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Successful Bancassurance Programs—A Look Behind the Scenes

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Summary: With over \$28 billion of insurance sales in 1998, banks have demonstrated that they are significant distributors of insurance, utilizing a wide range of products and distribution channels. Each of the panelists, representing a third-party marketer's perspective, banker's perspective, and an insurer's perspective, discusses a case study involving a successful bancassurance program focusing on:

- Targeted customer segments
- Insurance products involved
- Distribution channels utilized
- Selling/underwriting/issue processes
- Refinements to the initial offering
- Key success factors
- Sales results

Mr. James B. Smith, Jr.: We have a very special program with three outside speakers. Each of the speakers, none of whom are members of the SOA, will be discussing a case study from his perspective of bancassurance, which is involvement in the sale of life insurance and annuity products through banks, thrifts, and credit unions. These case studies will represent the real world. We're not dealing here with appearances; we're dealing with facts. We're not dealing with

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impressions; we're dealing with demonstrations of what is successful. We will hear about some practices that I think you'll find to be very interesting.

There are different ways to look at bancassurance, but one way is to look at the key players: the manufacturer, the insurance company, and the third-party marketers (TPMs). Our first speaker is Bruce Ferris. Bruce is with the Hartford Life Insurance Companies. He is vice president of Investment Product Sales for Hartford's individual life and annuities division. Through its individual life and annuities division, Hartford Life is the nation's leading provider of individual annuities, and it has been the top seller of total annuities, fixed and variable, through banks and thrifts for five consecutive years. The division also markets individual life and disability insurance coverage, as well as estate planning for business owners. Bruce joined the Hartford in 1994 with expertise in marketing, competitive analysis, and strategic planning. Prior to joining the Hartford, Bruce was an annuity officer for Aetna Life Insurance Company and a former vice president of consumer/agency service for Covenant Insurance Company. Bruce is a graduate of Stonehill College with a B.A. in marketing.

Mr. Bruce W. Ferris: My role here is to talk about annuity distribution and some of the aspects that may or may not apply to life insurance distribution as we look forward. The variable annuity (VA) business has really been our core business. I thought it might be helpful to take a look back at some of the growth in the annuity business and compare and contrast this past growth to what might lie ahead in terms of life insurance distribution. I would like to address the important questions of why banks are part of our business, and why we think they're a distribution force to be reckoned with, both now and in the future. I will also describe some of the key factors and ingredients that may also apply to life insurance as we look forward to being successful in that area.

Let me ask a couple of questions of the audience. By a show of hands, how many of you are now affiliated with an organization that distributes annuity products through banks? Now let me ask how many of you are associated with a company that also distributes life insurance through banks? This group is smaller and I'm going to suggest to you, as I think my colleagues would also, that although there's been a fair amount of press related to life insurance distribution through banks, the sales have not followed to date. The same was true in the annuity business not too many years ago. There is an article, in the October 11 issue of *American Banker*, that talks about sales of traditional insurance, which includes all life products, growing 35% over the last year. Do any of you work for an organization that would appreciate 35% growth of any product line? I hope we can shed some light on why we think this is a great opportunity for all of us associated with the life insurance business.

Hartford's expertise and, to some extent, our coordinating, has been in the distribution of annuity products, specifically, VAs. What I'd like to do is take a step back to when the annuity business was just getting started. Meetings, like this one, were held and there was much hype and attention. However, when were bank sales actually going to take place? I think the best example I can use is the mutual

fund business, which most everyone would agree is a mature industry. If you look at the mutual fund industry at \$6.5 trillion in assets, the VA business, which continues to grow and is felt by many of us to be a great success, pales in comparison.

I believe the current size of the mutual fund industry, in terms of assets, is over seven times the size of the VA industry. When I look at the numbers from my perspective as a salesperson, I think there are some questions regarding the VA business at \$868 billion in assets. Is this a mature market? Does it have room to grow? What is the competition? What are the products and sales aspects? From a competitive standpoint, I'm sure this has become a "me-too" environment in terms of distribution. There are many people who still are looking to get into this business. I would say that although it's not too late, they are behind the game in terms of getting into the market; nonetheless, people have looked at this as a viable market and, most importantly, they have looked at selling through banks.

There has been a proliferation of products. I'm sure many of you are aware of that, and I'll share with you some numbers in a moment. I think the most important question is whether the VA business can continue to grow. How does the growth outlook specifically apply to banks and, in turn, what does this foretell relative to insurance distribution? In 1985 there was \$4.5 billion in sales, and in 1998 there was just under \$100 billion in sales. If you look at the VA business today, I think no one would disagree that it has clearly been a growth business. There has been much written concerning either the continued success of this industry, or the demise of it, from a sales standpoint. I suggest to you that both are exaggerated. I think this will continue to be a growth business because there are fundamental forces at work. These forces will also apply to the distribution of life insurance.

I know you're all probably tired of baby boomer demographics and statistics. Nevertheless, I'll share with you one aspect, which I think is at least worthy of looking at. While the baby boomer population, ages 40 to 64, has grown to an estimated 30% of the total U.S. population at the close of this year, they control 70% of the financial assets in the U.S. economy. I think this shows that there is plenty of room for this industry to grow with regard to annuity products. More important, there will be a need for new products that will transcend into the life arena as well. First, Hartford and other companies have all been focused on the product-manufacturing side in terms of the asset accumulation business. Clearly, there's a growing need for income-related products; more and more of those are coming to market.

When you look at the wealth-transfer marketplace, no matter what statistics you believe, you would have to admit that the numbers are compelling. Some \$9 trillion in assets will change hands over the next 30 years, and that's a lot of potential business relative to people who need investment products that effectively deal with the tax complications of wealth transfer. At the same time, you have seen a lot of new combination products come to market; you've seen long-term care (LTC) become a prevalent topic of discussion, and I think those types of things

will continue to drive life insurance distribution. The bank marketplace will certainly play a role in that. There is still a need, even with these numbers, in the aging of the population; many people are working many, many years longer, and there is still a need for income replacement, which we all know is a fundamental product relative to the life insurance business.

