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Session 4PD
Current Trends in Distribution Channels: Where Are Banks Headed?

Track: Nontraditional Marketing

Moderator: Christopher H. Hause

Panelists: Christopher H. Hause
James W. Mann
Shaun Norris†

Summary: In this session, panelists discuss the current status and outlook for bank distribution of insurance products.

Topics covered include:
- *How has Gramm-Leach-Bliley changed things?*
- *What products are sold?*
- *What sales techniques and arrangements are used?*
- *Banks owning insurance companies — experiences.*
- *Insurance companies owning banks — experiences.*

Attendees gain an understanding of new developments in bank distribution of insurance products.

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†Shaun Norris, not a member of the sponsoring organizations, is vice president of sales and communications at Hibernia Insurance in Metarie, La.

Note: The chart(s) referred to in the text can be downloaded at: http://handouts.soa.org/conted/cearchive/neworleans-june05/004_bk.pdf.

MR. CHRISTOPHER H. HAUSE: It's a pleasure to have Mr. Shaun Norris here with Hibernia Bank. He will talk about commercial lines, which have been an important part of the banks entering into insurance sales.

I'll speak first. I'm the president of Hause Actuarial Solutions, an actuarial consulting and software firm. My background and emphasis have been on banks and insurance, credit insurance and debt cancellation. I will talk about the 10,000-foot view, the trends and arrangements, what has seemed to work and what has not seemed to work. I'll try to keep specific company names out of it, because I don't have any permission to use company names, but there certainly have been things that have worked for one segment that have not worked for others. I would encourage those of you who are involved in this to share some of your own experiences.

Our second speaker is Mr. James Mann. Mr. Mann recently was appointed reinsurance actuarial executive for Bank of America, relinquishing his duties as chief actuary for Bank of America debt-cancellation products. Mr. Mann was Bank of America's first accredited actuary and responsible for establishing an actuarial department and creating an actuarial database. Prior to joining Bank of America, Mr. Mann was the reinsurance actuary for Royal & SunAlliance, specializing in finite treaties and catastrophe modeling. Mr. Mann is an associate of the Casualty Actuarial Society. He holds a master's degree in applied mathematics and is a member of the Academy.

Mr. Norris is the vice president of sales and communications for Hibernia Insurance Agency. Mr. Norris is responsible for overseeing sales efforts at 17 property and casualty (P&C) insurance agencies. His duties include lead generation and qualification, unique selling propositions, value-added tools and systems integration. Mr. Norris also is responsible for all advertising and e-business efforts. He serves as a liaison between the agency and the bank to generate cross-selling opportunities, which is an important focus of banks and insurance. Before Mr. Norris joined Hibernia Bank, he was the marketing communications director for Wright & Percy Insurance, with oversight of advertising, new-product development, Internet commerce, sales coordination, marketing strategy and public relations. He was responsible for target and niche marketing for all lines of commercial and personal insurance for 20 agents across four branch offices and three banking joint ventures across Louisiana. He oversaw all image and brand development of an agency that grew from $90 million in insurance premium in 1997 to $138 million in 2000.

For the 10,000-foot view, you can't talk about banks and insurance without starting with Gramm-Leach-Bliley (GLB), a landmark legislation. As with a lot of laws, the laws seem to say or allow one thing or are silent on one or more things, and then along come the implementation and regulation that go along with the law. Certainly, the Office of the Comptroller Currency (OCC) has raised a few eyebrows with its implementation of GLB. The ability to use customer information is important to organizations that try to do cross-selling. Privacy, the Health Insurance

Portability and Accountability Act of 1996 (HIPAA) and the do-not-call list all have had a profound effect on the way that banks have been able to reach their customers.

How did GLB change things? It allowed bank holding companies to own insurers. This was something new. Bank insurance sales powers were greatly increased. The concept of debt-cancellation insurance specifically was provided for, which would have been, more or less, a battleground between state regulators, insurance companies and the banks that thought they had the right to do that. There were certainly some court cases that supported the concept of debt cancellation, and this formalized it. Insurance companies can now own banks. That went both ways. One of the more startling things was the level of intolerance that the banks had for the state-licensing procedures and requirements. The National Association of Registered Agents and Brokers (NARAB) became an industry household word. At the state level, this was perceived to be a rather severe threat to state sovereignty over agent licensing. Of course, GLB contained a significant element of privacy and consumer protection, including preserving states' rights to continue to promulgate consumer protection in conjunction with insurance and insurance sales.

Before GLB, banks and insurers were absolutely at each other's throats. It's tough to remember that now. I read some articles and letters in an industry publication from before GLB. It was interesting. The banks were perceived to have the upper hand in this. They had a better relationship, a better reputation with the consumer, but they also had a regulatory environment that was perceived to be more enabling, as opposed to the insurance regulatory structure, which seemed to be more limiting or perhaps disabling. I reread some of these articles recently. I read things like, "If banks are allowed to sell insurance, it's the death of the agency force, the death of insurance as we know it. They're going to use their leverage. They're going to tie sales. They're going to condition loans on whether a person would buy insurance from them." There were all sorts of horror stories. The banks countered with the notoriously underserved middle market. They said things like, "The agents have abandoned the middle market. Middle America is totally underinsured, and we are going to reach that segment." Those were the arguments prior to GLB.

After GLB, we're left wondering what all the fuss was about because the average insurance agent's life has not changed at all. Probably, the biggest effect is the relationships that these agencies have been able to build with banks, both on a local level and sometimes even on a national level. It's interesting to note that one of the biggest drivers of GLB was that Citicorp had acquired Travelers Group about three months before. That would have had to have been unwound, or GLB would have had to have been enacted. The unraveling of Citigroup Travelers is all but complete with the sale of Travelers Life & Annuity to MetLife. For the most part, we are left to speculate on why that might be.

