

# The emergence of next-gen open banking-led bancassurance



# Abstract

Originating in France in 1980, the bancassurance model has not significantly changed in the last two-three decades. Although popular in Europe, the model has recently started attracting the interest of global financial analysts with the global bancassurance market expected to grow significantly over the next few years. Rapid digital penetration and technological advancements, evolving consumer behavior and purchasing patterns, and a rising senior population needing health and life insurance as well as retirement plan support are accelerating growth. As online and mobile banking continue to grow, bancassurance adoption pivots on the ability of banks to serve and enable customers with digital tools and channels. This white paper delves into how banks can leverage open banking to bring product and service innovation and drive growth and transformation while delivering a digital bancassurance experience to end customers.

## How is open banking driving deeper customer engagement?

Traditionally, the term bancassurance has been used to describe the relationship between a bank and an insurance company wherein the bank offers insurance products or insurance benefits to its customers. While most insurance channels operate through intermediaries or agent brokers, banks directly offer their products and services through compelling digital experiences to their end customers. However, the absence of quality customer data makes it difficult for banks to cross-sell insurance products. Additionally, limited expertise with insurance products makes it hard for banks to position the right products for individual customer needs. Consequently, the sales conversion ratio for insurance products on the bank channels is below expectations with a nominal increase in the top line. Even a futuristic digital value proposition cannot deliver the full potential of bancassurance unless the rich insurance and banking data is analyzed with a customer-centric approach.

The advent of open banking and application programming interface (API)-led data discovery focused on proactive customer interaction has drastically changed the customer engagement paradigm in the banking industry. This has led to machine-driven real-time analysis of financial data, including income and spending patterns, by using artificial intelligence (AI) for transaction data enrichment, categorization, and correlation with life events. Data enrichment is the key to delivering the full potential of bancassurance, which can be achieved through an integrated approach by leveraging APIs, cloud technologies, and AI. A combination of insurance and banking data can create the magic needed to reimagine bancassurance through open banking and associated digital capabilities. Transaction data insights bolstered by information on life events such as addition of new family member or purchase of a home can help banks to influence customers on the need for life insurance or income protection. Similarly, the current mortgage credit scoring is largely based on historic borrowing and repayment performance. However, for first-time buyers, who are the majority, this credit scoring method does not yield fruitful outcomes. Open banking allows the creation of

alternative models that consider predictions of future repayment capability rather than historical performance. Open banking-led data analysis can also educate customers on personal finance management and help them become responsible mortgage customers when investing in real estate. Consequently, banks can position appropriate insurance products like lenders mortgage insurance (LMI), child insurance, or income protection at a time when the customer is most likely to make a favorable decision.

Open banking is leading the development of many flagship products in areas like farm credit and business-to-business (B2B) payments enabling open banking payment initiation for B2B supply chains. The agricultural industry can take advantage of the widespread adoption of open banking led simplified digital banking services. By leveraging open banking, banks can enable farmers to receive payment from buyers or offer credit when they approach them to buy crop insurance. The transaction information can also be used to insure farm produce and position farming and agriculture-specific bancassurance products.

Security safeguards such as open authorization (OAuth), open identity connect (OIDC), access to account (XS2A), and strong customer authentication (SCA) are ingrained in open banking data sharing, which makes the information exchange through APIs secure and private while also ensuring appropriate customer consent. This accelerates the underwriting process by making it easier to source banking transaction data, customer records, know your customer (KYC) data, and secure special authorizations. Additionally, an early warning system based on open banking data helps manage the insurance underwriting risk for LMI or income protection insurance. Open banking data consumption by insurance firms enables a more accurate allocation of regulatory risk funds. This ensures efficient management of risk capital in the yearly budgets, reducing capital requirements and operational cost for insurance companies.

## Emerging strategies and evolving business models

Banks have robust distribution channels and enjoy strong brand recall with high customer mindshare. In a typical buying journey, banks enter early, with customers generally going first to the bank for financing any asset. Once the asset is financed, customers typically look for suitable insurers to get it insured. In this context, banks can create exponential value by leveraging the wider ecosystem and orchestrate a purpose-driven customer journey, enhancing the value proposition to deliver a superior client experience. For instance, a leading Asian financial services group partnered with a Singapore based car site and an AI-driven car marketplace to launch an online marketplace to match car buyers and sellers. The initiative is driven by customer needs and offers a one-stop-shop for car buying and delivers superior customer experience while creating exponential value for all the stakeholders.<sup>1</sup>

Further, consortiums within the financial sector, such as the Financial Data Exchange<sup>2</sup>, are maturing in the US in terms of intra-sector data sharing with members, including many leading banks. Banks can also start looking into inter-industry consortiums such as banking-insurance to drive innovations through secure and consent-backed data sharing. As the API ecosystem matures, the boundaries between industries will eventually blur, and the common goal of holistically meeting end-to-end customer needs will become a reality.

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[1] DBS, DBS partners sgCarMart and Carro to create Singapore's largest direct buyer-to-seller car marketplace, Aug 2017, Retrieved July 2021, [https://www.dbs.com/newsroom/DBS\\_partners\\_sgCarMart\\_and\\_Carro\\_to\\_create\\_Singapores\\_largest\\_direct\\_buyer\\_to\\_seller\\_car\\_marketplace](https://www.dbs.com/newsroom/DBS_partners_sgCarMart_and_Carro_to_create_Singapores_largest_direct_buyer_to_seller_car_marketplace)

[2] Business Wire, Financial Data Exchange Releases FDX API 4.6, May 2021, Accessed June 2021, <https://www.businesswire.com/news/home/20210519005031/en/Financial-Data-Exchange-Releases-FDX-API-4.6>

Banks need to upgrade to new-age open-banking-led digital bancassurance models to orchestrate customer journeys that incorporate proactive and seamless positioning of bank and insurance products. Banks can use channels such as personal finance management to proactively identify a need and position a suitable insurance product from a traditional insurance carrier. Alternately, banks can partner with insurtechs such as Lemonade, Metromile, or Next and bundle offerings like home improvement loans, mortgages, auto, and personal loans along with suitable insurance products into customized bancassurance products. Such bundled positioning will help banks lower customer acquisition costs, increase customer lifetime value, and improve net promoter scores.

## Digital bancassurance: Next steps to open banking

The success of bancassurance will depend on the willingness of banks and insurance companies to enable two-way API integration leveraging open banking capabilities. This will allow secure data sharing between banks and insurance companies in real-time and help banks position bancassurance products and services contextually through a marketplace ecosystem. Banks and insurance companies must view everything as a data source and then collaboratively build the necessary platforms to apply the right analytics at the right time. Banks can extract meaningful and actionable insights from vast amounts of data and reimagine the customer journey map for every question, decision, and action.

However, this should be accomplished without compromising the security and privacy of end customers. Only then can banks assume the role of the master orchestrator with an end-to-end view of customer needs. To acquire this capability, banks need to reinvent their strategy, become boundaryless and create an ecosystem of best-in-class partners from the insurance industry. To achieve this vision, banks and insurers must implement end-to-end solutions that integrate with their respective systems built upon a robust data analytics foundation leveraging combined strengths.

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# Awards and accolades



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