Banks are going to play an important role in these developments. Let's look at why banks have been a formidable distribution outlet and a growing one, relative to both the annuity business and, soon, the life business. First, the name recognition and customer loyalty of banks in this country is clearly underestimated; it is one of the major differentiating factors that they have as a distribution outlet, and they also have access to millions of customers. Second, they have the capital and, therefore, the staying power to be successful in this business. If you compare the banks with the insurance companies, larger amounts of assets in capital belong to the banks. Regardless of the outcome of HR-10 legislation, banks will be a formidable force in the delivery and distribution of products, as well as in ownership of insurance distribution. Third, relative to people on the product-manufacturing side of our business, banks are far more technologically advanced regarding the compilation of information and demographic profiles of clients.

What are some of the barriers for insurance companies? What have been the barriers? First, regulation has been a barrier; however, this barrier has virtually disappeared relative to the annuity business, and it has been mitigated, relative to the insurance side. I believe this trend will continue. The other barriers regard fee income, which is how we refer to these products in the bank environment. Fee income has accounted for a relatively small piece of the banks' total net income; the biggest piece is spread income or interest. Therefore, there has not been a great amount of time and attention associated with these products. However, although it has been a small part of the banks' overall financial revenues, their customers have demanded these types of products, and I think you'll see, as life insurance products develop, that banks will be a major player.

At Hartford, our distribution is 100% through independent financial intermediaries; that includes banks, broker/dealers, or the independent financial planners. We are married to independent distribution and have no captive business. Product manufacturing and service, wholesaling, marketing support, and underlying asset management are those things that Hartford and other product manufacturers focus on in their business. Some of my colleagues here will be discussing the delivery of those products on a retail sales basis.

In terms of distribution of annuity products, banks, since 1990, have had nice growth and continued growth in fixed annuities and VAs. In 1990, a big portion of that business was the fixed annuity business. This was a natural progression from deposit-based products within a bank arena; so debt products were more prevalent in the early days, but, as banks have matured in their distribution, and as the equity markets have taken off, VAs have been a big part of annuity sales. Annuities made up 60% of a total of \$31 billion in traditional insurance sales by banks in 1998. However, as I mentioned earlier, there was a 35% increase in sales of traditional

insurance products, to the tune of \$8.6 billion, and that's in both life insurance and property & casualty insurance. Over 300 banks reported, in a recent survey, that they developed revenues from the delivery of traditional insurance products to their organizations last year. Again, I think it's a piece of the business that continues to grow.

Banks have been a big participant in the growth of the VA business. Banks and thrifts accounted for 7% of the distribution of VAs in 1998, compared to 4% in 1994. The other winners in this time period, regarding the distribution channel market share, were the regional firms and independent financial planners; some of the net losers, regarding distribution channel market share, were the New York wire houses and captive agencies. The VA sales volume for banks over the period of 1994–98 increased by some 213%. I think that the growing distribution expertise of these bank distributors, along with their asset situation and the knowledge they have of their customer base, means that this is a favorable environment toward the sale of annuity and life insurance products.

Our approach to this business, and one that I think will apply to life insurance, has been to offer a continuum of products and a product flexibility that responds to the changing investment needs of the public. VAs and immediate VAs, which I spoke of in terms of income products, is clearly an area this industry is focusing on. It is also focusing on transfer products such as single premium and variable life. Many product manufacturers are doing a good job of expanding their product line in response to changing conditions; this expansion includes traditional life products as well as estate-planning vehicles and other forms of insurance.

Our annuity business has followed suit with the overall growth of bank business. We entered this business early, with much focus. We partnered well with some of our bank partners. In 1994 our bank business comprised 23% of our total annuity sales; by 1998 this percentage had risen to 37%. These are fairly pure numbers that do not contemplate mergers and acquisitions (M&As) of banks and broker dealers. This is true growth of bank distribution.

The VA business is very competitive and is maturing relative to the number of products and companies involved. In 1992, there were 70 VA products available in the marketplace, compared to 180 in 1998; in 1992, there were 60 companies issuing VA products, compared to 115 in 1998. For the most part, this is good news for the consumer. There are more products with better features and benefits available, and prices are very competitive. Regarding bank distribution, the challenge for the product-manufacturing side and for others, in terms of third-party capacities and distribution arrangements, is that banks covet shelf space and limit the number of products available much more than any other distribution outlet. This places great importance on developing strong partnerships with these organizations. I believe the same will likely be true in terms of life insurance distribution. You will have to be a valued partner of these firms because they are going to have a limited number of products available, and there are many people vying for that limited shelf space.

A large portion of Hartford's annuity business is variable, but it has become very much a skill game. It is important that assets continue to grow within individual companies, and, as the pressure on margins and products increases, only the fittest will survive. This doesn't mean that there won't be niche players, but companies that have not had VAs as a core competency or strategy will likely move away from this business because it will be expensive to stay in. It is a core business for Hartford Life, and has been a core business over the last ten years in the bank business.

I want to discuss some of the factors that I think have been critical to our success, and I would suggest that they will have a bearing on the life insurance distribution side of the business. One factor is the role of the product manufacturer. We have stuck to our knitting. We think that's important, and the same will be true in life distribution. We focus on manufacturing products that are both competitive and the best available. We leave it to others to distribute them through the relationships they've developed. Brand recognition is another factor; we continue to leverage our brand, as do some of our competitors.

Another factor is long-term performance. Long-term, consistent performance makes a difference over time, and it's clearly important in bank distribution. Marketing support is another factor that we have focused on, and you'll hear Kevin Crowe talk about the expertise that an organization like his brings to the table. Technology is an important factor; it is no longer an advantage, but rather a price of admission, to be technologically advanced in this business. We've developed a fair amount of flexibility in dealing with bank partners. Finally, it's important that we have focused on sharing our success, meaning that, if these products work for the customer, they will work for us as a product manufacturer and work for our distribution partners.