If we can talk about the sales powers, banks, primarily, were selling annuities. For good reason, they had previously been declared investments. Now, sales powers involve individual life and health insurance, annuities, personal lines and commercial lines. Hause Slide 7 shows premiums pre-GLB, the year after and now. Individual insurance remains an extremely small part. Again, this is noncredit insurance. The whole pie has gotten bigger in terms of the bank's distribution. But the individual lines remain a small part of what the banks are distributing.

Personal and commercial lines are the two that appear to have taken the bigger proportionate share, but annuities take up a great deal more. You don't have to think too long to figure out why annuities fit so well into a bank environment. Annuities are tangible. They're immediate, and they're consistent with the offerings of the bank in terms of CDs. Banks are used to taking orders. It's a nice, fast turnaround sale, and it's consistent with the bank's current operations.

With regard to the regulation of insurance, we all remember the old "place-of-5,000" and what that meant. If you were selling from a town of 5,000 or less, there was a large controversy over whom you could sell to. National banks and their affiliates can now sell insurance to anyone from anyplace. They've removed all of those barriers. States still regulate the insurance underwriters. There was some fear that GLB might allow banks to underwrite all sorts of insurance, and that would fall under the OCC or federal regulation of some sort. But debt cancellation is not insurance. They made that clear. I think that there are about five states that still have debt cancellation laws on their books designating it as insurance, but they can't regulate it.

Let's discuss the mechanics of how a bank can sell. If you're going to get into the insurance business, and you're a bank, you could acquire a carrier. We saw several companies jump right in and buy a carrier, and others have done so more recently. Acquisition of a distributor is only one option, Insurance sales organizations have been bought up. We see a lot of joint ventures with distributors locally and regionally every day. You can hire representatives. Some critics to this approach would say that the representatives that were taken on were the people who could not make it by themselves. So why would they be successful in a bank environment? You can retrain your current employees. Each one of these approaches has its pluses and minuses.

On the bank holding companies owning insurers, let's go back to Citicorp Travelers again. A major impetus for GLB now is coming unraveled. There is no major trend, although we certainly have the Chase Insurance and Zurich Life situation starting to form. Why? There's a big ROE differential. Banks have absolutely no problem getting high teens. A well-run bank can get high teens in ROE. Insurance companies generally struggle to get low double digits. The other reason is that there has been no discovery of major operational efficiencies in putting the two organizations together. There's not a lot of commonality in management, perhaps

some risk management. Certainly, we're seeing some risk-management initiatives, but there are not many opportunities to become more efficient.

The ACLI says that bank-insurance sales depend on managerial commitment. The biggest commitment is to buy a carrier. The smallest commitment is to retrain a few tellers.

Conversely, insurance companies can now own banks. Insurance companies have started banks and bought small, local, regional banks, but they've been taking a measured approach. It's been consumer-oriented, and it's been consistent with their base operations. A large seller of annuities may have a bank affiliate that, for instance, would be direct depositing your monthly annuity payments into a bank account. That's the type of approach that insurance companies have taken in owning banks, a slow and measured approach.

Now I will talk about credit insurance and the debt-cancellation environment. The other two speakers will handle the sales of personal and commercial lines and some other things. The problem with credit insurance is that, first of all, you have limited benefits. You have life and disability, and you have price regulation. In many states, you have compensation regulations. You have minimum loss-ratio requirements. But if your losses are too high, you don't make money. There's a lot of pressure on the commission side to keep them as high as possible for competitive reasons, and if your losses turn the wrong way, you need to absorb them. Credit insurance has been pummeled with bad press. Some of it is inaccurate, to say the least, but how many times do you have to see the headline "Credit Insurance Is a Rip-Off" before you start to believe it?

The real problem is agent-licensing. The framers of the new law didn't like the current state of agent licensing. I can't tell you how many market conduct examinations I've seen for which a new bank holding company was signed up by an insurer and started to write before all of its licensing was complete. These companies got slapped with huge fines for agent licensing. Pre-GLB, there were huge differences in continuing education, the process that you go through, the forms that you fill out, etc. In 2000, there were headlines such as "NAIC and Legislatures Vow No NARAB." On November 12, 2002, 39 states were certified with licensing reciprocity, so NARAB was averted, although there's a lot of push for a self-governing body in Washington, D.C., with a national scope similar to the National Association of Securities Dealers (NASD). I don't think NARAB is dead yet, even though the mandatory enactment of NARAB was averted by the satisfaction of agent licensing by the NAIC effort. That was a fairly monumental effort.

Talking about debt cancellation again, remember when I said that credit insurance has all of these loss-ratio requirements and bad press? There also are a number of regulatory requirements that can be somewhat onerous. Not to be outdone, the consumer representatives are hammering in Washington, D.C., about debt

cancellation. In their minds, this is the opportunity to be totally unregulated. The OCC is starting to listen.

With debt-cancellation programs there was a lot of interest in safety and soundness when banks first started to write the coverage. The OCC wanted to know that the bank was aware of what risks they were taking on. Concern seems to be shifting more toward consumer protection—providing actual value, not just perceived value—on debt-cancellation programs. In examination, you're supposed to take 30 of your debt-cancellation accounts—and this is more or less like what we would be familiar with as a market conduct. The OCC would review your claims and make sure that your claimants are being handled correctly. The OCC now is doing what the states were doing. It's looking at value. It may be looking at loss ratios. Soon, it's going to be looking at fees. It's looking at treatment of the consumer, and it's looking at disclosure.

