ON MY MIND

It's Time for Banks and Agents To Work Together

By

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In less than a decade, the national market place for insurance products has changed dramatically. If banks, thrifts and credit unions which now have the legal right to sell insurance and annuities to their customers were to get into the insurance business, more than 85 percent of all Americans could buy these products from their local financial institutions. That means that 222 million Americans (85.4 percent) could buy insurance and nearly 242 million (92.8 percent) could buy annuities from their local, state-chartered institutions, if the latter were to make these products available to them.

Status of state bank insurance powers

Forty-nine (49) states grant depository institutions some level of annuity and/or insurance sales powers; 40 of these grant broad insurance sales powers. While one state still bars bank sales of insurance and a few states limit them, litigation is ongoing in Kentucky, Mississippi and New York; and an administrative hearing on banking industry challenges to rules proposed by the Florida Department of Insurance is scheduled for November. Despite state agent association demands for anti-competitive and anti-consumer provisions in Massachusetts, a bank insurance bill is on the docket in that state. Free markets, consumer access and freedom of choice are supplanting the tired traditional agency system as, state by state, banks are granted insurance powers.

With the issue of bank insurance sales powers being decided at the state level, the pace of decision-making in favor of bank insurance powers has accelerated. In the last two years, twenty states have granted state-chartered banks expanded authority to sell insurance. While state legislative compromise is imperfect, further federal legislation on the bank insurance sales issue looks increasingly unnecessary. What is necessary, however, is that banks determine whether or not they plan to use these powers. If depository institutions decide to use these powers to their fullest extent, they can tap into a market of customers uninsured by an estimated $5 trillion.

In 1975, there was one life insurance agent for every 200 households. Today, an average of 515 households are dependent on the accessibility of one life insurance agent.

Consumers need life insurance

The potential for sales in the life insurance market is vast. Twenty-two (22) percent of all households and 40 percent of all individuals (respectively, 21 million households and 104 million people) have no life insurance. Sixty-two (62) percent of Americans and 45 percent of all households (161 million people and 44 million households) have no individual life insurance coverage.

Number of career life agents declining rapidly

A large percentage of bank customers are uninsured or under-insured because traditional life insurance agents, busy prospecting for high-premium sales, have not offered them coverage. In spite of the fact that more people need insurance products, the traditional agency system has fewer agents selling. In the last fifteen years, 56,000 career life agents—almost 23 percent of the field—have quit the business; 46,000 of those agents have left within the last five years. This atrophy says something about the viability of the traditional life agency system, but it also spells opportunity for banks looking for agents to sell insurance to their customers.

The decrease in the number of full-time life agents, in part, explains why

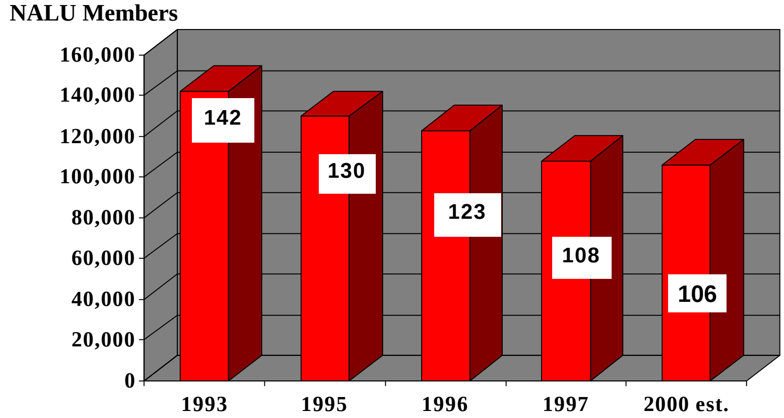
Americans are under-insured and why banks, thrifts and credit unions are ready to offer insurance products to this under-served market. In 1975, there was one life insurance agent for every 200 households. Today, an average 515 households are dependent on one life insurance agent. Observed a former CEO of LIMRA (Life Insurance Marketing Research Association): “Sales have not stagnated because there is no longer a need for life insurance or because the public doesn’t want to buy life insurance, but because we are not giving the public the opportunity to buy it.” Financial institutions are giving the public that opportunity by changing the distribution system.