What about life insurance? I think it's interesting to look at life insurance and some of the demographics at work as we go forward. The chief economist of Wellington Management made a telling statement at a seminar I attended recently; he said that the biggest financial asset the U.S. economy has, going into the next millennium, is the Net Generation, meaning the segment of the population under age 25. There are 96 million people who make up the Net Generation, while the Baby Boom Generation, which has received much more focus, includes 80 million people. We could have a very lengthy discussion here in terms of how many financial service products will be bought over the Internet in the future. The more important issue is the proliferation of information over the Internet. It's up to people on all sides of distribution to figure out the best ways to turn that information into knowledge. Clearly, some people will buy products over the Internet, but, at the same time, I believe advice will still be an important part of the business. Banks are positioned on both sides of this fence. They are deeply involved with the Internet. They are already selling products on the Internet, and they have the capacity to move financial data via the types of businesses they are already in. At the same time, I think they will continue to marry that with retail distribution, giving people the opportunity to have choice at the point-of-sale, both in terms of self-directing and in terms of seeking advice.

Whether I look back at what has been important in the annuity business or look forward in terms of life insurance, there are three things that come to mind in terms of what it will take to be successful in the long run. One is commitment. It's going to take willpower; it's going to take people and organizations that are willing to go through the peaks and valleys. Not many years ago, people said that banks would be unimportant relative to the distribution of annuity business; now they are a formal as well as the fastest growing distribution outlet. The second point is consistency. One of the things that has been difficult in this business is to resist the urge to be all things to all people. It takes focus and a commitment to bring the best products and services to the marketplace, particularly in light of the financial turbulence that exists, such as in the last several weeks and months relative to the equities in markets. People are again looking for alternatives to equities. Third, and most important, is to be competitive, not just in terms of products, but also as organizations in terms of flexibility and creativity. I'll speak for my organization. When founded in 1810, it was an old stodgy insurance company, so entrepreneurial isn't the first word that comes to mind within our culture. One of the things that has been important in our success is the creation of a sales culture that has allowed us to take advantage of opportunities to partner with banks, as well as other alternative sources of distribution. I leave you with those thoughts of what it may take to be successful. You'll now hear from some of the experts who deliver these products at point-of-sale.

Mr. Smith: The linkage here is that we're now going to move from the insurance company's perspective to the next link in our chain regarding bancassurance distribution, and that is with TPMs. At this time, I'd like to introduce Kevin Crowe. Kevin is the founder and chairman of Essex Corporation, one of the largest financial services companies that markets investments through banks across the country. He is the author of numerous articles and is a frequent speaker at business seminars. Kevin graduated from Penn State University, and then received his M.B.A. from the Wharton School of Business at the University of Pennsylvania. He is the 1999 recipient of the Financial Institutions Insurance Association bank and insurance industry award for his outstanding contributions to the bank and insurance industry. I wonder if they have a bancassurance counter there with their ATMs. Kevin also works with the Futures and Education Foundation in New York City and has partnered with a parochial school in Queens to help provide those children with a better opportunity to achieve their highest potential.

Mr. Kevin Crowe: Bruce has given you an idea of bank distribution and what it takes from the manufacturer point of view, which is clearly a key part. What I'd like to do now is to move into the distribution side and discuss some of the people who work with the manufacturers. I'd like to get into some specifics about programs: how they work, how we set them up with specific banks, and so forth. Before that, let me say that a number of people I've talked to have asked, "What are you doing here? You're not an actuary." I say, "No, I'm not, I'm with a TPM firm." They say, "What is that?" and I have to try to explain it. I think it would be helpful to take a minute to explain a little bit about the Essex Corporation.

What do we do, and how do we fit into the mix? We are really sort of the wholesaler between the manufacturer and the end user, which is the banking industry itself. We were founded in 1980 and have New York City headquarters. We now work with about 100 banks; this number used to be higher, but because of M&As, the number has been getting smaller. We have about 10,000 licensed representatives, although they are not all full-time. We have programs in the banks; the majority of those I'll talk about in a minute, but they involve the licensed branch employees of banks all over the country. These are the platform people who we get licensed and trained and so forth to sell products. We have about 1,000 full-time dedicated Essex representatives who we've put in some of the banks. We primarily work with a limited number of carriers.

In 1999, we were purchased by the John Hancock, and we're part of the Hancock organization now. One key thing is that we have maintained our independence as far as products we sell. We sell other products and design products with other companies, as well as with the Hancock, so we try to maintain our independence. What are some of the services that we provide? We get very involved in the area of product design. We work with people in the home office: the underwriters, the actuaries, and the marketing people. We say, "Here's the kind of product we want for the bank channel, and it doesn't matter whether it's an annuity or an insurance product." We work on an ongoing basis with them to design specific products that we hope will be a little bit different from the shelf products for the industry. We perform the due diligence for the various companies that the banks require. In the marketing area, we have our own internal ad agency, as I'll call it. We produce the brochures, the posters that are in the branches, the marketing campaigns, the folders, and so on. Training is a very big part of our business. We have six full-time corporate trainers, and all of our wholesalers are also very much involved in training. It's a constant and ongoing theme with all of our banking partners. Wholesaling is also obviously very important. It's getting out into the banks, working with the banks, working with the representatives, working with their programs, and helping in seminars and training them. We have about 40 wholesalers around the country. We also provide administration for a number of the banks. Many of them do their own back-office work, but we have a couple of systems, Life Track and Thesis, which track sales, clearing, and commissions; they also do the reporting. These systems report information by branch answering the question of, who did how much this month? The banks are looking at this information, as you'll see. As I think Jack will point out, some of these banks now have 500 to 1000 representatives; they're fairly sizable agencies. These are some of the services that we provide.

The products are primarily fixed annuities and VAs, which you're all very familiar with. We also sell mutual funds and life insurance products, and we're getting very much involved in the LTC area. I think, as Bruce said clearly, that the risk products, such as life insurance and LTC insurance, have not attained critical mass in sales through banking channels. They are growing, but, like annuities, it's going to take a while. This is where I think people like you need to come in and design products that are a little different for these channels.

There is an actual bank that, for our illustration, we'll call Money Bank. It's one of our clients. It has been a client for a number of years, and I thought it would be helpful to walk through how we market their products, what we do, who does what, and how we get involved with it. It has about \$18 billion in assets. There are 80 branches. The program started about three years ago, and one thing that I think is important is it reports to retail. We have worked with many, many banks over the years, and some banks have the sales investment program report to the trust department.

