RECORD OF SOCIETY OF ACTUARIES
1995 VOL. 21 NO. 2

BANKS AND INSURANCE

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Recorder: ROBERT O. YOUNG

Unlike the United States, banks and insurance companies in other countries have a long history of working in partnerships where many banks own insurance companies. Panelists will discuss this relationship and the issues faced by these two distribution systems.

MR. DOUGLAS A. FRENCH: Our first speaker is Donald McNees. Don is from the Financial Institutions Consulting Group with Towers Perrin. Don's clients include banks, mutual funds, and insurance companies. He has also worked on many joint venture arrangements between banks and insurance companies both here and overseas.

He'll talk about the marketplace and some of the available opportunities. I will follow up by talking about joint venture arrangements, specifically about how to distribute profits between the parties and measure financial results.

Our recorder today is Robert Young, with Tillinghast in New York.

MR. DONALD E. MCNEES: We're going to talk about what's happening in terms of bank insurance and the overall trends in the marketplace that are causing banks and insurers to work together. I want to lead off by discussing what's happening in the marketplace from the perspective of the players on both sides. Then you can see what brings them to the table to talk together about the future.

Let's look at the ordinary life business in Chart 1. As you can see, it's made up of a number of strata. This is sort of our archeological dig—it shows what has happened over the years and the pieces of the business that have come to make up what we have today. As you can see, the piece of it that has grown in real terms in the last ten years has been the investment piece of the business. The composition of business is very different than it was 20 years ago. As we think about that investment business, I want you to keep this picture in mind while we consider where the other players in the industry are moving.

Now, we look at the market share gains of the various players in terms of their share of personal assets (Chart 2). This is from the U.S. perspective. The numbers are a little bit easier to develop in this marketplace. I think some of the underlying trends in other countries are the same as in the U.S. You can see that mutual funds have gained significant share in the marketplace over the past 10, 15, and even 20 years.

The more traditional players, not only the insurance industry, but also the commercial banks and credit unions, all have sort of bumped along or lost considerable share. This trend will continue through the end of the decade.

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*Mr. McNees, not a member of the sponsoring organizations, is a principal of Towers Perrin in New York, NY.

CHART 1
REAL GROWTH OF U.S. LIFE INSURANCE INDUSTRY
TOTAL PREMIUM INCOME FOR INDIVIDUAL LINES

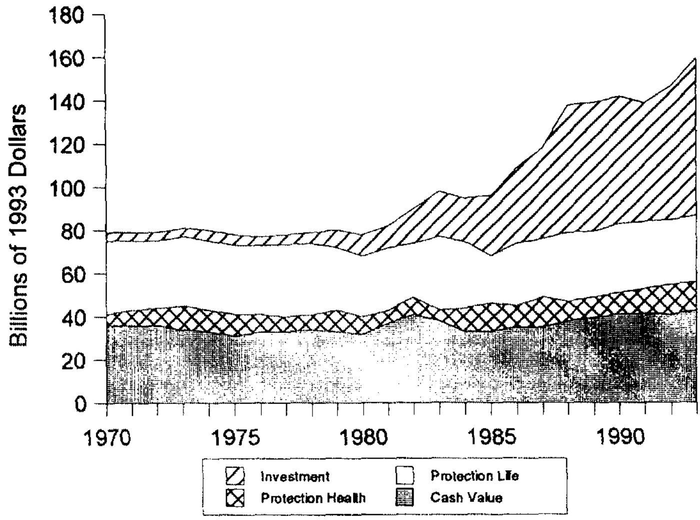
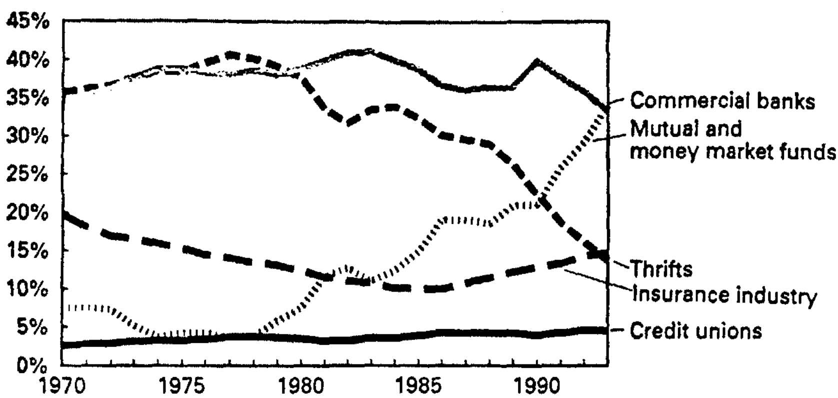


