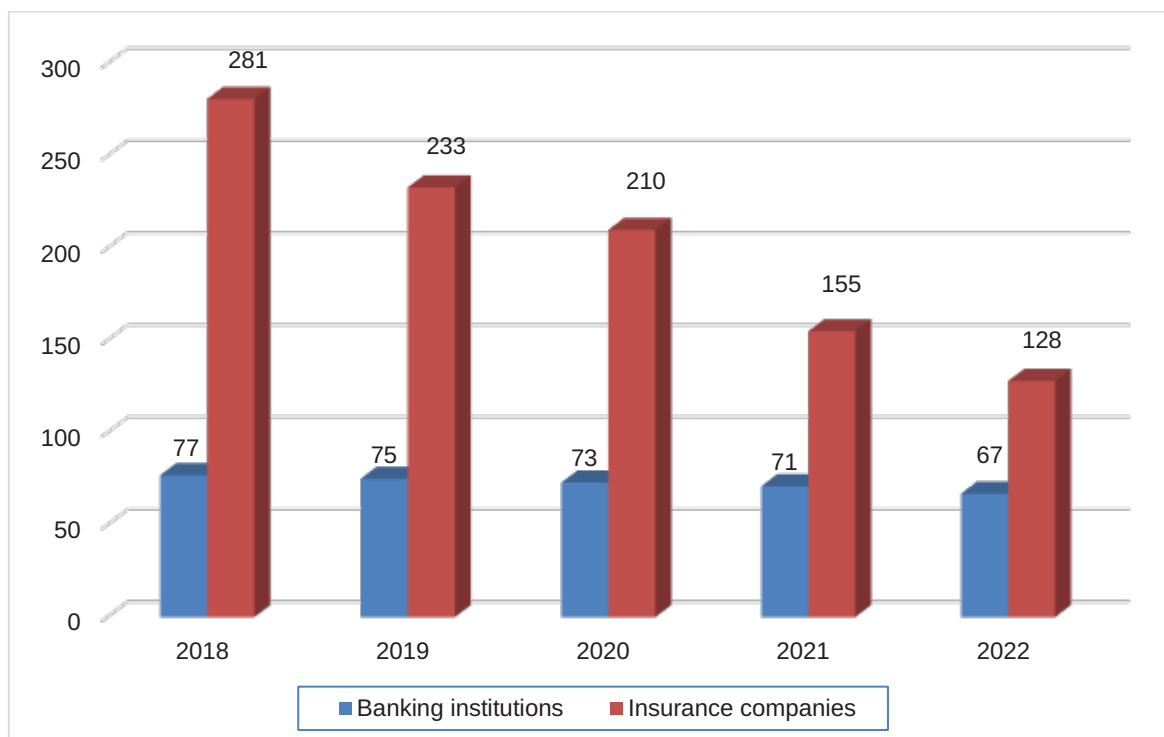


Figure 1. Dynamics in the number of banking institutions and insurance companies of Ukraine within the period 2018–2022

Source: created by the authors based on [9; 10]

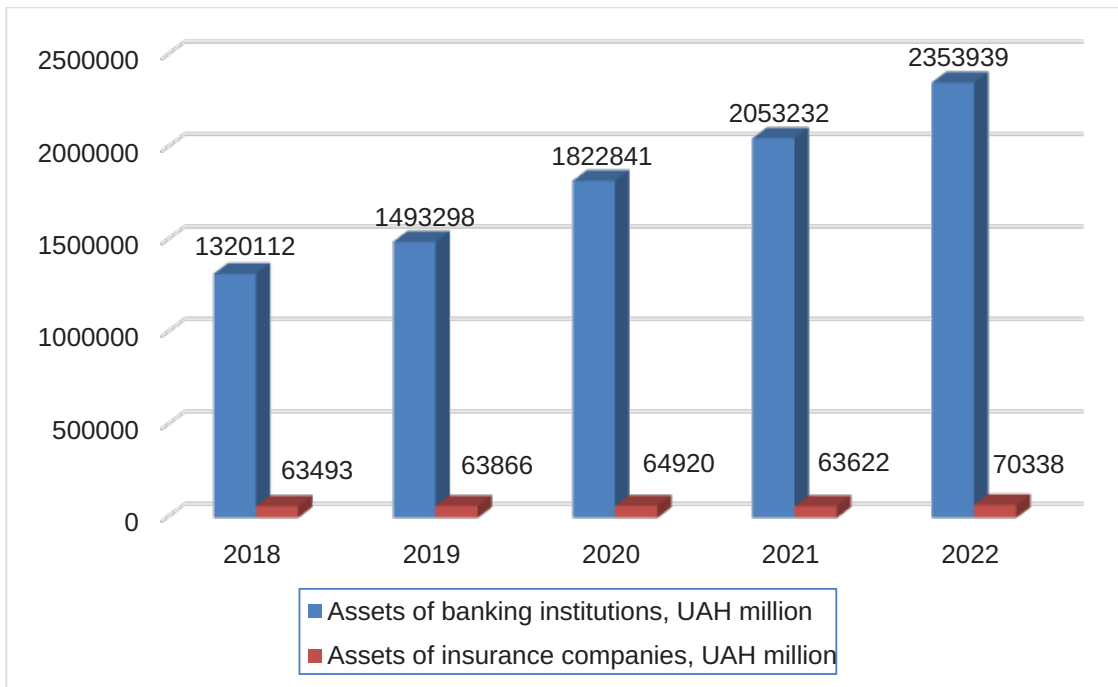


Figure 2. Dynamics of assets of banking institutions and insurance companies of Ukraine within the period 2018–2022

Source: created by the authors based on [9; 10]

3. *Technological challenges.* Due to digitalization the financial sector is experiencing significant changes in approaches to client servicing and development of new products. Banks and insurance companies have to ensure compatibility of their technological infrastructures for the effective cooperation.

