



THE PARTNERSHIP BETWEEN BANKS AND INSURANCE COMPANIES TO DEVELOP LIFE INSURANCE IN ALGERIA

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Date of Reception : jj/mm/aa ; Date of revision : : jj/mm/aa ; Date of acceptance : : jj/mm/aa

Summary

In order to develop life insurance products, many countries have adopted the bancassurance strategy through the creation of a business cooperation between banks and insurance companies, making at first stage the creation of a mutual commercial cooperation, due to the fact that the distribution of life insurance products are basically very linked to the fundamental bank activities.

Similarly to several countries, Algeria has followed this trend by allowing banks to distribute insurance products through their banking windows to develop and promote a range of products that have been known to lag behind in the Algerian insurance market, and most importantly, the life insurance sector.

We tried through this research to shed light on the experience of bancassurance in Algeria since it is one of the important measures taken by the country to modernize its financial institutions.

Keywords: Life insurance, Bancassurance , Insurance products, Banking institutions, Insurance companies.

JEL Classification : G21, G22.

الملخص

من أجل تطوير منتجات التأمين على الحياة ، قامت العديد من الدول بتبني استراتيجية شراكة بين البنوك وشركات التأمين من خلال ما يعرف بصيرفة التأمين وهذا بإيجاد تعاون تجاري بينهما يشمل كمرحلة أولى توزيع منتجات التأمين على الحياة باعتبارها قريبة من أنشطة العمليات المصرفية الأساسية.

وقد اتجهت الجزائر كغيرها من الدول إلى تبني هذا التوجه من خلال السماح للبنوك بتوزيع المنتجات التأمينية عبر شبائيكها البنكية، بغرض تطوير وترقية مجموعة من المنتجات التي عرفت تأخرا في سوق التأمين الجزائري، أهمها منتجات التأمين على الحياة، حيث حاولنا من خلال هذه الورقة البحثية تسليط الضوء على تجربة صيرفة التأمين في الجزائر باعتبارها أحد الآليات المهمة التي اتخذتها الجزائر لعصرنة مؤسساتها المالية.

الكلمات المفتاحية: التأمين على الحياة، صيرفة التأمين، المؤسسات المصرفية، شركات التأمين.

JEL Classification : G21, G22.

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INTRODUCTION

In order to support the life insurance sector given its important role in achieving economic and social growth, many states have developed different measures, including allowing banks to have partnership strategies with insurance companies in the framework of the so-called bancassurance.

According to Caratelli (2012), many life insurance products are similar to the investment and savings contracts conducted by banks, which they would be more practical to be commercialized to customers.

Like other countries, Algeria has quickly adopted this approach by allowing banks to distribute insurance products through their bank windows and to develop a series of untapped products, particularly, life insurance products.

The question that might be asked here is: to what extent does bancassurance contribute to the development of life insurance sector in Algeria ?

The remainder of this article is organized as follows. In the first section, we discuss a brief review of existing literature, then we present in the second section, the advantages of bancassurance. The Bancassurance in Algeria and its role in promoting life insurance sector appears in the third section, followed by the conclusion of the study.

1. BANCASSURANCE : A REVIEW OF LITERATURE

1.1 DEFINITIONS

Bancassurance concept means that banking and insurance services are provided by the same company. The term was first used in France in the 1970s, during this periode of time, the cooperation between banks and insurance companies had been already started (Ricci, 2012), then it has been later spread rapidly to Europe and to emerging markets in the last two decades.

In this regard, bancassurance is a method for banks to distribute insurance products (Chang et al.,2011). Using banking activities by insurance businesses as an additional distribution channel for their products is perceived as a strategy of bancassurance (Peng et al., 2017). In the same context, bancassurance is used to express the efforts of banks to enter the insurance market. Meanwhile, Wever (2000) defines it as the distribution of insurance products through banking networks, in other word, the collaboration between bankers and insurers to distribute insurance products in favor of bank customers. Indeed, bancassurance is defined as the provision of insurance products by banks or lending institutions (Caratelli, 2012).