The banks are no slouches at disclosure. I don't think that they will have a problem living within good disclosure and fair treatment guidelines. As a matter of fact, most of the requests that I have been getting recently from client banks are to increase the value of the claim rate. We work with a credit-card company that is astounded and a little concerned at the low claim rate that it's getting. Management felt that its claim rate was going to be higher. We're also looking at some changes to encourage more people to keep the benefits because once you sign up for it, you agree to pay "x" cents per $100. Generally speaking, they're not notified again. There's going to be a push toward making sure that people are made aware on a monthly statement that they have this benefit.

What has happened? Credit-card issuers were all over it. As soon as they could shut down their credit-insurance operation, they did. Mortgages were the next area. They used a monthly payment, sometimes a fixed payment, sometimes dependent on the outstanding balance, but they were the next ones to jump into debt cancellation.

Installment payment trends are questionable. Credit unions collect premiums, generally, on a monthly basis. But the banks and auto dealers have not cracked that yet. Home equity is probably the next. Home equity has been tough on credit insurance in the past. We may be able to avoid some of the pitfalls in home equity with proper pricing and scheduling. But on installment loans, the law created the opportunity, and the regulation killed it. For the majority of your installment loaners—bank, finance company and auto dealer—if you force them to have a monthly payment alternative to a single premium, the auto dealers can't do it. The banks were not in a position, technologically, to do it. Finance companies have no reason, because most of them have captive insurance companies anyway. They have it down to a science. This is one situation for which the regulation put a screeching halt to the installment side of things.

What about Middle America? The evidence and the articles that we read say that this or any other marketing did not reach Middle America. Still, we say that Middle America is underserved. There are cultural differences between the banks and the insurance products currently for sale. You have nonstandard products. One person will be priced differently from another person. Each person will have different needs. The worst difference that you could get on a fixed annuity is, How long is your guaranteed initial interest period? There are delays in delivery. They don't like the underwriting process. The insurance business is in sales. P&C is more service-oriented. Life insurance is high-maintenance.

Also, in the late 1960s and early 1970s, banks started drive-through banking and ATMs. They put the branches in the neighborhood. All of that kept people out of the bank lobby. Because of the personnel requirement, banks didn't want big rooms full of tellers. They wanted you to drive through, put your paycheck in a tube and get out. There was little human interaction. It had a low cost, but the effect of that was that they chased everybody out of the lobby. People didn't come to the lobby to fill out their deposit slips, chat with the teller and pick up the leaflets about the other services that the bank offers. That was a fairly significant movement. Now they have to find other ways to reach that customer, because they don't have that personal interaction or the leaflets.

Here's a bit about consumer and privacy protection. We did two sessions on this recently (10PD from the 2000 New York annual meeting, and 45PD from the spring 2004 San Antonio meeting). I'm not going to go through all of that here today, but if you want to, look up the transcripts from those two sessions. Consumer-privacy protection, HIPAA, do-not-call, and how to telemarket in a do-not-call environment are covered fairly well.

Where are we headed? Banks will distribute insurance. The best thing that they can do is take the underwriting out of the bank. In my opinion, this is why some banks have either acquired or joint ventured with an outside insurance agency, a brokerage general agency or a large distribution center of some type. They can confine their business to order-taking and referring, and let the insurance professionals take it from there. That's another reason why, perhaps, some people who are better at direct marketing are going to be more successful. They are used to doing all of the underwriting and screening via an application that was sent through the mail.

Insurance products will become more bank-friendly. It's possible that they're going to be more generalized. We will see fewer underwriting categories. In my opinion, for the foreseeable future, the middle market will remain underserved. They will find ways to make these products more bank-friendly, but it will take a while. In the long run, credit insurance will be a thing of the past. Debt cancellation will replace it entirely. It will be a matter of time. It's a relentless erosion.

MR. JAMES W. MANN: I am an actuary with Bank of America. I have been examining how the bank can become more of an insurance carrier rather than just a bank. I'm going to have the opportunity to share a couple of our experiences with two case studies. We are looking at other areas in the life side, too.

I will start with the two areas that have been nearest and dearest to me: personal-lines insurance and reinsurance, both of which have taught us a lot. I would say that personal lines, for me, were the most natural extension. I came from a personal-lines background. Personal-lines insurance is a commodity. You might have a few people who differentiate on some of the exposures that are covered or the replacement cost that's offered. By and large, it is a commodity for which price matters. What drives the price? The only two areas you can affect are the commission you pay to your agents and your internal costs.

Reinsurance came later in the game. It evolved from our old credit-insurance days, when insurance companies had too much capital and nothing to do with it. It led to several questions about how we can use capital most efficiently and what seems to be market rate.

Regarding personal lines under GLB, I want to identify why we felt that personal lines were a strong fit for us. It attacked one of the cost issues regarding paying a broker to sell your business. We no longer pay a personal-lines external broker 10 percent to 15 percent commission because we have a built-in distribution network already. We sell thousands of loans every day, and our sales force already has been taught how to sell many ancillary items, for instance, mortgages. For those of you who have gotten mortgages from banks, they will cross-sell credit cards. They'll cross-sell credit insurance. They'll cross-sell pretty much anything and everything that has shown some type of penetration in the past. The sales force has experience, is comfortable doing it and is comfortable pushing it, especially for something with a higher margin, which insurance has.

We also find in the bank that, as in most companies, the more touch points, meaning the more sales that you tie people to the bank with, the better customers they are. Insurance is giving us another draw for those customers as we become their trusted advisor for all things financial. That is a win for the bank, not just for the insurance group. Another benefit would be the payment plans. Ensuring that payments occur in a timely fashion is difficult to do, and people often will let their insurance lapse. When you directly tie it into their savings and checking account or even against their credit card, you can be sure that they're going to pay. The lapse drops greatly. It also helps us in that we can cross-sell our savings and checking accounts by offering it to them as an easy payment plan. It's a win-win in both directions.

