After NAFTA, Pass BAFTA!

By

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Now that Congress has passed NAFTA, the North American Free Trade Agreement, it's time to pass BAFTA. What is BAFTA, you ask? In Europe, one of the more common names for bank insurance activity is a French word, *BancAssurance*. So, BAFTA is the *BancAssurance* Free Trade Agreement. And consumers, life insurance companies, the financial services industry—America—need a BAFTA. Moreover, the arguments in favor of BAFTA are strikingly similar to those made for NAFTA.

The insurance sector of the financial services industry had much at stake in NAFTA and actively supported its passage. Indeed, last May the leading insurance newsweekly, *National Underwriter* (*NU*), editorialized its support for the North American Free Trade Agreement in a piece entitled "Fight Even Harder for NAFTA." That editorial read in part:

> The importance of NAFTA for [U.S.] life insurers should not be underestimated ... as [Mexico] develops a freer economy. A free, growing economy will need the kind of innovative life insurance and pension products which U.S. life insurers can provide....
>
> Since the U.S. life insurance market is relatively mature and saturated, this is important. A large percentage of Americans already have life insurance and pension protection.... It will be vital to the future growth of U. S. companies to have access to developing foreign markets....

NAFTA is about free trade and economic growth, about jobs and prosperity. The *NU* editorial correctly rebutted the arguments of NAFTA opponents and defended its importance to U.S. insurance companies.

To solve the life insurance crisis in this country we need passage of a BancAssurance Free Trade Agreement—BAFTA

However, the editorial's argument that the U.S. life insurance market is saturated is incorrect. In fact, 60 percent of American workers are not covered by private pension plans. Coverage for the 40 percent with private pension plans is often inadequate, and many of those existing plans are threatened by the pace of retirements.

Furthermore, last March Stephen Shaw, immediate past president of the National Association of Life Underwriters (NALU), noted that 22% of all households in America have *no* life insurance coverage. In May [1993] Shaw wrote that "there is a $5 trillion shortfall of consumers with basic life insurance needs that don't have any life insurance at all." According to statistics of the American Council of Life Insurance, that $5 trillion need alone represents more than all group life insurance, 84 percent of all ordinary life, and nearly half the total insurance in force at the end of 1992.

Forty-five percent of all U.S. households have no individual life coverage, and only 38 percent of all persons own individual life insurance, down dramatically from 48 percent in 1984. Thirty-six percent of all insured households own less than $25,000 of individual coverage. In 1960, 72 percent of households possessed agent-sold individual life insurance; by 1992 only 47 percent of households owned agent-sold life. According to the Life Insurance Marketing Research Association (LIMRA), "...the insurance industry is meeting the needs of fewer

American households than in the past."

A life insurance crisis

These statistics should alarm the insurance industry and those interested in the viability of our country's private economy. They are not the signs of a "mature and saturated" U.S. life insurance market. Rather they signify a life insurance "crisis" in this country. Households in which bread-winners are without insurance protection are in financial jeopardy and often become wards of the state.

This situation must change. The traditional agency system, however, is not poised to change it. In fact, according to LIMRA, the size of the agency force continues to decline while the number of new households increases. Consequently, "the smaller agency force has decreased the public's chance of being approached by a life insurance agent."

More Americans are without any form of life insurance than the 37 million alleged to be without health insurance.

In spite of the great unmet need for life insurance among American families, life insurance agents emphasize "selling to existing customers and narrowing the marketplace to more upscale clients." This has given those insured better coverage "but at the expense of other segments of the market that are being ignored" (*Marketfacts*, September/October 1993).

Access to life insurance is critical to the economic and social well-being of this nation and its people. Yet more Americans are without any form of life insurance than the 37 million alleged to be without health insurance. Too few consumers own it or have easy access to its purchase. Their access to the product must be improved by expanding its distribution outlets, making life insurance readily available. To solve the life insurance crisis in this country we need expanded bank insurance powers and passage of a BancAssurance Free Trade Agreement—BAFTA.

National Underwriter editorialized in favor of NAFTA. Following, I have corrected its assertion that the American market is "mature and saturated," but in the main I have simply modified a couple phrases and substituted BAFTA for NAFTA and America or bank for Mexico or foreign. I invite you to see how it reads.

> The importance of BAFTA for U.S. life insurers should not be underestimated...as America develops a freer economy. A free, growing economy will need the kind of innovative life insurance and pension products which U.S. life insurers can provide....
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> Since the U.S. life insurance market is relatively underserved, this is important. A large percentage of Americans do not have sufficient life insurance and pension protection. It will be vital to the future growth of U.S. companies to have access to developing bank markets....
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> Resistance to the BAFTA treaty, however, is strong in Congress, particularly among some Democrats who have close ties to insurance agent trade associations. In reality, fears of a major increase in agent unemployment arising from BAFTA are unfounded.... But the politics are such that the agreement appears to be in trouble. Insurance companies, who have so much to gain from free access to the bank insurance market, and who are already selling between one-fifth and one-fourth of individual annuities through banks without the benefit of BAFTA, must redouble their efforts if this golden opportunity is not to be lost.
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> BAFTA should not become lost.... Over time, the potential of BAFTA for creating new opportunities for U.S. companies is great, indeed.... [E] xpanded trade in services would go a long way toward increasing the overall U.S. savings rate and level of insurance protection. Insurers and the Clinton administration should do everything possible to convince Congress not to fumble this opportunity.

Analogous to free trade issues

Like NAFTA, BAFTA is about free trade and economic growth, about jobs and prosperity. Apart from some factual corrections, the logic that drives the *National Underwriter*'s argument in favor of expanding insurance markets in Mexico and passage of NAFTA is the same logic that drives the argument in favor of expanding bank insurance distribution in the U.S. and justifies support for a BAFTA.

Perhaps as they did in the NAFTA debate, logic, reason, and empirical facts will prevail in the debate over expanded bank insurance powers. In this battle, banks are up against some of the big agent associations that claim they fear no one as competition, yet protest that banks represent unfair competition. Banks need more visible and vociferous support from the many life insurance companies that underwrite the products sold by thousands of financial institutions across the country.

In spite of the great unmet need for life insurance among American families, life insurance agents emphasize 'selling to existing customers and narrowing the marketplace to more upscale clients.'

That's why the Financial Institutions Insurance Association and American Bankers Association are cooperating in a campaign to get insurance companies to publicly acknowledge their role in bank insurance distribution and the consumer benefits of bank-based insurance sales. Many of these companies must end their silence by overcoming their fear of negative agent reaction. And the estimated 21,500 bank agents and support staff and 23,200 employees of insurance companies and third-party marketers who sell and service insurance products in a banking environment need to make their voices heard, too. After all, their jobs are directly on the line.

If bankers hope to succeed in winning expanded insurance powers, they must stop falling into the trap of defending banks against straw-man arguments and scare tactics like coercive tie-ins. Instead, bankers must go on the offensive, describing the crisis of underinsurance resulting from inadequate insurance distribution systems. The traditional agency system's shortcomings limit consumer access to insurance products. Bankers must make Congress understand that expanded bank insurance powers will benefit consumers while providing more jobs for insurance agents working in a bank environment. Congress must be urged to pass a BAFTA.

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