

**VUZF UNIVERSITY**

**SOFIA**

Department of "Finance, Insurance and Assurance"

Stefan Petrov Stefanov

Prerequisites for the successful development of bancassurance in Bulgaria and its transformation into a leading channel for the distribution of insurance products

**ABSTRACT**

of a dissertation work for the award of an educational and scientific degree "doctor" on

Doctoral program "Finance, Insurance and Assurance" professional

direction 05.02.05. "Economy"

Supervisor:

Prof. Krasimir Todorov

Sofia

2023

## CONTENTS

I.	GENERAL CHARACTERISTICS OF THE DISSERTATION.....	3
II.	SYNTHESIZED PRESENTATION OF THE CONTENTS OF THE DISSERTATION.....	9
	INTRODUCTION.....	9
	CHAPTER ONE: THEORETICAL FOUNDATIONS OF BANK INSURANCE.....	9
1.	History of bancassurance.....	10
2.	Nature of bancassurance and definition of the term.....	10
3.	Models for implementation of bancassurance.....	11
4.	Benefits of implementing bancassurance.....	13
	CHAPTER TWO: PREREQUISITES FOR THE DEVELOPMENT OF BANK INSURANCE IN BULGARIA .....	14
1.	Prerequisites for the development of bancassurance in Bulgaria.....	14
2.	Confidence in the banking system.....	18
3.	Competitive environment.....	18
4.	The key to the success of bancassurance .....	19
5.	Challenges and success factors in bancassurance in Bulgaria.....	21
	CHAPTER THREE: QUALITATIVE AND EMPIRICAL RESEARCH OF THE POTENTIAL FOR THE DEVELOPMENT OF BANK INSURANCE IN BULGARIA.....	22
1.	Bancassurance in Europe and Bulgaria.....	22
2.	The qualitative research among the top management of leading insurance companies.....	27
3.	Empirically quantitative.....	30
3.1.	Structure and content of the questionnaire and survey.....	30
3.2.	Statistical analysis.....	31
3.3.	Descriptive statistical analysis (univariate and bivariate distributions) of survey data.....	31
3.4.	Regression.....	37
	CONCLUSION.....	39
	CONTRIBUTIONS.....	42
	PUBLICATIONS.....	43

## **I. GENERAL CHARACTERISTICS OF THE DISSERTATION**

### **1. Relevance and importance of the topic**

The banking sector has faced a number of challenges in the last decade, such as continuous regulatory changes, dealing with rising non-performing loans, negative interest rates, narrowing interest spreads, the digitization of society and the increasing risk of cyber attacks, which make banks look for alternative sources of income, so that they can meet these new requirements and challenges. The last two years, which have been marked by the pandemic caused by Covid - 19, have further strengthened the transition to increasingly digital and remote customer service and the possibility of branch closures due to their low profitability and have given further impetus to the trend of redundancies in the sector. Among the measures taken to reduce and avoid the effects of these adverse events, the banks started actions in the direction of diversifying their product portfolio, closing unprofitable units, increasing equity capital, and took actions on consolidations, mergers and acquisitions with other financial institutions and complete restructuring. Similar actions had to be taken by the commercial banks operating on the Bulgarian market, in order to be able to cope with these and other similar challenges, which turned out to be relevant for the native banking market, since in reality it is largely connected and dependent on the European one.

Insurance companies, for their part, were also not spared, as stricter regulations were introduced, which required the investment of additional funds under various budgets, an increase in equity capital for insurance companies, which made both the insurance products themselves and their distribution more expensive. As a result of the imposed changes and the transformation of the business environment, insurance companies are increasingly unable to rely on their own networks of insurance intermediaries and are becoming increasingly dependent on insurance brokers to market their insurance products and services.

These changes have led insurance companies to look for alternative methods and channels to sell their products and services so as not to become overly dependent on a single distribution channel. Digital channels and direct sales are a natural alternative, but these channels are still poorly developed at the moment, especially in Bulgaria, and they can hardly and not quickly become real competition for insurance brokers. Thus, commercial banks become an excellent opportunity and a natural alternative for diversification of sales channels for insurance companies and their products. On the basis of what has been stated so far in the dissertation and bearing in mind the practice in other countries in Europe and the rest of the

world, with this development an attempt is made to analyze the prerequisites and opportunities for the successful development of bancassurance in Bulgaria and to present an alternative strategy to the Bulgarian banks and insurance companies, through which, if the necessary conditions are present, to provide an opportunity to simultaneously deal with the new regulatory challenges, the realization of new revenues for all participants in a similar undertaking, the preservation and - the effective use of the existing bank branch network and the achievement of a balance in the distribution channels of insurance companies, as well as benefits for bancassurance customers.

The actuality, scientific and practical significance of the research, as well as insufficiently complete development and research of the problem in the economic literature, predetermines the choice of the topic of the dissertation work.

**The subject of this dissertation** is the channel for distribution of insurance products implemented through commercial banks, or in other words - bancassurance.

The limitations associated with analyzing the object more precisely are:

- the focus is only on banks as insurance intermediaries, and the other types of intermediaries in the market are not examined in detail;
- emphasis is placed only on those insurance products and services that can and/or are offered by the banks;
- the emphasis is only on the possibilities for the development of bancassurance aimed at individuals, as customers of this channel for the distribution of insurance products.

The research tasks in the dissertation work, in their theoretical, methodological and empirical-practical part, limit their scope to specific aspects of insurance mediation.

**The subject of the dissertation** is the prerequisites for the successful development of bancassurance and the possibility of its transformation into the main channel for the distribution of insurance products and its effective application in the current Bulgarian reality.

**The main hypotheses** for research, which we will try to prove in this dissertation, is the following:

It is possible to find the necessary prerequisites for the development of bancassurance in Bulgaria, in the presence of which the offer of insurance products and services by commercial banks can lead to their transformation into the main distribution channel of the Bulgarian

insurance market, as in the field of life insurance, as well as in the field of pension and health insurance.

Based on the research thesis, the following working hypotheses are derived:

- Commercial banks can become the main/leading channel for the distribution of insurance products in Bulgaria, according to senior managers and managers directly responsible for bancassurance in Bulgarian insurance companies;
- Insurance companies purposefully work in this direction, as commercial banks can be significantly more loyal and long-term partners of insurers compared to established agency networks or insurance brokers;
- The preferences of potential customers of commercial banks and insurance companies in Bulgaria will increase in the direction of the bancassurance channel, due to its advantages, and these preferences will help to establish commercial banks as a leading distributor of insurance products in our country;
- Commercial banks are the main channel for the distribution of insurance products, and in their capacity as insurance intermediaries are responsible for concluding the largest number of insurance policies compared to other insurance intermediaries and direct sales to insurance companies in a large part of the countries in the European Union. It can be assumed that this trend will be valid for Bulgaria in the future as well. Commercial banks are generally considered to become a major distribution channel when they are responsible for underwriting more than 50% of insurance policies in a given national market. With an estimated share of about 50% with a difference of  $\pm 5\%$ , it is assumed that the conditions are in place for commercial banks to become the main channel for the distribution of insurance products and services.

The aim of this dissertation is to study the creation and development of bancassurance and the possibility of mutually beneficial cooperation between insurance companies and commercial banks, both internationally and in the Bulgarian market, respectively the advantages, disadvantages and risks for commercial banks, insurance companies and users of this type of service. This theoretical concept has not yet been examined in detail either in the Bulgarian scientific literature, nor has it been widely applied in the practice of commercial banks and insurance companies in Bulgaria, although it has been applied on native soil for some time. With this dissertation work, we set ourselves the ambitious task of making this work one of the first to consider the possibility of comprehensive cooperation between credit institutions and insurance companies in our country, not only in the field of life insurance, but

also in the field of general, health and pension insurance and covering all possible market risks.

To prove the research thesis, the theoretical and practical characteristics and real development of financial intermediation in different countries, integration and joint offering of insurance products and services by commercial banks and insurance companies participating in it, the development of banking insurance, the reasons for and effects of such cooperation, the advantages and real benefits for customers. Empirical studies have also been carried out, where author studies are presented regarding the attitudes of the management of some of the leading insurance companies on the Bulgarian market, as well as of individuals (customers of commercial banks) related to awareness, consumption and trust in insurance related to banking products and services and offered on the Bulgarian market through the bancassurance channel. The aim is to provide generated information about the attitudes and expectations of the management of insurance companies and individuals regarding the consumption of insurance products distributed through commercial banks. Another goal is to show that there is an increasing willingness and propensity to consume bancassurance over the use of other insurance intermediaries. The object of the scientific empirical research is connected with establishing the tendency and desire of the management of the insurance companies and of the consumers to use bancassurance in Bulgaria.

In order to achieve the set goal, the following tasks are set in the dissertation:

- To make a literature review and to derive the necessary prerequisites, leading to the establishment of the possibility of turning banks into the main distribution channel of the insurance sector;
- To make a theoretical and practical analysis of the insurance market, insurance products and services and insurance intermediaries on the market, as well as their characteristics;
- To analyze the main models and forms of insurance mediation and their influence on the development of bank insurance as theory and practice in Bulgaria;
- To make a theoretical analysis of bancassurance as a distribution channel and why it would be preferred by insurance companies as a partner over insurance brokers and insurance agents;
- To review, analyze and establish the types of banking products and services suitable for the integration of activities between commercial banks and insurance companies, the

possibility of joint offering and the distribution of insurance products and services through banks;

- To review, analyze and establish the possibilities for the distribution of insurance products through commercial banks, which are not directly or indirectly related to the products and/or services offered by the banks;
- To make a theoretical and practical analysis of the possibilities for carrying out bancassurance and the cooperation between commercial banks and insurance companies, highlighting the reasons and factors leading to the successful realization of these possibilities for bancassurance, the benefits and risks of this cooperation and the effects of this mediation;
- To conduct an empirical study through our own survey to the senior management and managers directly responsible for bancassurance of the leading insurance companies in Bulgaria and users of banking and insurance products and services in the country in order to track, analyze and make conclusions and recommendations for the behavior of users of banking and insurance products with an emphasis on insurance products that are offered on the basis of joint activity, integration and cooperation between commercial banks and insurance companies in Bulgaria;
- To evaluate the possibilities for the successful development of bancassurance and its transformation into the main sales channel on the Bulgarian insurance market, considering the necessary prerequisites for this, looking for the main benefits of such an undertaking and deriving the most suitable model and set of insurance products for its realization.