Finally, when we close mortgages (I won't go into percentages), a sizable, material number of mortgages never close, because insurance is not present at the closing table. In spite of all of our best efforts to communicate that to them, some of them

either forget or have problems. Having an insurance carrier with us will enable us to ensure that the insurance is there. We also can monitor it going forward. Of course, we have to be cognizant of the privacy issues that exist now under GLB, but we will have a much easier time ensuring that the insurance stays in place and offering them solutions should insurance not be brought to the table. These were some of the advantages.

We examined what kind of models are available to the bank. There were three straightforward models. There's the easiest way to do it: We'll be a broker. Being a broker, we won't have to start up much. We will use insurance companies that already are established. There already will be a comfort with the customer knowing the name. We'll be in the market quickly, and it's fee-based income. I'll step back for a second to state some of my experiences in the bank when it comes to insurance. Banks love fee-based income. They don't like variable income. Insurance, by its very nature, is variable when you take risk. The closer we can make it to a flat line, as opposed to variable, the happier the banks are. We also have the issue of a lack of comfort when it comes to taking risk. They haven't taken risk that often in the past. At least they say that they haven't, although when you step back and think about the risk that they take whenever they write a loan, they take risk every day. I think that they like to ignore that and view insurance risk as something different. We have to manage those expectations and help them learn that this risk can be handled, understood and priced correctly.

Let's get back to broker startup versus established. We found that the issues with that would be licensing issues. We have to have licensed agents to sell P&C insurance. We didn't have them at the time. We also felt that there was a credit risk with the insurer at the bank. The bank had deep pockets, there's no doubt about that. If the insurer failed, we felt that, being the broker, we easily could be held liable for any claim the insurer could not pay, and we *would* be held liable for them. That can be a definite issue in some states, such as Florida, where it's difficult to find an insurer. When you do, it's generally not heavily capitalized.

We decided to look at a possible underwriter-and-broker relationship. We thought that if they have this fear of taking some credit risk, we will offer some type of stop-loss for them. In a sense, we're formalizing some of the credit risk. We also will increase our income. The issue is, we are assuming risk. Now we have to manage that. Finally, the catastrophe risk is an issue. We have to manage that. I can tell you that, as soon as you mention catastrophe and risk in the bank, it generally isn't met with excitement. The final option is full service. You broker it. You write it. You administer the claims. You pay the claims. You touch the customer from beginning to end, which offers the definite advantage of guaranteeing a good customer experience. You also can offer competitive rates, similar to a Geico. You could cut out some of the additional profits that you're paying to an independent broker and offer a more competitive product. Unlike the underwriter and broker idea, for which you'd have to be licensed only in the state of the insurer that you're reinsuring, under the full-service idea, you'd have to have a 50-state license. Being

called Bank of America, unfortunately, means that we generally have to be licensed in all 50 states, which can be expensive. We would have to establish a claims administrator or hire one third-party, and it's a high-expense model.

Let me move onto our examples. The first attempt occurred right before I started at Bank of America. I came on as it was winding it down. Bank of America contracted with a nationally known P&C company to offer personal-lines insurance (auto and homeowners) through brick-and-mortar offices on the West Coast. It would approach the local agent, and each of the local agents would take one of its employees and place that employee in a desk in the Bank of America office. Bank of America would receive a small fee for pushing business that way. It seemed to be a fairly straightforward model that should work well. It failed miserably. There were several problems. I would say that the biggest problem was having only one underwriter. Whenever we would channel people there, it would be people who were just approved for a car loan or a homeowner's loan. Bank of America, essentially, was telling them they were good customers, and it wanted them. We would send them into the insurance agent, who used one insurance company to try to underwrite them. And 10 percent or 20 percent of the time, the company couldn't place them. That was a horrible customer experience, because people were told on one hand that they could get a loan, but they weren't a good-enough risk to get insurance. We had to manage some unhappy customers. It was never researched, but it was felt that we lost some loans because some customers were so dissatisfied with the poor experience.

We had other issues. The referral process was broken. It never was established well that the customers should be sent to the insurance agent. They weren't sent as often as they should have been. It wasn't optimized, in the sense that, sometimes we might send two or three people to the insurance agent at once. They'd be overloaded, and we'd lose business. We decided that pushing the agents out to each branch was not the best way to go. We pulled back, regrouped, and started our second attempt.

We had two major changes. We established a licensed call center that would allow for some type of scaling of underwriting the business. If we had 10 calls, we could manage it much more easily than having one person in a branch trying to manage 10 people in a waiting room. We also identified numerous carriers to ensure that we always would have at least one carrier that would write the business. Maybe they could get a better price if they looked independently, but we could promise them that at least one insurance carrier would write them. That worked fairly well. It's going on now. We still have issues. I think that one of the main issues was simply the cost. Establishing a 50-state, licensed call center was definitely not cheap, but we managed through that.

I would still say that we have issues. One of the big issues that we have is getting the business. It is a new business model, and our agents push so many items that it is difficult to get on their slate. We've had to get buy-in from a lot of the

administrators of the loan operation. We've been making inroads slowly. Unfortunately, I would say that our greatest problem probably has been with leadership. To be blunt, I think that some of our leadership in this process has not been as strong as it needs to be to manage the business and ensure that it gets there and that we're closing the insurances coming through. As you can see, we've had some experience. We've learned a lot. I'm still optimistic about what we can do with personal lines. There are successful banks out there that have found it much simpler to buy an insurance agency and go that route. We decided to make it more internal. Hopefully, in about one more year, we're going to start seeing some excellent returns from it.

