ON MY MIND

A Closer Look at Bank Insurance Sales Forces and Premiums

By

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On behalf of the Life Office Management Association (LOMA), I recently surveyed financial institutions that sell or are likely to sell insurance to their customers. While the survey was done to gain a better understanding of financial institutions' current insurance education/training programs and needs, it provides considerable insight into the nature of bank insurance sales forces, their product sales and premium volumes.

Insurance Products Financial Institutions Sell

The vast majority (95 percent) of financial institutions responding to the LOMA Bank Insurance Survey for Financial Institutions currently offer customers a broad range of ordinary (i.e., noncredit-related) insurance and/or annuities, and another 1 percent plan to do so within the next two to three years. Only 4 percent do not sell and do not plan to sell insurance within the next two to three years. (See Table 1.)

These financial institutions offer fixed annuities (93 percent of respondents), term life insurance (76 percent), variable annuities (75 percent), permanent or whole life (67), single premium life insurance—or SPL—(66 percent), variable products like universal life or variable life (50 percent), individual health such as long-term care or Medicare supplement (46 percent), individual disability (41 percent) and group life/health (32 percent).

Their interest in life and health insurance products is high and rising. The products most under consideration or expected to be offered in the next two to three years are group life/health (49 percent of financial institutions), individual disability (44 percent), individual health (42 percent), variable life products (41 percent), whole life (30 percent), SPL (29 percent), term life insurance (22 percent) and variable annuities (18 percent).

According to LOMA's Financial Institutions Survey, participation in sales of all products increased dramatically from 1994 to 1995, as did the premium volumes sold.

How Financial Institutions Sell Insurance

The most popular way to sell annuity and insurance products to bank customers is face-to-face. Except for inexpensive term life insurance, financial institutions are at least twice as likely to sell products face-to-face as to sell by another method (i.e., direct mail, telemarketing, or a combination of both). Single premium life is sold face-to-face by 51 percent of financial institutions, cash value life insurance by 52 percent, term life by 59 percent, variable annuities by 65 percent and fixed annuities by 80 percent of financial institutions.

The selling methods for each product follow a similar pattern. For example, fixed annuities are sold by licensed agents face-to-face (80 percent of financial institutions), direct mail (19 percent), direct mail with telephone follow-up (17 percent) and telemarketing only (7 percent). As the second most likely selling method, direct mail is used most commonly by banks to sell term life (35 percent), fixed annuities (19 percent) and whole life (17 percent). Telemarketing is most commonly used to sell fixed and variable annuities and term life (7 percent). Direct mail with telemarketing follow-up is used primarily for selling term life (23 percent) and fixed (17 percent) and variable (16 percent) annuities.

Thus far, two-thirds (68 percent) of financial institutions evaluate their experience marketing insurance products as very successful or moderately successful (25 percent "very"), and 30 percent consider their experience "average."

Types of Financial Institution Retail Distribution Systems

Financial institutions were asked which of five types of retail (i.e., face-to-face) distribution systems they use to sell annuities and insurance to bank customers: (1) registered representatives of a bank-owned broker-dealer; (2) dedicated, non-platform, specialized bank insurance agents (on the life side, often referred to as "life insurance specialists" or "life specialists"); (3) insurance-licensed platform staff; (4) third-party marketer's licensed agents; and/or (5) agents employed by an insurance company. They were also asked how many agents in each type of distribution system sell annuities and/or insurance to their customers.

Eighty-nine percent of respondents utilize at least one retail distribution system (their own or an unaffiliated party's) for face-to-face sales with customers. More than three-fourths (79 percent) of financial institutions utilize one or more of their own distribution systems (i.e., registered reps, dedicated life insurance specialists or platform personnel). Among those that employ their own sales force(s), 31 percent of respondents also use licensed agents of third-party marketers (TPMs) and/or insurance companies. Collectively, respondents deploy 4,495 licensed insurance agents among the five possible sales forces selling annuities and insurance to their banking customers. (See Table 2.) They average 68 licensed agents; the median number of agents among these institutions is 22.

