ON MY MIND

Planning and Persevering for Success in Bank Insurance

By

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What will it take for bank insurance to succeed in the wake of unanimous U.S. Supreme Court decisions favoring bank insurance sales powers? After numerous judicial, legislative and political victories (except for the recent passage of H.R. 10 by one vote in the House of Representatives), can the banking industry deliver on its promise to meet the needs of an underinsured America?

A clue to succeeding

A suggestion of the possible outcome lies in the answer to another question. Who owns the domain name for the Internet Web site *insurance.com*? The answer is Fidelity, the mutual funds giant. If there is a simpler expression of the increased competition in financial services, I am hard pressed to think of one. I can't imagine a better 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. Intent on winning 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 a more effective, efficient and productive provider of protection products. Only long-term commitment will enable banks to replace the tired, worn and atrophying system of traditional insurance distribution.

How *not* to approach strategic planning for bank insurance programs

Unfortunately, some banks—and their would-be insurance partners—begin at the wrong place. Theirs is often a product or distribution-orientation that leaps before it looks with declarations like "We want to sell this product" and "We want to distribute or sell it this way."

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Sometimes, they make grandiose presumptions like "Customers buy life insurance only on the basis of price. Therefore, we will direct-market inexpensive term insurance to our customers." Or, "Consumers don't want to deal with agents anymore. We can sell insurance entirely on a remote basis." Or, "Cash value life insurance is no good except in single-premium form, when it is used as an alternative to single premium deferred annuities to avoid income and estate tax. Since only stock brokers can sell lump-sum investments, insurance will be run through our broker-dealer."

These bankers and bank partners are mentally shackled, thinking about insurance as though it were a discrete, transactional framework, not a process that evolves to meet consumer needs. Eager to enter the insurance business, they ask, "Should we buy, build or rent? Should we have an agency or a partner?" While these are, eventually, important questions, they should not form the primary starting point for any consideration of a bank insurance strategy.

The appropriate focal points for evaluating bank insurance opportunities must necessarily be the bank itself ("Who/what is our bank?") and the bank's customers ("Who are our customers?"). The bank and its customers constitute the source of an institution's corporate goals for customer-base development, bank deposits, bank loans, sources/types of bank income, internal skills and resources. Knowledge of both parties—i.e., self-knowledge on the part of the bank and understanding of its customer base and business activities—are key to the evaluation and determination of appropriate insurance strategies.

Let me offer an example. Recently, a bank came to me excited about the prospect of selling automobile insurance to what it declared were tens of thousands of auto loan customers on its books. The bank was already discussing a selling arrangement with a local insurance agency that also had representation on the bank's board of directors. But after analyzing the bank's data and asking a few questions, I discovered that fewer than 2 percent of all auto loans were direct. Virtually all were indirect loans placed by auto dealers.

It was impossible for this bank to sell auto insurance on those indirect loans, because most auto dealers either have a close working relationship with local independent insurance agents or, if the dealers are of sufficient size, they own an insurance agency and place the coverage themselves. Lacking a point-of-sale relationship with the indirect borrowers, the bank was not in position to solicit them directly for auto insurance. If, six months later, it tried to solicit them by direct mail, the bank would have run the risk of alienating the auto dealers, a sizeable constituency that places the bank's money in the market for rent by auto buyers. (The bank would also have been in violation of the state's new bank insurance law prohibiting use of insurance-related information obtained strictly through the lending process or loan application to solicit insurance sales. But, in terms of the above-mentioned market place practicalities, the legal issue became moot.)

This story illustrates the point I am making. This bank began thinking about insurance in terms of distribution (its relationship with a local agency) and product (a desire to sell auto insurance). While, at first the bank appeared to examine itself and its customers (tens of thousands of auto loan borrowers), it did so insufficiently. It did not consider how it did its lending business to new car buyers, nor did it possess a realistic understanding of how the insurance market works in the "outside" world.

How to approach strategic planning

That is why, in preparing to evaluate a bank's insurance opportunities, it is important to recognize that selling insurance is unlike anything most bankers have ever done before. Success in insurance doesn't happen overnight. There is a learning curve.

Bankers should not unnecessarily delay or dither. They should be deliberate and discerning. Many bankers have waited years to be able to sell insurance.

Who owns the domain name for the Internet website insurance.com? Fidelity Investments.

Now that they've got the opportunity, bankers should study, analyze and evaluate how their banks should best go about doing it.

Talk with bank insurance experts. 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.

Conduct an economic assessment of the bank's insurance diversification opportunities and potential profitability. This assessment will help produce a strategic plan that outlines the best mix for implementation of insurance programs for the bank's customer base and means of market delivery (e.g., in-house agency, third-party marketer, direct marketer, retail sales force, acquisition, etc.)—all consistent with the bank's insurance diversification objectives.

Plan as much for service as for sales. A bank should support and service its customers—as much as it sells them. Give customers the superior blue-ribbon attention they want, need and deserve. Protect the bank against sales and service-related reputation risks. Reward both good sales and service and be sure to incorporate sales-related standards and expectations (like identifying qualified prospects and making referrals) in non-sales staffers' job descriptions.

To succeed, a bank insurance program must have committed, senior management support from the top down. Organize a consistent and effective communications program with all employees. Commit to creating a support system that involves all bank employees in identifying customer needs and insurance prospects. 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.

Put a priority emphasis on 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 as a muscle atrophies from lack of use, exercise and challenge, so does the mind—and so do employees. The bank that minimizes professional growth gets minimal employees.

Perseverance is critical

Finally, *persevere*. Again, don't forget that being a success in insurance doesn't happen overnight. "The habit of persistence is the habit of victory." Insurance acquisition costs take time to recapture; so important keys to successful insurance selling become renewed customer relationships, renewal premiums and repeat sales.

Recently, there have been several negative stories about major banks 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 sell insurance successfully. If big banks such as these "can't cut the mustard" runs the argument, how can the rest of the banking industry believe that it can?

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, as well as among banks that expect immediate or unrealistic results.

It takes time to develop any successful business endeavor, but insurance is—by its nature, methodology, economics and structure—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 risks against which insurance protects, and selling and servicing that protection are long-term functions, requiring an assessment of historical performance and future probabilities in risk occurrence, sales volume, investment returns, customer retention, repeat sales, competitive environment and operating results.

That some senior banking and insurance 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 commitment. As Victor Hugo said when asked to comment on his success as a writer, "Only the first verse is given by the gods. All the rest is work and discipline."

Having waited so many years to attain broader bank insurance sales powers, surely banks can invest more than two years to evaluate their opportunities, plan their approach, implement their plans, monitor their results, and exercise an exit strategy. Success depends upon staying power. The reason for failure in most cases is lack of perseverance.

A question of character

The insurance marketplace is ripe for new competitors. The general public has a great need for many insurance products and new avenues of access to the marketplace. Banks are well positioned 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, systematically evaluate their opportunities and options, establish reasonable and 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 at selling insurance.

What will it take for bank insurance to succeed? Besides sensible business-planning processes, the ultimate answer to this question often boils down to a question of character, the character of the institution and the character of its leadership.

In closing this sermon—and as testimony to an earlier career as a clergyman—I leave you with this benediction preached by the apostle James: "Count it all joy, my brethren, when you meet various trials, for you know that the testing of your faith produces steadfastness."

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