



***Bridging the
Cultural Divide
Between Banks
and Life Insurers***

2003 Bank Insurance Study

Executive Summary

EXECUTIVE SUMMARY

Banks and insurers generally agree on what would define a successful life insurance program:

- Mutually aligned commitment.
- Integrated bank and insurer sales processes.
- Differentiated strategies for bank distribution channels.
- Insurer sales support for both simple and complex products.
- Effective case management to acquire the sale.
- Timely underwriting of all products.
- Bank employees informed about the sales process.
- Bank customers informed about product benefits.

Yet these attributes are largely absent in today's marketplace, and banks and insurers sharply diverge over why they are lacking and how to enhance their development.

Banks want programs, products, and processes tailored to their unique relationship with their customers. A customer entrusts a bank with his or her assets and expects certain basic bank benefits and services in exchange for the payment of fees. At the branch-based retail level, the relationship is uncomplicated: The bank holds your money until you want it back. To sell insurance along with bank products, banks need the person at the point of sale to be knowledgeable about both bank products and life insurance, regardless of distribution method: telephone, mail, face-to-face, or over the Internet. Insurers agree.

Achieving this goal, however, is complicated by the relative complexity of many insurance products and the insurer's typical relationship with its customers. Customers of insurance companies trust that, in exchange for payment of premium, they and their beneficiaries will receive certain benefits, customized to the customers' own long-term plans.

Banks and insurers are still seeking common ground, particularly in distribution, marketing and sales, product design, risk and profitability, administration and operations, and effectiveness.

Lessons From Annuity Sales

Banks are in the early stages of becoming distributors of life insurance products, comparable to when they first began selling annuities. Product expertise coupled with technology—both drawn initially from third parties—created successful sales processes for annuities. Banks and insurers with seven or more years in the market achieved higher volume of life insurance sales than those with less time invested.

With multiple sales channels and different distribution methods, banks want to integrate life insurance sales into a common sales structure for all of their financial services and products. Fitting life insurance into bank processes and incorporating it into distribution channels require investing in technology to:

- Provide quick and easy transparency of product benefits to the customer.
- Give the salesperson at the point of sale a real-time transactional process to actually make the sale to the customer.

Opportunities Missed

Banks realize they are missing opportunities to sell life insurance to the middle-tier emerging-affluent retail market¹ by not having simple products and efficient processes integrated into their point of sale. A mutual lack of understanding over how to identify the market segment, design products for it, and make those products readily accessible is partly to blame. Findings also suggest banks generally don't believe a true partnership exists between banks and insurers to get the job done.

Most banks are still working with a considerable number of life insurers. With multiple carriers and the limited amount of life insurance being sold through banks, a true partnership is challenging. A single carrier attempting to work with one bank is unlikely to have the economic incentive to support the bank in designing a particular, perhaps proprietary, technology or process that would foster a partnership.

¹Customers with a net worth of \$100,000–\$500,000 are considered emerging-affluent; those in the \$500,000 to \$5 million range, high net worth; more than \$5 million, very high.

At the same time, insurers are seeking production volume commitments in exchange for the services that banks require of them. Few banks can manage to offer products from a large number of insurers and still generate sufficient business to accommodate each carrier's demand for volume. The sheer number of forms and requirements stipulated by different insurers in applications and customer service administration quickly becomes burdensome.

Banks are willing to consider multiyear contracts in exchange for underwriting concessions.² While extended contractual relationships help build insurer confidence that a genuine partnership may develop, bank assumption of insurer risk would be even more convincing. With the exception of a few large institutions, banks are less interested than their insurance partners in participating in risk, even though reinsurance would readily accommodate them. The findings confirm insurers' suspicion that banks are not particularly concerned about insurers' profit from their purportedly common enterprise, treating insurers as vendors, much like mutual fund providers, rather than partners.

A Matter of Perspective

Banks are very comfortable with high-volume/low-margin retail sales, selling life insurance via platform distribution (on-site branch personnel other than tellers or deposit-takers), through insurance agents in the branch, or direct mail. Banks believe that, if the platform is functioning properly, it will generate enough low-margin insurance sales to satisfy both bank and insurer. Insurers are less comfortable today with the process.

In contrast, both banks and insurers are comfortable selling through the trust and private banking distribution channel. To insurers, this low-volume/high-margin business—where the premier banking clientele receives personalized attention—is more akin to their traditional general-agency distribution channel.

Banks express confidence in their ability to integrate insurance agents into their branches, while insurers question the profitability of selling through branch-based agents. Insurers favor a specialized sales force; with limited standardized product available for the mass market, they believe the remaining products demand a knowledgeable salesperson.

²Changes to stated underwriting guidelines based on the underwriter's best judgement with respect to policy size, sales force knowledge, and other criteria. For example, the manufacturer may change a policy rated substandard (by table rating) to standard.

Life insurers and bankers are equally frustrated with the time and cost to develop workable life insurance programs within a bank. To engage senior management support, insurers increasingly realize the need to integrate insurance into bank goals and reward programs at all levels of management. Insurers cite a persistent need to communicate up and down the bank hierarchy.

Insurers consider the lack of substantial compensation for insurance referrals and sales within banks a big obstacle to success. Banks, by contrast, are less concerned about the amount of compensation. The gap in perception and importance of compensation underscores the gulf between insurers' sales approach vs. banks' service and order-taking approach.

For banks, training in product characteristics and expertise in regulatory compliance are critical to an insurance program's success. Yet insurers and banks are far apart when comparing expectation of training/compliance against satisfaction with support received:

- Insurers treat banks like a general agent to whom training responsibilities could be transferred. Banks are reluctant to assume this responsibility.
- Banks want product training for their personnel. Insurers offer instead regulatory compliance expertise—a sign of insurers' concern that any liability for an inappropriate insurance sale will find its way back to the underwriter.
- Banks express less need for help with compliance and more support from insurers in producer licensing and case management support. Many banks are very comfortable relying on their own compliance officer for both investments and insurance.

Bridging the Divide

Life insurers want to move banks toward partnership via production goals and regular business planning meetings. Bankers are seeking customized products and processes integrated into bank systems and procedures.

These different approaches limit the amount and kinds of products being made available to middle- and emerging-affluent bank customers. Banks' desire for standardized products targeting the profitable segment of a mass market, which could be sold by generalists rather than specialists, conflicts with both the traditional insurer marketing strategy of personalizing each sale and the intricacies of state insurance regulation.

How can insurers and banks bridge this cultural divide?

Recommendations in Brief*

- Provide wholesaler training and mentoring for investment representatives and bank platform personnel. Use third-party expertise as economical alternative.
- Redeploy resources toward product training and away from regulatory compliance support.
- Shift compliance risk from insurer to bank via errors and omissions insurance or indemnification agreements.
- Develop standardized applications and forms to promote sales to the middle to emerging affluent market through the bank channel.
- Design mechanisms that allow small/midsize banks to mitigate insurer risk for bank insurance underwriting.
- Connect bank sales staff via technology with insurance information providers to answer questions in real time and overcome lack of knowledge at the point of sale.
- Foster frequent liaison between senior staffs of bank and insurer to build a dynamic sense of partnership.
- Integrate life insurance sales into banks' sales goals through incentives, referral fees, productivity credits, or other measures help track and encourage productivity.
- Extend insurer support to banks with more technology, contributions to marketing, ad campaigns, or continuing education credits.
- Reduce the number of insurers banks work with.
- Allow more training in banks to avoid dilution through trainer-of-trainer techniques.

*For an expanded version of this list, see, Key Findings—Bridging the Cultural Divide: Recommendations.