The thinking seems to be that the trust department knows what a mutual fund is. Therefore, everybody who sells annuities should report to the trust department. That usually doesn't work. The program doesn't work, and it gets shifted over to retail. Our thinking is that the reporting should be to the retail division, not to the Treasury department or the investment department, because the retail division of the bank owns the people who are going to be doing the selling. It owns the branch people, and it owns the branch managers who control where the sales take place. One other important thing is that this bank is very committed to making it work, getting it going, and getting the fee income-generated. It's not a short-term flash in the pan for them.

At this bank, as in any bank environment, we look at the different kinds of sales. We classify them into two different areas: the transaction sales and the relationship sales. The transaction sales are, as they say in the securities business, like dropping tickets. They usually are one-interview sales. There are no declines unless the customer rejects the offer, which is different from what we are used to here. It's a fairly simple annuity mutual fund; there's no underwriting involved or anything else. The relationship sales are what the business has been built on so far, and when you talk about \$25 billion or \$30 billion of sales through the bank channel, a vast majority of it is fixed annuities and VAs. The relationship sales usually require two or more appointments. They require underwriting, and are something the bankers on the platform are usually not used to. They sometimes require going back to the client and saying, "You can't have this; the bank won't let you." Or, "The insurance company won't let you have this product." Those are the types of products among which you divide your marketing efforts.

At Money Bank we have set up an insurance agency that we own; we move into the bank, we rent space from the bank, and we have about 30–35 of these agencies around the country at different banks. There are 40 full-time, dedicated sales representatives at Money Bank. They're life-licensed and Series 7-licensed; they're agency employees, not bank employees, so they technically work for Essex Corporation. They are representatives of our broker/dealer, and they get involved in the events sales, the big-ticket numbers, and the process of the bigger client sales. Plus, one of the things that has made a big difference to a lot of bank programs is licensing of branch employees. These are the people on the platform, of whom years ago the bank would say, "They can't sell, they don't have time. They have to close the bank; they have to count their nickels at 3:00 p.m. to make sure it all works. They're not "salespeople," and so forth. I think the whole

industry has proved that these people can sell if they're trained correctly and given the right incentive programs.

There are about 70 licensed branch employees. They are life, sometimes life only, and are usually also in programs. As the programs mature, they'll be Series 6-licensed, which means they can sell package products, mutual funds, and VAs. They handle the basic sales, usually under \$50,000; these will vary at the bank and tend to be transaction sales. At this bank, as at other banks that use our broker dealers, we sell through Message National Securities, which is a fully licensed National Association of Securities Dealers (NASD) broker/dealer; this enables us to sell VAs, mutual funds, stocks, and bonds. Stocks and bonds, in most of these programs, are sold as an accommodation; it's the thing that will cause you the most trouble and the most compliance problems, and earn you the least amount of money. Generally, it's an accommodation to someone who comes in and says, "I want to sell 300 shares of IBM that my grandmother left me." You need to be able to do that. As is true with our insurance company selections, mutual funds that we deal with are the big names that people know about. As questions come up, we don't have to answer the question of, "Who has my money?" They know that it's Fidelity, Putnam, Oppenheimer, or Franklin. They read these names in *Money* magazine. We have produced a consolidated customer statement, which is a little unique in that it has all of the stocks and bonds and other things on the statement that a lot of the brokerage firms do. We also include any of the VAs. We include Bruce's Hartford annuities, an American International Group-fixed annuity, or a Hancock fixed annuity or VA, along with the stocks and bonds; so it's a full, consolidated statement.

That's a description of what we put into the bank and some of the things that are necessary. The bank culture is much better now than it was five or ten years ago when the board would say, "Well, you can sell annuities here, but only as long as no money comes out of CDs, which are part of our deposits. Go across the street and get it all, but you can't get any money out of the bank." We used to refer to that as a sort of curmudgeon management. The curmudgeon style of management has mostly gone away, and the curmudgeons have been bought out, acquired, or learned that you do make a good bit of money with the annuity sales and the investment sales. If you don't sell them to the customer, Merrill Lynch, Metropolitan, Prudential, or the bank across the street will. You may disintermediate the money out of the CDs, but you get an attractive fee for doing it, and you don't disintermediate the customer; you keep the customer, which is the main thing. So the bank culture will vary from bank to bank concerning such things as commitment; however, it's much better now than it used to be.

I mentioned training before. That is very, very important. It is a continuous progress. You have 100 representatives, and, after they're all trained and are selling, you start tracking them to see which belong to the 20% who are doing the best; which are the middle 50%, and which are the bottom 30%. You have different programs to bring up the bottom 30% and the middle 50% and to sharpen the skills of the top 20%. We developed a hybrid program, a term you've heard as you've been involved in the bank business, 10-11 years ago, which is the

idea of having full-time dedicated representatives. They cover three, four, or five branches, depending on asset base. You could see them as roving investment representatives. You also license a bank employee in every branch so that you have coverage everywhere. Even if it's an upscale sale, you have someone there who can talk to the person and get him or her to come back, set an appointment or get him or her interested and certainly make all the transaction sales. That makes a big difference in expanding your sales force and your coverage.

Some of the broker/dealer issues, when you're dealing with banks or broker/dealers, are compliance issues. Many banks have their own broker/dealers. We deal with a lot of the banks that don't and use our broker/dealer. You're not sitting on the people daily. They're at a bank, and you have the back office. You're the principal, and they're supposed to be selling. However, there are a lot of compliance issues, and you want to try to limit the product menu. Reps come in that used to work at a bank across the street. They've been selling annuities, stocks and bonds, or mutual funds from someone else, and they have a great annuity from the Nightlife of Nebraska. They want to have that in the program because three people bought it when they were across the street. There are things like that that you have to deal with on the broker/dealer side. Stocks and bonds were something you were trying to keep only as an accommodation, not as a mainstream product.

I think you can identify some of the success factors from what we've already talked about. Quality products are one. What's a quality product? We ask, "Is that for the customer, or is that for the banker?" For the customer, you want to have the best product with no surrender charges, 10% interest on a fixed annuity, no commissions, and so forth. From the bank point of view, you want to have something that produces fee income because that's why you're in the business. You balance these considerations. We meet with insurance companies and talk about creating new products. When we're sitting around, I always bring in an empty chair and say, "Now the consumer is sitting here hearing every word that we talk about, and, if he or she doesn't buy it, we can just all go have lunch right now; we don't even have to get together." You have to keep the balance on the product side. You do need, as we've emphatically done over the years, to try to keep the products as simple as possible and try to keep the delivery as simple as possible. Don't complicate things with additional riders and other things that come into it. You have to remember that these are face-to-face sales, and that a representative is there; this is not a direct-mail business that we're talking about, but rather face-to-face sales.

