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FINANCIAL SETTLEMENTS AS A CORE OF INTER-ORGANIZATIONAL MANAGEMENT ACCOUNTING – CASE STUDY OF BANCASSURANCE COOPERATION

ROZLICZENIA FINANSOWE JAKO KLUCZOWY ELEMENT MIĘDZYORGANIZACYJNEJ RACHUNKOWOŚCI ZARZĄDCZEJ – STUDIUM PRZYPADKU WSPÓŁPRACY TYPU *BANCASSURANCE*

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Summary: The subject of this article is the financial settlements between the entities as a basic element of inter-organizational management accounting. Analysis of the case study covers the cooperation between a Polish bank and an insurance company. It was established that the system of mutual settlements is crucial for inter-organizational cooperation success. According to the Polish law, a bank can act as a policy holder or an insurance agent. The formula of settlements between entities depends on the role played by the bank. It is also noted that the legal form of the bank has a large impact on the relationship between the entities.

Keywords: bancassurance, inter-organizational settlements, management accounting.

Streszczenie: Przedmiotem artykułu jest międzyorganizacyjna rachunkowość zarządcza, a w szczególności wzajemne rozliczenia między podmiotami. Prezentowana analiza przypadku dotyczyła współpracy wybranego polskiego banku i zakładu ubezpieczeniowego. Ustalono, że system wzajemnych rozliczeń jest kluczowy dla sukcesu współpracy międzyorganizacyjnej. Zgodnie z przepisami bank może występować jako ubezpieczyciel lub agent ubezpieczeniowy. W zależności od pełnionej roli przez bank zmienia się formuła rozliczeń między podmiotami. Zauważono również, że forma prawna banku ma duży wpływ na wzajemne relacje pomiędzy podmiotami.

Słowa kluczowe: *bancassurance*, rozliczenia międzyorganizacyjne, rachunkowość zarządcza.

1. Introduction

Dynamic development of various forms of inter-organizational collaboration has resulted in the need for new accounting methods. In response to these challenges a concept of the so-called inter-organizational management accounting has arisen.

The general objectives of accounting policies oriented to support the information management of relations, between unrelated but closely cooperating business partners, are universal and reflect the competence nature of relations. On the one hand, the accounting methods based on data from multiple entities have to measure the total costs and benefits, stimulating cooperation, and on the other, they have to ensure that each partner has the right participation in them.

One of the central issues that are solved by means of inter-organizational methods of management accounting is the financial settlement between partners [Łada 2014]. This is a key aspect of cooperation which determines both the real involvement of partners in the production of the common benefits and the subjective perception of participation in their distribution. As shown by previous studies of practical applications, the general theoretical universality of inter-organizational management accounting purposes results in a wide variety of information solutions. Variety and diversity of forms of cooperation will cause the methods used – and in particular the methods of settlements – to be closely connected with the specifics of joint initiatives.

One of the currently popular in Poland forms of inter-organizational cooperation is called *bancassurance*. This combination of banking and insurance offer is related to synergies in the area of income and expenses of business partners and does not require an establishment of a special entity for the joint venture. This article aims to analyze this type of cooperation from the perspective of inter-organizational methods of management accounting. Particular attention is paid to principles of financial accounting. The report was prepared on the basis of a review of literature and previous studies on settlements in business networks. Theoretical considerations are complemented by the results of a case study of a chosen cooperative bank.

2. Inter-organizational management accounting

Inter-organizational management accounting is defined as [Łada (ed.) 2014, p. 10]: "a voluntarily created information system of accounting, which – through the use of methods of quantification of the activities for many cooperatively related business units – supports the managers of these entities or formation created by these entities in the efforts to improve the effectiveness of cooperation." Such information systems are created and used by independent entities deliberately changing nature of cooperation from market relations to the more cooperative relationship [Håkansson, Lind 2006]. Increasing the orientation to the common value creation does not stop the competition between the partners – they still remain rivals in their divergent efforts to obtain the greatest possible part of the distribution of produced value. This cooperative nature of the relationship is a factor in determining the scope of disclosure of management information related to the different actors and its use by business partners [Agndal, Nilsson 2009].

