What Will It Take for Bank Insurance to Succeed in the United States

Michael D. White
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I. INTRODUCTION

What will it take for bank insurance to succeed in the United States in the wake of the unanimous Supreme Court decisions favoring national bank insurance sales powers in NationsBank of North Carolina v. Variable Annuity Life Insurance Company (VALIC)1 and Barnett Bank of Marion County, N.A. v. Nelson (Barnett Bank)?2 The answer to this question might best be found by considering the answer to a second question. After numerous legal, legislative, and political victories, will the banking industry be able to deliver on its promise to meet the needs of an underinsured America? Do not answer this second question immediately. Take a moment and reflect on it. Who owns the domain name for the Internet Web site “insurance.com”? Prudential? Equitable? No. Some international insurance company domiciled overseas? Aegon? AXA? No. A large insurance brokerage or agency? Sedgewick James? Hogg Robinson? No. The answer is Fidelity, the large mutual fund company. If there is a simpler expression of the increased competition in financial services, I am hard pressed to think of one.

In addition, I cannot imagine a simpler clue as to what it will take for U.S. banks to succeed selling insurance. Like the mutual fund that purchased “insurance.com,” banks must envision the future, explore their new place in it, plan sensible strategic actions, and act on their foresight to capture their competitors’ domains. Like Fidelity, the mutual fund company intent on capturing a portion of the insurance market, banks must patiently and perseveringly apply

their highest skills and key competitive advantages to position themselves over the long term as more effective, efficient and productive providers of protection products. Only long-term commitment will enable banks to replace the tired, worn and atrophying system of traditional insurance distribution.

A. Successful Bank Life Insurance (SBLI) Program

Supreme Court Justice Louis Brandeis certainly believed banks could meet the needs of an underinsured America. Retained in 1904 as counsel for The New England Equitable Policyholders Protective Committee during the Armstrong investigation of leading life insurance companies in New York, Brandeis was appalled, like many others, by the insurance companies' scandalously high premiums and commissions and low policy values and retention rates. In 1905, Brandeis introduced the idea of selling life insurance over-the-counter in mutual savings banks in Massachusetts. After much study, he concluded that mutual savings banks, with minor enlargements of their powers, would be the ideal vehicle to bring low-cost insurance to those of modest means. His plan for a Savings Bank Life Insurance (SBLI) system was enacted into law in 1907. In later years, Justice Brandeis referred to the creation of SBLI as his "greatest achievement."

From its birth as a social experiment, SBLI grew to become not only a successful business, but also to be known as one of the best life insurance buys in America. In addition to Massachusetts, New York (1938) and Connecticut (1941) adopted SBLI systems. Today, the three SBLI systems insure close to one million people with total insurance-in-force close to $50 billion. Therefore, the U.S. banking industry can look to SBLI as a modest precedent of success for selling insurance. Moreover, the tremendous growth in bank insurance activities in Europe, where they refer to it as "bancassurance," bears witness generally to the ability of banks to become principal suppliers of insurance products and services.

3. For more information on SBLI, see S. S. HUEBNER & KENNETH BLACK, JR., LIFE INSURANCE (1982); DAVIS W. GREGG & VANE B. LUCAS eds., LIFE AND HEALTH INSURANCE HANDBOOK (1973); and DONALD R. JOHNSON, SAVINGS BANK LIFE INSURANCE (S. S. Huebner Foundation for Insurance Education 1963).
Surely, then, U.S. banks poised to enter the twenty-first century can succeed selling insurance.

B. This Article's Purpose

This Article discusses what will it take for bank insurance to succeed in the context of the current bank insurance and traditional insurance marketplaces. Part II of this Article provides an overview of current bank insurance powers around the country and reviews bank annuity sales over the last decade. Part III examines the bank market for life insurance and discusses the growing insurance company interest in the bank market. Part IV describes the failure of the traditional life agency system to adequately serve and protect the public. Part V offers some thoughts on how bankers should start assessing their banks' insurance sales potential and evaluating their opportunities to serve their customers and make money. Finally, Part VI concludes by stating that banks are in an optimal position to succeed in selling insurance.