Although the partnership between banks and insurance companies regarding life insurance is increasingly developing, it is still at an initial stage when it comes to property and casualty insurance (Fiordelisi and Ricci, 2011,p:1). On the other hand, banks do not face today competition from banking sector, but also from other insurance companies as well because they distribute insurance products through banking services.

In addition, when it comes to bancassurance, we need to separate between life insurance and non-life insurance. Because, although the two concepts revolve around the idea of taking on and managing risk, they deal with different types of risk. Non-life insurance faces short- and long-term underwriting risk, whereas life insurance tends to face some combinations of underwriting and long-term market risk (Liang and Ching, 2015).

Today, life bancassurance accounts for more than half of premium income in many countries in the world like in Western European countries (Caratelli, 2012).

1.2 THE MAIN BANCASSURANCE MODELS

Researchers have classified bancassurance models into four types: pure distributor, strategic alliance, joint venture and wholly owned subsidiary (integrated venture) (Liang and Ching, 2015).

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1.2.1 PURE DISTRIBUTOR

It is one of the simplest forms of bancassurance. In this case, the bank acts as an agent or broker for one or more insurance companies in exchange for a commission. Basically, it contracts with the insurance company to act as the distributor of insurance products (Teunissen, 2008).

1.2.2 STRATEGIC ALLIANCE

The strategic alliance deals with the relationship between independent organizations that share common goals and seek mutual benefits. In reality, it is about alliances between banks and insurance companies. As Banking and insurance entities have more similarities than differences, this situation would favor joint production and business synergies (Wu, 2008).

1.2.3 JOINT VENTURE

Joint venture is about an association between the bank and one or several insurance companies. In other words, the bank and the insurance company establish a joint ownership company by raising funds and assuming joint responsibility of management. Insurance companies usually take responsibility for monitoring and managing risks while the bank's responsibility concerns the distribution process. Accordingly, the insurer and the bank are both involved in the new company's products development and in the new business process (Liang and Ching, 2015).

1.2.4 INTEGRATED VENTURE

The integration strategy goes further than the previous strategies. This strategy combines insurance products and banking services through the creation of a new subsidiary company (the creation of a new business), based on a guarantee that the banking institution owns the total shares, as an expression of his desire to control the new activity. This model is widely used in developed countries, like France.

2. ADVANTAGES OF BANCASSURANCE

Several studies have highlighted the possible achievement of more benefits when banks combine at once insurance products and banking products. The use of banking competences for diversifying products such as the emergence of life insurance products illustrates one of the performance aspects of bancassurance strategies. In this respect, the key feature of bancassurance is the integration of various economic activities which allow the achievement of mutual interests for banks and insurance companies by means of the share and exchange of customers.

In addition to the various advantages offered by bancassurance to all economic actors at the micro level, other advantages are achieved at the macro level (national level):

2.1 DEVELOPMENT OF THE LIFE INSURANCE MARKET

Bancassurance has created a new real market for life insurance. At the macro level, life insurance products are long-term savings products that provide a stable source of financing for various economic agents that need long-term resources. Moreover, the same products can be used as an instrument for financing public deficit.

2.2 ADJUSTMENT OF THE PENSION SYSTEM FAILURE

In order to pay future retirement pensions, financial institutions need to think about new financial instruments, such as bancassurance. The age category up to 60 years is the fastest growing population in the

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world, and it is expected to double by 2050 and triple by 2100. In addition, during the period 2015-2050, 66% of its increase would occur in Asia, 13% in Africa, and 11% in Latin America and the Caribbean¹.

In this regard, the problem of aging threatens several countries around the world, and consequently posing a serious problem to retirement systems (pensioners' wages are paid by labor force contributions or by inter-generational solidarity). That is to say, social protection systems in different countries find always many difficulties to finance the pensions. Accordingly, the insurance industry through life insurance products has relatively found a solution to this problem, and started developing life insurance products to obtain additional pensions, such as capitalization.

