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A FOOLS GAME: the Correct Name for Distributing Insurance via Banks?

by Carmen F. Effron

For some insurers the issue of distributing life insurance through banks can be likened to the Michael Bolton lyrics for the song, Fools Game;

> ''You know at first you had me so confused We used to lay awake at night Strugglin' with the feelings I so long refused''
> ....
> First you take me to the highest ground Then you keep me hanging like some village clown''

Or, in other words, a great deal of promise and then angst for production revenue that does not seem to be fulfilled; at least easily. However, given the financial services crisis and the resultant battle for deposits by banks; keeping current customers is enhanced by the number of services the bank provides and this should include life insurance.

A 2008 study I completed, which concurrently examines bank and insurer views and is therefore a reflection of both of their opinions, called, Bridging the Cultural Divide between Banks and Insurers, (BTCD) showed that 52 percent of all banks are planning to increase their life insurance distribution programs. The service criteria, as well as the need for non-interest fee income, means that insurance within the banks should begin to receive even more attention and this creates an opportunity for those insurers that are not already ''in the game.''

If you are an insurer interested in distributing life insurance through banks and wonder if it is too late to begin, the following discusses the issues and the Critical Success Factors to sell successfully through banks. A few starter carrier questions are:

- Do you have a need to diversify your distribution?
- Do you have a captive sales force that is underutilized?
- Do you work with BGAs that may be informally providing back office services and sales personnel to small and regional banks and do you want to create a formal program to expand sales?
- Do you utilize ''straight through processing'' and/or simplified underwriting for a number of your insurance products?
- Do you have a product that is not currently being offered through the banks?
- Are you willing to devote capital (both human and liquid) to stay in the ''game'' for a minimum of three years?

If you answered yes to any of the above but particularly the last question, then distributing your products through the banks is an option to explore. However, a word of caution, do not believe that the economics of bank distribution is going to be less costly than independent agents or captives. The emphasis will simply be different.

A question I am frequently asked is, ''how small can the insurer be and still work effectively in the bank market?'' More important than asset size is ratings, as small insurers with good ratings can be opportunistic and respond to the market needs of the bankers more quickly than the titans. Even with the current ''disfavor'' of the rating agencies, the compliance, due diligence and risk management committees of the bank will review the insurer's ratings and look at each insurer by asking and answering the question of whether they would lend money to them.

It is important to understand the internal workings of the bank and how the various divisions work with (or sometimes against) each other. You may have a product that is designed to be sold to the mass affluent market via trained life insurance agents, but in a bank this product would most likely be sold through the bank's investment representative or financial consultant and be only a small part of what they are responsible for selling. A life insurance process that takes into consideration the way a financial consultant currently sells and what they need means the product has a much better chance of being sold and generating sufficient volumes to make the carrier investment worthwhile.

As an insurer working in the bank market, process is equally as important as the product and the people. For example, term insurance can be sold to the bank's clients in a variety of ways; on the platform, through the financial consultant, online via the bank's Web site, through direct mail, and in the trust and wealth management divisions. Given these options, it is the application; underwriting and issue process of the insurer that will drive which of the bank's potential distribution is the correct one to sell the term product. Without a clear understanding of this issue, you will only be in for more Michael Bolton lyrics: ''There is no way to win as long as I am into such a fool's game. You waste my precious time ... better make up your mind.''

Bankers in the 2008 BTCD Study ranked three processes as a number one problem; different applications for multiple carriers, length of time to complete the applications (parts 1 and 2, field underwriting) and lack of feedback and underwriting outcome knowledge of the case. All three areas are very upsetting to the infrequent bank seller of insurance as well as to the insurance agent working within the bank.