More specifically, these financial institutions use this mix of bank-owned distribution: registered reps only (20 percent), life specialists only (19 percent), platform staff only (11 percent), hybrid systems of registered reps and life specialists (7 percent), registered reps and platform staff (5 percent), life specialists and platform staff (11 percent), and combination of the three, i.e., registered reps, life specialists and platform staff (7 percent).

One-third (33 percent) of respondents distribute insurance products through 2,179 licensed platform staff, the largest sales force among the responding financial institutions. Thirty-nine percent (39 percent) of financial institutions use 1,408 registered representatives, which constitute the second-largest type of insurance sales force. Forty-three percent utilize 522 dedicated life specialists to sell insurance. All financial institutions that use licensed agents who are employees of an insurance company (9 percent of respondents) use some form of bank-owned distribution as well. Only approximately 11 percent of respondents sell insurance solely through a TPM's agents.

Financial institutions usually hire full-time dedicated insurance sales people with at least two years' experience: on average, 64 percent (80 percent median) of full-time licensed insurance agents had a minimum of two years' experience when they were hired. Thirty-four percent of financial institutions hired 100 percent of their agents with a minimum two years' experience. Importantly, 77 percent of financial institutions plan to increase the number of agents selling annuities and insurance.

Table 1. Insurance Products Financial Institutions Are Selling

Product	Currently Offer	Under Consideration or Plan to Offer in 2-3 yrs.
Ordinary Noncredit Ins.	87%	9%
Fixed Annuites	93%	4%
Variable Annuites	75%	18%
Single Premium Life	66%	29%
Term Life	76%	22%
Whole Life	67%	30%
Universal/Variable Life	50%	41%
Individual Disability	41%	44%
Individual Health (LTC, Medicare Supp.)	46%	42%
Group Life/Health	32%	49%

Who Sells What: The Frequency of Use of Sales Force Types by Product Lines

When selling face-to-face, most financial institutions use one or more of their own retail sales forces to sell annuity and insurance products. Following are the frequencies of use—or most common—of the three types of affiliated bank insurance sales forces relative to their sale of particular product lines. (See Table 3.)

ANNUITIES. Registered representatives of bank-owned broker-dealers are the most commonly used sellers of both fixed annuities (35 percent of respondents) and variable annuities (32 percent). The second most common sellers of fixed annuities are licensed bank platform staff (27 percent), followed closely by dedicated, specialized bank insurance agents (25 percent). The reverse is true of variable annuities, of which the specialized agents are the second most common sellers (21 percent) and bank platform staff are a distant third (9 percent) among bank sales forces.

SINGLE PREMIUM, TERM AND WHOLE LIFE PRODUCTS. When it comes to selling mortality or ordinary life products, dedicated, specialized bank insurance agents are the dominant sales force. Bank insurance specialists lead single premium life sales activities (24 percent), followed by broker-dealer reps (20 percent) and platform staff (13 percent). Term life insurance is also most commonly sold by dedicated agents (29 percent), with licensed platform staff and broker-dealer reps tied for second (17 percent). The same order of preeminence for selling whole life insurance exists: dedicated agents (25 percent), registered reps (16 percent) and platform staff (11 percent).

UNIVERSAL/VARIABLE LIFE PRODUCTS. The most frequent sales responsibility for universal and variable life products is held by broker-dealer reps (21 percent), then dedicated agents (17 percent), dropping to nearly nothing by platform staff (3 percent).

DISABILITY AND HEALTH INSURANCE. Dedicated bank insurance agents are the most common sellers of individual disability income, individual health and group life/health insurance products (respectively, 15 percent, 19 percent and 13 percent). Broker dealer reps are rarely used to sell these products (respectively 7 percent, 5 percent and 3 percent), and platform staff almost never.

Productivity: Which Bank-Owned Sales Force Sells the Most Annuity and Life Insurance Premiums?