II. The Extent of State Bank Insurance and Annuity Powers

As a result of my work on the extensive two-volume FIIA Survey of State Bank Insurance Laws, I first established that a majority of Americans lived in states, or demographically-prescribed areas of states, where they were legally free to meet their insurance needs by purchasing insurance from state-bank insurance agencies. Since the survey’s publication in January 1995 and the subsequent Supreme Court rulings in VALIC and Barnett Bank, the number of wholly free-market states has grown from twenty-two to forty. In addition, now over eighty-eight million more Americans are free to

4. See Michael D. White, Some Key Findings from FIIA's Survey of State Banking and Insurance Regulators, 1 THE FIIA SURVEY OF STATE BANK INSURANCE LAWS 1 (1995). The Financial Institutions Insurance Association (FIIA) is the nation’s largest nonprofit trade association devoted exclusively to the preservation and expansion of bank insurance powers. The author serves as FIIA’s Managing Director and a member of its Board of Directors.

buy insurance and ninety-one million more are free to buy annuities from banks.\footnote{See id.}

Figure 1 depicts the forty-nine states that now permit banks some level of annuity and/or insurance sales powers.\footnote{See id.} The black areas denote the forty states that permit broad insurance sales powers throughout their states. The shaded areas denote nine states that permit broad powers within demographically-prescribed areas of their respective states. For example, Mississippi permits bank insurance sales in places with fewer than 7,000 residents. The light gray areas denote two of these nine states, Georgia and Texas, that also permit broad annuity powers throughout their states. Massachusetts is the only state that has not yet passed a law granting state-chartered banks the right to sell insurance.

\section*{FIGURE 1}

\textit{The Opportunity Map: Bank Insurance Powers throughout the United States}

\begin{itemize}
  \item 40 states = broad insurance and annuity powers (20.7 mil or 79.6\% of the US)
  \item 7 states = broad powers in small places (9.1 mil or 3.5\% of the US)
  \item 2 states = broad insurance powers in small places (6.2 mil or 2.4\% of the U.S.) and broad annuity powers throughout state (another 19.2 mil or 7.4\% of the U.S.)
\end{itemize}

\begin{itemize}
  \item Pending litigation: FL, KY, MS, and NY.
  \item Pending regulations: Sundry.
  \item Pending legislation: MA.
\end{itemize}
The number of people who may legally purchase annuities
and/or insurance from banks grew in 1997 as bank insurance powers
expanded in states that previously barred banks from or limited them
in selling insurance and annuities. Most recently, in August 1997,
bankers won an important legal victory in *Texas Bankers Ass'N. v.
Bomer.*\(^8\) In *Bomer,* the federal district court declared that national
banks are authorized to sell annuities anywhere in Texas. Undoubtedly, this decision will ultimately aid Texas state-chartered
banks in obtaining similar powers.

As the situation stands now, however, most consumers
possess a new-found freedom of choice. Over 242 million
Americans, or 92.8 percent, live in states or demographically-
prescribed areas of states where they currently possess the legal right
to buy annuities from banks. Nearly 222 million, or 85.4 percent,
may purchase insurance from state-chartered banks. Now that most
banks may sell insurance and annuities, the question is whether they
will do it?

Figure 2 shows that financial institutions have exerted their
greatest effort, attained their most notable success, and had their
largest impact on the bank insurance debate by selling annuities.
Consequently, in the 1990s, financial institutions have represented
the fastest growing annuity distribution system in the country.\(^9\)

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9. It is understood that the vast majority of bank annuity sales are of nonqualified (i.e.,
tax-deferred, but not tax-deductible) sales to individual retail customers.
In 1987, consumers purchased an estimated $4 billion of annuities from financial institutions.\textsuperscript{10} By 1994, bank annuity sales quadrupled to a record $16.4 billion in annuity premiums.\textsuperscript{11} That sales volume represented nearly $1 billion in gross commissions, an amount fifty percent greater than the originally proposed $660 million bank bail-out of the Savings Association Insurance Fund (SAIF) deposit insurance system.

Although bank annuity sales declined sixteen percent to $13.7 billion in 1995,\textsuperscript{12} banks maintained greater than thirty percent of the nonqualified individual annuity market. In addition, the decline in 1995 did not represent a permanent decline in bank annuity sales. Largely, the decline was due to a thirty-five percent drop in bank

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annuity sales in the western region of the United States. Bank sales in the rest of the country declined slightly, by six percent, during a period of falling interest rates and a booming stock market.

By 1996, bank annuity sales rose almost twenty-five percent, establishing a new record high of $17.1 billion. There remains great opportunity for banks, particularly those that previously have had little or no opportunity to avail themselves of annuity sales. Only 2,487 banks and thrifts, approximately one-fifth (20.7 percent of 12,030), sold annuities in 1996.13

North Carolina’s First Union Corporation was the great success story in 1996, ranking first among bank holding companies with annuity sales of over $1 billion, up from $30 million in 1993. First Union continued to lead through the first half of 1997. Total bank annuity sales were expected to set another record in 1997, approaching $20 billion. Certainly, the $110 billion of bank annuity sales in the 1990s foreshadow a future of great potential for banks selling insurance.