Let's look at representative compensation. In the beginning, there were a number of banks, and there are still some now, that said, "We don't have to pay our bankers for this; they'll want to get licensed, take all the exams, do continuing education, and sell these products because they like the bank and what they do, and they want to keep their job." It doesn't happen that way anymore with representatives than with an agency force. The representative compensation formulas need to provide a real incentive, be fair, and balance out some of those things. Most important, if you don't have top management support, even if you

have all these other things, the program will fade. Management support needs to be ongoing, and it needs to be visible.

These are some of the things that we've had to deal with regarding Money Bank, just as with many of the other banks that we work with. We put all this together and ask, "Now how does it work, and what kind of sales do we expect?" With the profile we have, that will be helpful to give us an idea of the sales. We can reach conclusions, such as these will be 1999 sales unless everything falls off a cliff in the next month. As for fixed annuities, they'll do about \$120 million, which we think is very good for a 3-year-old program. Money Bank is very committed. It has full-time management people who are dedicated to making it work, and it is working with us on it. It is going to get into the tougher side next year, and we're starting with some life and LTC products that are a little bit more difficult to sell, which produce less income. But it knows it needs to do it. It knows it can be an important part and it knows it needs to grow that side of it.

What are the future opportunities and challenges? Life insurance is a growing business. This is where I'm convinced that all the people at this meeting can have more impact than I can. I've always been a great believer that product design is a major factor in selling through banks. You have to make it simple and easy to work with. You're not dealing with CLUs who are used to going out, doing four appointments, carrying through the underwriting, seeing that the medical is done, and all those kinds of things. It's a different mentality. With life insurance, at least in the bank marketplace, we feel it breaks down into three different markets. One is the simple market with the drive-by sale. It's the simple \$50,000 or \$100,000 term insurance sales that you can do without medical exams and blood exams, and that consists of a large mass of sales. Second, the middle market includes products like universal life and requires some underwriting. The third market includes LTC, which a lot of people think is expensive and complicated. I tend to agree. It needs to be to some degree, but I think we can simplify it. Auto and homeowners is not being sold much in the banks. It's a big challenge, but a big opportunity for sales outside the bank for small businesses and customers who don't come into the branch.

That gives you an idea of what we go through from the distribution side in working with carriers and banks; we help on both ends. We become the marketing department for the insurance company and the training and distribution arm for the banks.

Mr. Smith: We started this session from the perspective of an insurance company, which is the most familiar link in this bancassurance process. Now we really have a good picture of what occurs between an insurance company and ultimately a bank and a thrift through TPMs. At this point, I'd like to get to the last key player in the whole environment of bancassurance, which is the bank, the thrift, or the credit union. You can think of all three of those in a similar fashion. The person who will be speaking on this subject is Jack LaSalle. Jack is with Cal Fed, which is the second largest thrift in the U.S. Jack is senior vice president and director of sales. He has been with Cal Fed since 1991 and has been in the financial

services industry since 1981. Jack received a B.A. degree from the University of California Berkeley and an M.A. degree from Stanford University. He's responsible for the sales activities of 1,100 full-time and part-time investment salespeople.

Mr. Jack LaSalle: I think my comments are going to dovetail nicely with the prior two speakers. Cal Fed is at the distribution end. I'd like to first talk a little bit about Cal Fed and give you a sense of the size of our organization. Regarding the things that Kevin touched on, I think you'll find that we have a very similar structure. We're located in San Francisco. We have about 350 branches located throughout California and Nevada and \$54 billion in assets, which makes us the second largest thrift in the country; that's how we look structurally. The part of the organization that I work for is Cal Fed Investment, which is a wholly-owned subsidiary of the bank. We are a member of the NASD, and a registered broker/dealer. In terms of production, we'll do a little over \$1 billion in sales this year. We'll have just under \$54 million in revenue for the year, and that's with a little over 15,000 transactions a month. That gives you a sense for the volume we deal with.

Kevin mentioned hybrid programs. We are very much a hybrid program, and we structure ourselves using a sales team approach. We have about 100 financial consultants; those are dedicated Series 7 brokers in our branches. They're supported by about 1,000 licensed personal bankers, who are people on the platform in the bank, as well as the branch managers, who hold a Series 6 and a life and disability license. We also have, and this will be relevant to my comments and specific to mortality-based life insurance, nine insurance specialists who are internal wholesalers. Their sole job is to promote the sale of life insurance through our system. A new program we're launching involves group benefit specialists; their job is to partner with our business bankers in offering 401(k) plans to business owners. We currently have three group benefit specialists, but we're planning on adding two more.

Let's discuss how the sales team is set up in the branch. The financial consultants typically cover two to three branches, and, in those branches, they have two or three licensed personal bankers whom they work with. The focus of the licensed personal banker is the sale of core bank products, as well as making the more transaction-based investment sales. The financial consultant's role is to be the sales leader, as well as the sales coach, and to mentor the licensed personal bankers. Our product line is pretty standard. With the exception of one proprietary fixed annuity, our products are third-party-provided products. We work with some great partners and see no need to be a manufacturer.

We've done a lot in terms of growing our business of primarily mutual funds, as well as fixed and variable annuities. The \$64,000 question that I think is on everyone's mind in the industry is, why aren't banks selling more life insurance? There has been a tremendous growth of this channel, and yet, mortality-based life insurance is such a small portion of that channel. If we have all of this horsepower, why aren't we selling more? There are some obstacles that come into play. First, the brokers in bank programs primarily come from a wire house background, and not from a life insurance agency background. There's a propensity to sell mutual funds

and variable and fixed annuities, rather than life insurance. Second, a lot of what happens in the bank is transaction-based. Bank customers are used to completing a transaction, whether it's a checking account transaction or a mutual fund purchase; they want to have the transaction completed before they leave. That's somewhat of an obstacle for a sale that is not transaction-based. For fully underwritten products, two, three, or sometimes more appointments are needed before the sale is actually made. That's inconsistent with the way most business is conducted in a branch. As Kevin also said, that's important for you to be aware of when you're designing products that can help streamline the process.