The approaches and methods used to achieve the research objectives are of several types. The main research approach that was used in the implementation of the dissertation research is the system approach in its three constituent parts - as a system thinking, as a view from all possible points of view on the researched object, as a faithfully established relationship between dependent and independent variables. The development also used the methods of theoretical analysis of classic and modern works and articles, empirical analysis of data and facts from various sources.

The statistical processing of the primary information was carried out with the software products MS Office Excel 2019, SPSS (Statistical package for social science), Q-research software and Google Forms. The obtained results are presented through statistical tables and diagrams reflecting the established characteristics of the phenomena. Figures and graphs are used for the visual presentation of the results of the dissertation research.

- The main sources of information that were used to develop the set goal and tasks in the dissertation work include:
- The conducted empirical research of the market in Europe;
- Conducted in-depth interviews with managers in insurance companies;
- A questionnaire prepared by the author among individuals, clients of commercial banks in Bulgaria;

Literary sources - books, monographs, scientific articles, publications, databases, reports from international and national conferences of established international and Bulgarian scientists, interviews with experts from practice in the field of banking, insurance, bancassurance and cooperation between commercial banks and insurance companies and others:

- International and national normative documents;
- Internet sources of Bulgarian and international banks, insurance companies, financial institutions and organizations;
- Bulgarian and international statistical information.

**Key issues that will not be covered:**

- The research in the dissertation is directed only to the management of the leading insurance companies on the Bulgarian market and the natural persons who are clients of the commercial banks and/or insurance companies on the territory of Bulgaria;
- The first empirical study is aimed at the management of the leading insurance companies on the Bulgarian market, and the in-depth interview is aimed at attitudes, forecasts and evaluation of the prospects for the development of bancassurance in Bulgaria and the possibility of its transformation into a leading channel for the distribution of insurance products. 19 managers participated in the interviews;
- Time limit – the research was conducted once in the period from November 2022 to January 2023;
- The second empirical study was carried out on the Bulgarian market, with the questionnaire aimed at consumer behavior, attitudes, consumption and awareness of bancassurance in Bulgaria;
- The total number of persons surveyed is 215, of which 211 natural persons were selected who are clients of commercial banks in Bulgaria, who were surveyed through social



networks and the Internet, and there was no pre-selected sample based on demographic or other criteria.

## **Approval**

Parts of the dissertation work have been published in specialized scientific publications and presented at scientific conferences.

### **1. Structure and content of the dissertation work**

The dissertation contains an introduction, an exposition in three chapters, a conclusion and is in the volume of 227 standard pages. 118 literary sources were used, of which 62 - in Bulgarian and 56 - in foreign languages. The text includes 82 tables and 8 figures.

## **SYNTHESIZED STATEMENT OF THE CONTENTS OF THE DISSERTATION**

### **INTRODUCTION**

The introduction touches on the common roots of banking and insurance, as well as the path of their initial development, as well as the reasons and circumstances for the parting of their paths. Also touched on are the reasons that lead to the idea of their re-convergence at the beginning of the 20th century.

### **CHAPTER ONE: THEORETICAL FOUNDATIONS OF BANKASSURANCE**

Chapter one of the dissertation is structured in four paragraphs, first of all an attempt is made to derive a complete and generally valid definition of bancassurance. Chapter one covers the historical and theoretical aspects of the banking and insurance business, and it is quite natural for any research to consider the origin of the phenomenon, to analyze its origin and development, as well as its theoretical justification and models.

"Bancassurance" is a modern phrase, often used in today's financial and economic circles, and at the same time it has become established in the modern colloquial language. Since, as already mentioned, the foundations of this business were made in France, the term with which it is the common name for this business has French roots. The name "Bancassurance" is derived from the fusion of the French words for Bank (banc) and Insurance (assurance), resulting in the familiar combination (banc + assurance) commonly accepted today as a term called

bancassurance.

## **1. History of bancassurance**

Banking and insurance have common roots that date back to their inception. The need to finance the construction of new ships, used to transport cargo from distant and exotic destinations, predisposed the unification of merchants and aristocrats and the creation of financing institutions - banks. Covering the risks of natural disasters, pirates and other adverse events on the other hand lay the foundations of the insurance business, which makes it possible to recover lost funds from risks that have occurred, as well as to compensate the families of dead sailors, and this allows the trade to continue. Thus, since its inception, insurance and banking have gone hand in hand. When the Venetian merchants set sail in the twelfth century, they were the first to introduce insurance bonds, which actually represented risk coverage and the possibility of paying off financial debts to creditors of sea expeditions. Similar processes also took place in England, Spain, Portugal, France, the Netherlands and other European countries developing seafaring during the Middle Ages. At the beginning of the 19th century in Switzerland, banks and insurance companies began to cooperate more seriously by creating a joint insurance business or by providing mutual financial support. This supports the rapid development and establishment of both types of business.

However, the 19th century was also a century of revolutions. Inspired by the French Revolution of 1789, people all over Europe opposed the aristocratic ruling classes and fought for the development of civil and human rights, for democracy and national independence. In the same century, Europe established itself as a world dominant power. Empires expand, new colonies are conquered, and the main driving force behind this process is the industrial revolution. The colonies provided raw materials and luxury goods to meet the growing consumer demand of the "old" continent, while opening up the prospect of vast markets for European products. This greatly stimulated trade and shipping, which in turn led to a serious growth in lending and insurance, and the establishment of banks and insurance companies as pillars in the economies of European countries.

## **2. Nature of bancassurance and definition of the concept**

Bancassurance is the most convenient and inexpensive way for insurance companies to distribute insurance products using the banking distribution channels. In terms of marketing prospects, the insurance business is quite different from other types of business. The customer

goes shopping at the store when he is hungry, when he needs, goes to buy shoes, takes his clothes to the dry cleaners when they are dirty or to the bank when he needs money or other banking services. It's rare that a person wakes up in the morning and thinks - "I have to go buy insurance!". This is especially true for life, pension and health insurance. In most cases, the insurer must first reach out to the customer and help them understand the risks they are exposed to in their daily lives in order for the customer to realize their need for insurance coverage. This is usually done through the insurer's network of insurance agents and insurance brokers. Through bancassurance, the customer's initiative to visit a bank office can be used to be offered insurance products. This approach makes the sale easier because the customer has already recognized their need for at least one financial product or service and would be more inclined to purchase a related or complementary product. For banks, on the other hand, it is an opportunity to add new products, attract new customers and keep existing ones longer, provide an additional source of income other than their main activity, and an opportunity to minimize risks. We can put it more simply, bancassurance uses the synergies between insurance companies and commercial banks.

Bancassurance takes different forms depending on the demographics, economic and legislative climate of the country in which it is practiced. The demographic climate determines the types of insurance products, the economic climate determines trends in terms of turnover, market shares, etc., and the legislative climate determines the limits within which bancassurance is able to operate. The motive behind bancassurance also differs. For the banks, it is simply a means of product diversification and additional income from fees and commissions, while for the insurance company, it is a tool to increase market share and an opportunity to attract new premium income and access to new customers. The customer is also involved in the equation, for whom this type of business is like a "jackpot" in terms of better price, high quality products and convenient delivery. From what has been said so far, it can be concluded that all participants benefit from bancassurance.

### **3. Models for implementation of bancassurance**

At first glance, bancassurance is an easy distribution of insurance products through a bank. Considered more thoroughly, it can be defined as a model of integration of the banking and insurance market with the aim of connecting and controlling the entire process of distribution of insurance products. In this regard, we will look at the different models of bancassurance that exist around the world and how they differ.

When bancassurance is based on the distribution agreement, a bank acts as an intermediary offering product to one or more insurance companies. This type of bancassurance is typical for the sale of simple and standardized products. Within this model, which can be defined as a "Strategic Alliance", the bank sells products usually exclusively to one insurance company, in rare cases to several insurance companies. A "strategic alliance" is an agreement between a bank and an insurance company for the joint use of the bank's distribution channel. In this model, the advantage is on the side of the bank, which has the opportunity to choose the most appropriate insurance company in terms of product quality, image, etc. The disadvantage of the model is the low level of integration between the bank and the insurance company. On the other hand, cooperation within the strategic alliance does not lead to the loss of organizational and functional independence of the partners. This makes it possible to easily terminate the cooperation in case the partners are not satisfied with the results achieved or other problems arise. The positive effect of cooperation is that it leads to the attraction of new customers, which enables partners to maintain a competitive advantage in the financial market. The main risk of the model is insufficient sales and failure to achieve the intended results, due to a relatively low level of formalized cooperation. Banks are certainly gaining experience in the field of insurance, and for them this model can be considered a phase that leads to a strategy of creating or acquiring their own insurance companies or the creation of joint ventures with existing insurance companies.

Another model for bancassurance is the creation of a joint venture (joint venture) between a commercial bank and an insurance company or companies. In this model, the bank and the insurance company strengthen their cooperation through management coordination, sharing of customer database, as well as through joint product development. Specifically, this model achieves joint ownership of products and customers as well as long-term cooperation. The essence of the joint venture is the allocation of funds between a commercial bank and one or more insurance companies in order to create an independent organizational unit (new company) that must realize certain business goals through the channel of bancassurance.

The third model of bancassurance involves the offering of various financial services through the integration of institutions, mergers or acquisitions. Very often this happens through the creation of a holding structure offering a palette of financial services. In this business model, the holding company owns the insurance company and the commercial bank and is sometimes called a financial conglomerate. The variant in which the bank owns (purchases) an insurance company is also possible, and the opposite variant is also possible. The potential benefits of this model are full integration of processes and systems, mutual access to existing

customers, provision of all financial services in one place, as well as the possibility to develop fully integrated financial products and services.