Surprisingly enough, reinsurance was not felt to be a natural fit in the beginning. but when you look at a bank, we were traditionally a credit-insurance writer, which was allowed. Under credit insurance, we have several insurance companies. The bank never would dividend. It would let the income build up in the company. We tried to dividend to the bank. For those of you who want a fun experience, go to a bank that tells you not to send it cash because it doesn't need it. There's too much cash in the bank as it is. The cost of capital is only about 2 percent to 3 percent, and it leaves it there, especially with the fact that insurance companies can invest at a higher return than the bank can. It felt that by leaving it there, it was getting a higher return than it would have had it brought it back into the bank itself. The situation we found ourselves in was a bank with several insurance companies, all with about $500 million of unleveraged capital and some experience taking credit risk. The insurance companies were also A-rated, which was a positive benefit. We decided to move into the reinsurance field.

We definitely had some problems up front. I would say that the biggest was that our insurance companies were underneath the bank. This was allowed for credit insurance. If an insurance company was directly underneath a bank, it was allowed to write credit insurance on loans that were originated by the bank under which it lies. We needed to move it outside of the bank or restructure the corporate tree to allow the insurance companies to fall underneath the holding company, rather than the bank. So we did that. That immediately freed it up to be an insurance company. Of course, we were licensed to write credit insurance in only about 27 states. That would not allow us to be an effective insurance writer, so we started a licensing operation that quickly brought us to around 49 states.

The final thing we have to deal with is privacy. Bank of America prides itself on its higher standards. If you ever see our logo, one part of it is higher standards. With privacy, we truly have taken that seriously. There are loopholes in the privacy regulations that would allow you to do some things that might be questionable but legal. The bank and the legal group have said that there will be no allowances for any type of "wiggle room." We will take it at face value. Because of that, we definitely have challenges regarding privacy in that we thought it would be easy to transfer data back and forth and populate systems. Without having the customers sign off, we cannot do that.

Those would be the issues that affected us on the reinsurance side, but we were a able to overcome them. As of last year, we started writing some reinsurance.

I don't know your familiarity with debt cancellation, but I'll give you a brief overview so that you can follow along with why Bank of America feels it is a natural fit. Credit insurance was the beast of burden for a long time at the banks, offering disability and accidental death and life coverage. Consumer advocates, Fannie Mae and several other converging issues killed it several years ago. Debt cancellation has taken its place. Debt cancellation is a noninsurance, loan-based offering that offers some of the same items that were offered under credit insurance. But it also offers some that weren't as frequently offered, such as unemployment insurance, etc. Bank of America, especially after the purchase of Fleet, has been the on the cutting edge of both card-debt-cancellation products and mortgage-debt-cancellation products. Many other banks are moving into it now, because it finally has reached the point at which credit insurance is no longer viable for even some of the smaller players. Bank of America sees an opportunity to help incoming companies manage their risk.

Why do we feel that we're successful? We've been a leader in debt cancellation. We have several years of loss data, which no one else has, especially on the mortgage side. Fannie Mae is a controlling entity when it comes to debt cancellation and mortgages. We feel that we have a good understanding of what it's doing. For us, it offers diversity beyond what we're already seeing with our own book of business, especially with accidental death. It's always nice to increase the numbers in one place and to decrease your volatility in another. The risk is completely understood by our group. I'd say that the only issue that we're seeing with this is small volume, because everyone is ramping up. The dollar amounts are extremely small. When you're dealing with a company for which, if it isn't $100 million, it's not even a rounding error, it's hard to get on the radar. But we are optimistic about this. We feel that it will grow around the nation, and there'll be a lot more opportunity.

Warranty came to us late in the game but has been the most fun for me. Our credit-card company has offered warranties for a long time in the sense that, when you buy something with your credit card, you get an extended warranty. We understood that risk. We even had some risk data. We have since gone to the independent providers of product and are starting to underwrite their business. Some of this is reinsurance. Some of it is more insurance in the sense that you might be clipping their losses. However, we view it all as being reinsurance in that you have one large risk taker who's consolidating the risk, and we're insuring that taker. This is a great coverage for us, because it's simple to write. It requires you to be licensed only in the one state in which you're insuring the risk taker. There are low severities. This is a true diversity in our exposure. We have nothing else that matches it. Once again, you have to take a lot of deals to hit a large size. Unless you can get a Best Buy, or someone large like that, the volumes are small. You have to have an administrator. Finally, this industry is plagued by poor reputation. There's a reputation risk that we are assuming.

The next opportunity is surplus relief, XXX and those types of needs. We have $500 million of unallocated surplus that is sitting there unused. Even leveraging for another 100 to 200 basis points of return is desirable. We've spent a great deal of time looking at this. We've looked at entering into a few small deals. We have not done it yet. One of the main drivers is that we wanted to use more of an offshore facility to realize the higher leveraging capability. But you need your trust fund or your letter of credit. I would even say that for a bank, when you're talking about $1 billion or $2 billion, cash becomes an issue, because you start running against liquidity ratios. I talked to our treasury group about that. It said that, in order to do that, it would impact our liquidity and probably would not be possible. In offering a letter of credit, I was hoping that we could leverage the internal letter of credit to do well. But Regulations 23(a) and (b) govern a bank's ability to loan to its affiliates and are more onerous than a third-party bank loaning to us. We don't have a true solution there. This is being done specifically by Wachovia. It's managed to handle this business. We have not found a solution that we are happy with that gets us the returns that we want yet. Where we stand now, if nothing else, we can offer a warehouse while our capital-markets group can package and securitize it, which is where the industry is going. We hope to make a mark in the field, but it's on the drawing board still. We expect great things in the future.

MR. HAUSE: How are you getting the word out to insurers that might need surplus relief?