The underwriting process is another thing that is an annoyance for branch bankers. It slows the sales process down, and when it comes to how we credit against our goals, we're very month-to-month based. Underwriting obviously takes its sweet time sometimes, and that creates a disconnect between the sales effort and the compensation. Also, if you look at people who go into banking or come from a brokerage background, you'll see that they are used to focusing on building someone's retirement nest egg and helping people put their kids through college. These are very positive things. Now you're going to talk about something that, ultimately, is a very negative thing, which is someone dying. That's something that's in the mind of the salesperson, not the customer; nonetheless, it's a mind-set we have to somehow overcome if we're going to be successful in selling more life insurance.

We're trying to streamline our processes regarding paper use. We're at a point that, this time next year, there will be no paper in our branches involved with mutual fund and annuity transactions. We're moving toward doing everything on-line; we're trying to streamline and get the paper out of the process. Some of the life products involve adding more paper back into the process. That's going in the opposite direction from where we're trying to take our sales process.

Then there are operational challenges, including our back office. We're just not set up to deal with simple things, like the billing cycles, that life insurance companies have. Again, looking at the way we're structured and how I think most banks are structured, you have goals that are based on monthly production rates; an underwritten product is not going to fit cleanly into a 30-day cycle. You have pending reports, and that creates a lot of inconsistency with the way the rest of sales, not including traditional bank product sales, are accounted for.

Those are some of the obstacles. What have we done to try to sell life insurance? We've had some starts and stops; I was trying to think of a literary analog, and I came up with several to kind of describe what we've been experiencing. The first is *Great Expectations*. We started with great expectations, but some of those didn't come through. It turned into the tragedy of *Macbeth*. At times it seemed like *Gulliver's Travels* or *Stranger in a Strange Land*, but I zeroed in on *The Odyssey* because it has been an odyssey for us. I think there's a good ending to the story, however, so let's take a look at our first attempt to take this sales force, which is very, very good at selling fixed and variable annuities and mutual funds, and getting them to sell life insurance to bank customers. In 1994 we launched a LTC

approach that had an interesting format. We took all of our financial consultants, put them through a crash course on LTC, and dubbed them experts. Just in case they ran into a tough question, we partnered with a life agency who was supposed to back them up.

That seemed like a pretty reasonable approach. Why did we choose LTC? If you look at the demographics, especially of thrifts, the customers tend to be older and have an understanding of the need for LTC insurance, so it seemed like a natural fit. What was our result? It was disappointing, for a number of reasons. First, the only sales that we really made were through financial consultants who already understood how to sell LTC insurance and had done it elsewhere. This was just old hat to them and the majority of our sales force didn't pick it up as fast as we thought they would. We came to the conclusion that we probably erred in the way we trained them. The agency, in theory, sounded like a good approach. I won't mention the company, but when it got down to the local level their reaction was, "Do you want us to help the banks? That's the enemy, why should we help those guys?" We never got the synergy that we were hoping for. Then, finally, financial consultants just weren't able to overcome their price objections that you run into with LTC insurance.

We reloaded to make another attempt. For round two, we said, "Rather than make the financial consultants become experts, let's go out and get some experts. We'll bring them in, and they can do joint sales." We went out and hired several insurance specialists who had life insurance backgrounds. We put them out into our system and also broadened the product range. We didn't just sell LTC; we really broadened the product range, and I think we ultimately broadened it too far and too fast. Nonetheless, that was the approach, and the idea was that the financial consultant would uncover a need for life insurance that would bring in the insurance specialist; the insurance specialist would make the sale and split the commissions with the financial consultant. Theoretically, here's a sale the financial consultant wouldn't have made otherwise, but they bring in the insurance specialist who makes the sale, and they get half of the commission.

The results were, once again, disappointing. The financial consultants were reluctant to refer customers to the insurance specialist, for a number of reasons. First, they perceived it as a channel conflict—a competing sales force. We heard those messages over and over again no matter how we tried to position it and explain to them that these are their friends. They didn't perceive it that way, in part, because they felt like they were losing control of the customer. They believed that they worked hard to develop customers. If the insurance specialist was brought in, he or she might mess up the relationship and lose the customer. So we had resistance there. Second, rather than what we thought was going to be a positive, they viewed the commission split as a negative. They believed that we were taking half that sale away from them. Finally, we really erred in trying to give them too much. We threw so much product at them that it all started to blur together, and they just threw up their hands and said, "Look, I'm just going to go sell mutual funds."

Now we're approaching the shores of Ithaca. Ulysses, after going through all of his trials and tribulations, did eventually make it back home to Ithaca, and I think it's on the horizon from where we are right now. Our current strategy seems to be working, not wildly so, but it seems to be moving in the right direction. Here's what we did. First, we said, "OK, it still makes sense to have insurance specialists, but let's rethink how we're working these people; let's make them internal wholesalers so they're not viewed as competing with the financial consultants. We'd rather think of them as a coach or as an ally."

Second, we have rationalized the product focus, and I'll speak more about that later. Third, we're trying to grow the business in a very strategic and logical fashion. Finally, we have an opportunity because we have 1,000 thousand licensed people on the platform who have life and disability licenses; they might as well use it to sell life insurance, so we're doing some things there. We are positioning ourselves as wholesalers; we give each insurance specialist a defined region of branches and financial consultants to work with. They're paid a salary plus they get an override on all the insurance business that is written in their area. Regardless of whether the financial consultant makes the sale, they're paid an override. The goal is to get as many people as possible smart about insurance and motivated to sell it.

We've really been focused on training the financial consultants and the licensed personal bankers. We're training our licensed personal brokers to go out and conduct LTC workshops, again trying to use a workshop or seminar strategy as the way to sell that product. Then they are able to go out on joint sales with the financial consultants. Initially, it's just to show them that our vision is not to have the insurance specialist drive all over the place on every single insurance sale; rather, when someone is first trying a new product if I'm the insurance specialist, I'll go out and do a joint sale with you. However, from that point on, you're on your own. I'll coach you, and you can call me on the phone, and, if it's a real big case, I'll go out there, but I can't cover all the ground. The way we're going to move the market or capture a share of the market is by having all 1,000 or more of our people selling life insurance by having a few specialists selling life insurance.