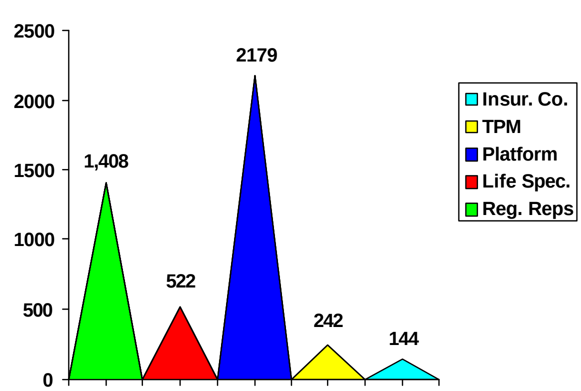
Despite their particular frequency of use, the sales performance or productivity of each retail bank insurance distribution system varies from institution to institution. Respondents were asked to rank their particular face-to-face retail distribution systems (i.e., registered rep, life specialist and platform staff) in terms of the respective percentage-shares of annuity and ordinary life insurance premiums they produced. (See Table 4.)

REGISTERED REPRESENTATIVES. As most typically sellers of "investment-type" products that require or permit lump-sum investment and premium payments, registered representatives are the most common sellers of fixed annuities, variable annuities and variable/universal life products and the second-most common sellers of single premium life.

Thirty-one percent of financial institutions indicate that registered reps account for a median 80 percent of annuity sales (average 69 percent), so the reps are important annuity producers to nearly one-third of financial institutions. While registered reps are the only sales force for 20 percent of financial institutions, they are the leading annuity distributors in at least 58 percent of the institutions whose mixed or hybrid sales forces include registered reps.

One-sixth of financial institutions (17 percent) say registered reps account for a median 15 percent (average 43 percent) of life insurance sales. These data indicate registered reps, who account for over 34 percent of bank-employed agents, are not particularly significant sellers of life insurance; and in some institutions they do not sell life insurance at all, even where they are the only sales force.

Table 2. Types of Financial Institution Retail Bank Insurance Agents



LIFE INSURANCE SPECIALISTS. As the most common sellers of term and whole life, single premium life, disability, health and group products, and as the second-most common sellers of variable life and variable annuities, dedicated, specialized bank insurance agents (or life insurance specialists) are clearly the main sellers of mortality and morbidity insurance products, which often require programming, financial planning or needs analysis. Though annuity products are available to some dedicated agents, their use and deployment as a sales force is primarily life and health product-driven.

One-fourth (25 percent) of financial institutions indicate that life specialists account for a median 95 percent of annuity sales (average 61 percent), so they are also important annuity producers in one-fourth of the financial institutions. Quite naturally, life specialists are the leading annuity sellers in 19 percent of the financial institutions where they are the only sales force, and they are the top annuity sales force in at least 25 percent of the institutions where they are deployed as part of a hybrid sales force.

Twenty-seven percent of institutions say specialized bank insurance agents account for a median 94 percent (average 76 percent) of life insurance sales, so insurance specialists are significant life insurance producers for more than one-fourth of financial institutions. They account for the majority of life insurance premium in at least 33 percent of the institutions where they sell within a hybrid sales system. Their share of production would likely be larger, if life specialists were greater in number; as it is, they represent less than 13 percent of bank-employed annuity and/or insurance sales agents.

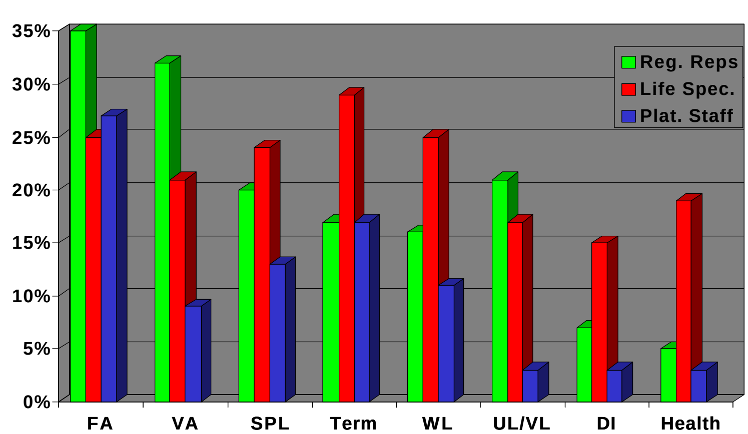
In terms of selling variable annuities, life specialists are a more knowledgeable, product-sophisticated group of sellers than platform staff, so they are better equipped to handle the greater complexity of variable annuity products. Platform staff narrowly edge out life specialists as the second most common sellers of less-complicated fixed annuities, but, again, that is due to the former's superior numerical advantage.

