The RFP Riff

Compose your bank's RFP to make music with the right insurance agency

by Michael D. White

Your bank needs to implement a request for proposal (RFP) process when selecting an unaffiliated third party to sell insurance on behalf of the bank to your customers. Here are three reasons why: First, your bank must protect its bank-customer relationship. Second, your insurance program must meet banking and insurance laws, regulations and guidelines. And finally, processes and tools like RFPs aid your board of directors, which ultimately is responsible for oversight of insurance programs in assessing the merits of a vendor.

A well-organized RFP makes your bank's job easier, and a readable and informative RFP response improves its analysis and evaluation of an unaffiliated agency. Moreover, a good RFP-response by an agency reinforces that the selected agency is, for your bank, a good choice as a suitable fit and useful insurance partner.

Customer Safeguards

Insurance products are not FDIC-insured. To protect your customers and your bank against any foreseeable corporate or financial risks, your bank needs to evaluate the financial strength and stability of companies that may provide insurance products and services to your customers. Therefore, your bank should review information pertaining to an agency's financial condition, reputation, experience, and market-conduct record.

It makes sense that your bank wants pertinent information to enhance its judgments and enlighten its decisions about potential insurance partners. This is especially true when your bank's insurance activities necessarily subject its customers directly to an unaffiliated agency and/or insurance companies. Like any financial service provider, your bank recognizes that poor performance by an unaffiliated partner will likely rub off negatively on your bank. No bank wants to jeopardize its core business relationships with its customers by recommending third-party products and services that do not meet suitable standards of utility, value and performance. Particularly in light of the fact that insurance products are not FDIC-insured nor are they obligations of the bank or guaranteed by it.

Therefore, evaluating the financial strength and stability of prospective third-party insurance vendors is imperative. Any outside insurance partners must:

- Be financially strong and stable;
- Have a credible image;
- Possess competitive products;
- Be capable of delivering services that meet bank standards, processes, procedures and technologies; and
- Maintain effective, polite, respectful and quick service for bank customers.

Regulators' Rules

Your bank's insurance program must address more than just an insurance-sales strategy. It must also address the vendor due diligence mandates of various federal and state bank insurance laws and regulatory compliance guidelines.

In 1994, the Federal Reserve System, FDIC, OCC, and OTS jointly released "The Interagency Statement on Retail Sales of Nondeposit Investment Products." The Interagency Statement mandated responsibilities banks must assume when offering mutual funds and annuity products. It placed more accountability on bank boards of directors for selecting and overseeing investment and insurance programs and for evaluating insurance marketers, products and companies.

These duties were heightened by the Comptroller of the Currency's Advisory Letter 96-8, containing the OCC's guidelines for "best practices" in selling insurance. Since then, state bank insurance laws and regulations have imitated many of these federal prescriptions.

The Federal Reserve, FDIC, OCC and OTS also jointly implemented consumer protection rules for the sale of insurance products by depository institutions. The rules implement Section 305 of the Gramm-Leach Bliley Act, which directed these agencies to establish rules that apply to any depository institution or any person selling, soliciting, advertising, or offering insurance products or annuities to a consumer at an office of the institution or on behalf of the institution. These rules went into effect on October 1, 2001.

Director Oversight Duties

These regulatory directives describe the duties of bank directors and management in establishing and supervising an insurance sales program. They prescribe the minimal standards of due diligence your bank must meet. Among others, they deal with such important subjects as:

- General program management and oversight;
- Qualification and training of sales personnel;
- Supervision of personnel and selling employees;
- Inappropriate recommendations or sales;
- Evaluation and selection of products to be sold;
- Communications with customers;
- Disclosures and advertising;
- Customer privacy;
- Customer suitability;
- Oversight of third parties; and
- Insurance carrier and product selection.

In evaluating the risk posed by bank-related sales of investment and insurance products, your bank's board must adopt, and periodically review, self-regulatory policies and procedures to ensure compliance with all requirements. These are mandated whether sales made directly by your bank or indirectly by an unaffiliated third party like an independent insurance agency.

The board of directors must approve a written agreement with an unaffiliated agency. That agreement authorizes your bank to monitor the agency by periodically reviewing and verifying that it is complying with the bank's policies, all applicable laws and regulations and federal banking regulators' examination guidelines.

A good RFP-response by an agency reinforces that the selected agency is a good choice as a suitable fit and useful insurance partner.

Vendor Evaluation

If your bank relies on a third party, such as an independent insurance agency, to select carriers and products, it must understand and document its agreement with the third party's due-diligence methods for carrier and product analyses and selection. The product-selection process should be checked periodically to ensure that it remains appropriate to your bank's customer mix. The agency must be able to provide your bank with reports containing various information, including:

- New accounts;
- Initial purchases;
- Significant or unusual sales during a reporting period;
- Customer complaints and their resolution;
- Sales reports by product, salesperson and location;
- At-least-annual internal compliance reviews; and
- Regulators' reports furnished to the insurer.

Bank management must also assess (or accept the independent agency's assessment of) the continuity of insurance company management, the quality and diversification of the insurer's assets, its holdings of junk bonds, mortgage-backed securities and problem real estate loans. If bank management has relied significantly on insurance company ratings in making its carrier selections, then the insurers selected by your bank must have top ratings from most of the ratings services.

An agency's RFP-response should enable your bank to better evaluate an agency's performance and its capability to meet the objectives of a bank-insurance program. It will focus on the agency's reputation, viability, financial stability, carriers and product lines, product delivery capabilities, and sales and operations infrastructure, including sales performance and customer service.

Additionally, the RFP-response should aid your bank in understanding the agency's product and sales training, continuing education for maintaining licenses, training in prospect identification for nonsales employees, professional liability coverages, introductory and ongoing education and training programs for bank managers and employees, and technical and administrative resources.

It should also describe its rates of agent retention, productivity and activity; lead generation techniques, marketing and sales material; marketing communication tools; and sales management and control procedures. And, it should indicate the appropriateness of the agency's performance tracking, measurement and reporting standards.

To do the job right, an RFP-response must be detailed, demonstrating the necessarily serious level of due diligence that a bank entering the insurance business needs to exhibit. It should reflect a preference for exactness, and it should be organized and thorough, attentive and painstaking in answering questions important to your bank and its regulators. It is important that the agency show how well it understands its own business and operations.

Your bank will rely on the RFP-response to document its selection of an agency as its insurance partner and to verify its application of sound criteria and a rational process for making its choices. Keep in mind that, the day a regulator asks about the bases for your bank's insurance decisions, the RFP-response will be among the first documents your bank reaches for. Consequently, think of "RFP" as standing for "Regulator-Free Program." Assure that your insurance program is free of regulatory trouble by using an appropriate and detailed RFP in your due diligence.

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A version of this article first appeared in
Independent Banker *,*
February 2002, V.52 N.2, pp. 74-77
*"**The RFP Riff**"*
BankInsurance.Com — Internet Version