In terms of rationalizing the product focus, we're trying to limit the number of products that we're rolling out at one time. We're trying to start with products that look very investment-like, like single premium whole life then variable life, and then progress up from there. As I mentioned, we use a little different format for long-term care. We're going to meter the way we expand the product line. We're going to let people have a propensity for selling life insurance run faster. We have a pretty wide range of products on our approved list right now, but we're training on a fairly narrow band of those. The theory is that we want to get critical mass in a couple of products, and then add from there. If there's a representative who says, "Look, I've sold life insurance for the last ten years," we can say, "Great! Here's the product line. Go out there."

Finally, our goal is to get all of our financial consultants selling life insurance. In order to max out on their compensation next year, it will require that they sell life

insurance. People tend to do what you pay them to do. If we want them to sell life insurance, we should compensate them in a way that makes it important.

As I mentioned, we think we have an opportunity on the platform to utilize that sales force. There's one product that's very near and dear to Kevin's heart. We're trying to get our platform to sell a simple term product. We're having some initial success with that. When we train licensed personal bankers now on selling fixed annuities, we also train them to sell single premium life, with the idea that you ask the customer, "What do you want to do with this money?" If the answer is that it's money for retirement, we talk about fixed annuities. If the answer is, "I want to give at least something to the kids. I really don't need this money," then we talk about life insurance. Sometime early next year, we'll be adding variable life to our platform sales force.

We'll have \$54 million in revenue in 1999, and only about 4% of that will come from life insurance, but that is a 100% increase over 1998, and we're budgeting to at least double the 1999 result in 2000. I think there is a whole lot more we can do along those lines. We're very committed to this product line. Kevin has been quoted as saying that the banks have not cracked the code on how to sell life insurance. My conclusion is, we may not have broken the code, but we've narrowed down the first two digits.

Mr. Smith: I think the analogy of *The Odyssey* is probably very good because the journey did meander around, and you had several attempts as you described; there was also a lot of flexibility, and it didn't happen overnight. I think that's a great analogy, and it is probably indicative of what's happening with most banks and thrifts.

Mr. Carl E. Meier: One thing I always hear when we're talking about this subject is that the insurance industry must help you out with this underwriting problem because it does take time. You're not used to having to say, "No, you can't have this," or, "It's not going to be quite what you asked for due to underwriting constraints." At the same time, you want the most competitive product that we can give you. I know you all are smart. You know those things are interconnected and they work against each other. How do we help each other out on this? I think everybody could probably have some comments on that.

Mr. Crowe: That clearly is a problem, and we understand the underwriting issues. I guess there are some companies that are willing to be more aggressive than others as far as looking at doing new and progressive things. There are things that I think can be done for lower-end sales. I know some companies require blood for a \$20,000 sale, but that just won't fly in the bank marketplace. There are companies that will go up to \$100,000 without blood. If you can see whether you're approved right away, and if the questions are all appropriate without blood testing, that is a big step forward. You can indicate to the customer, "It looks like you're covered, and you should get your policy in ten days or a week," or something like that. The problem comes in when you go above the \$100,000, \$250,000, and \$500,000 amounts. You need more rigorous underwriting,

including blood samples and attending physician statements (APS). I don't have a magic answer for that. There's a lot of room to do things in some of the lower-end areas. The \$500,000 sale is tough, and you get into some of the things that we were just talking about. You can do a \$500,000 term sale to a 30-year-old for \$400, which is a good deal, and you should do it. However, it takes six weeks, seven weeks, or eight weeks to get it all done, and that's a long process. The bank wonders if there is anything else. It's a legitimate question, and I don't have a magic answer for that higher end.

Mr. LaSalle: I have two other comments. First, this is more of a training issue. How can we train? We need help in training our sales force to understand why products are underwritten, and why it takes time. If people understand these things, they can modify their sales presentation accordingly. Second, if there's some way to at least shorten the condition cycle, and I don't have any magic answers there, it tends to drive people's motivation. One of the criticisms I've heard from the branches is, "I forgot about that sale. It happened so long ago." They are very much geared to do something today and get paid today. The nature of our variable and fixed business is that we want to add funds and commissions. We have immediate gratification. If there's some way we can at least shorten the cycle, that would help.

Mr. Crowe: If the average annuity sale or fund sale in a bank is \$20,000, the bank may get \$1,200 the day they make the sale because, as Jack said, they wire. If they sell a \$500,000 insurance policy, which used to be a big deal, and it's a term policy with a \$500 premium, which they will probably deduct from the checking account, we're looking at about \$40 a month in premiums. If the bank receives 100% of the commission on a \$500 sale, and they receive it monthly, they get about \$40 a month versus \$1,200 today. Part of that goes to the representative. These are product issues that wouldn't be any different if it were auto insurance. These are issues that are different from what the industry had experienced on the investment side.

Mr. Ferris: In order to attract the representative's attention and have multical sales, which take more time and effort, you must give the representatives the big tickets—those larger cases that do require more underwriting. I think one of the things that we learned in evaluating these products is that we needed to keep it simple and respond to transactional-based products that had worked in the bank arena. We tried to homogenize everything and come out with a one-size-fits-all product, but we've moved away from that now with some of our products. It's OK to have two- or three-tier rating systems. For the higher tickets, there is going to be more scrutiny. That's OK, provided that the underwriting process is one that at least tries to deliver on the time frames and expectations that you have. It's a mistake to say it's not simplified underwriting and it is going to take longer. If you don't deliver on the time frames, it's the death nail for people like this.

Mr. Smith: Forgetting the all-important compensation, and how quickly that is paid, and forgetting the delay issuing the contract, how much of this could be

helped by having more of the process done by the insurance company versus by the bank or thrift? Do you have any thoughts on that?