III. THE GROWTH OF THE BANK MARKET

A. The Bank Market for Life Insurance

As banks and other financial institutions have matured in their understanding and ability to deliver annuity products to consumers, banking and insurance companies are turning their attention to banks selling insurance. In 1996, I conducted a survey of financial institutions for the Life Office Management Association (LOMA), one of the world’s leading life insurance company trade associations headquartered in Atlanta. The LOMA survey of nearly 400 financial institutions found that eighty-seven percent of respondent-banks sold at least one form of ordinary/noncredit life insurance products.14

It was estimated in 1991 that banks sold $300 million worth of ordinary life and health insurance products. Figure 3 shows that,

excluding annuities, the LOMA bank survey respondents reported that their life and health premiums increased 144 percent from $1.46 billion in 1994 to nearly $3.6 billion in 1995. This amount is ten times the 1991 estimate for the entire banking industry. With bank sales of insurance at the stage where bank annuity production was ten or twelve years ago, the banking industry is clearly establishing a foothold in selling noncredit life and health insurance.

**FIGURE 3**

**Respondents' Premium Volumes by Product Line**

![Bar chart showing premium volumes by product line in 1994 and 1995.]

*Source: 1996 LOMA/MWA Survey*


As banks gain momentum from their significant efforts in annuity marketing, insurance companies are becoming more interested in banks as retail outlets. From 1988 to 1990, the percentage of insurance companies polled that were "active in
bank/insurance marketing, and that [found those] activities . . . highly profitable" grew from thirty-four percent to forty-five percent with over seventy-five percent of the nation’s fifty largest carriers marketing products through financial institutions.15 Furthermore, a 1994 survey of life insurance company CEOs found twenty percent of them accurately forecasting that banks would be the fastest growing distribution system of life and health insurance products over the next five years.16

I did another survey for LOMA—of life insurance companies—that indicates the trend of increased insurer interest in the bank market continues to grow. Eighty-two percent of responding life insurance companies currently offer ordinary insurance products through financial institutions, and another sixteen percent plan to offer these products through financial institutions in two to three years. Within two to three years, more than seventy percent of the carriers will offer single premium life, whole life, and universal or variable life.17

Thus far, I have established that: (1) bank insurance powers have spread rapidly in recent years, but bankers still need to keep looking over their shoulders for agent association proposals at the federal and state levels that would inhibit banks’ use of these powers; (2) in some states, the banking industry still needs to fight for equal rights and free markets in selling insurance; (3) banks have had tremendous success selling annuities, and there is even more success to be had selling them, especially as more banks enter the field; (4) banks are more interested in life insurance than ever before; and, where they have had the opportunity to start selling it, their premium volume is showing considerable improvement; and (5) the percentage of surveyed life insurers that are offering products through banks has more than doubled this decade.


17. See White, supra note 14.
IV. THE TRADITIONAL LIFE INSURANCE AGENCY SYSTEM

A. The Traditional Life Insurance Agency System Has Failed to Adequately Serve the Public

The principal reason that banks can succeed selling insurance, particularly life insurance, is because the traditional life agency system itself has failed to adequately serve and protect the public. Figure 4 shows that the U.S. life insurance market is sorely under-served and America is dangerously underinsured by the traditional agency distribution system. Twenty-two percent of all households and forty percent of all Americans have no life insurance coverage. Moreover, sixty-two percent of all persons and forty-five percent of all households have no individual life insurance coverage. As the Life Insurance Marketing Research Association (LIMRA) laments, "the insurance industry is meeting the needs of fewer American households than in the past." Similarly, a few years ago, the National Association of Life Underwriters (NALU) described the public's unmet, unprotected life insurance needs as "a $5 trillion shortfall of consumers with basic life insurance needs that don't have any life insurance at all." At that time, the $5 trillion equaled more than all group life insurance, seventy-eight percent of all ordinary life insurance, and nearly half the total insurance in force.

Although many Americans have no life insurance coverage at all, another problem is that most households with life insurance coverage are underinsured. At least half of the sixty percent of Americans with life insurance are underinsured.\textsuperscript{22} The median amount for all adults is just $30,000 and the mean is $63,000.\textsuperscript{23}

\textsuperscript{22} Two hundred thousand is the "minimum per household average many [life] insurance consultants recommend." For more information, see Stephen Advokat, \textit{The Facts of Life}, \textsc{The Detroit News & Free Press}, J1+ (July 3, 1994). Only 16% of all adults have total life insurance coverage of $150,000 or more. See \textsc{LIMRA, Market Trends}, \textit{supra} note 18, at 28.