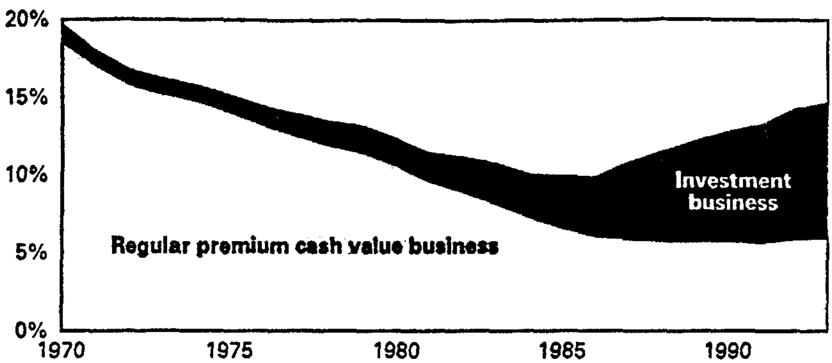
CHART 2
U.S. MARKET SHARE OF PERSONAL ASSETS HELD BY INTERMEDIARIES



The interesting question underlying this is, what are the dynamics that are driving the market in this way? Think about the "share-of-wallet" perspective of the consumer. What's going on here in terms of the changes that consumers are making? And what does it mean for the future of the underlying industry groups as we've known them?

Coming back to the insurance industry, yet another perspective in terms of the U.S. life insurance market is share of personal assets held by intermediaries (Chart 3). The regular savings portion has basically been in a long-term decline that is now flattening out. Again, what's growing is the investment business overall.

CHART 3
U.S. LIFE INSURANCE MARKET SHARE OF
PERSONAL ASSETS HELD BY INTERMEDIARIES



I think what's fundamental to understand what's going on there is that alternative financial products have made their way into the marketplace achieving significant cost advantage. That cost advantage is built partially off the regulatory structure that underlies both the bank and the insurance industry, not only in the U.S. but around the world.

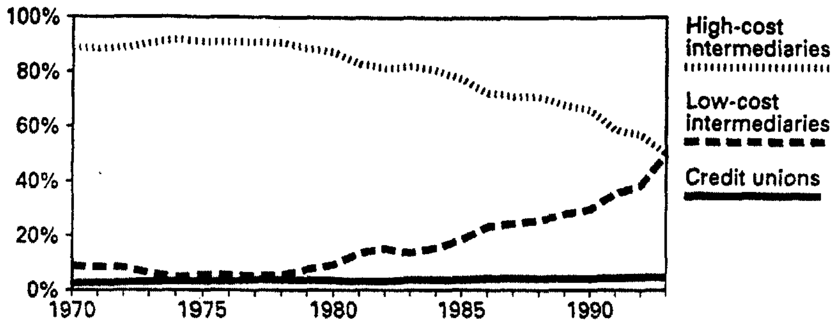
The cost advantage is also built off of the fundamental distribution channels in terms of agents, or in terms of brick and mortar branches as we've known them. That cost advantage certainly accrues to the mutual funds and to the other alternate players in the game. In particular, both banks and life insurers have some additional advantages here in that they can provide advice. The ability to provide advice revolves around the use of local branches or the at-home service that the agents provide.

But the question is, Is the additional service sufficient to cover the underlying cost associated with it? That's the problem both industries struggle with as we look into the future.

Indeed as we talk about bancassurance, we'll find that, in some cases, you have the alternative of delivering insurance products through banks and this represents a distribution system different than what we've traditionally seen in the U.S. As you'll see, bank distribution is becoming a much more dominant feature of the landscape elsewhere.

This high cost explains a significant portion of the loss of insurer market share. As you can see from Chart 4, if we combine the high-cost intermediaries, meaning the commercial banks, the thrifts, and the insurance savings products (and look at those in composite), versus the low-cost intermediaries such as mutual and money market funds and the insurance investment, a fairly distinctive picture begins to emerge.

CHART 4
U.S. MARKET SHARE OF PERSONAL ASSETS HELD BY INTERMEDIARIES



- High-cost intermediaries: commercial banks, thrifts, insurance cash value
- Low-cost intermediaries: mutual and money market funds, insurance investment

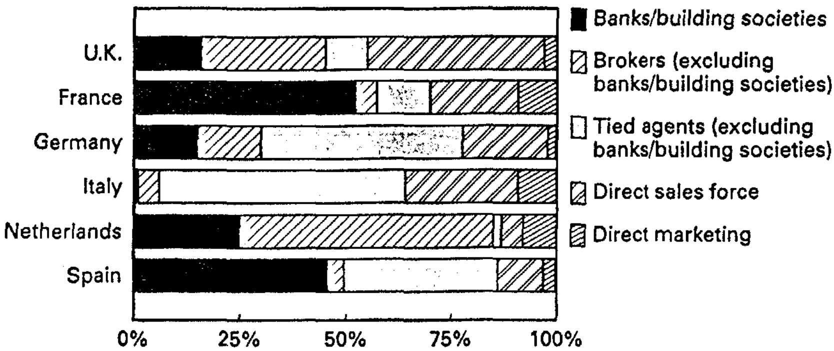
The strategies that the bancassurance folks are setting in the marketplaces to take advantage of the investment orientation are winning a share of the marketplace. The key is to figure out how to deliver that at a lower cost structure than has been the case historically through either one of the individual parties.