#### **4. Benefits of implementing bancassurance**

Bancassurance is one of the few modern businesses in which all parties are profitable. This is a unique opportunity for all participants in this market, which makes it so attractive. The dissertation examines the benefits for the three participating parties in bancassurance – banks, insurance companies and customers.

The main "plus" for insurance companies in bancassurance is the direct access to the clients themselves through an already trusted partner - the bank, and easy and quick access to the banks' huge customer databases. It would normally take insurance companies years or even decades to reach these customers, if at all. An added bonus in these databases is the vast amount of additional financial information that insurers can access, such as financial status, ownership of movable and immovable property, marital status, children, other financial dependents, etc.

Bancassurance provides a unique opportunity for banks to generate additional income outside of their core banking business, which they increasingly need, as made clear earlier in the dissertation. This is easy and fast money that banks can generate by selling additional financial products to their existing customers, while also reducing the risk they themselves are exposed to. This is actually a double profit for the banks themselves and does not require any special efforts on their part. In addition, close cooperation or ownership in insurance companies can also lead to a reduction in the cost of insurance services used by the bank itself, such as insurance of the bank's movable and immovable property, insurance for the bank's employees or insurance of the risks of the bank itself.

One of the main advantages for bancassurance customers is the opportunity to take advantage of better prices on insurance products that they can get through this channel than they would get on the open market, whether directly from the insurance company or by using the services of an insurance agent or insurance broker. Another advantage can be taken as facilitating the access of insurance companies' customers through the branch network of commercial banks to a wide range of financial products and services. This channel provides the opportunity at a single counter in the bank or even an ATM (modern ATMs can be programmed and used for various types of transactions) to pay premiums and receive insurance benefits, perform additional services for Life insurance and other offered insurance products, simultaneously with the payment of loan installments, the opening or closing of deposits and

other standard banking services.

## **CHAPTER TWO: PREREQUISITES FOR THE DEVELOPMENT OF BANK INSURANCE IN BULGARIA**

Chapter Two of the dissertation examines the prerequisites for successful development of bancassurance in Bulgaria. Bancassurance is not new, but in today's operating environment there are so many similarities between banks and insurance companies that they can only continue to grow stronger.

Of course, the pace of convergence between industries varies across countries and across regions of the world. The degree of synergy of course depends on the changes in the different sectors of the regional markets, the national regulatory regimes and the nature of the reforms undertaken. Bulgaria is also not lagging behind in this area. The reforms in the European Union have a direct impact in our country as well. The Internet and new technologies are increasingly entering our daily lives. Banks and insurance companies will take different approaches and strategies to try to reduce costs and increase efficiency in existing markets and open new ones. Bancassurance is one such option. Banks have an interest in reducing the total amount of risks they are exposed to by offering insurance products to their customers. From this point of view, maximum efficiency can be achieved in the field of offering joint products in the field of credit products. Although, from the bank's point of view, the addition of insurance products to the deposits offered by it does not lead to a direct reduction of risks, such a step may be of interest to its customers, thus the bank may stimulate the attraction of free cash resources and to profit from it. Of course, apart from the direct economic benefits of the distribution of insurance products, banks also have another indirect benefit – the retention rate of existing customers increases. According to recent research in banks, as the number of products and services used increases, the rate of customer retention increases sharply with each subsequent product.

### **1. Prerequisites for the development of bancassurance in Bulgaria**

For the successful development of any business, one factor is of particular importance - the regulatory (legislative) environment in which it will operate. This is especially true for the bancassurance business. Here, the regulations are of particular importance, as two of the largest participants in the financial sphere - banks and insurance companies - are coming together and will have to cooperate. Without a solid regulatory and legal basis, there is no way this joint business can survive and protect the interests of both customers and financial institutions.

The European Union has always taken regulations seriously since the very beginning of this association of countries. The European System of Financial Supervision (ESFS) exists in the Union. This system includes all national banks and supervisory authorities of the non-banking financial sector, as well as the European authorities - ESMA, EIOPA, EBA and ESRB. Supervisory authorities that are participants in the ESFS are obliged to supervise financial market participants operating within the Union in accordance with European legislation. This system of 4 supervisory organizations has the task of licensing and supervising companies developing business in the European Union with bancassurance.

The main body supervising insurance companies in the Republic of Bulgaria is the Financial Supervision Commission (FSC). The Financial Supervision Commission of the Republic of Bulgaria is a specialized state regulatory body for controlling the financial system, outside the banking sector, which is supervised by the Bulgarian National Bank. It is a body independent of the Council of Ministers and reports to the National Assembly for its activities. The regulatory activity of the Financial Supervision Commission covers the preparation and adoption of regulations and instructions, provided for in the laws, issuing instructions and instructions regarding the application and interpretation of the codes and laws, as well as the by-laws on their implementation in connection with the implementation of financial supervision. The regulation of the activities of market participants is in accordance with European norms and practices. Bulgarian legislation in the field of the capital market, insurance and supplementary pension insurance is harmonized with the main European directives and regulations. The Financial Supervision Commission works under the "Financial Supervision Commission Law" specially created for the purpose in 2003. This law regulates the creation, scope, structure, functions and activities of the Financial Supervision Commission.

The law regulating insurance and reinsurance activities in the Republic of Bulgaria is the "Insurance Code". It regulates the activities of insurance and reinsurance, insurance and reinsurance intermediation, the rules for the distribution of insurance products and for the settlement of insurance claims, regulates the insurance contract, compulsory insurance, rehabilitation, liquidation and bankruptcy of an insurer or reinsurer, as well as the insurance supervision. This law also regulates the activity of bancassurance from the point of view of the requirements of the insurance supervision.

The other Bulgarian state supervisory authority related to the supervision of bancassurance in our country is the Bulgarian National Bank (BNB). The Central Bank of the Republic of Bulgaria was established and functions on the basis of the Law on the Bulgarian

National Bank. The main objective of the BNB is to maintain price stability by ensuring the stability of the national monetary unit. The Bulgarian National Bank assists in the creation and operation of efficient payment systems and supervises them. It is the only issuing institution in the Republic of Bulgaria and supports the cash circulation. The Bulgarian National Bank regulates and supervises the activities of other banks in the country with a view to maintaining the stability of the banking system and protecting the interests of depositors. The bank conducts research, collects, summarizes and analyzes statistical data. After the accession of the Republic of Bulgaria to the European Union on January 1, 2007, the Bulgarian National Bank participated in the European System of Central Banks. The Central Bank collects, compiles and distributes statistical information in accordance with Art. 42 of the Law on the Bulgarian National Bank and as a member of the European System of Central Banks (ESCB) in fulfillment of the commitments under Art. 5 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank. This activity is carried out in accordance with European and internationally accepted methodological standards, regulations and guidelines of the European Central Bank and other European and international institutions. It follows the principles set out in the European Central Bank's document Public Commitment of the European System of Central Banks to European Statistics, which are based on the UN Fundamental Principles of Official Statistics.

Another prerequisite for the development of bancassurance in Bulgaria is the availability of a suitable tax environment. The tax environment related to insurance in the Republic of Bulgaria is defined by the Insurance Premium Tax Law, the Accounting Law, the Value Added Tax Law, International Accounting Standards and Ordinance No. 53 of the Financial Supervision Commission.

Providers of insurance services in the Republic of Bulgaria are exempt from Value Added Tax. According to Art. 47, item 2 of the Law on Value Added Tax, exempt supply is the performance of services under the conditions and according to the order of the Insurance Code /KZ/ including their provision by insurance brokers and insurance agents.

The review of the tax legislation in Bulgaria showed that in the country the legislator has provided an opportunity to use tax reliefs when concluding life insurance for both individuals and legal entities. However, a thorough analysis shows that these tax reductions are more of an opportunity to postpone the tax burden for individuals than real tax reductions. This is so, due to the fact that in the case of "Life" insurances concluded for a duration of up to 15 years, upon payment of the insurance amount at the expiration of the insurance or its earlier termination,



10% of the amount of the contributions is deducted, as is the tax relief itself. For policies over 15 years, the tax at the expiration of the policy is 7%. If a policy with a duration of more than 15 years is terminated before the expiration of 15 years from its conclusion, 10% is due again. The above, as well as the level of the tax burden in Bulgaria, which is one of the lowest in Europe, further reduces the effect of this incentive for the development of bancassurance in our country.

According to the Insurance Code, insurance companies must annually pay annual contributions (which appear as a type of tax) determined in accordance with the Insurance Code to the Guarantee and Provident Fund, respectively, according to the business concluded by the insurer during the year.

To determine whether a market is suitable for the entry of new entrants or the launch of new joint initiatives, two main factors are tracked - insurance penetration and insurance density. These are also the main indicators that should be of interest to companies that have decided to start bancassurance business in Bulgaria. Despite the positive development trends in recent years, the insurance market in our country remains among the least developed in Europe. Unlike gross premium income (GPR), which only gives a quantitative idea of the amount of premiums written as absolute values, insurance penetration takes into account the change in the role of insurance in economic development. Insurance penetration is calculated as the ratio of gross premium income to gross domestic product (GDP) in percentage.

$$\text{Insurance Penetration} = \text{Gross Premium Income} / \text{Gross Domestic Product} \times 100$$

It is one of the most important indicators and reflects the place of insurance in the general economic activity of the country.

The other indicator that is used in the insurance sector to measure the place of insurance in the economy is "Insurance Density". The insurance density shows the contribution of each user of insurance services in the growth of the volume of premium income realized by the insurance companies in the country. Unlike premium income and insurance penetration, this indicator is calculated as a ratio between the gross premium income (GPR) for a certain period and the population for the same period.

$$\text{Insurance density} = \text{Gross premium income} / \text{Number of population} \times 100$$

Statistics show that residents of a country annually set aside more and more cash for insurance. Despite the great dynamics in the development of insurance density in recent years in Bulgaria, the country remains one of the last in terms of this indicator in Europe.