\textsuperscript{23} See Burke A. Christensen, \textit{Selected Statistics and Random Thoughts}, \textsc{Probe} 4 (Feb. 21, 1994); Burke A. Christensen, \textit{A Look at the Relationship between Income and
Thirty-seven percent have less than $25,000 in life insurance coverage. In addition, at least thirty-eight percent of existing policyholders have no active servicing agent and are designated "orphan" policyholders. Some claim that orphaned customers outnumber clients with agents. Therefore, "there is a large, diverse and generally untapped market for insurance and other financial services awaiting those who have the will to approach it." 

B. The Structural Weaknesses of the Traditional Life Insurance Distribution System

The traditional life insurance agency system is flawed with inherent structural weaknesses and deficiencies that include:

(1) Declining sales. LIMRA regards the number of policies sold as the most accurate measure of how the life insurance industry is doing. By its own criterion, the industry is in decline. Since their peak in 1983, new sales of ordinary life policies have declined twenty-five percent.

(2) Declining sales productivity. The average sales productivity of agents is also falling. For example, the average number of life policies sold annually by ordinary agents with more than five years of experience dropped from fifty-four in 1987 to forty-seven in 1992. LIMRA projects agent productivity will decline further to thirty-nine policies in 1997.

Insurance, TRUSTS & ESTATES 57, 59 (Mar. 1994) [hereinafter Christensen, TRUSTS & ESTATES]. Mr. Christensen is the General Counsel of the American Society of CLU & ChFC.


27. See ACLI, supra note 21, at 10; ACLI, 1996 LIFE INSURANCE FACT BOOK 10 (1996); see also supra note 18, at 34; Brendan Noonan, Average Policy Size Resumes Growth, BEST'S REV., LIFE-HEALTH INS. ED., Dec. 1993 at 14, 16.

(3) Traditional distribution is insurers' greatest expense. Declines in productivity and service are indicative of an expensive distribution system. The traditional agent distribution system is the life insurance companies' greatest single expense because two-thirds of their expenses go to maintain this distribution system. Life insurance company CEOs are increasingly concerned about the excessive cost of distribution and low sales force productivity. Agent productivity has changed little in decades (except to decline inexorably), and average acquisition costs are estimated at a whopping 175 to 200 percent of each dollar of new life premium.

(4) Record declines in agent recruitment and retention. The life insurance industry uses several key measurements to assess the performance, health and potential of agents and the agency system. Among them are new agent recruitment rates and four-year agent retention rates. LIMRA describes these bellwethers as "either flat or heading south," indicating "a continued slow and painful decline." Overall, the number of new life agent recruits per year has declined by half since 1980. Worse yet, once new agents are recruited to the life business, few last long. The four-year agent retention rate now typically ranges from sixteen to eighteen percent. In other words, for every 100 new agents recruited, only sixteen remain in the business four years later.

29. See Carole King, Consultant Predicts Radical Distribution Changes, NATIONAL UNDERWRITER 7 (Jan. 25, 1993); CEOs Rank Distribution Management as Top Concern, MARKETFACTS 12 (May-June 1994); Thomas H. Kelly & Ram S. Gopalan, Managing for Profit, MARKETFACTS 47 (Nov.-Dec. 1992). Mr. Kelly is the Senior Vice President at LIMRA and Mr. Gopalan is the Program Director, Cost Research at LIMRA.

30. See Stein, supra note 16.


At the beginning of this decade, LIMRA predicted that the size of the traditional agency sales force would not be maintained given present levels of agent recruiting; therefore, sales will continue to decline. A "relatively permanent 'structural change,' of which a continued decline in agent recruiting is one of the elements," now grips the industry. Figure 5 shows that, in the last fifteen years, 56,000 career life agents—almost twenty-three percent of the field—have left the business. From 1991-96 alone, 46,000 full-time life agents, or eighteen percent, have dropped from the agency rolls.

**FIGURE 5**

Number of Full-time Career Life Agents

![Bar chart showing the number of full-time career life agents from 1981 to 1996.](chart)

Source: LIMRA

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34. *See LIMRA, DOLDRUMS, supra* note 32, at 13.


C. An America in Need of Life Insurance

In the last thirty years, individual life insurance coverage has decreased dramatically. The portion of households owning agent-sold individual life insurance declined from nearly three-fourths of households to fewer than half (from seventy-two percent in 1960 to forty-seven percent in 1992). Of those consumers who own life insurance, less than a third have a personal life insurance agent. As the ranks of insurance agents have thinned and competition among them has lessened, consumer access to life insurance products has declined. Moreover, the public's chance of being approached by a life insurance agent has decreased due to the smaller agency force.