4. *Cultural differences.* Banks and insurance companies have difference corporate cultures and decision-making methods. It can lead to disagreements and inconveniences in communication and cooperation between them.

Prospects of the development of cooperation between banks and insurance companies:

1. *Financial products cross-selling.* Cooperation between banks and insurance companies can help to implement financial products cross-selling. For instance, the client, who is receiving a loan from a bank, can be proposed an insurance product that will provide him with protection in the case of unforeseen circumstances.

2. *Increase of client loyalty.* Interaction between banks and insurance companies can contribute to client acquisition and retention. The clients who get complex financial services are more likely to remain loyal to their partners.

3. *Common innovations.* Banks and insurance companies can combine their knowledge and experience to create new innovation products and services. For instance, together they can develop new insurance programs for internet-banking or digital payments.

4. *Common risks.* Cooperation can help banks and insurance companies to reduce risks connected with certain financial operations. For example, insurance companies can insure a bank from certain types of credit risks.

5. *Effectiveness and economy of scale.* Joint efforts can help to reduce expenses on marketing, infrastructure and other administrative costs.

The recent months have brought a number of changes at the insurance market. Since 2023 a new accounting standard – IFRS 17 “Insurance contracts” has come in force that requires from insurers efforts for its appropriate implementation and bringing financial reporting closer to the European standards. Insurance companies were also allowed to conclude reinsurance agreements with non-residents again that unblock risky types of insurance and reduces market risks. To rise stability of the sector the list of eligible assets of insurers has been specified, while less liquid assets, such as land plots, will no longer be taken into account during the assessment of compliance with standards, especially for risk insurers.

As for the National Bank of Ukraine, it continues to take measures to influence on the insurance market, including annulment of licenses in the case of non-fulfilment of the legislation requirements, especially referring to ownership structure of insurers. As well, non-banking financial institutions have to focus on their compliance with requirements of the legislation as regards consumer protection and fighting against legalization of incomes and terrorism financing.

The impact of war on cooperation between banking institutions and insurance companies in Ukraine can be really significant and can have negative consequences due to the effect of the following factors:

1. *Unstable economic situation.* The war can cause economic instability that can have an impact on financial status of banking institutions and insurance companies.

2. *Loses and risks.* The war conflict can cause significant loses for banks and insurance companies, including those that occurred due to decrease of assets value, termination of business operations, damage of property etc.

3. *The necessity in restructuring services.* Changes in the economic environment during the war can require restructuring and adaptation of financial products provided by banks and insurance companies.

4. *Legal restrictions.* The war conditions can cause implementation of special laws and restrictions having an impact on the activities of financial institutions.

At the same time consolidation of efforts during the war and post-war period within banking and insurance partnership can cause:

1. *New opportunities for risk insurance.* Military conflicts can increase the demand for insurance of different risks that opens up new prospects for insurance companies.

2. *Increased demand for financial services.* The war can rise the need in financial services for restoration and support of economy that can contribute to the development of banking institutions.

3. *Cooperation with the state.* During the war and post-war period banks and insurance companies can be involved in state economy support and restoration programs.

4. *Innovations and technologies.* The war can stimulate implementation of new technologies and innovations, which will improve quality and availability of financial services.

The study of how the war influences on cooperation between banking institutions and insurance companies confirms that there is a necessity to specify problems and prospects of integration in conditions of conflicts. Taking these aspects into account will promote creation of more stable and efficient financial environment in Ukraine during hard periods of military actions.

Conclusions from the conducted research.

Cooperation between banking institutions and insurance companies has a great potential in provision of complex and innovative financial services to clients. Despite the fact that there are some challenges, both sectors are able to achieve success relying on mutual assistance, technological progress and joint strategies. The regulator can also take an active part in creating favourable conditions for cooperation

between banks and insurance companies that will ensure stability and growth of the financial system as a whole.

The effective development of cooperation between banks and insurance companies is important for successful operation of both sectors, especially if take into account evolution of banking and insurance products, their availability and comprehensibility for consumers.

The impact of the war on cooperation between banking institutions and insurance companies in Ukraine can be significant and has both problematic aspects and developmental prospects. An unstable economic situation and loses related to the military conflict can create difficulties for financial status of banking institutions and insurance companies. It requires adaptation and restructuring of services taking into account the changes in the economic environment.

On the other hand, the military conflict can open up new opportunities for risk insurance and increase the demand for financial services that contributes to the development of banking institutions. Cooperation with the state in economy support the can also ensure new prospects for banks and insurance companies' participation in support programs.

Besides, the wartime can stimulate implementation of new innovations and technologies, which will improve quality and availability of financial services. However, it is necessary to remember about the legislative restrictions and ethical issues, which can influence on cooperation between banks and insurance companies during the war.

All above mentioned aspects are important to be taken into account in further research and development of cooperation between banking institutions and insurance companies in the conditions of war and during post-war period in Ukraine.

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