MR. MANN: We've done it in a couple of ways. We spoke with several brokers. Our first mistake was going to several of the larger brokers that, first, tried to send us all of the business that no one else would ever want to touch. We found out that was more of a mistake. It's been mainly now through our Manhattan office. It has direct relations with many of the insurance groups out there, because it's talking to them about some type of structure. It's called our "structured products group." It generally is our distribution channel. It will try to build the structured settlement and will contact us when it needs a warehouse to store the business until it reaches the critical mass to securitize.

MR. SHAUN NORRIS: Hibernia Bank is a $20 billion-asset, regional bank that recently sold to Capital One. Primarily in Louisiana, Hibernia Bank has about 27 percent market share, in both commercial and consumer banking. It is a dominant bank, with one of the most devastating market shares of any bank in the United States. This is part of the reason that Capital One decided to use it as the platform bank from which to grow future banking opportunities.

My background is in marketing, communications and advertising. I'll be able to speak to my side of the business, which is where the rubber meets the road. We are in front of customers. We see what is happening, what distribution is working, and what distribution is not working.

My perspective today will give you a little bit of insight into what Mr. Hause is going through directly. He's underwriting the product. We're strictly a distributor. He's focusing more on personal lines. We're having more success with commercial lines. That's our focus. There are a couple of reasons why we focus more on commercial lines than on personal lines. One is our geographic location. We get hit with a hurricane about once every five years, and there are not a lot of markets dying to distribute personal-lines products through our agency. It's hard for us to compete with the State Farms and the Allstates. We're finding that, as the market softens a little bit on the P&C side, we're able to compete better. We've had more success with the high-end, elite, private-client group. We distribute our personal-lines products to people who have million-dollar homes and Ferraris. We just picked up an account for an individual who spends in excess of $100,000 a year on personal insurance. We're now target marketing in a niche format to specific consumer individuals.

It's not a flip of the switch, though. I think that people seven or eight years ago were saying that they would either joint venture with a company or buy an agency or insurance company and it would flow simply. This presentation that I'm about to give today is the exact presentation that I give to our commercial bankers. I have to make the rounds on a regular basis to Baton Rouge, Shreveport, Dallas and Houston. There is constantly something that I have to do to sell these guys on our agency, because on Monday mornings, these commercial bankers have sales meetings, and there is a legal sheet with about 20 different products that commercial bankers are expected to cross-sell—trust, treasury, private-client group, employee benefits, P&C insurance, you name it. They've got to know a little bit about all of these products. When they get in front of their credit customer, they have to choose which products they want to talk about and be listening for the key words to find out if there's an opportunity for them to sell it or not. That's the reason that I chose to bring this presentation to you today, to give you a little bit of insight into the struggle that we face every day. It takes a lot of effort.

Hibernia Insurance purchased the agency that I worked for in 2001. It's a Top-100 insurance broker. We currently do $200 million in premium. We're ranked 64th by *Business Insurance*. Our lines include commercial P&C, which makes up about 60 percent of our revenue; personal lines, which make up about 10 percent of our revenue; and employee benefits, which make up about 30 percent of our revenue. Private-client group, which is another division in our bank, is going to handle our 401(k)s, annuities, life insurance, etc. We don't get the opportunity to generate income out of that piece of the business.

Where have we had the most success cross-selling? Inside of our agency, we have had the most success with group health insurance. There are a number of reasons why it's easier for us to be successful on that side of the business than on the P&C side. First, it renews every month. In Louisiana, on the P&C side, if we can pick up your business on an agent-of-record letter today, but you don't renew until December 1, I don't get paid. We're working for free. In the employee-benefits

world, if you can pick up a piece of business on an agent-of-record letter, it renews every month. You start getting paid at the expiration date of that next month. Obviously, there's more urgency there. You can pick it up at any point in time. The rates are good for a year, but the policy renews every month.

Regarding meaningful technology and reporting, we're starting to find out that there are tools in the employee-benefits world that allow us to get information on utilization rates, and we have acquired these technologies. That automatically gives us an advantage. You or I couldn't just open our agency tomorrow and get a contract with these companies like Zurich, CNA and AIG. They are not liberal with the way that they allow contracts to be had by agents. For BlueCross BlueShield of Louisiana, I can get one tomorrow, and I can start selling group-health insurance out of my bedroom. Therefore, the level of competition on employee benefits could be as strong as what we see when we go up against a Lockton, or it can be weak as somebody who got a license last week and got a contract with BlueCross BlueShield. Therefore, we are taking a lot of business away from agents who have not been in the business that long, agents who don't have the back-room support. Obviously, we have access to leads, because we're tied into a bank. We're able to pick some low-hanging fruit on an immediate basis because it renews every month.

Carrier quotes are good for all ages. Basically, if BlueCross issues a quote for Hibernia Insurance, and it issues a quote for my old agency down the road, that quote goes for both of us. We're not blocked from representing that company in that particular quote. However, on the P&C side, if I'm representing Zurich, and Mr. Hause is representing AIG, that quote is good for that agent and that agent only. This is a world in which there aren't that many insurance companies. There's a lot of consolidation in the insurance industry, as well. You may have three or four interested companies on any one given risk at any one renewal date. If you don't have the company that you want, you're spinning your wheels. That's one of the things that the bank has had a hard time understanding. They think, "Let's just flip this switch. Let's get all these customers to move from our bank over to our insurance agency. Let's go talk to your board of directors about their company."

We can meet a board of directors at Company A, and it says, "We're with AIG. Last year, we got quotes from Zurich, CNA and AIG, and AIG had the best product and the best price." We'll take the policies, bring them back to the office, examine them and find that there are a few things that we might have done differently, but AIG had the best offer. How will we move that piece of business? We could ask the board to let us take the AIG quote and handle the account. In the mindset of people like risk managers, CFOs and CEOs, who have been bidding out their insurance every single year, they think, "I'm not going to give you anything. You go find a market and bring a competitive price." In turn, we say, "There are only four guys to go to. Your agent went to all four." How could we move this piece of business away? It's been difficult.

