



# Small Bank, Big Money

By Michael D. White  
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Can a small community bank make money selling life insurance and annuities? It most certainly can. In fact, life insurance and annuity sales can significantly impact a community bank's top-line revenues and bottom-line income.

The market certainly exists. In the wake of September 11th, an awareness of the need for insurance has grown, and life applications are up dramatically. Still, an amazing number of bank customers are completely unprotected from the risks of death and disability. Nearly half of all Americans and one-in-four households lack any kind of life insurance. Furthermore, at least 80 percent of those Americans who are insured are woefully under-insured, with a median amount of \$30,000 in coverage.

Enter Main Street Bank, a small community bank.

Main Street Bank represents the average commercial bank with less than \$100 million in assets. With 20 employees at one banking location, Main Street Bank has \$49.4 million in assets and \$41.8 million in total deposits. The bank's customer base consists of some 4,200 retail household customers and about 150 commercial customers.

Its net interest income is \$1.82 million. And noninterest income amounts to \$476,636, constituting a very low 20.8 percent of net operating revenue. That is less than half the 44.8 percent proportion of noninterest income to net operating revenue produced by banks with over \$1 billion in assets.

In 2001, Main Street Bank reported net income of \$426,150, producing a Return on Assets of 0.91 percent and Return on Equity of less than 8.1 percent. This performance is far from stellar. But, the bank does have impressively strong Tier 1 Capital (15.8 percent) and Total Risk-Based Capital (17.0 percent) ratios, far more than required, suggesting some "lazy" capital that can be a key source of investment in an insurance program.

Sales of annuities and life insurance offer Main Street Bank considerable potential. And, the bank can more easily enter this line of insurance business than property-casualty lines. The question becomes: how should Main Street Bank develop its life insurance program?

An excellent way to begin would be with a "hybrid" distribution system, which employs two types of insurance salespersons: a life specialist and licensed bank employees.

**Main Street Bank's "lazy" capital can be a key source of investment in an insurance program.**

The life specialist is a full-time life insurance agent with at least three years of experience and a Series 6 securities license. The life specialist's entire responsibility is to meet customers' accumulation and protection needs by selling annuities and life insurance products.

Conversely, licensed bank employees, or LBEs, sell annuity products on a part-time basis. Because licensed bank employees are salaried staff whose major responsibilities are banking functions, they are paid very modest commissions that often depend on whether customers purchase annuities with funds internal or external to the bank's deposits.

**Allocating Time Effectively**

The bulk of the life specialist's time is spent on retail life insurance sales and prospecting (four out of five days). The fifth day is allocated to planning, reports, prospect callbacks, client service, marketing,

bank employee training, agent education and training, paperwork and other matters.

Working 50 weeks a year, Main Street Bank's life specialist sells an average of two retail policies per week and generates roughly \$75,000 a year for the institution. Over five years, new sales and renewals of existing policies generate approximately \$408,000 in retail life insurance fee income.

In addition to retail sales, the life specialist also places a small amount of life insurance with commercial banking customers. This life insurance may be used to insure buy-sell agreements between business partners, provide deferred compensation to owners, or protect a business against the possible death of a key employee. The life specialist conservatively generates \$7,500 annually with three new sales of business life insurance. Over five years, total gross commissions including renewals are nearly \$41,000.

**Fostering Annuity Sales**

Meanwhile, to address customers' accumulation needs, the life specialist also sells annuities and single-premium life to some of the same people interviewed for life insurance. Bank customers buy annuities with average premiums of \$37,800, which is 90 percent of the national average-size annuity sale five-years ago, an amount that has since escalated. The life specialist sells 47 annuities annually, not quite one a week.

First-year sales of annuities by Main Street Bank's life specialist produce more than \$100,000 in revenue. Over five years, with annuity sales and size remaining level, the life specialist generates \$504,000 in annuity fee income for the bank.