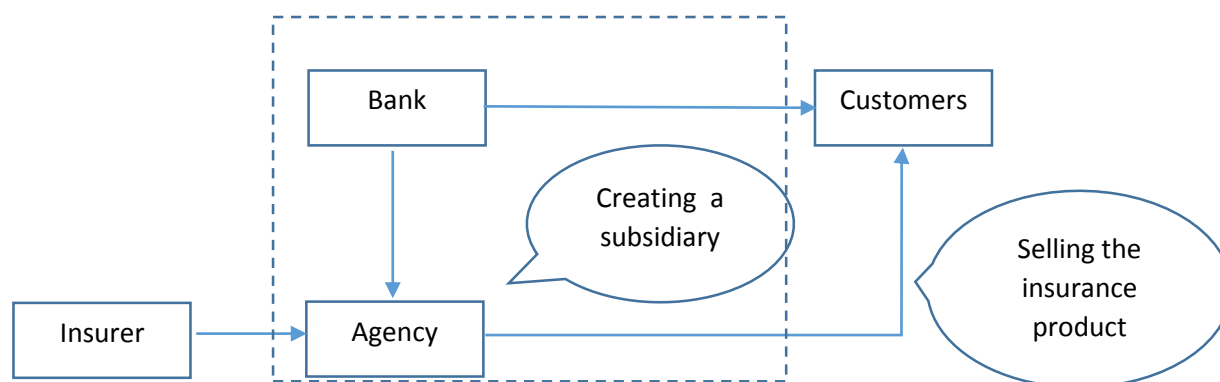
In this respect, any national economy is in need of a great deal of life insurance funds to finance the supplementary pension system resulting from the problems that might face in terms of repayments.

3. BANCASSURANCE IN ALGERIA AND ITS ROLE IN PROMOTING LIFE INSURANCE SECTOR

3.1 PRESENTATION

In order to develop the insurance market in Algeria, a legislative framework has been prepared to achieve convergence between banks and insurance companies. Bancassurance allowed insurers to benefit from the increasing household demand for savings and to multiple their sales opportunities. This convergence will conduct to the progress of financial services in general and persons insurance in particular. In Algeria, the household contributions are still very weak compared to our neighboring economies (in Tunisia and Morocco). Actually, Algerian economy needs life insurance funds to finance the supplementary pension system and the development of the insurance market, by supporting national savings capacities in financing the economy at the macro level.

Figure 1: Bancassurance channels in Algeria



Source: prepared by the researchers

3.1 FACTORS CONTRIBUTING TO THE EMERGENCE OF BANCASSURANCE IN ALGERIA

Algeria has engaged in a series of reforms to support bancassurance. Law No. 06/04 allowed banks to commercialize insurance products. Actually, it permitted to Algeria to be opened to insurance industry by the intermediary of partnership agreements which have started since 2008. Meanwhile, the most important elements that helped the emergence of bancassurance in Algeria are:

3.1.1 INSURANCE REGULATORY FRAMEWORK

¹ United Nations, Department of economic and social affairs, World population prospects the 2015 revision, New York, 2015.

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The legislation on the insurance sector has been amended through Law No.06/04 which amended and supplemented insurance act No. 95/07. The new law is considered as a real spark to insurance activity in Algeria. It intends to expand insurance market and open it to foreign companies in order to create a competitive atmosphere and develop persons insurance. Also, it is expected to diversify the methods of distribution of insurance products, and would separate insurance of damages from persons insurance and to enhance financial security through the liberalization of businesses capital as well as the strength of the supervision system by the intermediary of the committee of insurance supervision.

3.1.2 INDICATORS OF THE INSURANCE MARKET IN ALGERIA

The reality is that the market is not fully exploited and still possesses strong growth potential. However, Algeria's insurance market has relatively improved in terms of performance and organization. The analysis of the market situation shows a steady growth in the volume of premiums collected and the rate of access as well as the insurance density. Rather, the Algerian insurance market has grown by 26% in 2008. The volume of premiums went from 53.8 billion dinars in 2007 to 67.8 billion dinars in 2008² to reach 127.9 billion dinars in 2015³.

As far as the rate of insurance penetration is concerned, it was 0.76% of GDP in 2015, implying a kind of weakness compared to our neighboring countries. It reached 1.91% in Tunisia and 3.05% in Morocco⁴.