In terms of the increasing bancassurance market share on a global level, we see major activity in regions like Europe, Australia, and Latin America. Many may be familiar with the Credit Agricole and the NatWest initiatives that have taken place in particular, in Europe. In Australia, West Pac and a number of the other big banks and insurance ventures have been attempted. We're beginning to see the same kinds of things in Latin America.

The U.S. is behind on this initiative, primarily because of our regulatory situation. Canada is, I think, a bit ahead of us, but still lagging. Japan, having adopted the same regulatory infrastructure that we did in the 1940s, has not moved much, and is last in the game overall.

Chart 5 shows how significant bank market share is in certain countries like France, the Netherlands, and Spain, when you look at the overall distribution. You can see that the distribution channels in Europe show a great degree of variety. You can't pick out one dominate model. This variety is typical across the continent. Consequently, the banks are becoming bigger and bigger share gainers in terms of distribution. One of the challenges is to figure out what kind of model may work on a European basis.

CHART 5
TOTAL NEW LIFE INSURANCE PREMIUMS BY SOURCE*
PERCENTAGE OF NATIONAL TOTAL



*Annual premiums plus one-tenth of single premiums.

One of the problems underlying this is the significant differences in both taxation and in government support of pension and other retirement initiatives from country to country. These differences cause different kinds of product configurations to most advantageously position companies in the marketplace in each country.

Big bancassurance countries like the U.K., Spain, and France are where we see banks taking some of the most significant market share overall in terms of total distribution of insurance products.

Why is it that the banks are looking at life insurance as such an important part of their future? Well, a significant part of that is due to the increased capital requirements that insurers are learning to cope with. This has pushed them into looking at any kind of fee-based income as extremely desirable, and as a direction to go, in terms of increasing their return on capital and becoming more efficient in deploying capital.

One of the questions in this regard is whether they fully understand their total cost of delivery. Nonetheless, because of a broader context in which this is taking place, which is a rush for ownership of the customer relationship, we think this trend is likely to continue with significant strength. Banks, much like brokerage firms, mutual fund companies, and some companies in the insurance industry, are looking to become the major provider of all of the financial service needs of their customer base. More importantly, banks see an additional revenue source with an additional tie into the overall relationship package and a way to support a costly distribution channel, much as the agent system needs an additional product for its support.

We've seen minimal price cutting so far, particularly in the U.S. and Europe, with the exceptions being Australia and France. Positive trends for the demand for these products will be driven by less paternalistic governments and employers. This means that individuals will bear more of the burden of responsibility for bancassurance kinds of products and investment-oriented kinds of products. In particular, baby boomers moving from the spending years to the saving years will be another major underlying driver of demand for these products.

In the neutral category, we would say, is the more educated consumer. This is giving a number of financial institutions pause and is one of the pressures that is pushing the trend toward bancassurance. We've gone a long way in the past few years in terms of the distribution of financial information to individuals. Today's consumer has access to a number of media, including magazines, newsletters and television programs, to obtain financial information.

This creates a more challenging marketplace to market to, and it is one that is generally more demanding in terms of the value versus cost trade off. This represents a key challenge in terms of how we provide value and what distribution channels add the most value.

We see the increased use of technology as essentially being neutral as long as banks and insurers keep up with the existing technology—and that's a big "if." To the extent that others gain the advantage, the situation shades a little away from neutral towards a threat, depending upon what happens in the future.

The innovation on the asset side of the balance sheet, reflects some new products and some new ways of approaching the customer overall. Essentially, those kinds of things are available to all of the players in the marketplace. The key question is, who takes most advantage?

On the negative side, our general expectation is that there will continue to be more intrusive regulation in terms of capital requirements, capital adequacy, and through the regulatory environment in general, Glass-Stiegel and other things aside. Also, in particular on the life side, there will continue to be an erosion of tax advantages. We've already seen some of that and, as the current bills make their way through Congress, we see the possibility, if we go to a flat tax, of a number of these historical tax advantages potentially going away.

If we project market share to the year 2000 and consider who will likely be the winners and losers, the losers will likely be the stand-alone life companies with traditional distribution systems. The challenge in that environment is the ability to overcome high distribution costs and maximize the value versus price trade-off. Based on the focus groups and surveys that we do in the marketplace, our sense is that a large segment of consumers like the person-to-person kind of delivery, but they are becoming more and more leery of upfront fees traditionally associated with these insurance products. That's going to demand some significant product reconfiguration and put significant pressure on the current distribution cost infrastructure.

The winners are likely to be the integrated financial services companies, the folks who can put together a life company, a bank, and a mutual fund and are looking at the broader perspective. The key question is, how do I bring the broad array of financial products that meet the transaction, preservation, and accumulation needs of my customer, and deliver them in a package that is convenient to the customer?