## **2. Confidence in the banking system**

Why banks? Confidence in the Bulgarian banking system remains quite high. In recent years, no concrete sociological research has been carried out on the subject, and concrete percentages of approval cannot be given. However, if we look at the data of the Bulgarian National Bank, the trust that people have in Bulgarian banks is clearly visible. The deposits attracted by the banks continue to grow continuously for twenty years in a row, regardless of the turbulence in the world markets and the emergence of new alternative ways of investing and saving, as well as the notorious passion of Bulgarians for buying their own real estate. At the end of June 2020, the total amount of deposits in the banking system reached BGN 86.32 billion, marking an annual growth of 8.3% against the background of low interest rates. The growth of savings is accelerating compared to the reported 7.8% on an annual basis at the end of March 2020, which once again confirms the thesis of high confidence in banks.

We see the same trend in loans according to the data of the Bulgarian National Bank. At the end of September 2020, loans to the non-governmental sector amounted to BGN 64.303 billion or 57.9% of GDP. This means 5.9% growth in September 2020 on an annual basis. Loans for non-financial enterprises grew by 2% on an annual basis in September 2020 and reached BGN 34.810 billion at the end of the month, despite the many closed businesses due to the pandemic. For the same period, housing loans amounted to BGN 11.634 billion and grew by 12.3% on an annual basis. Consumer loans amounted to BGN 11.806 billion and increased by 6.2% compared to September 2019.

## **3. Competitive environment**

Financial products and services are complex and it is difficult for ordinary consumers to navigate what they need and exactly which products to buy. Often times their choices are not rational and they need financial advice and information which they can get from different types of financial intermediaries. This applies to a particularly large extent to insurance and especially to life insurance products. These and other reasons suggest the need for the implementation of financial intermediation and the development of financial intermediaries to mediate between participants in the financial markets.

The following types of financial intermediaries are present and largely established on the Bulgarian financial insurance market:

- Insurance agents
- Insurance brokers

In recent years, the so-called digital channels for the sale of insurance products in Bulgaria have become increasingly important for the distribution and sale of insurance products in Bulgaria. The strength and easy access of these channels should also be taken into account when analyzing the market of insurance products in Bulgaria.

An important factor for the successful development of bancassurance is the concentration both in the insurance sector and in the banking sector in the country, as well as the general financial culture of the population in Bulgaria.

#### **4. The key to the success of bancassurance**

In order to create a successful bancassurance channel, apart from the right choice of model and strategy, there are several other factors that are key and should be given special attention. In the following lines, we will look at them. The motivation of the commercial network in the bank is fundamental, it can even be called the most important factor for the successful development of the bancassurance channel. The approach to network management should be comprehensive so that each employee knows his role in the organization and is fully aware of his responsibilities and goals. These objectives should also be set out in a common 'business plan' for both banking and insurance products. Initially, the network consists of bank employees, whose main role is to provide banking services and products, and all the bank's efforts are directed in this direction, motivation and supervision are directed there. However, when bancassurance was launched this focus had to change. And that needs to be crystal clear to everyone in the chain and needs to be communicated at all levels. For the success of such an undertaking, it is necessary to involve everyone in the bank, from the bank employee in the branch who meets with the customers on a daily basis, through the branch director, the regional directors to the executive directors themselves.

Regardless of whether bancassurance is done through a joint venture or a distribution agreement, the cost of remuneration for the insurance products sold remains with the insurance companies. How this remuneration will be structured is of particular importance to the ultimate success of such a collaboration. Here it is the role of the underwriters, who have a lot of

experience in building multi-layered commercial structures, to offer the commercial bank a motivating multi-level remuneration system. The insurer pays the bank a commission on each product sold in its portfolio and can make a profit-sharing system on each insurance policy sold, but the bank retains control over the motivation of its sales structure and has the final say in setting the rules. The credit institution has the right to decide how to redistribute this commission in another way. The bank's sales staff remuneration model may also vary across products. This is entirely a decision of the bank's management. The most important thing in this case is that the method and amount of the remuneration should be specified and agreed in advance between the partners in bancassurance. It is important to find a balance that utilizes the expertise of the insurance companies while not interfering with the bank's goals so that everyone is happy. If for any reason the remuneration scheme needs to be changed, for example due to regulatory requirements, a change in objectives of the commercial bank or let's say the rates of the insurance company, this again has to be done jointly and in mutual interest to avoid conflicts. This applies with particular force to cases of partnership, when the bank's sales channel is used on the basis of a cooperation agreement.

Training is another essential element for the success and motivation of the sales network, both in banking and in the bancassurance channel. The variety of profiles of bank employees, combined with the complexity of bancassurance, clearly needs serious training programs in the distribution networks in banks. They should be aimed at creating awareness and interest in insurance products, building experience in offering them and thus strengthening the trust that clients have in their bankers in their additional role as insurance consultants. These trainings can take different forms and be organized in different ways, but the ultimate goal remains the same, which is to prepare bank employees for their new role.

Another major factor in turning bancassurance into a successful business is supervision and control at all levels of such an undertaking. In the objectives set by the commercial bank, periodic evaluations must be provided, for example monthly or quarterly, in which the manager, together with the employee in charge, can review what has been achieved and set a plan for the next period. It is very important in this case to anticipate the possibility of catching up, if any, and to make a plan for how this can happen. In this way, employees who for some reason are lagging behind their goals will have an incentive to make more efforts to make up for their lagging and achieve the annual goals. This is especially important at the start of a new bancassurance business, where it is normal for some employees to be more active and successful than others. So that the others do not lose motivation or in case they "wake up" at a later stage, an opportunity must be provided for them to catch up.

Developing specialized software or a module in a commercial bank's core system to serve bancassurance is one of the pieces of the puzzle to create a successful bancassurance business. In order for employees in the bank's branch network to successfully sell insurance products, they must be provided with software through which they can quickly and easily provide the necessary information to the client and conclude the relevant insurance policies. Speed is of particular importance in this case, since the client does not have much time in the bank office, and the bank employee is interested in serving more clients. Automatic filling of the customer's data from the bank's information system (in case it is a separate system), as well as "uploading" the policy data to the same system. It needs to be possible to print the policy directly to be signed by the customer. For supervision purposes, this system should have an option to note that a customer has been contacted, what products have been discussed (what they are), what the customer's response is, and whether they have insurance. The system must be able to remind the customer himself via e-mail, SMS or other means, as well as to the bank employee who serves him for upcoming installments or expiring policies. This option is a necessity nowadays, not only for the convenience of the customer, but to minimize the possibility of the customer renewing the policy elsewhere or running out of coverage, which will put the commercial bank at risk. In this regard, it is good for the bank to enable the system to prepare the necessary direct debit documents for insurance policy payments, which will minimize the above-described possibilities.

It is natural for the successful development of the bancassurance channel in Bulgaria to choose appropriate insurance products that can be easily and successfully implemented through this distribution channel.

## **5. Challenges and success factors in bancassurance in Bulgaria**

Bancassurance, as a relatively new industry in the Bulgarian economy, still has a long and bumpy road to go until it is established on the market. Despite the fact that in the last ten years insurance companies and credit institutions in our country have accumulated experience in bancassurance, it is clear that not all such undertakings can boast of success. Even insurance companies and banks that think they have the perfect staff to run this type of business can run into problems while implementing the idea. The most common obstacles to achieving success in bancassurance are as follows:

Europe is the largest regional bancassurance market. The growth of premiums collected through this distribution channel in Europe over the past decade has outpaced the growth of other distribution channels. Among the largest European life insurance markets, most products were sold through bancassurance in Italy (76.3%), Spain (67.5%) and France (64%).

Malta (84.3%), Turkey (81.5%) and Portugal (79.3%) are the other European markets with the greatest influence in bancassurance. However, the development potential of bancassurance is still quite high, especially for non-life insurance. It is worth noting that the bancassurance channel turns the bank into a financial supermarket where customers can get a wide range of credit, investment and insurance products in one place in a minimum of time. In general, the positive aspects of implementing bancassurance boil down to three aspects:

- financial (reduction of conditionally fixed and conditionally variable costs);
- operational (simplification of technological processes, access to partner technologies and developments);
- marketing (development of new products, increase in market share, geographical diversification).

### **CHAPTER THREE: QUALITATIVE AND EMPIRICAL RESEARCH OF THE POTENTIAL FOR THE DEVELOPMENT OF BANK INSURANCE IN BULGARIA**

In Chapter Three, we emphasize the author's research on bancassurance in Europe and Bulgaria, as well as an analysis of the author's in-depth interviews and the author's survey conducted with a questionnaire specially developed for the purpose and conducted on the Internet and social networks on the territory of Republic of Bulgaria.

#### **1. Bancassurance in Europe and Bulgaria**

Empirical study of the bancassurance market in the European Union and Bulgaria regarding the existence of the necessary prerequisites for its successful development and the possibilities for its transformation into the main channel for the distribution of insurance products in Bulgaria.

#### **Structure and content of the empirical study of Bancassurance in Europe and Bulgaria**

The empirical analysis in this part of the dissertation is based on the study of a wide range of data and studies tracking the development of bancassurance in the countries of the European Union. The analysis is desk research (analysis of secondary data) for comparison of "hard data" regarding the insurance culture and potential of different markets from the EU and the Bulgarian market. Within the framework of a comparative analysis (analysis of differences) an attempt has been made to make references to what can be expected on the market in Bulgaria.

This study provides an analysis of bancassurance mainly for a sample of 10 European insurance markets (including Bulgaria). This restriction is imposed due to the lack of source data for some of the EU countries, as disclosure requirements vary significantly across member states. It is important to note that in some EU countries what is generally considered bancassurance does not exist as a separate stand-alone category in supervisors' reports and is not reported as a separate sales channel. In the EU, there is considerable variation between Member States in terms of distribution channels. This diversity is further enhanced by the fact that the insurance business is a non-homogeneous sector (eg life insurance and non-life insurance; natural and legal intermediaries, etc.).