BANK PLATFORM STAFF. Overall, licensed bank platform staff are not the most common sellers of any product, though they are frequently second in selling fixed annuities and term life and they are commonly third-place finishers as sellers of whole life and single premium life. These products are viewed as simpler or less complex products than variable annuities, universal or variable life, and health products. Fixed annuities and single premium life are seen as certificate of deposit-like products, and platform staff are thought capable of handling these product presentations. Term life is seen as a simple, commodity-like transaction. In simple client circumstances, whole life may be viewed as little more than a more-expensive term life sale or, possibly, as a smaller monthly or annual premium-version of single premium life.

One-fourth (24 percent) of financial institutions indicate that licensed bank platform staff account for a median 94 percent of annuity sales (average 64 percent), so they are important, leading annuity producers to one-fourth of the financial institutions. This degree of sales leadership is a significant achievement, since only 33 percent of responding institutions use platform staff to sell annuities and/or insurance. However, 11 percent of financial institutions use only platform staff to sell annuities; and, where platform staff are part of a hybrid sales force, they are the annuity sales leaders in at least 59 percent of the cases.

One in six (16 percent) financial institutions say platform staff account for a median 45 percent of life insurance sales (average 54 percent), so platform staff are relatively significant life insurance producers for one-sixth of survey respondents. Where platform staff are part of the mix of hybrid sales forces, they are the life insurance sales leaders in at least 23 percent of the cases. These insurance sales consist almost solely of single premium life, term and whole life, which platform staff sell in only 13 percent, 17 percent and

Table 3. Who Sells What: Frequencies of Use of Sales Force Types by Product Lines



11 percent of financial institutions, respectively. Their share of life insurance (and annuity) premium production is enlarged, however, due to the fact that they represent 53 percent of bank-employed annuity and/or insurance sales agents.

Respondents' Premium Volumes

According to LOMA's Financial Institutions Survey, participation in sales of all products increased dramatically from 1994 to 1995, as did the premium volumes sold.

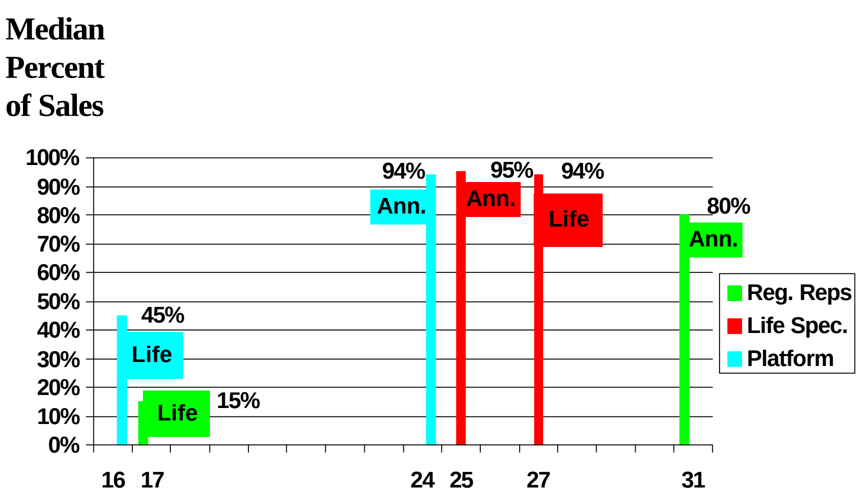
ANNUITIES. The number of respondents reporting annuity sales volumes in 1995 increased one-third (32 percent) from 1994, although only 57 percent of those indicating they sold annuities in 1995 provided premium figures. Most institutions that reported selling annuities in 1994 experienced declines in annuity volumes in 1995. (This is consistent with a general bank industry decline of 16.4 percent in annuity sales in 1995, according to the Bank Insurance Market Research Group, Mamaroneck, NY.) New entrants to the market increased slightly (by 6 percent) the level of respondents' aggregate fixed annuity sales in 1995, from $2.03 billion in 1994 to $2.16 billion. Respondents' variable annuity sales did substantially better during the same period, rising 60 percent from $600 million to $962 million. This may be attributed both to the increased number of variable annuity sellers and the marketplace's heightened emphasis on sales of variable annuities in 1995 during a period of declining interest rates and booming stock market. Thus, for this survey's respondents overall, variable annuities as a share of total bank annuity premium rose 8 points from 22.8 percent in 1994 to 30.8 percent in 1995.