Due to the large scale associated with creating these kinds of organizations, and because success demands investment in technology to make these most effective, and because much of the innovation that is happening, frankly, is outside of the U.S., our view is that the winners are likely to be significant global players. We already see this at companies like Fidelity that have reached into Europe and Asia. Also, CitiBank uses global consumer marketing.

In terms of increasing market share for global players, the barriers to entry are continuing to disappear. There will continue to be open access between markets, particularly in the U.S. marketplace.

The global players will want to be present in the fastest growing and largest markets. We're seeing a much more consistent regulatory environment evolve over time and across countries. I guess this is hard to believe given the fragmented way in which regulation is approached on a state-by-state basis in the U.S.

The greater spread of risk in particular makes bancassurance attractive because of the need to increase the diversification of assets, and the capability of companies that have that kind of portfolio to withstand any of the stresses that any individual marketplace might produce. I think that banks who have the capability to track that risk and understand portfolio management on a short-term basis are among the leaders, and will be significantly advantaged.

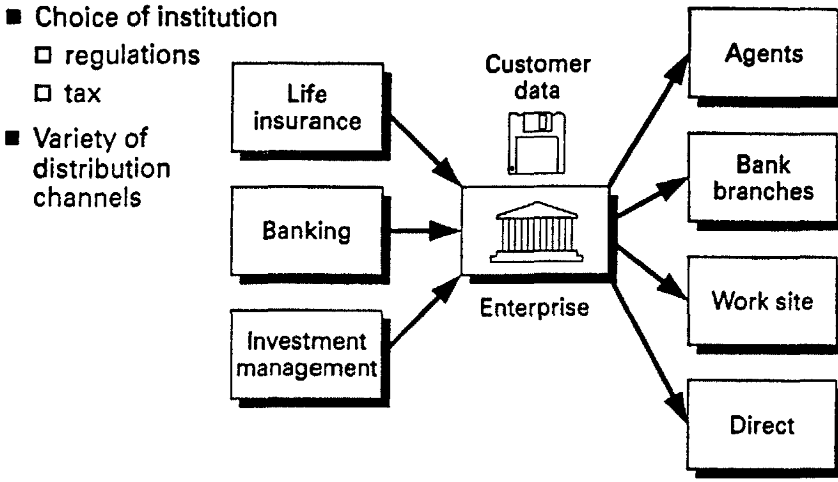
These advantages also have to do with technology transfer. We're seeing folks who take advantage of the products they have produced in the more sophisticated marketplaces and carry those to more developing or emerging marketplaces. They are able to reap significant margins. Their ability to develop financial control measures, including risk assessment and management, will grow significantly.

The experience with the multinational personnel workforces they're building are a source of significant advantage as market segmentation continues to increase. The ability to both understand and tailor your marketing program to individual segments, whether they be at a global level, at a national level or at a very local level, will be a key advantage going forward.

Integrated financial services should experience growth in market share in the future (Chart 6). These integrated players don't have to be banks, they don't have to be insurers and they don't have to be mutual funds. However, banks in many countries are leading the way towards creating an integrated structure. These players are not simply holding companies where effectively you have individual product silos that operate much as the individual units might have operated historically. They are integrating across their customer bases through technology in a way that allows the customer to be owned by the enterprise.

This allows customer information, in terms of buying behavior and needs, to be tracked. For the institution as a whole, the goal is to be able to deliver a product from the various product engines through the chosen delivery channels in terms of behavioral and price preferences of the customer. I would suggest to you that this is the model for the future that we're likely to see emerge.

CHART 6
GROWTH IN MARKET SHARE OF
INTEGRATED FINANCIAL SERVICE COMPANIES



MR. DOUGLAS A. FRENCH: My presentation will concentrate primarily on the financial dynamics surrounding the establishment of banking and insurance arrangements. Since banks can't own insurance companies in the U.S. yet, we see many joint ventures and it's always good to understand how you can financially put these together.

I'll include in my discussion a demonstration on how one can unbundle the financial workings of such an arrangement, and I will focus on the operational drivers associated with these types of ventures.

The presentation is divided into five parts. First, I'll quickly review the basic differences between banking products and life products. In this comparison, life products will be described as *effort sensitive* while bank products will be described as *price sensitive*. I'll then move into the main body of the presentation and discuss the financial dynamics of a typical bancassurance arrangement and how they can be unbundled to gain greater insight into the operational drivers. I'll then review the economics of a case study under various new business productivity scenarios to give you an idea of how the various parties to the arrangement are rewarded.

It's fine to develop a banking-insurance arrangement, but such arrangements are not static, and they must be robust to changing conditions. In the fourth part of my presentation, I will discuss how these changing conditions can be dealt with in an economic context. I'll conclude with some final observations.

In order to begin understanding the economics of bank and insurance relationships, it's important to identify differences between life and bank products. These differences are shown in Table 1. Life products are effort sensitive and have the following features: they're complex, discretionary, and usually require a relationship with an intermediary to explain not only the product features, but why one needs the product.