This diversity makes it difficult to carry out the task of making a pan-European analysis of the structure of intermediaries in the market in Europe, with intermediaries being divided into the following three categories: insurance agents, insurance brokers and bancassurance. In several countries of the community, banks offering insurance products and carrying out real bancassurance work either as agents of insurance companies or as insurance brokers and sales are not correctly reported in the correct bancassurance category. In Liechtenstein, for example, two banks are registered as insurance intermediaries. The first bank operates and is reported as an insurance broker, and the second bank operates and is reported as an insurance agent. Like Liechtenstein, in Portugal banks offering insurance products can be agents or brokers and report as such to the supervisory authorities accordingly. In Denmark and Bulgaria there are other requirements - all banks offering insurance products must be registered as agents. In addition, in several other countries such as Germany, Malta and Portugal, there are other categories of intermediaries such as "tied insurance intermediaries" or "sub-agents" with which banks providing bancassurance can register. Due to these differences in registration requirements in EIOPA data, only 9 Member States provide data for all three categories described above (insurance agents, insurance brokers and bancassurance) and 18 countries provide data on the breakdown between insurance categories only agents and brokers. In addition, 16 Member States also provide data on "other intermediaries" that do not fall into the three categories mentioned above. These types of intermediaries can be:

- Multi-tied agents who operate in Poland and represent more than one insurance company in one line of business;
- Subordinated or tied insurance intermediaries that are present in countries such as Germany and Malta;
- Representatives of insurance intermediaries or "employees" of insurance intermediaries, registered in different categories that are present in the Czech Republic,

France and Italy (if they carry out intermediary activities outside the premises of the intermediary);

- Direct promoters who operate in Italy selling only Life, Accident and Health insurance for and under the sole responsibility of a particular insurance company.

Banks that sell insurance products in the surveyed countries may also be registered as insurance agents, as insurance brokers or in a certain category of intermediaries existing only in these member states, and are not counted as sales in the bancassurance channel. This fact makes it difficult to actually determine the results of sales in EU countries through the bancassurance channel and may lead to a distortion of the results in the study, because some of the sales are not reported correctly due to different legislation and differences in the requirements for reporting sales channels by the supervisory authorities in the individual EU member states. For the purposes of the dissertation work and greater credibility, the data of the nine countries where sales in the bancassurance channel are officially reported will be taken into account. For the Bulgarian market, data from the author's studies and expert assessments will be used, since as we have already noted, Bulgaria is one of the countries in the EU that does not consider bancassurance as a separate distribution channel. In the official data from the FSC, these sales are reported as part of another distribution channel - to insurance agents, which makes it difficult to distinguish and study the results achieved by the banks.

For the analysis, publicly available information obtained from published data from EIOPA and from Insurance Europe (European Federation of Insurance and Reinsurance Companies) on the amount of insurance premiums written through the bancassurance channel at country level in the period 2004 - 2019 was used.

The regulations that led to the clear separation between banking and insurance have been largely relaxed in many countries in the last two decades of the early 21st century, leading to a more integrated financial sector in the European Union. For banks, the additional income provided by the sale of insurance policies is particularly important in the current environment of low interest rates and increased regulatory requirements. At the same time, banks have become the main distribution channel for insurance companies in some Western European countries, exceeding 50% of sales in the entire Life insurance market in 2017.

It is also important to note that while bancassurance is a major channel for the distribution of insurance products in some European countries, such as France, Portugal, Italy and Malta, it does not play a particularly important role in others. For example, in Germany only 18.3%,



in Greece 31%, and in Slovenia only 14.4% of life insurance premiums were attracted through this sales channel in 2017. The situation in 2018 and 2019 is no different, although as overall, bancassurance has a sales lead over other distribution channels, as can be seen from Table 1.

**Table 1 Bancassurance - Data Life insurance + General insurance**

Процент записани премии по всички видове застраховки през канал Банково затраховане за периода 2004-2019 г.																
Държава	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AT	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
BE	38,4%	42,0%	37,4%	37,4%	36,7%	36,8%	37,6%	38,0%	40,6%	30,8%	32,8%	29,9%	31,2%	29,7%	29,0%	29,4%
BG	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CH	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CZ	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	28,0%	28,0%	25,0%	21,0%	24,0%
DE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
DK	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
ES	33,4%	34,1%	35,0%	40,8%	38,2%	40,8%	38,5%	35,0%	34,9%	0,0%	0,0%	24,7%	54,9%	38,7%	36,8%	33,5%
FI	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
FR	46,0%	47,0%	50,0%	48,0%	45,0%	46,0%	47,0%	47,0%	46,0%	48,0%	48,0%	49,0%	49,0%	48,0%	49,6%	52,0%
GR	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
HR	0,0%	0,0%	0,0%	5,9%	5,6%	5,4%	6,6%	7,1%	7,7%	9,0%	10,9%	17,4%	16,6%	17,7%	19,4%	19,1%
HU	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IS	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IT	44,6%	46,2%	44,5%	41,8%	38,0%	52,1%	55,5%	50,1%	48,8%	55,3%	62,0%	63,1%	59,9%	59,0%	58,3%	58,0%
LI	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
LU	0,0%	0,0%	0,0%	0,0%	31,5%	30,3%	26,7%	25,8%	0,0%	0,0%	0,0%	22,3%	10,9%	14,5%	9,8%	4,6%
LV	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
MT	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	57,3%	51,3%	53,1%	56,2%	55,9%	58,3%	56,7%	60,2%	54,4%
NL	15,0%	13,9%	12,2%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
NO	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
PL	0,0%	0,0%	11,0%	14,2%	29,9%	20,7%	18,2%	17,8%	23,6%	23,6%	16,9%	16,9%	14,0%	14,0%	10,0%	9,0%
PT	54,1%	63,7%	59,8%	63,1%	61,8%	62,9%	65,7%	55,0%	52,5%	55,3%	63,1%	59,7%	50,4%	54,8%	56,3%	50,5%
RO	5,9%	0,0%	0,0%	0,0%	0,0%	8,0%	8,6%	0,0%	15,4%	15,4%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
SE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
SI	2,3%	2,4%	2,8%	3,1%	2,3%	1,8%	2,4%	2,4%	2,8%	3,4%	4,1%	4,6%	4,7%	5,3%	0,0%	0,0%
SK	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
TR	20,7%	18,5%	15,3%	15,8%	17,4%	18,6%	22,0%	23,2%	22,7%	23,4%	14,0%	14,3%	21,8%	23,7%	22,6%	26,3%
UK	10,3%	3,9%	3,0%	3,0%	4,8%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Source: Insurance Europe

Given the ongoing process of integration within the European financial services industry and the growing importance of bancassurance activities, determining the factors that explain the success and heterogeneity between countries in terms of bancassurance models remains an open question. Tab. 2 Bancassurance - Data Life insurance shows that in 2017 bancassurance reached over 50% of life insurance sales in Europe for the first time, proving the importance of this distribution channel for the European life insurance sector. From the table, we can also see that the share of life insurance business recorded through the bancassurance channel varies greatly from country to country. While it represents 70-80% in countries such as Portugal, Italy, Malta and Turkey, it represents less than 20% in Germany and Slovenia. Furthermore, the share of bancassurance business across countries shows large variations over time. For example, in Turkey, the share of bancassurance increased from 46.0% to 81.2% between 2008 and 2013., while in Belgium it decreased from 51.9% to 37.7% between 2012 and 2015. These strong differences between countries and within countries over time show that bancassurance

structures differ according to different factors such as legal, operational or financial sector-specific characteristics of different countries.

**Table 2 Bancassurance - Data Life insurance**

Процент записани премии Животозастраховане през канал Банково затраховане за периода 2004-2019 г.																
Държава	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AT	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
BE	48,3%	51,1%	47,2%	46,9%	47,0%	47,5%	48,4%	49,6%	51,9%	39,0%	42,5%	37,7%	40,1%	37,4%	36,0%	36,7%
BG	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CH	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
CZ	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
DE	0,0%	0,0%	0,0%	18,3%	20,8%	20,6%	23,7%	19,9%	18,7%	19,8%	20,8%	20,5%	19,7%	18,3%	18,5%	18,8%
DK	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
ES	68,9%	68,9%	63,2%	72,3%	0,0%	66,2%	69,7%	63,0%	62,6%	63,0%	62,6%	63,5%	68,3%	67,5%	64,9%	59,2%
FI	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
FR	62,0%	62,0%	64,0%	62,0%	60,0%	60,0%	61,0%	61,0%	63,0%	64,0%	64,0%	64,0%	65,0%	64,0%	65,0%	64,0%
GR	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	29,0%	31,0%	31,0%	36,0%	31,0%	36,0%	25,0%
HR	0,0%	0,0%	0,0%	18,7%	17,6%	16,1%	18,5%	19,3%	20,1%	23,4%	25,8%	35,5%	36,3%	39,1%	44,3%	43,9%
HU	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IE	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IS	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
IT	68,1%	68,2%	67,5%	66,3%	62,5%	74,4%	76,3%	73,1%	71,9%	75,8%	79,0%	79,3%	76,9%	76,3%	75,0%	74,3%
LI	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
LU	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	18,4%	28,9%	16,5%	21,7%	17,5%	20,8%	19,8%	24,9%
LV	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
MT	0,0%	0,0%	0,0%	0,0%	0,0%	79,8%	0,0%	82,2%	79,3%	78,8%	81,9%	81,9%	82,7%	82,7%	82,1%	79,8%
NL	17,2%	18,9%	16,9%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
NO	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
PL	0,0%	0,0%	20,5%	23,4%	44,4%	32,6%	28,3%	30,0%	38,9%	0,0%	29,6%	29,6%	28,0%	30,0%	22,0%	19,0%
PT	82,5%	88,3%	84,5%	87,3%	81,6%	82,7%	84,2%	82,0%	77,8%	78,7%	80,4%	79,7%	71,8%	79,3%	80,0%	77,9%
RO	10,4%	0,0%	0,0%	0,0%	0,0%	29,9%	13,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
SE	45,0%	45,0%	45,0%	0,0%	0,0%	0,0%	12,0%	14,0%	10,0%	12,0%	14,0%	19,0%	19,0%	0,0%	0,0%	0,0%
SI	6,1%	7,4%	7,9%	8,8%	6,3%	5,1%	6,7%	7,3%	8,3%	10,9%	13,3%	14,3%	13,5%	14,4%	0,0%	0,0%
SK	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
TR	47,4%	43,1%	41,7%	50,6%	46,0%	56,4%	69,5%	75,2%	77,4%	81,2%	79,0%	79,9%	82,9%	81,5%	79,7%	82,1%
UK	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	45,59%	45,29%	45,84%	45,46%	42,91%	47,61%	42,66%	48,05%	42,73%	43,17%	45,60%	46,98%	46,97%	50,40%	51,94%	50,47%