Access to life insurance is critical to our nation's economic and social well-being. However, nearly three times as many Americans (104 million) are without any form of life insurance than the thirty-seven million alleged to be without health insurance. As a result, households in which breadwinners have no life insurance protection are in financial jeopardy.

With uninsured Americans needing at least $5 trillion in life insurance coverage, there are many uninsured (and underinsured) families and business owners to be protected and plenty of sales to be made. Therefore, one agent's sale is not another agent's loss. Competition in insurance distribution is not a zero-sum game. Making life insurance products available through banks improves consumers' ability to own them. Consequently, the opportunity for economic growth increases, and the public is assured a greater and more enduring degree of economic freedom and security.

38. See Retzloff, supra note 19, at 39.
V. ASSESSING BANK INSURANCE OPPORTUNITIES

A. Bank Marketing Advantages/Opportunities Over the Competition.

Banks can succeed selling insurance because they possess marketing and distribution advantages over traditional insurance agencies. These advantages include:

1. **Customer affinity for and proximity to banks is greater than for traditional agencies.** Surveys repeatedly show that consumers have greater trust for their banks than for insurance companies and agents, and that banks are nearer to their customers, physically and psychically, than traditional agents.

2. **Banks have more frequent contact with customers and reach a broader range of client segments than do agents, allowing for improved consumer access to insurance products and services.** Banks are a natural and, in many states, a long-standing, historical sales channel for insurance—witness SBLI in Connecticut, Massachusetts and New York and property-casualty insurance in Indiana. Bank insurance activities improve competition and customer service. They provide more product access, insurance alternatives, and choices for more consumers, especially middle and low-income earners.

3. **Banks are at the point of customer needs origination.** **Customer financial transactions, relationships and goals necessarily engender new insurable interests.** In the rush of business, bankers must keep in mind that financial transactions often represent or signify important life events, relationships or decisions including: marriage, buying a new home, starting a family, paying for a child’s college education, starting one’s own business, and securing one’s retirement.

Since banks are at the point of origination and fulfillment of many customers’ financial needs, banks have a unique opportunity to serve the new insurance needs that many financial transactions engender and to meet the many personal goals that seemingly ordinary transactions signify. Consider two simple examples. A mortgage loan will require homeowners’ insurance, possibly mortgage or flood insurance, and probably mortgage life or mortgage


disability coverage. A small business loan may signify needs like key employee protection, a 303 stock redemption plan, an insured cross-purchase buy-sell agreement, or increased personal insurance for the company's executives.

(4) Banks are able to coordinate their marketing efforts. Insurance companies provide agents with little marketing support. Traditional insurance agents are generally responsible for their own marketing and prospecting efforts—this is what makes it so difficult for most agents to survive in the business. Banks can bring significant, coordinated and centralized marketing resources to bear on the insurance business, thereby freeing insurance agents to do what they should do best—meet customers' needs and sell insurance.

(5) Banks can employ database marketing, segment their customer base, and target markets. They have a greater capability to utilize customer information files (with appropriate respect for privacy and confidentiality). Banks clearly have greater financial and technological resources, a greater number of customers, and a higher frequency of extensive or multiple-account relationships with their customers than do the vast majority of insurance agents. Bank master customer information files are capable of being organized, analyzed and distributed to their sales forces.

Customers can be segmented into discrete kinds of potential buying units according to needs, buyer preferences, purchase transactions, incomes, and location-proximity to agents. They can be targeted as a market according to these and other criteria. Banks can know their customers better and, therefore, can help them in a highly professional fashion meet their insurance needs through the purchase of appropriate insurance products and services.

(6) Banks have available a wider variety of methods and techniques for marketing and selling insurance to customers than do traditional agents. Customer proximity and relationships, numerous bank-branch locations and advanced technologies produce—either face-to-face or remotely—more points of contact and greater frequency of contact between a bank and its customers than those between agents and their customers or the general public.

Banks can market and/or sell insurance through monthly customer statements, statement stuffers, branch signage, customer newsletters, bank brochures, financial education seminars, ATM
receipts and screens, in-branch kiosks, WEB sites, home banking by phone or PC, direct mail, telemarketing, customer service call centers, personal banking relationships, mortgage loan officer relationships, commercial accounts, trust departments, investment centers and brokers or advisors, customer service representatives, and platform staff.