Although the size of insurance premiums to GDP is increasing, moving from the ranking of 87 in 2005⁵, to 81 in 2015 according to the international ranking of countries related to the amount of subscribed premiums⁶, the rate variations are still very slight and weak compared to the global penetration rate of 6.23% as shown in the following table⁷:

Table 01: Evolution of insurance penetration rate in Algeria (2005-2015)

Years	Total Penetration Rate	Penetration Rate on Life Insurance	Global Insurance Penetration Rate
2005	%0.5	% 0.03	%7.52
2006	%0.5	% 0.00	% 7.5
2007	%0.5	% 0.00	% 7.5
2008	%0.6	% 0.00	% 7.1
2009	%0.6	%0.00	%7
2010	%0.8	0.1 %	% 6.9
2011	%0.7	0.1 %	% 6.6
2012	%0.7	% 0.00	% 6.5
2013	%0.8	% 0.1	% 6.3
2014	%0.7	% 0.00	% 6.2
2015	%0.82	% 0.07	% 6.23

Source: Based on "Sigma" reports, for the years 2006 to 2016.

²Atlas magazine, « Algérie-résultat 2008 », n°67, janvier 2010,p 02.

³Rapport annuel des assurances, activité des assurances en Algérie, direction des assurances, Ministère de finance, Algérie, 2015,p8.

⁴Sigma, « L'assurance dans le monde en2015 : une croissance continue cachant des disparités régionales», Swiss-Re, Suisse, N°3, 2016, p54.

⁵Sigma, « World insurance in 2005 : moderate premium growth, attractive profitability», n°5/2006, P 37.

⁶Sigma, « L'assurance dans le monde en2015 : une croissance continue cachant des disparités régionales», Idem, p54.

⁷Rapports SIGMA, 2006 à 2016.

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By focusing on the penetration rate of life insurance, there is a noticeable evolution, shifting from 0.03% to 0.07% in 2015, but it remains weak confirming that the life insurance sector is insufficiently exploited, given the fact that it has strong inherent growth potential that the Algerian state must exploit it.

The insurance spending per capita in Algeria amounted to \$ 32.57 in 2015, while it was \$ 73.1 in Tunisia and \$ 90.8 in Morocco⁸. These figures confirm again that Algerian insurance market is less exploited and still possesses important growth potential. The following table shows the evolution of the life insurance density:

Table 2. Evolution of the life insurance density (2005-2015)

Years	Insurance density (Dinars)	Insurance density in Dollar	Life Insurance density	world Insurance intensity
2005	1266	\$ 17.4	\$0.9	\$ 518.5
2006	1387	\$ 18.7	\$1.2	\$ 554.8
2007	1561	\$ 21	\$ 1.3	\$ 607.7
2008	1996	\$ 30	\$ 2.4	\$ 633.9
2009	2251	\$ 22.9	\$ 1.8	\$ 595.1
2010	2270	\$ 32.8	\$ 2.5	\$ 627.3
2011	2373	\$33	\$3	\$ 661
2012	2671	\$34	\$ 2	\$ 656
2013	2976	\$39	\$ 3	\$ 652
2014	3209	\$40	\$ 3	\$ 662
2015	3271	\$31.8	\$ 2.5	\$ 621.2

Source: Based on the annual reports of Algerian insurance, «Sigma», 2005-2016

Even though the insurance spending per capita increased in Algeria during the period 2005-2015, the rates are still very weak compared to the global insurance spending. In the meantime, the average of Algerian life insurance spending per capita estimated at \$ 2.15, while the global average of life insurance spending per capita is \$ 616.

3.1.3 THE PUBLIC SECTOR DOMINATES THE INSURANCE SECTOR IN ALGERIA

The public sector represents 62% of the insurance market and the rest is owned by private and mixed companies as well as by mutual funds⁹. However, all these companies offer similar insurance services. However, the competition is limited to the volume of insurance premiums collected. The entry of new private companies to the market and the distribution of new products would play a major impact on the development of bancassurance in Algeria.