Source: Insurance Europe

Another factor supporting the hypothesis that bancassurance in Bulgaria has the potential to become a leading channel for the distribution of insurance products is the fact that the growth rate of life insurance on the local market has outpaced that of non-life insurance in recent years. The insurance market in our country continues to grow steadily during the first three months of 2022. In view of the fact that the data also covers March, the first month of the war in Ukraine, it can be said that this development demonstrates the stable foundation and resilience of the crisis sector. In general, for the insurance market, the annual growth of premium income as of March was 9.7%, with the amount reaching BGN 885 million. Market data as of March 2022 show that the growth rate in life insurance remains ahead of that of the general insurance and reaches 17% on an annual basis, but is lower than the reported annual growth at the end of 2021. Premium income in life insurance for the period was BGN 175.5 million. After a particularly intensive development in 2021, the growth of premium income under "Life Insurance linked to an investment fund" as of March reached more balanced levels of 19% of annual basis. The collected premium income for this life insurance as of March amounted to BGN 60 million, compared to BGN 50 million in the same period of 2021, and BGN 28 million in 2020. In the insurance business line "Life and annuity" collected premium income of BGN 64.5 million. As can be seen from the data (2018-2022), collected premiums for "Life"

insurance in Bulgaria are significantly smaller than premiums in general insurance. The trend of increasing the share of life insurance in the total share of premiums in insurance is maintained and can be expected to increase in the future. This trend, as well as the fact that in most countries in Europe and around the world, life insurance premiums significantly exceed non-life insurance premiums, gives grounds to assume that the Bulgarian market will not be an exception. Since it became clear from the data presented so far on the distribution of insurance products that bancassurance is the main channel for the distribution of life insurance products, it should be expected that Bulgaria will follow the trend of the leading insurance markets in Europe and commercial banks in our country will be turned into a leading distribution channel thanks to Life Insurance.

## **2. Qualitative research among the senior management of leading insurance companies with the aim of formulating basic hypotheses and discovering prerequisites for the successful development of bancassurance and the possibility of its transformation into a main channel for the distribution of insurance products**

For the purposes of the dissertation, a qualitative study of the attitudes, expectations and trust of senior managers and managers responsible for the bancassurance channel in leading insurance companies operating on the Bulgarian market was carried out regarding the existence of the necessary prerequisites for the successful development of bancassurance and the possibility of turning it into the main channel for the distribution of insurance products in Bulgaria.

### **Structure and content of qualitative research**

The qualitative research in this part of the dissertation is based on 19 effective contacts with representatives of different insurance companies by the author personally through the qualitative research. The meetings were held with senior managers and managers responsible for the bancassurance channel in leading insurance companies operating on the Bulgarian market. For the purposes of the dissertation, surveys were conducted with the management and managers of leading insurance companies on Bulgarian market.

The qualitative research was conducted on the basis of a comprehensive, in-depth interview developed on the basis of a special questionnaire. The interviews were conducted personally by the author. The interviewees are asked to answer the questions freely while guaranteeing anonymity. In addition, participants were asked to consent to being quoted for the purposes of the dissertation. Part of the managers participating in the survey wished their

answers to remain anonymous, therefore the data in the dissertation work will be depersonalized and generalized. The in-depth interviews were conducted in the period from March to December 2022. The aim is to obtain detailed information about the attitudes of the management of insurance companies and the leading managers in the business regarding the existence of the necessary prerequisites for the successful development of bancassurance and the possibility of its transformation into the main channel for the distribution of insurance products in Bulgaria. The object of the scientific research is related to establishing the perception, inclination and desire of the management to use the channel of bancassurance in Bulgaria by the company they represent. The tasks of the present study are aimed at drawing conclusions and formulating basic hypotheses and discovering reservations regarding the offer of insurance products through the bancassurance channel in Bulgaria.

### **Analysis of the received data**

**Question number 1** - Are there the necessary prerequisites for the successful development of bancassurance on the Bulgarian market?

All answers to the first of the questions asked are positive. The majority of the management of the leading insurance companies in Bulgaria, who participated in the interviews, categorically state that the country has the necessary prerequisites for the successful development of bancassurance. The rest of the managers note that the necessary conditions are rather present. This decisiveness in the answers confirms the thesis of the dissertation that Bulgaria has the necessary prerequisites for the development of bancassurance and is a suitable place for the development of bancassurance.

**Question number 4** - Which model of bancassurance do you consider the most suitable for carrying out bancassurance in Bulgaria?

In this question, the interviewed managers gave their preferences for more than one likely successful scenario for carrying out bancassurance in Bulgaria. Almost all participants indicated that the option with signing a contract/agreement between a commercial bank and an insurance company, would be most suitable for the development of the activity in the Bulgarian conditions. The second most popular option for business development among managers is "Mergers, acquisitions and integration". This is most likely due to the fact that this is both the most expensive and the most difficult option of all the options. Several managers have preferred to choose the third option, namely "Establishing a joint venture (joint venture)", as the best. Half of the managers gave more than one answer, and some of them indicated all three possibilities as good options for the development of banking. This fact can be interpreted as evidence that some of the management of insurance companies see more than one opportunity

for cooperation with banking institutions and are open to different forms of cooperation. This can again be considered as a desire of the managers to be flexible and use every opportunity for the development of bancassurance in Bulgaria, and accordingly they consider it a promising channel for the distribution of insurance.

**Question number 12** - Do you think that commercial banks can become a major channel for the distribution of insurance products?

The majority of interviewed managers are again positive about the possibility of commercial banks in Bulgaria becoming the main channel for the distribution of insurance products and, accordingly, the main partner of insurance companies. A minimal part of the interviewed managers do not share this opinion and believe that insurance agents and brokers will remain the main way of marketing insurance products. The confidence of the managers of the leading insurance companies that bancassurance has the potential in the near future to become the main sales channel for insurance companies is supported by the results of the companies they represent in our country and the dynamics of sales development in Bulgaria during the last 7-8 years, which show an increase in the sales of insurers through commercial banks. This confidence is proof that insurance companies in our country are seriously looking at the possibility of further development of this distribution channel and that bancassurance can become a leading channel for the placement of insurance products.

The main conclusions from the in-depth interviews conducted by the author can be reduced to the following:

1. The managers' opinion on the huge potential of banks as a channel for selling insurance products is clearly and categorically outlined;
2. Insurance companies are ready to be flexible and use every opportunity to develop bancassurance;
3. Banks are a reliable and long-term partner of the insurance company compared to insurance agents and insurance brokers for the distribution of insurance products;
4. The expansion of bancassurance activities will be more difficult through new partnerships, therefore insurance companies should focus on developing specialized insurance products for banks and the marketing strategy for their offer;
5. To create a successful bancassurance model, commercial banks and insurance companies must be willing to invest in marketing, technical integration, training and human resource

development. Integration is key to the success of bancassurance in any of the possible cooperative models;

6. The permanent development and use of the potential of bank insurance is directly accompanied by the implementation of specialized, permanent training of bank employees regarding insurance products, supported by goal setting and financial stimulation of employees, and investment in integrated software solutions for offering insurance products by banks;
7. The success of the implementation of insurance products in the activities of commercial banks depends on the nature of the partnership between the commercial bank and the insurance company, carried out by trained management teams and personnel;

### **3. Empirical quantitative research among banking active users, natural persons with the aim of determining the potential of the concept of active offer of insurance products through the channel bancassurance carried out on the Internet**

The empirical quantitative research in this part of the dissertation is aimed at the attitudes, consumption, awareness, trust and preferences of individuals regarding the products and services offered by commercial banks and insurance companies and, respectively, bancassurance in Bulgaria.

#### **3.1. Structure and content of the questionnaire and survey**

The analyzes made in this part are based on the author's survey, conducted among natural persons over the age of 18, with a survey card developed specifically for the purpose and conducted by the author on the Internet and social networks throughout Bulgaria. A random sample was implemented using the respondent method, and fully mass digital channels were used to reach the desired respondents. The purpose of the survey is to prove the existence of the necessary prerequisites for the successful development of bancassurance and the possibility for its transformation into the main channel for the distribution of insurance products in Bulgaria. On this basis, by using statistical methods and survey analysis, the author's summaries, conclusions and recommendations regarding the development and successful growth of the bancassurance channel are provided.

To carry out the empirical research, the author developed a special electronic survey card in Google Drive, which was distributed on the Internet through various social networks such as "LinkedIn", "Facebook" and others.

### **3.2. Statistical analysis**

The total number of persons surveyed was 215, from all over Bulgaria, and persons from all types of settlements in the country participated in the survey - villages, small and large cities and from the capital. The data was cleaned and for the purposes of the dissertation only the responses of 211 of the participants who indicated that they used banking services were used. The remaining four participants were not of interest for the purposes of the present study. The author of the dissertation is the executor of the survey. The survey card is provided by the surveyor to the respondent electronically, via the Internet in various social networks. The survey completion is designed with a mandatory requirement to complete every question (except one) and thus the software ensures that a survey with missing answers and/or errors cannot be transmitted to the author. In order to identify the person surveyed, the survey card includes a field related to the requirement to fill in an e-mail address to contact the person while guaranteeing anonymity by the author of the survey. The survey was conducted in the period from November 2022 to December 2022.