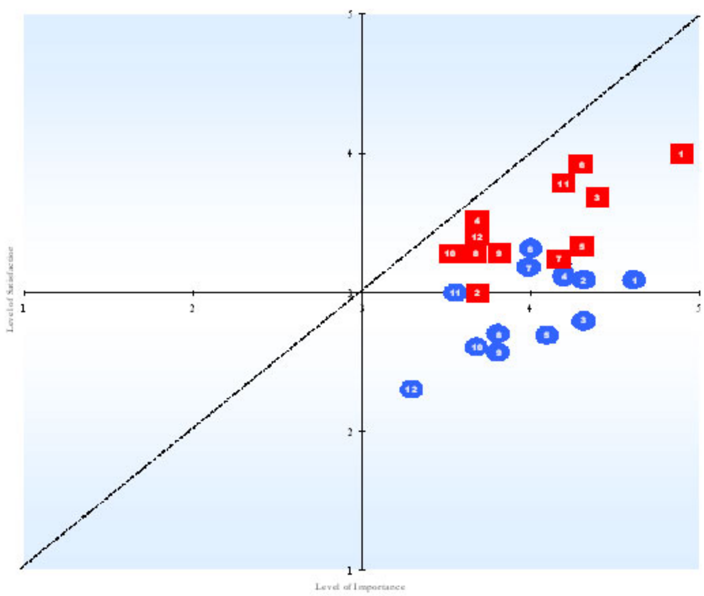
The 2008 BTCD Study articulated the Critical Success Factors that are important in selling insurance to bank customers. There are 12 elements considered essential for success; senior management commitment, building incentive programs that work, processing support, wholesale support, the ability to integrate insurance at point of sale, institutional trust and confidence, access to bank client base, sophisticated understanding of customer demographics, ability to institute insurance goals, standardized life applications, training support, and standardized appointment process. The study asked banks and insurers to rate the importance of these factors in selling insurance to bank customers and then their satisfaction with the insurers' ability to provide (Figure 1).

While both the banks and the insurers were in strong agreement on the factors that are important to selling insurance successfully, the banks ranked 7 out of 12 or 58% of the components needed to sell insurance to bank customers with greater than a 1.1+ gap, which indicates being extremely dissatisfied with the insurer's ability to provide. For information on how the results are tabulated go to:

http://www.effronsurvey.com/2008/2008-SurveyMaster-Final.pdf

Figure 2 below clearly demonstrates that in almost every category the carrier (red) feels they are doing a better job than the bank (blue). The space between each bubble with the same number on it points to the level of disparate views between the insurer and banker for this Critical Success Factor. This indicates that there is undoubtedly an opportunity for new carrier entrants to the bank life insurance business as there is plenty of room to improve on the current carriers' process, people and substance. Armed with this knowledge, new insurers can benefit, and as Mr. Bolton so eloquently sings, ''get the secret (to bank life insurance distribution) in the palm of your hands.''

Factors in Selling Insurance to Bank Customers



Factors in selling insurance to bank customers

	Key	Bank Importance	Bank Satisfaction	Bank GAP	Key	Insurer Importance	Insurer Satisfaction	Insurer GAP	Bank vs Insurer Importance GAP	Bank vs Insurer Satisfaction GAP
Senior management commitment	1	4.6	3.1	1.5	1	4.9	4.0	0.9	0.3	0.9
Building incentive programs that work	2	4.3	3.1	1.2	2	3.7	3.0	0.7	0.6	0.1
Processing support (ease of doing business, cycle time)	3	4.3	2.8	1.5	3	4.4	3.7	0.7	0.1	0.9
Wholesale support	4	4.2	3.2	1.0	4	3.7	3.5	0.2	0.5	0.3
Ability to integrate insurance sales at the point of other bank sales	5	4.1	2.7	1.4	5	4.3	3.3	1.0	0.2	0.6
Institutional trust and confidence	6	4.0	3.3	0.7	6	4.3	3.9	0.4	0.3	0.6
Access to bank's client base	7	4.0	3.2	0.8	7	4.2	3.2	1.0	0.2	0.0
Sophisticated understanding of bank customer demographics	8	3.8	2.7	1.1	8	3.7	3.3	0.4	0.1	0.6
Ability to institute specific insurance goals for each distribution	9	3.8	2.7	1.1	9	3.8	3.3	0.5	0.0	0.6
Standard life insurance applications	10	3.7	2.6	1.1	10	3.7	3.3	0.4	0.0	0.7
Training support	11	3.7	3.0	0.7	11	4.2	3.8	0.4	0.5	0.8
Standardized appointment process	12	3.3	2.3	1.0	12	3.7	3.4	0.3	0.4	1.1
Average score		4.0	2.9	1.1		4.1	3.5	0.6	0.1	0.6

Carmen F. Effron is president of C F Effron Company, LLC. He can be contacted at Carmen@cfeffroncompany.com .