The good side is that nobody takes business away from us. We're a 50-year-old insurance agency. Every year, we renew 90 percent of our business. Customers come back through the drive-through and buy again. But when we go to take business, we will have a only 10 percent success rate, unless we do a lot more homework on the front end. On the P&C side of the business, on average it takes us three years to take business away from a broker. That's why employee benefits are a little easier to have success with on an immediate basis than is P&C. If you think about the national employee-benefit brokers, there aren't as many big companies involved in it in Louisiana. We have BlueCross BlueShield of Louisiana, United Health Care and Coventry. At this point, a Lockton can come in, but a Lockton doesn't have any more advantage over a BlueCross BlueShield of Louisiana than Hibernia Insurance does. The P&C brokerage side is a more mature side of the business than the employee-benefit side is.

We consult with the banks and tell them where their expectations need to be. That's the most important thing in bank and insurance cultures. You must be able to manage expectations. Relationship managers at the banks are handling 20-some-odd different products. They will spend their time on what will make the most money. We pay these bankers money every time they write a new piece of business. Either they will get a referral fee, or, if they're licensed, they will get one year's worth of commission. We have to do a lot of the work for the bankers. We have to show them what an expiration date is. We have to show them how to get permission from their customers to tell us what the expiration date is. The other thing that's difficult on the P&C side is that we've got an entire unit inside of our agency that's dedicated to oil and gas. Insurance companies that write oil-and-gas risks are different from insurance companies that write construction risks. Our construction agents are in Baton Rouge. Our trucking transportation agent is in Shreveport. Our oil and gas agent is in Lafayette. Our energy and marine division is handled out of New Orleans.

Let's say that a banker and an insurance agent go to lunch and say, "You refer me some business, and I'll refer you some business," and the bankers are basically generalists. A loan is a loan is a loan. They don't look at the risk factor any other way than looking at those financials. Basically, the banker could be lending to a tugboat company. He could be lending to a construction company. He could be lending to someone who's got four small planes. He wants to give all of that business to that particular P&C agent. What will the P&C agent say when he refers him those three different lines of business? Unfortunately, he will say, "I can handle that," because he's a salesperson. In the past, property-management firms were sending all of their property-management risk over to the energy department. That's something that I've had to try to undo. Now, I'm the liaison between the bank and the insurance agency. I try to qualify our leads. I have to be the bad cop sometimes and tell insurance agents who don't have the expertise that they can't write that account or if they have an "in" on that account, they can get a sliver of the commission, but they must refer it to someone who knows how to handle a particular class of business.

Again, we have limited access to markets, because there's not a lot out there. There is a 90 percent industry-renewal rate and established competitors. I would venture to say that it would be easier to switch banks on some customers than it would be to switch P&C agents. Let me tell you why I think that's true. P&C agents make more money than bankers. An account represents more revenue to a P&C agent than that same account represents to the person who banks it. It's the risk-reward theory. You're in the insurance business. You start at zero. You work on commission. There's more reward if you've become successful at it. That's another cultural issue. That's why our office is not in the bank. The bankers don't need to see what our successful P&C agents drive. We don't want the bankers to know what is most successful. Most of our agents aren't that successful, but a few of them are extremely successful. Any banker considers himself smarter than any average insurance agent. We have a huge cultural gap to get over. I tell my agents to get two cars. Get the car that you like to drive on the weekend, and get the car that you allow the bank to know that you have.

That sounds like a big obstacle that I've laid out for you. There are only so many markets, and all of the P&C agents that we go against are good. Why are we even in this business? Because sometimes they die. Basically, you get into business, and you start to develop relationships over time. You start to change the dialogue of what it is that an insurance agent does. This is why banks will love insurance agencies down the road, when the agents start to understand that they are consulting, not selling commodities. You would think that in the commercial lines, everyone would understand that this is not a commodity. A commercial-insurance risk is extremely complicated. We've got underground pipelines. We've got master-service agreements between energy companies and their subsidiaries. It is the same situation with subcontractors and general contractors. Our agents could outperform most lawyers in court when it comes to issues of contract dispute in their particular risk. We have some extremely savvy, technical, insurance agents at our office.

We try to communicate that the insurance agent has two jobs. Obviously, representing the risk or marketing the risk and going into a price from an insurance company is the job that you assume we do. But somebody has to control your losses. If your losses are poor, your renewals will be poor. We've brought in loss control. We've brought in two claims adjusters whom we now call claims advocates. To the best of our ability, we try to document the jobs that they do. For an experience modifier and worker's compensation, if it's above a one, you're paying more than the industry average. If it's below a one, you're paying below the industry average. We encourage them to get their experience modifier below a one. How can you do that? We can implement a safety plan.

In the event that a claim does happen, we want to show how our agents can mitigate that as soon as possible. We tell them that we can get their reserves to what we think that they should be. We bring out case law that says that back injury shouldn't be reserved at a particular number, for example. The insurance company

wants the biggest renewal possible. Someone must be in there fighting for its clients. We try to tell the bankers, "When you look at a particular account, find the pain." Where's the pain? It's either in increasing insurance cost or lack of attention. Even if we are moving to a soft market, especially on property, if prices are starting to move down, they will wonder why they should take a look at another insurance agency. We can tell them what bad things could happen and what we can do to mitigate that as much as possible.