SPSS (Statistical package for social science) and Q-research software were used for the statistical processing of the survey cards. The software allows meaningful interpretation of the survey results. Thus, the results of this processing can be a basis for the empirical analyzes and conclusions.  $p=0.05$  was chosen as the level of significance in the analysis, which is the probability of making a first-order error.

### **3.3. Descriptive statistical analysis (univariate and bivariate distributions) of survey data**

Descriptive statistical analysis of univariate distributions from the survey conducted. One-dimensional distributions represent a grouping of the units of the studied population according to the values of a given feature. Depending on the method of measurement, this feature can be interrupted and continuous, qualitative and quantitative. When more than one answer can be given to a question on the survey card, this is represented by more than one variable. In this case, to analyze the distribution of responses to this question, a technique of accounting for the same responses across variables is used.

### Univariate distribution – Sex

Table 3

What is your gender?	%	n
Male	48,3% ↑	102
Female	51,7% ↑	109
I prefer not to answer	0,0% ↓	0

Total sample; Unweighted; base n = 211

Multiple comparison correction: False Discovery Rate (FDR) (p = 0,05)

Table 3 shows the actual distribution according to the meanings of the analyzed attribute, in the case of "Gender". Column "n" shows the absolute values of the results of the conducted studies, namely - 102 men and 109 women participated in the survey. The "%" column shows the percentage distribution according to this indicator and shows that more women than men took part in the survey, which is the real situation in Bulgaria and all over the world - there are more women than men. 51.7% women and 48.3% men participated in the survey. All survey participants indicated gender and therefore the answer "Prefer not to answer" has a value of "0". It can be seen from the comment below the distribution table that all 211 responses were involved and it shows that  $p=0.05$  was chosen as the level of significance in the analysis, which is the probability of making a first-order error. The same is true for the other tables used in the analysis below, except for those for which additional information is placed below the table.

### Univariate distribution – Current residence

Table 4

Current residence:	%	n
Village	3,8% ↓	8,0
Small town	11,8% ↓	25,0
Big city	33,6% ↑	71,0
Capital city	50,7% ↑	107,0

Table 4 shows the actual distribution according to the meanings of the analyzed feature, in the case of "Current place of residence". Column "n" shows the absolute values of the results of the conducted tests. 8 people from those who took part in the survey live in the village, 25 of the respondents live in a small town, 71 live in a big city and 107 live in the capital of the country. The "%" column shows the percentage distribution of this indicator and shows that the largest number of people from Sofia (the capital) took part in the survey - 50.7%, followed



by respondents from a large city – 33.6%, followed by those living in a small town – 11.8%, and the least are the participants living in villages or 3.8%. Here again we see a reflection of the real situation in Bulgaria, since according to the last census in our country, the distribution of the inhabitants is largely similar to that of the results of the survey conducted by the author.

### **Univariate distribution – Where do you usually buy financial products**

Table 5

Where do you usually buy financial products?	%	n
Bank	75,4% ↑	159
Insurance company	45,5% ↑	96
Pension-insurance company	13,7% ↓	29
Investment company	10,0% ↓	21
An intermediary	29,4%	62

Table 5 shows where the survey participants usually shop for financial products. The sum of the total percentages in the table also exceeds 100% here, as respondents were given the opportunity to indicate more than one answer. The respondents most often buy financial products from a bank, 159 of the survey participants or 75.4% indicated the bank as their first choice. The second most popular choice, indicated by 96 participants, was an insurance company, with 45.5% picking up the choice. In third place, with 62 people choosing this option, is the choice "Mediator" with 29.4%. 26 participants or 13.7% put Pension Insurance Company in fourth place. Last in popularity among survey participants is the option "Investment Company" with 10% or 21 responses.

### **Univariate Distribution – Where do you usually buy insurance products from**

Table 6

Where do you usually buy insurance products from?	%	n
Directly from the insurance company (office, online)	24,6%	52
Insurance agent	20,4%	43
Insurance broker	40,8% ↑	86
Bank	11,8% ↓	25
Other	2,4% ↓	5

Table 6 shows where the survey participants usually shop for insurance products. The respondents most often buy insurance products from an insurance broker, 86 of the survey participants or 40.8% indicate brokers as their first choice. The second most popular choice,

listed by 52 participants and is directly from an insurance company. 24.6% made this choice. In third position, 43 people or 20.4% put an insurance agent. 25 survey participants or 11.8% put the Bank in fourth place as their choice. Five people (2.4%) chose the answer "Other".

#### **Univariate distribution – Would you buy insurance products through a bank**

Table 7

Would you buy insurance products through a bank?	%	n
Yes	64,9% ↑	137,0
No	17,1% ↓	36,0
I can not decide	18,0% ↓	38,0

Table 7 shows the real distribution on the analyzed question "Would you buy insurance products through a bank?". 137 of the survey participants, or 64.9%, indicated "Yes" as their choice. Another 38 of the respondents or 18% chose the answer "I cannot judge" and at least 36 people or 17.1% chose the answer "No". From here we can see the high willingness of commercial bank customers to buy insurance products through the bancassurance channel.

#### **One-dimensional distribution - the bank's recommendation for the purchase of insurance products**

Table 10

Would you recommend buying insurance products through a bank to a friend?	%	n
Yes	32,3%	68
No	26,5%	56
I can not decide	41,2% ↑	87

Table 10 shows the actual distribution according to the meanings of the analyzed feature "Would you recommend to a friend the purchase of insurance products through a bank?". Column "n" shows the absolute values of the results of the conducted studies, while column "%" shows the percentage distribution according to this indicator. According to this indicator, the majority, or 87, of those who participated in the survey chose the answer "Can't judge". This is 41.2% of the respondents. 68 people chose the answer "Yes", which put it in second place with a 32.3% share among participants. In the last place is the answer choice "No", as 56 of the respondents or 26.5% are categorical that they would not recommend this channel for the purchase of insurance products. From the answers received, it can be concluded that most

of the respondents are not aware at the moment whether they would recommend such a purchase, which does not mean that they are categorically against it and they can be worked with. Of the categorical answers received, those with a positive answer are the predominant part, which once again shows the trust of the people and the possibility of bancassurance becoming a leading channel for the distribution of insurance products in Bulgaria.

### Unidimensional distribution - financial advice

Table 11

When you need financial advice for your personal finances (deposits, loans, investments, insurance)	%	n
Friend	14,7%	31
Employee at an insurance broker	7,1% ↓	15
Financial adviser	18,5%	39
Bank teller	30,3% ↑	64
Insurance company employee	9,5%	20
Employee in a pension insurance company	0,5% ↓	1
Other	19,4%	41

Table 12 shows the actual distribution according to the meanings of the analyzed feature, in the case "When you need financial advice for your personal finances (deposits, loans, investments, insurance, pension insurance or others), you turn for help and/or advice to:". Column "n" shows the absolute values of the results of the conducted studies, while column "%" shows the percentage distribution according to this indicator. Most of the participants in the survey chose the answer "Bank employee" to the question. 64 of those surveyed, or 30.3%, said they trust bank employees the most when it comes to financial advice. Another 39 of those who took part in the survey, which is equal to 18.5%, indicated the answer "Financial intermediary" and thus placed it in the third position. This choice can be added to the above result because the bank can also be considered a financial intermediary. The second most popular answer among the respondents is the answer "Other", 41 of the participants or 19.4% stopped at this answer, which means that they prefer to receive financial advice in a place other than those indicated in the survey. Answer "Friend" is placed in the fourth position. 31 of the respondents or 14.7% voted for this option. Another 20 of those who took part in the survey chose the answer "Employee in an insurance company", which put him in fifth position with 9.5%. In the sixth place, the answer "Employee at an insurance broker" was placed. 15 of the

respondents or 7.1% voted for this option. Only one vote received the answer "Employee at a pension insurance company", giving it 0.5% of the votes in the poll.

### **Two-dimensional distributions - Cross-tabulations of the conducted survey**

The cross-tabulations present the bivariate distribution of the observed population, i.e. this is the frequency distribution of the meanings of two features at the same time. Below are examples of a bivariate distribution of survey questions, only for which there are detected dependencies, which are shown in a different color. The examples are presented according to the principle: question/question (How old are you? / Which insurance products would you buy through a bank?)

#### **Bivariate distributions – Respondents who would recommend purchasing an insurance product through a bank/factors for purchasing insurance**

Table 13

Which of the following is most important to your decision to buy a particular insurance product:	%
Price	35,3% ↑
Name of insurer	17,6%
Name of reseller, offering the product	5,9% ↓
Financial advice	33,8% ↑
Other	7,4% ↓

Filter: Yes - reffreral; Unweighted; base n = 68; 68% filtered out

Multiple comparison correction: False Discovery Rate (FDR) ( $p = 0,05$ )

Another important and interesting piece of information can also be obtained from the analysis of the data and the bivariate distributions in Table 13. From the responses obtained from the survey respondents, it can be seen that the factor "factors for buying insurance" leads to important statistical dependencies when we talk about people who would recommend the purchase of an insurance product through the bancassurance channel. Of the group of 68 people who fall into the population under consideration, the largest number indicated that the "Price" of the insurance mattered most to them. 35.3% voted for this option. In second place, with 33.8%, respondents from this group put "Financial Council" as the reason. In third place, this group of people with put "Insurer Name" with 17.6%. In fourth position is the answer "Other" with 7.4% and in last place is "Name of intermediary offering the product" with 5.9%. This information would again be useful for the employees and managers of commercial banks and insurance companies who want to develop a successful project and turn bancassurance into a

leading channel for the distribution of insurance products. From the data in the table, it can be expected that with such attitudes, bancassurance has the potential to become a leading channel for the distribution of insurance products in Bulgaria.