Mr. Crowe: From the underwriting point of view, many of the products tried to avoid having the banker get involved. The insurance companies say, "We will call and do that over the phone." The banker doesn't want to sit there in the branch and ask the underwriting questions. The insurance companies are trying to take on as much of that as they can. Many insurance companies will go after the APS, which was traditionally the agency's job. Those are some of the things that help. You still need the customer's cooperation in setting up the exam and how many times can you call a customer to set up the paramed exam? They don't want to do it, or they set it up and then cancel it the day before the appointment, and you start over again. The companies can do a lot of these things. I think they're getting better at taking over some of the responsibilities.

Mr. Michael J. Villa: Mr. Ferris was talking about the growth in annuity money going into bancassurance. Is that mostly qualified money? What kind of a mixture of nonqualified and qualified is that? I was also wondering about the money's mobility. In other words, is a lot of that money being rolled from other places and, once it's placed in the bank, does it also get rolled to other insurance companies that the bank might work with?

Mr. Ferris: Let me take the first part of that. Relative to annuity money, I think the first part of your question is whether money that's going toward more traditional-based life products is coming out of qualified plans. I don't know the statistics regarding how much that is. I can assure you, based on what Kevin said, that there's not a lot of money coming from qualified sales in terms of total sales. The answer is no, in the broader aspect, but in terms of percentage, I don't know. The reality is that in the annuity business there's a lot of money in motion. There's money in motion between companies and between qualified plans. There are great debates in our industry about whether an annuity is a suitable place for qualified money. The answer to that, or at least my answer, is that it depends. It depends on what other sources have been invested in; maximizing out 401(k) plans and other instruments available to a client should be done first. It also depends on the product.

Concerning whether there is money relative to annuities now flowing into these other bank insurance products, the first example I use is the wealth-transfer need. We've done a good job as an industry, on the annuity side, of helping people accumulate assets in tax-deferred vehicles. We have not done a good job of helping people spend those assets efficiently. We've built the basis that these people do need to spend some of these monies in their retirement. Hence, I think you will see a new wave of income-type products that take advantage of exclusion allowances and other factors that allow the best tax features for that client.

The other part is the life products, which were mentioned, which allow for wealth transfer. There are people with accumulated wealth that aren't going to spend this money in their retirement. They want to pass this money to the next generation in

a tax-efficient manner, and we know that an annuity doesn't do that. I think that is where money is changing from one product to another, and justifiably so. It's our job, on the product-manufacturing side, to create better product vehicles to do that.

Mr. Hans J. Wagner: I have two not very closely related questions. First, the banks used to do a lot of mortgage origination. I would think they'd be accustomed to the underwriting process through that, and, I wonder if it is just a case of different people being involved. Is that why it's now a hassle with life products? Second, banks seem to be going out of their way to encourage people to not show up at the branch. There was a brief statement about remote access of customers, and I wonder what initiatives might be taking place there.

Mr. LaSalle: It really is a completely different file. In fact, within our institution, we have very limited access to the mortgage file. A different person is making the sale, and the customer is different. Unfortunately, there's not that comparison. It's not a good analogy to offer, and maybe we should think about it in the sales process; nonetheless, there's not much connection there.

Mr. Smith: It is interesting that the time frame for approving and closing on mortgages has gone down a lot in recent years, so that they've been under pressure on the mortgage side of the house to reduce that gap as well.

Mr. LaSalle: In fact, on our consumer-lending side, we have a 48-hour turnaround now. The consumers continue to pressure to get more products delivered to them faster for less cost.

Mr. Crowe: We don't have the 48-hour turnaround on a \$500,000 life insurance policy.

Mr. LaSalle: Regarding the remote or Internet sale, I think the name of the game is that different customers want to deal with you in different ways. In some cases, the same customer wants to deal with you on different levels. Our bank is like most banks; we're trying to develop our Internet banking. Frankly, I think term life insurance might be an excellent channel for selling life insurance and creating an opportunity to start the relationship with the customer on a life sale. Then we can call that customer to see if there are other things we can do for them or if we can transition them into more permanent insurance. I don't see them as mutually exclusive, and no one really knows the ultimate direction. Merrill Lynch is saying that the customers are going to vote with their feet. We want to position ourselves to handle customers on whatever level they want to be dealt with. If they want full service, we have full service. If they want bare bones at the lowest possible cost with no muss or fuss, we have that; if they want some point in between, we have that too. I think that's what banks are trying to do as well. I've heard our economy described as a scrimp-splurge economy. Customers will go to Sam's Club, Cosco, or big warehouses and push around carts with big pallets full of soup and stuff, and then these same customers will get in their car, drive down to

Nordstrom's, and pay above market for other products. I think financial services need to think about that and try to offer various distribution service levels.

Ms. Nancy A. Manning: You're talking about using the Internet as a way to reach out to your customers, but what about all the banks that currently have been looking at charging a customer who comes in to talk to a teller on a transaction basis? It seems to me that, in some of those instances, the banks have been discouraging the customer from coming in to build that relationship with that personal banker who wants to make this sale. How do we balance that type of arrangement when we talk about how the bank sells insurance, annuities, and mutual funds to those customers?

Mr. LaSalle: I guess I have a personal bias there. I hope more banks do that, because our bank doesn't, and it would give us a competitive advantage. I think that the problem has been blown a bit out of proportion. I think relationships continue to count, and, just as I said, that same customer today might not want to pay a service fee for a simple transaction, but tomorrow they might want to have some full-blown financial planning done. We have to make sure that we're not alienating that customer in the process.

Mr. Crowe: I think a lot of the banks are coming full circle on that. They installed the ATM machines eight or ten years ago, which got the people out of branches. They thought they would save people on transactions and so forth. Now, they're finding that they're losing the connection with people that comes from the basic transaction and other services. It's coming full circle to the point that they're saying, "Come in." That's clearly an issue that the banks are dealing with.

Mr. Ferris: I would agree with Jack that it's blown out of proportion in terms of how it actually plays out. Let's take an example of a branch of a major bank in Chinatown in New York. I assure you that people come into that branch every single day wanting to meet with their personal banker. They still use passbooks, which are very important to them, and they buy a great deal of investment products face-to-face with that individual.

Mr. LaSalle: In terms of financial services, who sells better on the Internet than Schwab? The vast majority of Schwab customers open their accounts at one of the Schwab centers. Even with someone whose primary growth is in the Internet, there is still that need to have a physical presence.