Voluntariness of inter-organizational cooperation means that an achieved or expected surplus of benefits over costs is an essential condition for its economic sustainability and development [Cooper, Slagmulder 2004]. It determines the role of the used methods of financial measurement, whose main objective is to create an image of the effectiveness of cooperation in general and for each of its participants. This image is constructed on the basis of the measurement conducted in three key areas [Łada (ed.) 2014]:

- the total costs and benefits from the cooperation,
- the impact of partners on the collectively created benefits and costs,
- the participation of partners in the joint distribution of benefits and costs.

This information can be used at all stages of relationship management [Seal et al. 1999] – to make decisions about collaboration, determining its scope, approving of settlements and terminating the relationship. Due to the fact that construction of such an information system is based on fragmentary data voluntarily disclosed by the partners in situation of information asymmetry and temporary relationships, the practice of exchange of management information in internal and external relationships is fundamentally different [Kajüter, Kulmala 2005].

The range of methods for inter-organizational management accounting is very wide. Most frequently they also include the tools called the "open-book accounting" [Łada 2009], which rely on the use of methods traditionally designed for individual entities, e.g. calculation of the costs of a joint venture, joint preparation of budgets of business, profitability analysis of collaboration, target costing in the value chain, etc. Methods used individually by each partner for internal purposes, using data obtained from other participants, constitute a group of methods that is much less frequently indicated and less researched. Previous studies indicate [Łada (ed.) 2014] that these two groups of calculation methods (used regularly and *ad hoc*) are in practice adapted to the specific circumstances – the form and nature of the cooperation and the role and situation of each partner.

Regardless of the form of cooperation, the key success factor is the appropriate settlement system [Schotanus et al. 2010]. Therefore information prepared for these needs is present in any cooperative relationship and it is a central component of the inter-organizational management accounting determining the durability and effectiveness of cooperation. From a theoretical point of view, the settlement system is responsible for appropriate allocation of costs and benefits of cooperation. It should be therefore based on an objective measurement of the total value of cooperation (the difference of costs and benefits) and on the objective contribution of each partner. The applied settlement formulas should ensure the adequacy of the actual participation of partners in the costs and benefits obtained as a result of the adopted method of accounting for fixed contribution. The empirical studies indicate [Łada 2015] that this idealized approach is incompatible with economic practice. The obstacles for the use of this commonly accepted and objectively fair approach are among others: difficulty to separate the cooperation from other activities of partners, limited ability to measure costs and benefits, manipulation of information made available by the various entities, diverse market situation or the status of the partners in the group, variability of costs and benefits in time [Windolph, Moeller 2012].

All these factors are the reason that, in the settlement system of cooperation, correct design of the clearing system and recognizing it by collaborators as fair, for the adopted scope of cooperation and the current market conditions, are more important than the objective allocation of amounts corresponding to the contribution of the partner.

3. Cooperation based on the principles of *bancassurance*

The term *bancassurance* appeared in France at the end of the 20th century. Generally speaking, it describes the relationship between banks and insurance companies. More on the form of connections between these entities can be read in the book on inter-organizational management accounting [Łada (ed.) 2014, p. 198 ff.].

The reason for the appearance of *bancassurance* business was to expand the banking offer of insurance products. As a result, banks are better able to adapt their product offering to customers' needs. Cooperation between banks and insurance companies has many advantages both from the point of view of the customers, as well as banks and insurance companies. Thanks to this cooperation, customers can be served in a complex way in one place in the bank, without going to the insurance company in order to conclude an insurance agreement. *Bancassurance* also brings benefits to the insurance companies and the banks themselves. Insurance companies in cooperation with banks increase their distribution network and reduce costs. On the other hand banks gain additional source of income and reduce the credit risk by securing repayment of their loans through an insurance policy [Białas 2015].

