



FINANCIAL SERVICES AUTHORITY  
SAINT VINCENT & THE GRENADINES

# Newsletter

March 2019  
Issue No. 1



## Inside this Issue

- ⇒ **What is Bancassurance?**
- ⇒ **Benefits to the Bank**
- ⇒ **Benefits to the Insurer**
- ⇒ **Benefits to the Customer**
- ⇒ **Balancing Protection and access**
- ⇒ **What is coercive tied-selling?**
- ⇒ **What is not Coercive Tied Selling?**
- ⇒ **Regulatory approach**

## OVERVIEW

Banks are constantly looking for ways to supplement their core earnings and bancassurance; the selling of insurance products and services to customers, is one way of doing that. Banks have successfully marketed these products over the counter to customers who make on-the-spot decisions. Primarily because these products often complement existing bank products, which can, in turn, lead to additional selling opportunities.

Worldwide, insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration and a limited variety of distribution channels. As such, the role of bancassurance as an insurance distribution channel is developing through both the range of products on offer and closer relationships between banks and insurers. Bancassurance has gained popularity in many countries, especially for life insurance.

# WHAT IS BANCASSURANCE?

INSURANCE SOLUTIONS  
offered by banks



- INTEGRATED INSURANCE SERVICES

OR



- COLLABORATIVE INSURANCE SERVICES



## What is Bancassurance?

Bancassurance is the **selling of insurance products** by banks. It is also used to describe the partnership or relationship between a bank and an insurance company whereby the **insurance company uses the bank as an agent** to sell insurance products.

Bancassurance is a package of banking and insurance services under one roof. This partnership arrangement can be beneficial to both parties as well as the customer. Some of the benefits are outlined below:

### Benefits to the Bank

- ◆ Revenue and channel diversification
- ◆ Increase customer loyalty & retention
- ◆ Increase in volume and profit

### Benefits to the Insurer

- ◆ Increased distribution channel
- ◆ Access to a vast customer base
- ◆ Potential for cross selling



### Benefits to the Customer

- ◆ Ability to buy more products from a single source
- ◆ Economy in the cost of insurance products
- ◆ Ease of renewals through the mode of standing instructions given to the bank



## Balancing Protection and access

Bancassurance if taken in right spirit and implemented properly can be a win-win situation for all the participants' viz., banks, insurers and the customer as outlined above. However, bancassurance remains somewhat controversial. Critics contend that allowing banks to sell insurance gives them too much control over the financial services sector and more specifically, takes away business from mainstream insurers.

Currently, St. Vincent and the Grenadines' legislative framework does not prohibit or restrict banks' options to acquire a stake in an insurance company, to set up their own insurance companies or the act as agents for insurance companies. It is a well-known fact that insurance is a business of "solicitation", unlike typical banking business. However, problems may arise when the bank imposes undue pressure on, or coerces a person to obtain a product or service from the bank and/or any of its affiliates, as a condition for obtaining another product or service from the bank. This is what is termed as coercive tied-selling and is unethical and in some jurisdictions unlawful.

## What is coercive tied-selling?

As defined by Investopedia, *"tied selling is the illegal practice of a company providing a product or service on the condition that a customer purchases some other product or service."*



The following two examples will help to explain coercive tied selling and what is not allowed.

- ◆ Your bank's mortgage specialist tells you that you qualify for a home mortgage. However, you are also told that the bank will **approve** your mortgage **only if** you transfer your investments to the bank or its affiliates. You want the mortgage, but you do not want to move your investments.
- ◆ You are advised that you qualify for a Registered Retirement Savings Plan (RRSP) loan. However, you are also told that the bank will **approve** the loan **only if** you use the money to buy the bank's mutual funds. You want the loan, but you want to invest the money elsewhere.

Both of the above practices are unethical and in some jurisdictions against the law. If you qualify for a product, a banking representative is not allowed to unduly pressure you to buy another unwanted product or service as a condition of obtaining the product you want.

## What is not Coercive Tied Selling?

Most businesses look for tangible ways to show their interest in your business and appreciation for your loyalty. Sales practices, such as preferential pricing and bundling of products and services, offer potential and existing customers better prices or more favourable terms. These practices should not be confused with coercive tied selling.





## Regulatory approach

The issue of bancassurance and more specifically; coercive tied selling, has been a matter of concern to insurance companies operating in St. Vincent and the Grenadines and by extension, the Eastern Caribbean Currency Union. It is recognized that bancassurance can be abused. In the absence of provisions in the banking and insurance legislations that specifically address this issue and recognizing the associated risks, the FSA in conjunction with the Eastern Caribbean Central Bank undertook a review of the process in an attempt to formulate a uniformed licensing approach and basic market conduct rules.

Though the FSA does not regulate commercial banks, our functions pursuant to the Financial Services Authority Act, Act No. 33 of 2011, include *inter alia*, the promotion of stability, public awareness and public confidence in the operations of financial entities. In the exercise of our functions, we are guided by the FSA's core guiding principles, also stipulated in the said law, which includes the protection and fair treatment for customers of financial entities (*Sections 5(d) and 7 (d) of the Financial Services Authority Act respectively refer*).

Accordingly, the following conditions are imposed on licensees (banks and other financial institutions) engaging in bancassurance:

- ◆ The Bank as an insurance Agent, should not engage in coercive tied selling in respect of insurance products offered, but should specifically disclose to its customers that they have the option of using another insurance carrier. This declaration is to be acknowledged and signed by the customer;
- ◆ Written advice should be sent to policyholders before renewal is due, where applicable, to allow them time for deliberations; and
- ◆ All promotional material used by the Bank should be drafted in such a way so as not to mislead the public and should clearly identify the bank as agent for the particular insurance company and that all policies are underwritten and serviced by the insurer.

In addition, the soon to be implemented harmonised ECCU Insurance Act also addresses the last point. It specifically states:

*“Where an insurance intermediary is a bank, or a related body corporate of a bank, the insurance intermediary shall, when selling insurance products, take reasonable steps to ensure that the prospective policyholder or policyholder is informed that they are not purchasing a product issued or guaranteed by the bank.”*

Moreover, the FSA also issued advisories dated March 21, 2016 and November 6, 2018 to all financial institutions and subsequently to the public on November 16, 2018 to address this matter.

If implemented properly, bancassurance can be a win-win model for banks, the insurance companies as well as the customers. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer bases without having to expand their sales force or pay commissions to insurance sales representatives or brokers. Also, customers can have most of their financial needs met under one roof. However, in whatever form the bancassurance takes place, banks should deal fairly and honestly with consumers at all stages of their relationship.

## Financial Services Authority

2nd Floor, Bank of SVG  
Reigate Bldg, Kingstown  
St Vincent & the Grenadines

1784. 456.2577 ph  
info@svgfsa.com - email

www.svgfsa.com