(7) Banks have an opportunity to earn larger margins than traditional insurance agencies by using more effective and lower cost distribution strategies. Banks can add insurance to their quiver of financial products, using them to raise branch productivity and output and to offset fixed unit costs and brick-and-mortar overhead. The closer bank-customer relationships and effective use of customer databases should more readily identify customer needs, producing many “warm” leads that improve sales closing ratios and sales productivity. A bank’s capability to implement broader, more extensive and fully coordinated marketing efforts to assist its sales force should relieve the bank’s sales force of much of the unproductive marketing and prospecting necessarily undertaken by traditional agents. Proper exercise of this capability should improve the effectiveness and lower the cost of insurance distribution, over time resulting in higher profit margins for bank-based agencies than for traditional agencies.

B. Evaluating A Bank’s Insurance Opportunities

In determining whether and how to sell insurance to banking customers, bank management needs to address central issues and ask essential questions about its core banking businesses, customers and the insurance business. There are certain basic things bankers should do to prepare to evaluate their banks’ insurance opportunities including:

(1) First, recognize that selling insurance is unlike anything most bankers have ever done before in banking. So, be careful and cautious in evaluating a bank’s insurance opportunities. Do not forget that being a success in insurance does not happen overnight. There is a learning curve. Do not be in too big of a hurry. Take a little time to learn more precisely about the insurance business.
(2) Be deliberate and thoughtful. Many bankers have waited years to be able to sell insurance. Now that they’ve got the opportunity, bankers should study, analyze and evaluate how their banks should best go about doing it. If it’s worth doing, it’s worth doing right. So, take time to think about it.

(3) Talk with an expert with specific knowledge of the bank insurance business. Seek objective advice not associated with the sale of any product. Plan the bank’s entry into this business. Ultimately, a bank will want to recruit insurance expertise to manage its insurance operation. Long-term commitment to insurance sales mandates a full-time, internal champion for the bank insurance program. A bank cannot undertake a new line of business like insurance and expect it to succeed without a competent insurance professional to run it.

(4) Start at the very beginning. Check the state’s bank insurance law and pertinent regulations to clarify exactly the bank’s powers to sell insurance. What limits may there be to what the bank can do when selling insurance and how and where it can do it? Review the Interagency Statement on Retail Sales of Nondeposit Investment Products,39 OCC Advisory Letter 96-8,40 and OCC Interpretive Letter 75341 to prepare for entering the insurance sales business. These documents form a blueprint for establishing an insurance operation that will be satisfactory to the OCC.

C. The Steps to Evaluating Strategic Insurance Diversification

To assess its own insurance market diversification opportunities and develop a strategic plan to successfully exploit selected opportunities, bank senior management must be able to articulate each bank’s objectives, capabilities, culture, needs and “value propositions.” Ultimately, a bank should produce a strategic plan that outlines the best mix for implementation of insurance

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programs for its customer base and means of market delivery (e.g., in-house agency, third-party marketer, direct marketing, retail sales force, etc.) consistent with the bank’s insurance diversification objectives. Let us generally and quickly navigate the steps to evaluating strategic insurance diversification, outlining important research and the analytic and evaluative processes to follow in developing an insurance diversification strategy for a bank. The four primary steps include:

(1) Define the Bank’s Objectives and Determine Its Value Proposition(s). Define the bank’s financial and non-financial objectives for both banking and insurance diversification. Establish clear and consistent measurements for assessing achievement of quantitative and non-quantitative insurance-related objectives, and set expected time frames for developing alternative strategies.

In light of its customer bases and overall position in the marketplace, document the bank’s unique value proposition that defines why customers prefer (or should prefer) to do business, either banking or insurance, with it. For example, is it because the bank provides the best service or product, has the best price or lowest cost, or offers the best overall relationship?

(2) Identify the Bank’s Capabilities, Competencies and Customer Possibilities. Next, identify and gain a fuller understanding of the bank’s capabilities and competencies for both its banking business and expanded insurance activities. Ensure that senior management examines and evaluates the capabilities needed to sustain the bank’s competitive advantage and to fulfill its value proposition as a bank and a seller of insurance. Identify the financial and operating synergies upon which to build an insurance strategy. In other words, conduct a “situation analysis” in which the senior bank management team asks crucial questions about corporate objectives, organization, market position, retail branch system, customer bases, marketing approaches, delivery systems, sales culture, control authority and internal resources.