### 3.4. Regression

- For the purposes of the additional analysis, univariate regression was conducted, as well as Correlation analysis, and the following requirements were met:
- The initial data have a random nature, having the necessary scales of interest;
- Dependent variables have a normal or close to normal distribution;
- To test the significance of the model estimated with F (in the Anova table in the regression analysis) it is assumed that the statistical relationship is significant at Sig. of the entire model  $<0.05$ .
- The coefficient of determination R are close to 1.

#### Variables studied:

Research on the relationship between the probability that individuals will continue to use a bank for the purchase of insurance products and whether they are satisfied with the information available about insurance products in the bank they use.

Table 15

Variables Entered/Removed <sup>a</sup>			
Model	Variables Entered	Variables Removed	Method
1	Каква е вероятността да продължите да използвате банка за покупката на застрахователни продукти? <sup>b</sup>	.	Enter

a. Dependent Variable: Доволни ли сте от наличната информация относно застрахователните продукти във Вашата банка?

b. All requested variables entered.

Table 16

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.205 <sup>a</sup>	.042	.037	.957

a. Predictors: (Constant), Каква е вероятността да продължите да използвате банка за покупката на застрахователни продукти?

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.403	1	8.403	9.169	.003 <sup>b</sup>
	Residual	191.531	209	.916		
	Total	199.934	210			

a. Dependent Variable: Доволни ли сте от наличната информация относно застрахователните продукти във Вашата банка?

b. Predictors: (Constant), Каква е вероятността да продължите да използвате банка за покупката на застрахователни продукти?

1. From the one-dimensional regression, it is evident that the specified variable determines the behavior of 42% of the studied population. The model is adequate as Sig < 0.05. The coefficient of determination is 0.205.
2. In order for bancassurance to work successfully, the underwriter must know the processes in the commercial bank very well and know how to successfully integrate their insurance products into those processes to facilitate and support sales;
3. Insurance companies and commercial banks should seek mutually beneficial cooperation and have an interest in achieving high results and strong synergistic effects to achieve satisfactory sales levels, good profits, competitive advantage, high market share, etc.;

## CONCLUSION

The analysis of the regulatory framework in Bulgaria shows that Bulgarian commercial banks are allowed to operate as insurance agents, and local credit institutions are given the opportunity to participate in the equity capital of other types of insurance intermediaries, including insurance companies, in compliance mainly with the regulatory requirements for maintaining equity capital. The above allows us to conclude that the Bulgarian banking system has been granted a regulatory opportunity to enter the local insurance market. The restriction that commercial banks are only insurance agents, in most cases also limits the choice of customers of the bancassurance channel to the choice of insurance products of only one insurance company. It is possible to consider expanding the range of possibilities for carrying out this activity in our country, which will also lead to greater competition between the insurance companies offering products through banks and to a greater choice and, accordingly, better prices for customers.

Insurance companies in Bulgaria strive to adapt to new conditions and current challenges by diversifying their sales and distribution channels and increasing their efficiency by reducing their costs, thereby meeting new regulatory and market expectations. They aim to offer more flexible and affordable insurance products, thereby wanting to achieve growth in the local insurance market and increase their market share. Another main goal of insurance companies is to reduce their dependence on traditional insurance intermediaries in the form of insurance agents and insurance brokers and to diversify their distribution channels as much as possible.

The low level of development of the local insurance, life insurance and health insurance market, established on the basis of the data on insurance penetration and insurance density in Bulgaria, which is below the average level for the CEE countries and Europe, suggests good conditions for the success of this channel for the distribution of insurance products, due to the low maturity of the market, which does not require the need to develop complex insurance products distributed through specialized insurance intermediaries. This low level also facilitates the entry of Bulgarian commercial banks into the local insurance market. The data on the level of insurance penetration and the insurance density of the Bulgarian insurance market, as well as the review of the regulatory framework, allow us to conclude that the competitive power of traditional insurance intermediaries, such as insurance agents and insurance brokers, does not represent a serious barrier to the entry of local commercial banks on the insurance market, through the bancassurance channel. The review of the insurance products offered by the Bulgarian banks shows that the local credit institutions have currently

focused their insurance mediation activities mainly on insurance solutions in the field of life insurance, which are characterized by a low level of complexity and relative interconnection with the main banking activity. Such an insurance portfolio is also suitable for the conditions of the local insurance market, which creates an opportunity for the development of bancassurance.

From the analysis of the tax policy in Bulgaria, it can be seen that the country has tax preferences in the field of life insurance and health insurance. However, these preferences are structured in such a way that they are not expected to have an impact on the development of the bancassurance channel in our country, since, apart from being not particularly attractive, they are also offered by the other participants in the insurance mediation market.

It can also be concluded that bancassurance can develop successfully in the Bulgarian market, due to the great trust shown by both individuals and companies to commercial banks in Bulgaria and the greater role that bank employees would have in making financial decisions. According to the available data, Bulgarian citizens are characterized by financial literacy below the average level for Europe, which implies a lower degree of ability to make independent financial decisions. The Bulgarian consumer informs himself and finalizes his purchases, including insurance ones, mostly at the point of sale. Accordingly, bank branch employees would have a greater role in customer financial decision-making because of their preference for in-office consultation when making contracting decisions, rather than prior exposure to market offers, analysis, and comparison them. Such a circumstance provides an opportunity for commercial banks in the country to enter the local insurance market through investments in training bank employees, who, through their expertise and competence, can assist local clients in making financial decisions. The latter leads to an easy opportunity for bank employees to convince the client to conclude insurance products offered by them.

At the time of writing the dissertation, no data is available to identify a strong insurance or banking lobby that would oppose such a strategy for the development of bancassurance in Bulgaria. It can even be said that the exact opposite is happening and Bulgarian insurance companies and commercial banks are looking for an active partnership with each other in order to find new customers and retain existing ones, to expand their business opportunities and use this opportunity to expand their markets and to enter new market niches.

Based on the arguments presented so far, it can be concluded that bancassurance in Bulgaria has a good foundation and a positive perspective not only for development, but also



a real opportunity to become a leading channel for the distribution and distribution of insurance products in the country. Bancassurance provides great opportunities for cooperation between banks and insurance companies. It achieves optimal utilization of offices, branches, employees and enables access to fresh funds and a new way to generate additional profits. It also provides an opportunity to expand the client base of insurance companies and commercial banks, and to cover hitherto unreached clients.

In its entirety, this dissertation provides Bulgarian insurance companies and commercial banks with a complete study, examining the maximum number of issues and aspects necessary for a well-founded and successful construction of a strategy for the development of a bancassurance channel under Bulgarian conditions. The effort to present all theoretical positions and points of view provides an opportunity to understand the risks and benefits and make an informed and reasoned decision about the possibility of entering this innovative business niche. The dissertation work can also be used by direct competitors - insurance brokers and insurance agents, to analyze the competition and find weaknesses to be used in the fight for market share.

## **CONTRIBUTIONS**

### **Contributions with scientific potential**

1. For the first time, an in-depth interview of the senior managers of the leading insurance companies in Bulgaria is conducted regarding bancassurance;
2. An independent study was conducted on the attitude to the bancassurance channel of adult customers of Bulgarian commercial banks through an online survey;

### **Contributions of a practical and applied nature**

3. The dissertation work can serve as a basis for subsequent studies in the field of bancassurance, in the field of financial intermediation and the integration between commercial banks and insurance companies;
4. The dissertation work can be used by commercial banks and insurance companies as a basis for analysis and improvement of financial culture, awareness, attitudes and analysis of the consumption of bancassurance customers and consumption of products and services from the joint activity of these two institutions;
5. The dissertation work can also be used as a basis for future research aimed at certain consumer segmentation, at a separate type of insurance product or insurance service, which are based on joint activity and cooperation between commercial banks and insurance companies or at tracking the demand and supply of suitable insurance products from the customers of the commercial banks on the Bulgarian market;
6. The results of the dissertation work can be valuable for managers of commercial banks and insurance companies, taking into account the current process of consolidation within the financial sector in the country and the European Union and the growing importance of the bancassurance channel for these companies in Bulgaria and beyond. This research provides evidence of existing necessary prerequisites and conditions that determine the success of the bancassurance channel. It can be useful when designing strategies for entering new markets or relatively new markets, such as the Bulgarian one, and planning growth in already existing ones;
7. The results of the dissertation work can also serve the regulatory authorities in our country, given the growing importance of the bancassurance channel in the country. For them, the data from the thesis can be used to design a better regulatory environment for the operation of the bancassurance channel and create conditions for reporting bancassurance sales as an independent sales channel, separated from insurance agents and insurance brokers.

## **PUBLICATIONS**

1. National student and doctoral conference on the topic: "Economic challenges facing Bulgaria (2021-2023) - sustainability and risks", "Challenges to insurance in Bulgaria 2021-2023", VUZF, Sofia, Collection of reports presented to the National Student and doctoral conference on "Economic challenges facing Bulgaria (2021-2023) - sustainability and risks", organized by the Higher School of Insurance and Finance on 04/03/2021. ISBN 978-619-7622-05-8, pp. 376-386
2. Round table on "Strategic management and regulation of business processes in the state", VUZF, Sofia March 31, 2022. "Strategies for increasing the share of Bulgarian insurance in the country's economy" Collection of reports. Publishing House "St. City. Theologian", Sofia, 2022, ISBN 978-619-7622-42-3, pp. 114-124
3. The second national student and doctoral conference on the topic "Code digital: economy, education and social relations", "Digitalization, automation and robotization in the insurance and financial sphere in Bulgaria" VUZF, Sofia, 15.04.2022. Collection of reports. Publishing House "St. Gregory the Theologian", Sofia, 2022, ISBN 978-619-7622-30-0, pp. 164-175
4. The third national student and doctoral conference on the topic "Bulgaria's accession to the Eurozone - challenges and opportunities", "Results of a survey conducted to determine the prerequisites for the successful development of bancassurance and the possibility of its transformation into a main channel for the distribution of insurance products in Bulgaria" VUZF, Sofia 04/07/2023, Collection of reports. Publishing House "St. City. Theologian", Sofia, 2023. (submitted for publication)