3.1.4 THE INSURANCE SECTOR IN ALGERIA IS CHARACTERIZED BY A DOUBLE MARKET

In fact, two markets are characterizing the insurance sector. The first market is related to compulsory damage insurance and the second one refers to voluntary insurance. The damage insurance market is worth 117.8

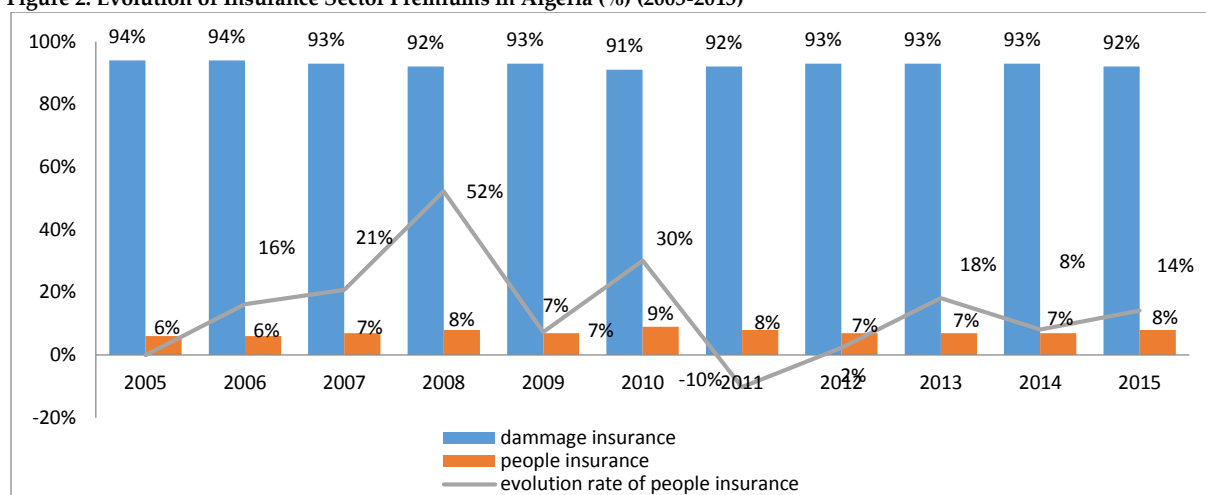
⁸ Sigma, « L'assurance dans le monde en 2015 : une croissance continue cachant des disparités régionales », Idem, p 53.

⁹ Annual report of insurance, 2015, Idem, p 7.

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billion dinars or 92% of the total market rate in 2015. On the other hand, insurance of persons accounts for 8% of the total market share in 2015¹⁰. That is why, bancassurance would participate in developing insurance market in Algeria since it is considered as an efficient instrument to distribute insurance products, especially life insurance.

Figure 2: Evolution of Insurance Sector Premiums in Algeria (%) (2005-2015)



Source: Based on the annual reports of Algerian insurance, «Sigma», 2005-2016

3.1.5 THE DISTRIBUTION OF INSURANCE PRODUCTS

The direct distribution network dominates the production operations, while intermediaries (agents and brokers) provide only 23% of total insurance premiums collected in 2015¹¹. Consequently, it is again an evidence that bancassurance would likely play an exceptional role with filling the finance gap and distributing insurance products.

For the distribution of persons insurance, it is distributed according to different distribution channels in Algeria as shown in the following table:

Table 3: Market share of life insurance in Algeria, the different distribution channels, 2015.

Insurance nature	Bancassurance	Agents	Brokers	Direct distribution	Mutualities
persons	17%	21%	2%	55%	5%

Source: Based on the annual report of Algerian insurance, «Sigma», 2015.

3.2 THE REALITY OF BANCASSURANCE IN ALGERIA

The bancassurance activity in Algeria must comply with the requirements of banking and insurance laws. Order No. 03-11 of 26 August 2003 on money and credit defines the operations that might be part of the bank activities. It allows banks to exercise some of complementary financial operations. However, these must be limited compared to their ordinary activities which are authorized by the article 72 of Order No. 03-11 related to placement, subscription, purchase, management, preservation and sale of securities and all financial products.

¹⁰ Annual report of insurance, 2015, Idem, p 8.

¹¹ Annual report of insurance, 2015, Idem, p 12.