Demographic profiles of the bank’s customers and target prospects in its operational territory are very helpful to strategy development. The bank’s customer information database will potentially be its greatest asset for cross selling and its most important resource for insurance product marketing. In addition,
identify customers' needs and wants. The customer-oriented and market-driven bank will do better at insurance than a bank that is only product or distribution-driven. Consider what financial transactions the bank conducts on behalf of its clients that engender customers' additional insurable risks and insurance needs. Begin asking, "What insurance products neatly dovetail with those business transactions? Which products directly align with the known needs of our target customers? Is there an effective and efficient match between customer needs, products, and servicing? What distribution systems can deliver appropriate products to target customers when and where they want them at an acceptable cost to customers and profit to the bank?"

When identifying possibilities amongst the banking customer base, keep in mind that a key reason for the inefficiency of traditional agencies is that they lack the information and the information-processing capability needed to rationalize the selling process. To acquire and retain customers, banks must make the most of their customer knowledge, client relationships and marketing capability.42

(3) Conduct an Opportunity Assessment. Then, assess the bank's best potential insurance opportunities by means of entry, distribution and products, based on its market profile information, its building blocks and the synergistic potential to achieve its objectives. Do not assume that one delivery channel will work for all customers. Banks can utilize many methods to market and sell insurance. Bank agents can sell in branches and at customers' homes and places of business like traditional agents. Remote selling via direct mail, telemarketing and electronic facilities may also appeal to certain customers who want to purchase insurance conveniently from a distance. What is most important is to understand customer needs and purchase behaviors and identify meaningful, actionable customer segments.

Target relevant markets and customers by way of product types and distribution methods to be employed. Then, project — by market, product and distribution — sales closing ratios, average premiums per sales, average gross commission rates, and associated

42. See Dave Kaytes, Banks Should Not Replicate the Insurance Agency Model, AM. BANKER 10 (Jan. 30, 1996).
direct expenses and investment. These calculations are necessary to
a bank’s strategic evaluation process. They are common sense or, as
Emerson quipped, “genius dressed in its working clothes.” Doing
these less exciting and seemingly mundane, but essential and
necessary projections puts a bank in a position to estimate the
potential premium, revenue and income deriving from its sale of
various insurance products.

(4) Develop A Strategic Plan. Now, relative to the bank’s
desired objectives and value proposition(s), develop a market
entry/product matrix to rank diversification opportunities for the
bank that: (a) are strategically right for it and its customers; (b)
minimize the bank’s risk and capital outlay; and (c) have realistic
potential to become significant sources of operating income, thereby
maximizing the bank’s potential profits. Based on these findings or
rankings, focus on a handful of key opportunities. To further assure
that the proposed strategy (or strategies) will achieve the bank’s
financial objectives, once more compare their reasonable potential to
those objectives. Produce conservative five-year financial
projections of premium volume, sales productivity, revenue and
profitability potential.

Determine costs, too. Find out what different insurance sales
operations will cost the bank over a specified timeframe. Can it
benefit by finding a partner to share those costs? Whether looking at
forming a partnership, joint venture or de novo agency or at
acquiring an agency (a strategy that requires special care and
caution), the bank must locate the expertise and additional resources
to handle bank insurance sales, which have their own unique set of
sales dynamics, rules and regulations. The investment and cost to get
into selling insurance differ substantially depending on a wide array
of decisions a bank makes early on. What level of control does the
bank want? Remember that level of control not only affects the
bank’s gross revenue, but also its operating expenses.

Based on its particular strategy, the bank should utilize
various detailed Requests for Proposals (RFPs) tailored to analyze,
evaluate and select potential partners (including all insurance
companies), their products and services for banking customers, and
the support services these partners can provide the bank’s agency
activities.
D. Effectively Implementing a Bank Insurance Strategy

A bank insurance program will fail if it does not have committed top-down director and senior management support. Start by doing the right things correctly, like adopting a board-level program statement and self-regulatory policies and procedures to cement the strategy. Periodically review the board’s statement and self-regulatory policies and procedures to ensure compliance with all applicable laws, rules and regulations, as well as political or regulatory “conditions.” When implementing a bank insurance strategy, senior management should:

(1) Have a clear, written understanding of the business arrangements. There are dozens of issues to be resolved about timing, marketing support, cost bearing, commission payments, performance standards, arbitration, confidentiality, termination, renewals, exclusivity, and a whole host of other obligations. Discuss these matters up-front so that any later disputes can be settled by the terms of the vendor agreement, not a court of law.

(2) Be patient. Again, do not forget that being a success in insurance does not happen overnight. There is a learning curve. “Failure is only postponed success as long as courage ‘coaches’ ambition. The habit of persistence is the habit of victory.”