Altogether, respondents represent a significant proportion of bank annuity sellers. Thirty-seven percent of all survey respondents provided 1994 annuity sales figures, accounting for over 16 percent of the nation's bank annuity sales ($2.63 of $16.39 billion). Forty-nine percent of survey respondents and 57 percent of those that offered annuities in 1995 to their customers account for $3.12 billion or nearly one-quarter (22.8 percent) of 1995's bank annuity market of $13.71 billion.

MORTALITY PRODUCTS. Sales of mortality products by survey-respondents increased substantially from 1994 to 1995, due both to an increase in the number of financial institutions selling them in 1995 and improvements in marketing and sales performance by those that sold them in 1994. Reports of premium volumes sold by financial institutions also improved from 1994 to 1995 for term life (by 42 percent), SPL (75 percent), whole life (78 percent) and universal/variable life products (160 percent).

Variable life premiums grew 26 times from $2.6 million in 1994 to $70 million in 1995. SPL premium rose 121 percent from $575 million to $1.27 billion. In 1995, whole life premiums climbed 62 percent to $360 million, and term life premiums increased 40 percent to $333 million. Altogether, mortality product premiums nearly doubled (96 percent) from $1.036 billion in 1994 to $2.034 billion in 1995. This, despite the fact that a still-small percentage of survey-respondents reported 1995 premiums—only 13 percent

Table 4. Which Bank-Owned Sales Forces Sell the Most Annuity & Life Insurance Premiums?



Percent of Banks Ranking Percent of Sales by Top Sales Force

of respondents provided variable life premiums for 1995, 16 percent reported whole life premiums, 21 percent single premium and 27 percent term life premiums.

INDIVIDUAL DISABILITY AND HEALTH PRODUCTS. The number of financial institutions reporting individual disability income (DI) premiums in 1995 nearly doubled (86 percent) over 1994, and those reporting sales of individual health insurance in 1995 rose by two-thirds over the preceding year. During those two years, DI premiums grew 22 times from $20 million to $467 million, and individual health premiums increased 18 percent from $55 million to nearly $66 million. In toto, individual disability and health insurance premiums expanded six-fold from less than $76 million to $533 million (with no more than 15 percent of survey- respondents and 39 percent of those that offer either product reporting 1995 premiums).

GROUP HEALTH INSURANCE. Group premiums increased 186 percent in 1995 to $1.01 billion from $351 million in 1994. Financial institutions reporting group health insurance premiums doubled in 1995, but represented only 11 percent of survey-respondents and 42 percent of those that offer group health insurance.

TOTAL PREMIUMS—ALL PRODUCTS. Among the financial institutions that responded to the survey and also provided premiums sold, total bank annuity sales increased 19 percent from $2.63 billion in 1994 to $3.12 billion in 1995. Total premiums for individual and group life, disability and health insurance products increased 144 percent from $1.46 billion in 1994 to $3.58 billion in 1995 despite the fact that, on average, only 15 percent of survey-respondents reported 1995 premium figures for each of these product lines. (See Table 5.)

Taken together, the growing sales participation-rate of financial institutions, their low premium-reporting rate (roughly one-third of those financial institutions that offer each life product), and the increasing sales volumes of the growing number of financial institutions that did report premiums underscore the burgeoning opportunities and potential for ordinary mortality, morbidity and health insurance product sales in the bank insurance market. Moreover, the disproportionate shares of annuity and life insurance premiums produced by the small population of life insurance specialists are sure indicators of the expanding job and sales opportunities for insurance specialists within the banking community.

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Table 5. Respondents' PremiumVolumes by Product Line