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In accordance with the provisions of the article 53 of Law No. 06-04 of 20 February 2006 amending and supplementing Order No.95- 07 on insurance, the practice of bancassurance was authorized in Algeria. Later, the legislative text was completed by a regulatory text, namely, the Executive Order No. 07-153 of 22 May 2007, which specified the conditions linked to the distribution of insurance products. The main conditions were about:

- The possibility of distributing insurance products through banks, financial institutions and other distribution networks.
- The distribution of insurance products has to be based on one or more distribution agreements.
- The consideration as agents of insurance companies the entities distributing insurance products.
- The implementation of an obligatory training program of 96 hours covering insurance operations for workers.
- The determination of auditing bodies represented by the Insurance Supervisory Committee.

After a period of time, a ministerial order of 06 August 2007 was specified the list of insurance products that could be distributed through banks, financial institutions as well as the amount of the maximum commission for each product, as shown in the following table:

Table 4. The authorized products and the maximum distribution commissions

Authorized distributed products	Max distribution commission
Personal insurance (capitalization)	40% of the 1st installment and 10% of the next annual installments
Other personal insurance (accidents, sickness, life, death)	%15
Loan insurance	10%
Multiple insurance on houses (simple risks)	32%
Obligatory insurance for natural disaster	% 5
Agricultural risk insurance	10%

Source: based on the ministerial order of 06 August 2007

After that, the decision of 20 February 2008 has determined the maximum percentage of the capital part of banks or financial institutions within an insurance or reinsurance companies, estimated at 15% of the social capital of insurance or reinsurance companies.

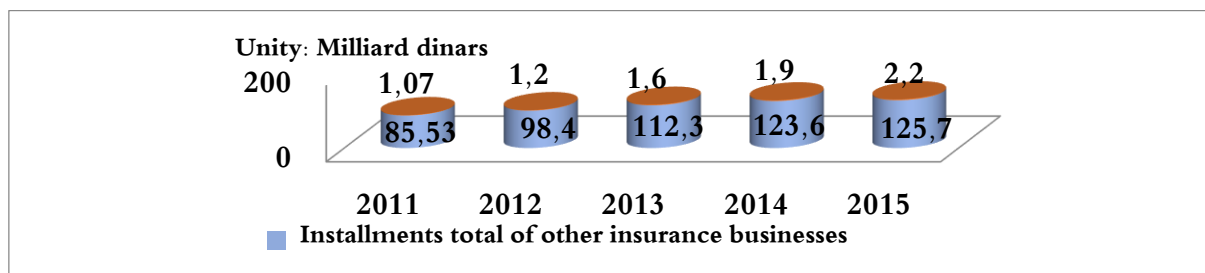
3.3 EVOLUTION OF THE EXPERIENCE OF BANCASSURANCE IN ALGERIA

After the issuance of the regulatory texts on bancassurance in Algeria, several partnership agreements related to insurance products have been signed. We mention agreements between CNEP Bank and CARDIF EL Djazair, National Insurance Company-SAA and Local Development Bank- BDL and National Insurance Company-SAA and Agricultural Bank for Rural Development-BADR, in 2008. Then, it was followed by several contacts to bring the model into reality.

Since 2011, the bancassurance turnover value has increased by 1.07 billion dinars and by 1.25% of the total insurance business sector to reach 1.64 billion dinars in 2013, and exceeds \$ 2.2 billion in 2015.