Let's take into account what it means for the bankers. It means some referral commission right away. That's the first thing that they think of: "How can I make some more money with these insurance people?" The second thing is that you're putting a loan out there. Let's say that you got a $20 million loan on a new hotel. Is it insured properly? They don't know. They're putting liens on manufacturing equipment, but they don't even know if it's insured to the proper limits. We're trying to use a fear appeal with the bankers. We ask them to give us their insurance paperwork to make sure that we've got everything that they need. All we want is a shot. In the first year, our goal with every client is to become the No. 2 agent in their mind, because we automatically will assume that there's a 10 percent chance that we can get them to move this year. If we can become No. 2 now, that makes that three-year window shrink a little bit if we can move to No. 2 immediately.

What do we do to differentiate ourselves on the P&C side and inside the mind of the bankers? We tell them that we're good at this. We're good at transportation. We're good at construction. We tell them what we're bad at it. There are a lot of sugar mills in Louisiana. We can't write them. There's one insurance company that's writing sugar mills, and we don't have access to it. We don't want to be in front of sugar mills. In the back room, are we trying to find a way to write a sugar mill? Yes, but in the meantime, we don't want to make any promises that will make our bankers look poor. For the past nine months, since I've been at this bank, I've been trying to undo some damaged relationships between our agency and our bankers, because they all said that they could write it. Lo and behold, 10 percent of the time they could; 90 percent of the time, they couldn't. We want to increase our chances as much as possible. We've added loss control. We have in-house claims adjusters. Do you know many agencies that have claims adjusters in an agency? That's one of the things that our insurance agents have not done a great a job of capturing and writing down on paper. We lower your reserves; we settle claims.

When an 18-wheeler bumps a passenger vehicle, we know the amount of the check that we will write that day exactly. One of our insured clients bumped a woman on her way to church. Our trucking company has a mitigator that it dispatches whom we have advised and trained. He was at her house that afternoon. They went to the car dealer the next day. He bought her two new dresses and gave her $2,500 in spending money. There was no claim. That's something that our agency could do that other agents might not have the ability to do. Those are the things that we're trying to bring to the table inside of the banking arena. Bankers see themselves as

consultants. They want to look at a holistic relationship with their client. If they can see the value that we bring to the table, they will refer more business to us.

In terms of consultative selling, we tell clients that we'd love to get copies of their policies, because we'd like to show them what we would have done differently or give them advice on what they need to do at their next renewal with their current agent. We ask them to let us handle some of the claims that are still outstanding for them. Finally, we ask them to let us do some loss control. We give away loss control. I've got so many hours dedicated to existing customers, so many hours dedicated to bankers, so many hours dedicated to prospects of our agency.

Regarding our sales center, basically this is my definition of all of the value-added services that our agents can tap into inside our agency. We are trying to coordinate our areas of expertise and our access to markets and custom build risk-management services. In our transportation unit, we've got custom-claims reporting forms. We can tell you what stretch of road is the most dangerous for 18-wheelers in the state of Louisiana. We can tell you what weather conditions and what time of day because we've started to collect data to show a trending over all of the experience of that particular book of business. We also sell our value-added services, such as loss-control claims management.

Even though you're on the other side of the business from me, the fun part will be creating products. There will be more of an appetite to write new business in the next five-year span than there has been in the past 10 years. We are finding more companies popping up all over the United States that want to write new business. We're ready to write business. Our existing book of business is shrinking, because price is going down, but this is a great opportunity to get in front of people that we have not been able to help over the past five to 10 years. If you're asleep at the wheel in this particular business, you will lose. You can't be in it halfway. When you move into a soft market, you can't say that it will be the same for insurance companies all over again, so let's just market to those guys.

There will be a new product cropping up for us every month for every industry. With the carriers, we want to develop the products needed to serve selected classes of business. CNA is a good example. We took over a captive insurance group. It contained a bunch of lumber distributors. They pooled together. They have a cooperative. They were inside of a captive. The captive was poorly managed. We moved them to a CNA program. Basically, everybody is happy. That was something that we custom built with CNA. We had a market. It had a product. We custom built it. Everybody was happy. I can't say that we'd have been able to do that four or five years ago, because I don't think that the appetite from the insurance companies would have been there.

If there's anything that I can leave you with, such as a theory, a prediction or expectations, I truly see the middle market, the wholesalers of our industry, starting to explode. I see more excess and surplus companies starting to pop up

again. There will continue to be more consolidations. Capital One bought our bank two months ago. The deal will close in the third quarter of this year. What does that mean for a commercial bank and a commercial insurance agency? I have absolutely no idea. Capital One knows more about its customer base than probably any other company in the world. It's phenomenal. Its marketing platform is ingenious. It's the nonbank bank. It did it backward. It started credit cards first, and now it's getting into the banking industry. It's doing it under the radar. We call it the stealth laboratory. If you buy something in Louisiana, nobody knows about it. Nobody knew that Capital One bought Hibernia, this large, regional bank, and probably, it's going to be the platform to buy other banks. If it messes up, if for some reason this integration doesn't work, it will not be on the cover of *The Wall Street Journal*. That is probably part of the reason why it decided to do it in the south, as opposed to on Wall Street.

MR. HAUSE: If you have any questions, we might be able to handle one or two.

FROM THE FLOOR: Can you explain debt cancellation? Is it insurance?

MR. HAUSE: It's not insurance. It's written into a loan document and cancels the loan if you die. In the case of a credit card, it cancels your monthly payment or waives your monthly payment if you become disabled or unemployed.

FROM THE FLOOR: Is there a charge for it?

MR. HAUSE: There is a charge for it. The charge is generally in the $0.30 to $0.80 per $100 of outstanding balance on a credit card. That's a fairly consistent range.

FROM THE FLOOR: Then why is it not insurance?

MR. HAUSE: Because the law says that it's not. Obviously, it's a risk-transfer mechanism. It is a form of insurance, but it is a bank product and not regulated by the insurance departments.