Before discussing specific insurance products offered by the selected bank, it should be mentioned that Recommendation U was issued in March 2015 by the Financial Supervision Commission. This Recommendation concerns good practices in the field of *bancassurance*. According to this Recommendation [KNF 2015] a bank as a policyholder in the insurance contract should not act simultaneously as an insurance intermediary.

Therefore, there are now two options of the agreements between insurance companies and banks, namely:

1) bank as the policy holder – in this case, the bank concludes agreements with the insurance company on behalf of a bank's customer and receives the so called general insurance (a bank is therefore not a middleman but a party of this agreement);

2) bank as an insurance agent acting for and on behalf of the insurance companies (bank offers their customers the policy and acts as a middleman in the transfer of insurance premium from clients to insurance companies, and receives commission from an each sold insurance policy from the insurance companies).

According to this breakdown, the products will be discussed below as the subject of further analysis.

4. Case study

The analysis of inter-organizational cooperation based on *bancassurance* will be carried out using the example of the chosen cooperative bank. This bank is one of the largest cooperative banks in the country. It operates in southern Poland. The analysis will be made on the basis of information achieved from the employees of this bank. The interview with these employees was carried out in February 2017.

The chosen bank cooperates with approximately 10 insurance companies. It offers its customers about 170 insurance products, among others, life insurance, property insurance, travel insurance or insurance against accidents. Most of them, about 75%, are life insurance products and they are bound with banking products.

The subject of the analysis will be two products offered by the selected bank. These products were chosen deliberately. These are: insurance of payments cards, and life insurance as collateral of housing loans. The choice of these products was due to the two roles described above. In the first case, the bank acts as the policy holder, and in the second case – as an insurance agent.

The subjects of insurance of payment cards are i.e. as follows: unauthorized use of a card, details of card lost as a result of robbery, theft or loss. The insured sum refers to unauthorized transactions using a payment card until it has been blocked and up to equivalent of 150 euro in PLN currency (the bank has a statutory obligation for such transactions above 150 euro).

In addition, the bank takes full responsibility for all unauthorized operations carried out on the customer's account, if they have been performed after the blocking of a payment card. However, those principles do not apply if the unauthorized payment was due to the fault of the customer, for example, when the customer does not protect their PIN well enough or delays the reporting their stolen card.

All holders of payment cards, issued by the analysed bank, are insured. What is interesting, a customer does not bear any fees related to the insurance of payments cards. Instead, the customer pays for issuing of a payment card. The amount of this fee depends on the type of the bank account. Most often this fee ranges from 0 to 5 PLN (per month).

The bank bears the cost of the entire premium for the insurance company. This fee is fixed and does not depend on the number of payment cards sold. In addition, the bank bears the costs associated with the payment of compensation in cases where a customer has blocked the card. Moreover, in situations where the customer has not blocked the payment card, the bank is statutorily obliged to pay the compensation for unauthorized transactions only over the limit of 150 euro. It should be noted that the chance of losing significant amounts by unauthorized use of a payment card is relatively small. This is due to the daily limits on cash withdrawals and one-off payments. The risk of high losses for bank is therefore relatively small in this respect.

The insurance company, in turn, pays compensation in case of unauthorized card transactions only up to the amount of 150 euro, and only before blocking the card.

The chance of payment compensation is relatively large, while the paid amount – relatively low.

The life insurance agreement covers the risk of death of the insured (i.e. the main risk). In this case, the insurance company pays the principal amount equal to the insurance total. The insurance contract may also include additional clauses (i.e. additional risk) under which benefits are extra paid. The insurance agreement may include, for example, insurance against the risk of permanent injury or disability following an accident, hospitalization due to an illness as well as living expenses and loan payments.

Bank selling the life insurance as a collateral for a mortgage loan acts as an agent. It offers the insurance for its customers and transfers of insurance premium to the account of the insurance company. Bank charges a commission from each sold insurance policy. In the case of the chosen bank the commission ranges between 35 and 40% of the premiums paid by the customer. In addition, the bank can profit from an increase in commission of 1–2% in case of a specific growth of sales level and a low level of claims ratio, i.e. low level of compensation paid by the insurance company. With insurance, the bank can reduce the credit risk associated with mortgage loans. In addition, the bank has income from transferring the contributions to the account of the insurance company (at least 35–40% of the premium paid by the customers).