Figure 3: Market share of bancassurance in Algeria for the period 2011 to 2015

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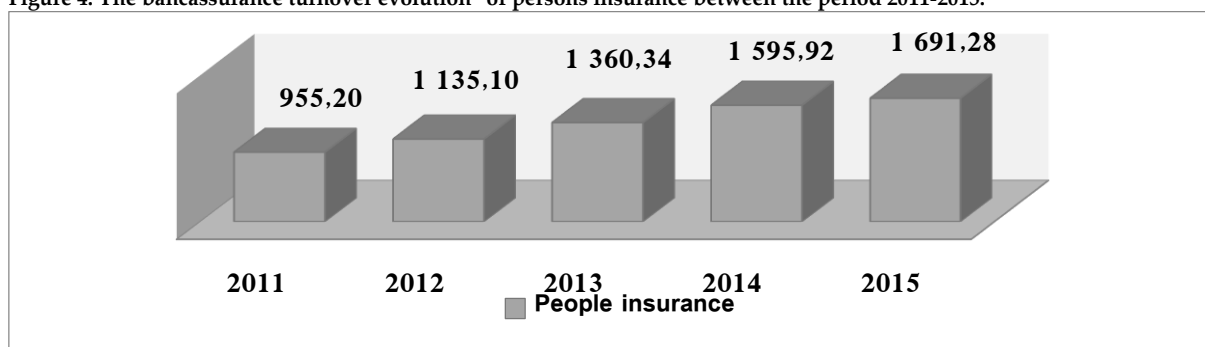


Source: Established by the researchers. Based on annual reports of bancassurance, Insurance direction, Ministry of Finance, 2011-2015.

In fact, the Bancassurance sector in Algeria offers four principal insurance products. It has achieved a value of 2.2 billion Algerian dinars in 2015. 76.66% of which concerns the persons insurance, followed by the insurance of agricultural loans by 22.09%, the insurance of multiple housing risks by 1.15% and the insurance of natural disasters by 0.10%.

Regarding loan insurance, it is provided by specialised insurance companies. Two companies are: the mortgage guarantee company and the Algerian company for insurance and guarantee of exports. The evolution of bancassurance activity of the persons insurance product between the period 2011-2015 is shown in the following figure:

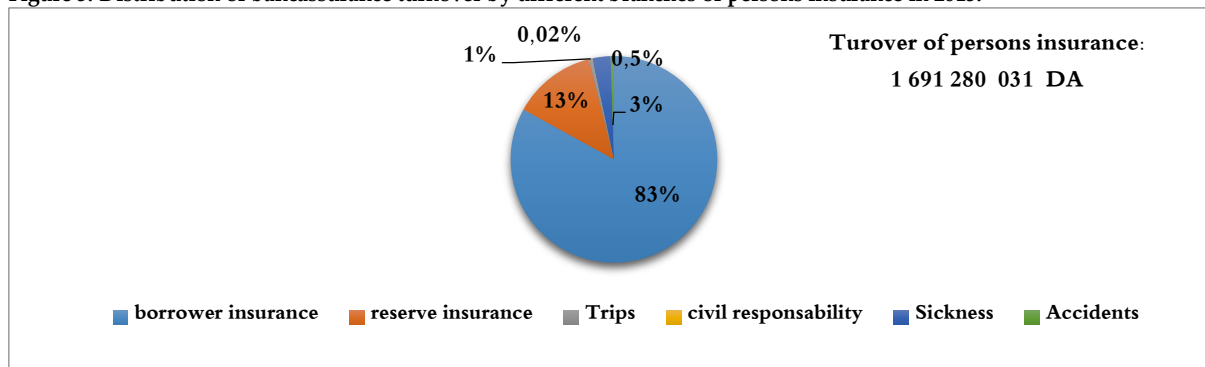
Figure 4. The bancassurance turnover evolution of persons insurance between the period 2011-2015.



Source: Based on annual reports of bancassurance, Insurance direction, Ministry of Finance, 2011-2015.

By examining Figure 4, we notice that there is an evolution in the persons insurance products. It ranks first in terms of market share of bancassurance and increases annually, moving from 955.20 million dinars in 2011 to 1691.28 million dinars in 2015. The amount of persons insurance in 2015, according to each branch is shown in the following figure:

Figure 5: Distribution of bancassurance turnover by different branches of persons insurance in 2015.