TABLE 1
UNDERSTANDING THE ECONOMICS BEGINS WITH
IDENTIFYING LIFE AND BANK PRODUCT DIFFERENCES

	Life Products	Bank Products
Products	Relationship	Demand
Benefits	Obscure, tax-driven	Clear, not tax-dependent
Process	Vigorous sell	Demand
Sales representative	Vested interest	Neutral
Costs	Increasingly transparent	Obscure
Exit	Expensive, costs obscure	Low or zero, costs explicit
Customer perception	Poor value	You know where you are

Benefits around life insurance are sometimes tax driven. The exiting or surrendering of one of these products is usually expensive, especially in the early years due to fronting commissions. Also, many of these exit costs are obscure or misunderstood by the consumer. Finally, there's a public perception, whether right or wrong, that these products in some cases represent poor value.

Bank products, on the other hand, are price-sensitive products because they are demand or commodity-type products. The benefits are clear, usually not tax dependent and require a passive distribution channel to support their price sensitivity.

The exit costs associated with these products are usually lower and are explicit. The customer perception is that these products may not represent the best possible value, but at least they feel they know where they are at all times in relation to how the product is performing.

After understanding product differences, any bancassurance financial arrangement must consider the three parties associated with the venture: the bank, the life insurance company, and the distributor. The distribution may or may not be a third-party marketer. Each party must be appropriately compensated for what it brings to the venture. The bank typically brings a customer base. The life company brings product and product expertise. The distributor brings the operational function which allows the bank to unlock customer value or goodwill.

We all know finding a customer to sell your product to is costly and difficult in any business. The insurance industry is no different. Traditionally, in life insurance, the job of finding the customer was that of the agent. A portion of his or her commission was a payment for prospecting. In a bank environment, the customer has already been found so there is no need to pay for agent prospecting.

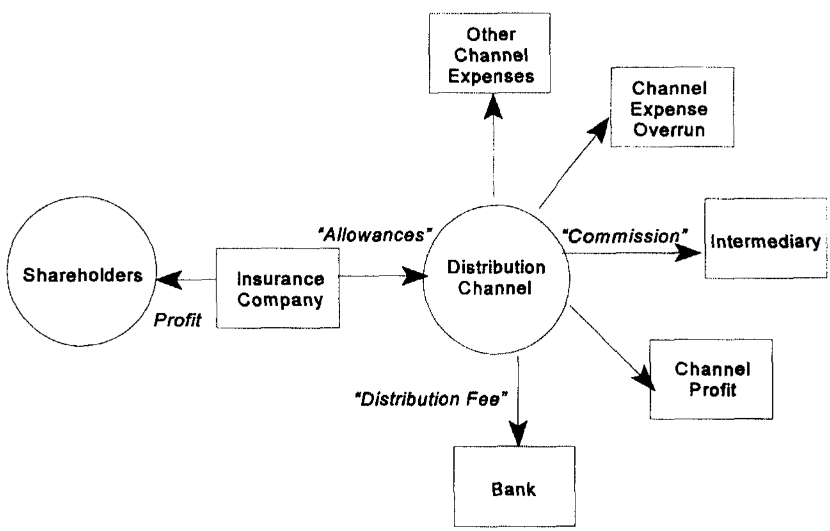
An estimate of this prospecting cost savings is on average 50–70% of one's usual distribution cost. I've assumed that two-thirds of an agent commission is paid for prospecting. The other one-third is for the selling effort. Therefore, two-thirds of an agent's commission can be redistributed to either the bank, the life insurance company, or the customer in a banking and insurance arrangement. This redistribution typically depends upon what each party is bringing to the arrangement and whether the parties are open to negotiation.

Why doesn't the agent get a portion of this two-thirds? The agent's benefit in the arrangement is increased productivity, which we'll discuss a little later. Basically a warm lead base and no prospecting activity will allow more selling time and greater conversions, which will equate to earning the same salary he or she makes now in a typical life insurance company situation.

Any bancassurance arrangement can be unbundled and generically diagramed as in Chart 7. Don't worry at this point about ownership structure, because that just gets in the way. This chart divides up the three parties. The insurance company is going to manufacture a product, underwrite a product, issue and maintain a product, invest the funds, and take on the underwriting risk. For this it will receive a profit which is shown, in this case, as being "shipped" backed to the shareholders.

The distribution channel is going to manage the channel and the intermediaries. For this, there will be an allowance from the insurance company that's built into the pricing. It will pay its channel expenses, any commission or salary to the intermediary, its channel profit, and finally, a distribution fee to the bank. The bank will supply the customers and the bricks and mortar. It will receive a distribution fee upon the successful completion of a sale.

CHART 7
UNBUNDLING BANCASSURANCE FINANCIAL DYNAMICS
HELPS FOCUS ON THE OPERATIONAL DRIVERS



Now let's talk about how this works with regard to a case study. The case study that we'll review assumes that the following guiding principles apply:

1. The arrangement is perceived by all parties to be fair and equitable; therefore, all aspects of the agreement have been unbundled and are transparent and available to all parties.
2. Since it's the bank's customer base, it controls the price of the product to the consumer, not to the detriment of a life insurance company, which is entitled to an adequate profit, which compensates for the services it performs and the underwriting risks it undertakes.
3. Every effort is made to ensure that profit emerges where it's earned.