Two insurance-licensed Main Street Bank employees complement the life specialist's annuity sales functions on a part-time, but regular basis. Each licensed bank employee also covers for the other in the event of absence or vacation. Because of their other job duties, licensed bank employees meet with fewer customers than the life specialist (about six per month), and an average size sale for such an employee (\$20,000) is almost half that of the life specialist. In Main Street Bank's case however, two licensed bank employees are on the job, selling nearly 40 annuities per year, generating more than \$45,000 in revenue in the first year and \$228,000 over five years.

**Life Agency Expenses**

In the first year, Main Street Bank's life agency's office expenses total \$90,000, most of which consists of expenditures earmarked for advertising and marketing, as well as accounting, compliance, consulting and legal assistance. The remainder of the agency's office expenses are earmarked for:

- Computer hardware and software;
- Furniture, telephone, and other equipment;
- Office supplies;
- Recruiting, training, licensing and continuing education costs;
- Bank employee referral fees; and
- Miscellaneous overhead.

After the initial first-year investment in the program to get it up and running, office expenses fall to about \$54,000 in years two through five.

In addition, Main Street Bank hires one agency worker to process new applications, handle customer inquiries and requests, process bank employee referrals, set up appoint-



ments for the life specialist and assist with marketing efforts. Annual salary and benefits for this support worker who aids the life specialist and licensed bank employees tally \$26,000.

Sales-related expenses include the licensed bank employees' modest commissions as well as the life specialist's compensation and benefits, which includes commissions on new business, plus an override on LBE annuity production. The latter override is paid because the life specialist has additional duties to educate, train and assist the LBEs. Moreover, this override encourages an integrated program among the life specialist, licensed bank employees and other bank employees.

When all is said and done, agency office and sales force expenses total about \$204,000 in the first year and just under \$170,000 each year thereafter.

**First-Year Results**

In the final analysis, Main Street Bank's life insurance and annuity sales produce several beneficial effects on Main Street Bank's top-line and bottom-line financial positions.

Top-line results: In its first full year of launch, the bank's life insurance and annuity program earns first-year commissions (that is, non-interest fee income) of \$228,912. That amount equals nearly half (48 percent) of the bank's current non-interest income of \$476,636. Annuity and life insurance sales lift the bank's total noninterest income from 20.8 to 28.0 percent of net operating revenue.

Bottom-line results: In the first 12 full months of operation, the bank's life insurance agency produces \$16,491 in after-tax net income, increasing the bank's currently reported net income by 3.9 percent.

**Main Street Bank's life insurance and annuity sales add meaningful dollars to the bank's results.**

**Five-Year Results**

Over a five-year period, Main Street Bank's life insurance and annuity sales production continue to have a positive effect on the bank's top-line and bottom-line financial positions.

Top-line results: In year five, insurance produces \$241,076 in noninterest fee income, adding 50.6 percent to the bank's current total noninterest income of \$476,636. Over the five-year period, annuity and insurance sales add more than \$1.18 million to the bank's non-interest income.

Bottom-line results: In year five, after-tax net insurance income of \$47,914 increases the bank's currently reported net income by 11.2 percent. Over five years, annuity and insurance sales by both the life specialist and licensed bank employees boost the bank's after-tax

net income by an average of 9.3 percent annually, adding \$198,787 in net income to the bank's bottom line.

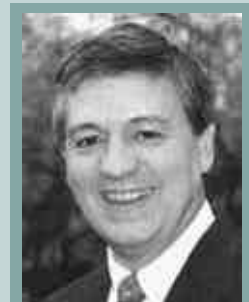
Main Street Bank's life insurance and annuity sales add meaningful dollars to the bank's results, but they are not particularly extraordinary for a well-planned and well-executed bank insurance program. The sales figures assume a conservative no-growth scenario and moderate closing ratios (sales per customer appointment) of 25 percent or less. The results derive from consistent, constant and coordinated marketing, referral and sales efforts led by Main Street Bank's senior management.

Is your bank ready for life insurance?

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