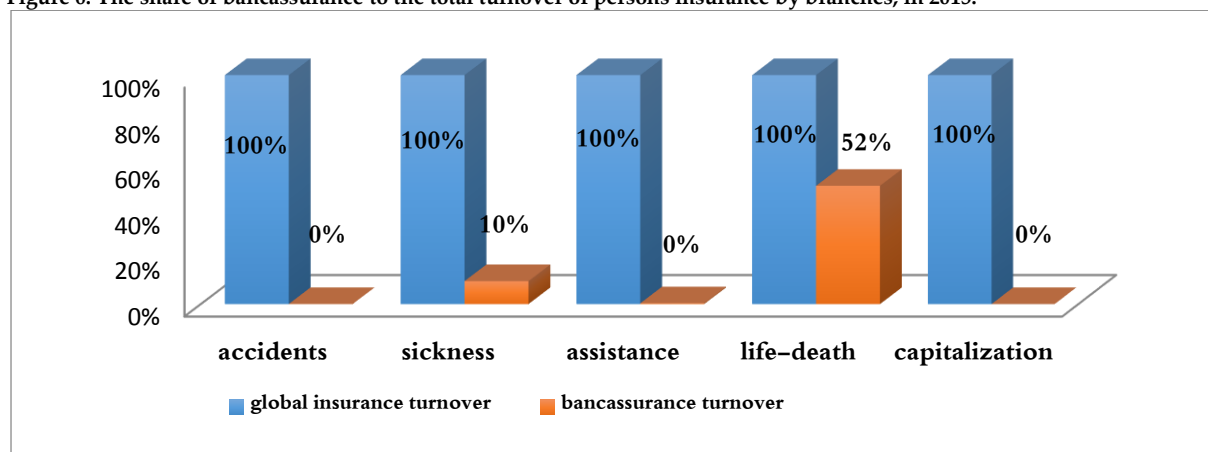
Source: Based on bancassurance statistics, Insurance Direction, Ministry of Finance, 2015.

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From the figure 5, we observe that value of 83% of persons insurance is secured by borrowers, because it is related to the principal activity of banks. In this regard, CNEP Banque achieved the largest share in the market of borrower insurance, by reaching 83% due to its dominance in the mortgage insurance market.

The percentages of branches premiums in the framework of bancassurance to the total persons insurance turnover in 2015, is shown as follows:

Figure 6: The share of bancassurance to the total turnover of persons insurance by branches, in 2015.



Source: Based on bancassurance statistics, Insurance direction, Ministry of Finance, 2015.

We observe that the branch that represents the largest share in the market is life death insurance by 52% which corresponds to 1633.6 million Algerian dinars.

3.4. THE ROLE OF BANCASSURANCE IN PROMOTING LIFE INSURANCE IN ALGERIA

The bancassurance can contribute to the development of life insurance in Algeria through:

- Undoubtedly, it supports and enlarges the distribution of life insurance products.
- Customers benefit certainly from the banking experience and the large bank locations compared to the insurance companies. Accordingly, bancassurance contributes to the increase of the total premiums collected.
- Through bancassurance, innovative ideas can be obtained from bank networks, which in turn facilitate the attainment of more suitable and diversified life insurance products provided to customers.
- Through the bancassurance, additional returns and more efficient (make banks and life insurance companies profitable) can be obtained in favour of both the bank and the insurance company by increasing the volume of premiums and reducing marketing costs.
- Bancassurance can create additional demand for life insurance products, considering the banks' experience, their extensive network and their relationships with the clients.
- The integration of banks and insurance companies helps to improve the quality of financial services directed to customers, and consequently contributes to the development of demand on life insurance and increases the benefits of the parties.
- Bancassurance favors competitive pricing about life insurance products and thus increases the demand for such products.
- Bancassurance can increase, improve databases and support the principle of "law of large numbers". The latter plays in general a major role in promoting life insurance products.

CONCLUSION

The distribution of insurance products through banks is increasingly becoming widespread in every part of the world. In this respect, Algerian government has made important reforms, given the importance of life

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insurance in financing the economy. The most important of which is bancassurance. It has become a reality in Algeria as the sector is rapidly expanding. It has witnessed a remarkable development as a result of the reforms underwent by the insurance sector through law No. 06- 04 issued on 20 February 2006 related to insurance, which amended and supplemented Order No. 95-07 of 25 January 1995 as the legal framework for the emergence and framing of the first partnership agreements between insurance companies and banks. In this regard, a suitable regulatory environment is very essential for the further development of bancassurance in Algeria, because financial service provider companies such as banks, insurance companies, mutual funds are increasingly creating and expanding their activities to tap the growing market.

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