As for the insurance company, it achieves benefits, in the form of income from paid premiums for life insurance. These revenues are obtained regularly, since the policy is mostly granted for one year. In the case of an insured event, the insurance company pays compensation on account of the bank. This is due to the fact that usually bank has signed an agreement of assignment of receivables under insurance contract between the insurance company and the borrower.

The method of mutual settlements between the bank and the insurance company determines the role played by the bank. The mutual settlements look differently in the case of a bank acting as the policy holder and acting as the agent.

In the former case, the bank receives monthly payments from the customer for issuing of a payment card, which de facto cover their insurance. These revenues are variable, because they depend on the number of cards sold. Then, the bank transfers a fixed (flat) premium amount for insurance to the insurance company according to the signed general agreement. This relation has linear nature due to the fixed payment paid to the insurance company by the bank.

In the latter, the bank acts as an agent. An example of such a settlement can be life insurance. The bank sells this insurance to its customers as collateral for mortgage loans. In this case, the customer signs an insurance agreement individually with the insurance company and pays the premium. The bank transfers this premium to the account of the insurance company. In exchange the bank takes a certain part of this premium for the acquisition of the customer and preparation of the insurance policy. In the chosen bank the commission ranges from 35 to 40% of a premium paid by a customer. In addition, the bank can rely on an increase in commission (approx. 1–2%) due to positive sales growth and a low level of compensation paid by the insurance company. This relation has a commission nature and depends on the number of sold policies.

The operating costs of the bank (costs of employees, costs of equipment in the office, created reserves etc.) were intentionally omitted in this analysis of settlements between bank and insurance company. The costs of insurance company were not included in this analysis.

5. Conclusions

In these relationships between the selected bank and insurance company, a method of mutual settlements and sharing the risk depends considerably on a role performed by the bank. When the bank acts as the policy holder (e.g. in case of payment cards insurance), the costs of the bank are fixed and their amount depends on the general agreement signed with the insurance company. As for the income of the bank, it depends on the number of payment cards issued. When the bank acts as an agent (e.g. in case of life insurance), its revenues and expenses are variable and depend on the number of sold insurance policies. This settlement constitutes a commission-based system.

It is worth mentioning that the relationship between the selected bank and the insurance company has the market character. The bank cooperates simultaneously with about 10 insurance companies and does not negotiate the terms of cooperation with them. Although these terms are strictly defined, the exchange of information between these entities is limited to the settlement of mutual transactions. It is also worth mentioning that the bank does not calculate the costs of the selling insurance for its customer. From the point of view of the bank, the benefits from knowing these costs are less valuable than the costs associated with assessing them. It is therefore difficult to determine the exact relation between costs and benefits as a result of selling the insurance products by the selected bank. The selected bank attaches more importance to the comfort and security of its customers than the profitability of its business. This is due to, among others things, the legal form of this bank. It is a cooperative, and its customers are often members of this cooperative.

It is easy to notice that in this analyzed case study, the inter-organizational management accounting is rather underdeveloped. But it is not necessary for the existence of a *bancassurance* cooperation.

On the basis of this case study of a *bancassurance* cooperation, it is clear that the system of mutual settlements is essential in the inter-organizational management accounting. The calculation of unit costs and the information transmitted between entities are not so important. The settlement system depends on the function performed by a bank within the cooperation. In the analyzed case study, the bank acted in different roles, and this had a decisive influence on the choice of formula of settlements between entities. In the first cooperation model, the costs of bank were fixed but in the second one the costs and revenues were variable.

Last it should be noted that the legal form of selected bank, i.e. the cooperative, also has a large impact on the relationship between entities. The cooperatives look at their efficiency in a different way. Profitability is not the only purpose of a cooperative bank. Such a bank pays more attention to the selection of partners, product configuration and other immeasurable purposes such as safety and convenience. This observation may inspire further research on inter-organizational settlements for banks established as a joint-stock company.

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