Number of NALU members declining more rapidly

While banks, thrifts and credit unions are entering the insurance sales arena, some traditional agents who could market insurance products for these depository institutions resist the changing insurance market and confine their ambitions within traditional agency walls. Others are awakening to the possibilities of new distribution systems for life insurance. These agents may help stem what the CEO of the National Association of Life Underwriters (NALU) predicted in 1995 as a further decline in NALU membership of 18.5 percent to 106,000 by the year 2000. NALU membership, currently the bailiwick of the traditional life agency system, now stands at 108,000, a decline of 22,000 in the last two years and nearly 25 percent in five years. If this rate of decline continues without new blood provided by bank insurance agents, a mere 86,000 life insurance agents will be faithful to the NALU by the end of this century.

Bank entry into the market also makes sense for market-savvy life insurance agents. They recognize that, while the career agency system has served the needs of particular market segments, middle and lower-income families have been left behind.

NALU Membership



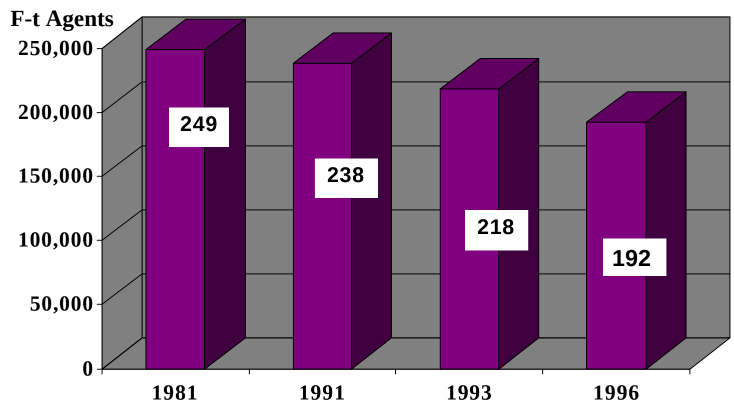
Source: National Association of Life Underwriters (NALU)

Since 40 percent of Americans have no life insurance and need at least $5 trillion in basic life coverage, banks, thrifts and credit unions are moving naturally into the insurance marketplace. Bank entry into the market also makes sense for market-savvy life insurance companies and agents. They recognize that, while the career agency system has served the needs of particular market segments, middle and lower-income families, single-parent families and more dual-income households have been left behind. The bank insurance marketplace is positioned to reach this under-served population, and bankers need licensed life insurance agents to sell insurance products to these customers.

Bank insurance offers career agents new sales opportunities

Some banks are already home to thousands of licensed insurance agents. More banks are poised to offer attractive opportunities for agents eager to take advantage of a marketplace of uninsured, under-insured, savings-conscious and investment-hungry customers. According to the Bank Insurance Market Research Group, 2,487 banks and thrifts (20.7 percent of 12,030) sold their customers annuities in 1996, increasing their sales 24.7 percent from the year before to a record high of $17.1 billion. As these financial institu-

Number of Full-time Career Life Agents



Source: LIMRA

tions experience greater success in annuity sales and as more banks enter the expanding insurance marketplace, they need experienced insurance personnel to help them take advantage of the market's profit-potential.

More than 85 percent of all Americans can buy insurance products from their local financial institutions.

The growing cooperation of bankers and insurance agents is increasing profits for both and giving consumers greater access to insurance products and services. Because financial institutions offer the contacts with consumers and the technology to help identify customer needs and improve sales-closing ratios, agents sell more, consumers buy more, and banks earn more.

The general public needs life insurance products and has remained underinsured because of its limited access to these products. Now, laws permit 85 percent of all Americans to buy life insurance products from their local financial institutions. Increasingly, banks and bank insurance agents are offering these needed insurance products to bank customers. This is good for everyone. Selling profitable life insurance products through banks earns income for banks, insurance companies and insurance agents. Being able to buy life insurance from bank-based insurance agents is convenient and beneficial for consumers. There is no need for any bank, thrift, credit union—or agent—to resist a win-win situation like this.

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