In our case study, the insurance company profit target has been expressed and set as an after-tax risk rate of return on capital invested. Capital invested is defined as the cost of financing new sales. Also, as a result of NAIC risk-based capital requirements, the insurance company will most likely have a minimum target surplus requirement that must also earn this after-tax risk rate of return.

As you all know, the return on capital method is how actuaries price their products in the life insurance environment. However, that's not particularly true in a banking environment. For the most part, insurance pricing builds all underwriting cost, expenses, and profit into the price of the product. This is different from a bank that uses market pricing where profit is not a direct element of the pricing (sometimes not all the costs are included either). The price for the bank product is driven mainly by outside factors, for example, competitors. Another way of putting it is banks are the ultimate macro pricers.

If you recall from the chart that diagramed the arrangement, an allowance is paid to the distribution channel which is used to pay the cost of distributing the product, a distribution fee to the bank and profit to the distribution channel.

The allowance should be set so that the distribution channel can expect to achieve its profit target after it is paid for all these expenses. The assumptions that should be used to determine the allowance should be best estimates of future experience. I would anticipate that these would be similar if not exactly equal to best-estimate assumptions used in the pricing of the product. Finally, the allowance would typically vary by product and would be tied closely to the commission structure that you built into the product.

The distribution fee to the bank can be thought of as the balancing item after all insurance company and distribution channel expected expenses and profit targets are met. Another way of looking at this is it's the remaining profit that has been built into the product. Remaining profit arises because, as you recall, we pay an intermediary one-third of its usual commission. Two-thirds of the usual commission is still available and some of it may go to the bank via the distribution fee. The distribution fee can be thought of as a payment to the bank for unlocking the customer base.

The case study assumes three possible new business production scenarios. The central scenario is scenario two, where the intermediary sells three policies per week. The downside scenario is where the intermediary sells only one policy per week, and this, as you all know, is the production level of a typical agent in the insurance industry today. The upside scenario is scenario three where the intermediary sells four policies per week.

The broad assumptions in the case study center around a typical universal life policy sold in the marketplace today, with the price equal to what you'd find in the market. The unit expenses used in the pricing of the product validate broadly to the expense levels of the insurance industry today. Other experience assumptions for mortality and lapses, reconcile with what we commonly find in the industry. The intermediary gets one-third of the typical agent commission. Remember, prospecting is no longer necessary. The average size in this universal life product is typically what's found in the industry. The distribution channel starts with 200 intermediaries and increases 5% per year.

What happens in scenario 1? Well, the insurance company has priced its product to get a 12% return on investment (ROI), which again accrues to the benefit of its shareholders in Chart 8. With each intermediary selling one policy per week, the allowances in year one that are generated to be paid into the distribution channel are about $26 million.

From this, the distribution channel pays other channel expenses of $6.8 million. It pays its intermediary $6.4 million. It has a profit of zero and it has a distribution fee of zero. This basically shows that if you set up a bancassurance arrangement and you can only sell one policy per week, which is about as good as what the insurance industry can do, as a bank, you're not going to make much money. There will be a huge channel expense overrun created because you will have to pay to feed your intermediaries, since they will be starving to death on $6.4 million. Everything available will have to go toward keeping that distribution channel alive. The channel itself will make no profit and the bank will realize no leverage from its customer base.

Three policy sales per week shows a little bit different outcome (Chart 9). Again, every product that's sold and manufactured gets a 12% ROI. The allowances in year one now crank up to $77–78 million. Other channel expenses are paid. The channel expense overrun goes away. The intermediaries in year one now get $19 million. They're now whole, if you will. They're selling three policies a week at one-third the commission level. When they were out prospecting on their own, they were selling one a week, but they're making about the same salary.

In our case study, the insurance company profit target has been expressed and set as an after-tax risk rate of return on capital invested. Capital invested is defined as the cost of financing new sales. Also, as a result of NAIC risk-based capital requirements, the insurance company will most likely have a minimum target surplus requirement that must also earn this after-tax risk rate of return.