Acquisition costs take some time to recapture. The keys to successful insurance selling are renewed customer relationships, renewal premiums and repeat sales.

Recently, there have been several negative stories about major banks, like Wells Fargo and Fleet, pulling back on their “failed” insurance efforts not long after they had begun. Cynics and pessimists interpret these pullbacks from insurance as indicative of banks’ fundamental inability to successfully sell insurance. If big banks such as these “cannot cut the mustard,” runs the argument, how can the rest of the banking industry naively continue to believe it can? Why bother fighting for insurance powers, when exercise of the power is ineffectual and doomed to failure?

Yes, there are failures in bank insurance, and there will be more. But they will be more frequent among banks that act in haste to get into (and out of) the business or expect immediate results. It takes time to develop and mature to success any business endeavor, but particularly insurance, which by its nature, methodology, economics and structure is inherently a long-term business enterprise. Some may view the act of selling an insurance policy as a discrete momentary act, enriching but ephemeral as the agent moves on to the next sale and never looks back. But underwriting the risk against which insurance protects is a long-term function, requiring an assessment of historical performance and future probabilities in risk occurrence, sales volume, investment returns, customer retention, competitive environment and operating results. That some senior insurance (and banking) executives appear to focus on short-term results or quarterly performance does not change the fact that involvement in insurance—sales or underwriting—mandates a long-term view and long-term commitment.

Having waited so many years to attain broader bank insurance sales powers, one would think that banks can surely spend more time than two or three years seriously evaluating their opportunities, planning their approach and executing their strategy. Like students in school, bankers who would succeed selling insurance must realize that beginning is not enough; continuance is necessary. Attendance will not make one a scholar; the student must continue to attend classes through the long course, until he masters every subject. Staying power determines success. Failure in most cases is due to lack of perseverance.

Persistence is an important personal quality and business attribute. If bankers enter the insurance business thinking they’ll “just try it out,” they should not bother in the first place. They doom the new enterprise to failure. They will quit in the blink of an eye, when the slightest thing goes wrong or the effort does not quickly measure up to unrealistic, inflated expectations. Success in bank insurance depends upon staying power. Persistence is the habit of victory.

(3) Be flexible. Bank management should produce some leads itself. Enlist bank directors in making introductions and generating referrals. This is no time to be coy, shy or retiring. If the
old saying "Inspect what you expect" is good advice, then so is: "Respect what you expect." Lead by example. Insurance means selling. If senior bank management is not prepared to do that, they ought not to get into this business.

(4) Plan as much for service as for sales. A bank should support and serve its customers—as much as it sells them. Give customers the superior blue-ribbon attention they want, need and deserve. Do not disappoint them. Protect the bank against sales and service-related reputation risks. Reward both good sales and service and be sure to incorporate sales-related standards (like identifying qualified prospects or directing customers to the bank’s insurance service center) and expectations (like making referrals) in non-sales staffers’ job descriptions.

(5) Insure the bank. Make sure the bank’s own insurance coverage, such as bankers blanket bond and errors and omissions (E & O) cover for agents’ own activities, is in place. Notify blanket bond carriers of the bank’s plans to engage in insurance sales activities. Obtain written assurances from the blanket bond carrier that the bank’s insurance coverage for employees includes bank staffers who are dual employees who also represent third-party vendors.

(6) Organize a consistent and effective communications program with all employees. Commit to creating a support system for an insurance sales program that integrates all employees in the customer needs and insurance prospect-identification efforts. Establish extensive channels of communication between the insurance sales effort and traditional bank functions. Constantly broadcast consistent and effective insurance program messages to all employees, announcing the successes of the program and recognizing both sales and non-sales employees who make it happen.

(7) Emphasize employee education and training. A bank must possess a high regard for investing in the increased professionalism of both the bank’s sales force and its non-sales employees. Put a premium on knowledge; invest in education. Just like a muscle atrophies from lack of use, exercise and challenge, so does the mind—and so do employees. If bank management minimizes professional growth, it gets minimal employees. If it does
not invest in employees' education and training, how can it expect to get a return from them?

VI. CONCLUSION

The insurance marketplace is ripe for new competitors. The general public has a great need for many insurance products, but because of a variety of economic and structural factors, the traditional agency distribution system is no longer able to meet that need. The public needs new avenues of access to the marketplace. Banks are positioned as well as any to provide that access through the coordinated resources they can bring to bear on customers' insurance needs. If bankers use common sense, employ good judgment, evaluate their options, establish reasonable achievable objectives, effectively implement their strategies, and persevere in executing well-planned tactics; there is no reason why any bank, large or small, cannot succeed selling insurance.