CHART 8
SCENARIO 1: ONE POLICY SALE PER WEEK

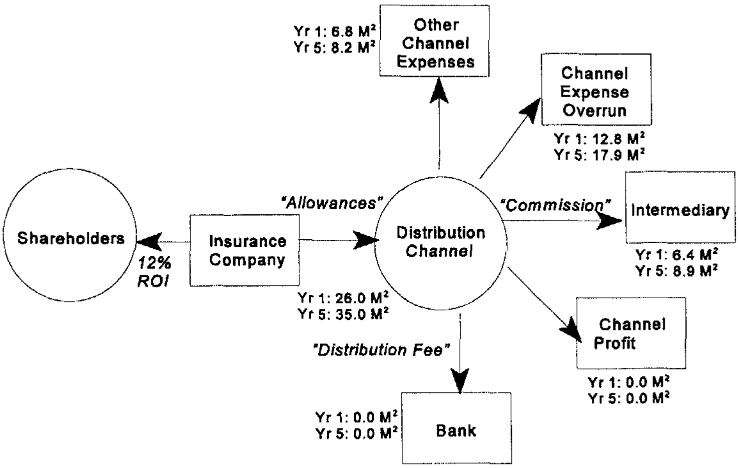
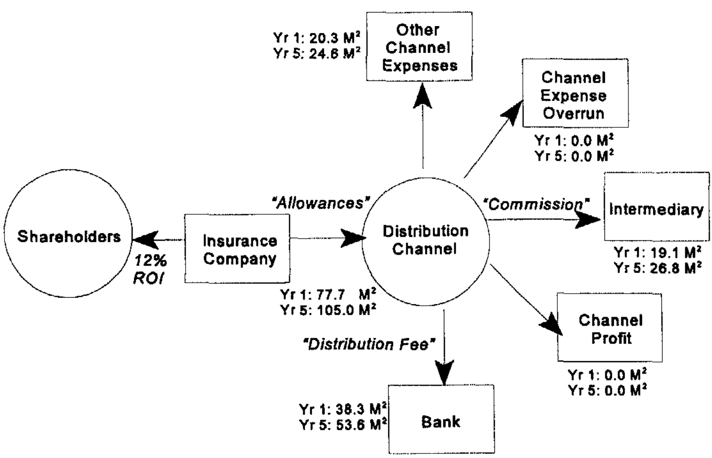


CHART 9
SCENARIO 2: THREE POLICY SALES PER WEEK



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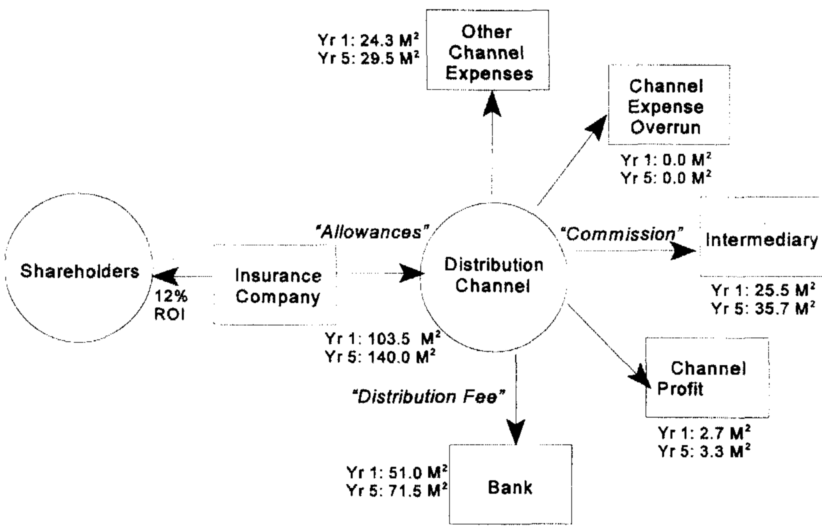
With four policy sales per week, the insurance company can still make a 12% return (Chart 10). The intermediaries are doing much better than they did in the traditional insurance environment where they're now making four-thirds of their usual commissions. The channel profit is being generated because we're exceeding what we thought we would do. You can see the leverage coming through with the bank's distribution fee at $72 million in year five. With that, let's take a few minutes to explore how one can manage change within the arrangement as future operating conditions change.

CHART 10
SCENARIO 3: FOUR POLICY SALES PER WEEK



In the next couple of charts, I'm assuming that profit targets of the insurance company and distribution channel remain unchanged. Everybody wants to make the same amount of money or have the same rate of return as they did before things started to change.

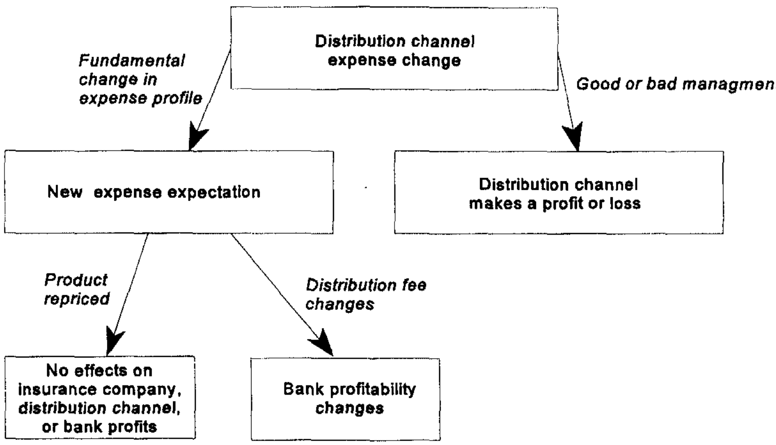
Let's discuss some examples of changes that might occur. There may be a change in the underwriting risk profile. Mortality rates, lapse rates, and investment return expectations might change. Distribution channel expenses might change. Sales production can increase above what you thought you were going to achieve. You may be able to increase the price of the product without affecting new business production volumes.

If there are changes to the underwriting risk profile of the business, two options are available in the arrangement. The product can be repriced so that there's no effect on the profit to the insurance company and the allowance to the distribution channel is maintained, thus protecting the distribution fee paid to the bank.

However, if the product is not repriced, since the insurance company's profit target remains unchanged, the allowance to the distribution channel is altered and that affects the distribution fee paid to the bank.

Obviously good or bad expense management results in the channel making a profit or a loss. However, if there's a fundamental change in the expense profile, this creates new expense expectations for the arrangement, and the arrangement needs to react to that (Chart 11).

CHART 11
CHANGE IN DISTRIBUTION CHANNEL EXPENSES

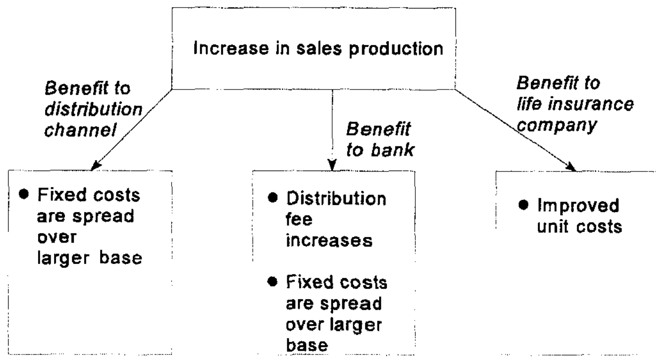


If the product is not repriced, the distribution fee will change and bank profitability will be affected. If the product is repriced, everybody remains whole.

There could be an increase in sales production above targets, as shown in Chart 12. This would be as a result of the bank or the distribution channel activity and theoretically these entities should receive the bulk of the benefit. The distribution channel's profitability will be increased as a result of being able to leverage its fixed cost. The bank will realize an increase in the distribution fee, thus increasing its profitability. The insurance company will benefit through improved unit costs and the benefit of these can be passed on to its shareholders or policyholders. If it is possible to increase price without affecting volume, the bank controls the price. In this case, all the benefit theoretically should accrue to the bank.

I have a few final observations. As you all know, the interest in bancassurance arrangements is increasing. However, I know from experience there are pitfalls, and it's difficult sometimes to get things right. However, if you take the time to think out a financial arrangement, that can create a winning situation for everyone, and if you make it transparent, as I've demonstrated today, you have a real chance of allowing the parties to achieve some decent financial results.

CHART 12
SALES PRODUCTION INCREASES ABOVE TARGETS



Life insurance is a logical extension of its services to that customer because of the bank's relationship with the customer. The bank has enormous potential for leveraging its customer base. Banks must use an insurance company because they lack the knowledge and skill set associated with the manufacturing of a life insurance product, and current regulations, for the most part, prohibit banks from owning an insurer. The life company also has potential to achieve economies of scale in manufacturing the product.

Finally, the guiding principles must be followed in order to achieve success. The arrangement needs to be perceived by all parties to be fair and equitable. It does no good for a bank to try to "ratchet" down the price to an insurance company and affect its rate of return. The bank controls the price to the consumer because it's the bank's customer and typically its distribution outlet. Finally, profit should emerge where it's earned. Without these principles in place, any arrangement is destined for failure.

FROM THE FLOOR: Is there a compensation agreement between the bank and the insurer, or does the arrangement reside solely in the distribution channel?

MR. FRENCH: The way I've structured the distribution channel, the bank is taking on the risk of not being able to generate appropriate sales through its distribution outlets. The insurance company is indifferent because for every product it manufacturers, it gets a 12% return. Obviously, the insurance company wants to sell many products because it wants to gain through economies of scale and leverage, but it is indifferent to the compensation arrangement within the distribution channel.

FROM THE FLOOR: How do the banks set the price for something like a universal life product?

MR. FRENCH: They'll generally set it to what the market demands. There are very few banks if you look around the world that will ever cut price. They typically just say, "I want to be in the top quartile for customer value." They look at product surveys and they determine what the charges need to be. The banks go ahead and have somebody manufacture that product.

Very rarely will you see banks cut price. They usually want to take the margin between what they pay an agent and what the customer gets in value and put it into bank profit.

FROM THE FLOOR: Will they be setting cost of insurance rates and things like that, or will it just be a premium level?

MR. FRENCH: They would guide cost of insurance (COI) and premium levels. When we work with banks, we typically try to get them to do some customer segmentation to try to understand the needs of their customers. Then we guide them to specify generic product specifications to be given to a life insurer partner.

MR. MCNEES: I think one of the reasons why the bank typically will not cut price on these products is because they don't see them as the *gateway* products (the key product to building a broader relationship with the consumer). They're looking for these products to primarily provide additional fee revenue for their distribution channel.