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Multiple Distribution Channels within Banks

by James B. Smith, Jr.

Some insurance companies view banks as a monolithic channel for the distribution of insurance products. However, there are at least 20 ways that banks distribute insurance products (see Table on page 3). A bank will select those distribution channels that effectively satisfy its customers' needs and buying habits. Further, the bank's selection should be compatible with its size, culture, risk tolerance, time frame, and prior bancassurance experience.

An example of a channel that matches customer needs and habits is the sale of life insurance via direct mail to Generation X customers. This customer segment typically has a need for term life insurance; however, they infrequently visit a bank lobby where a face-to-face solicitation can occur. Therefore, an offer in the customer's monthly bank statement may be an effective way to reach this customer.

What are some other distribution channels that banks currently use?

Bank Employees

Platform Personnel

Platform employees are bank personnel located in a branch lobby. They sell insurance products on a part-time basis because they also offer a wide range of traditional bank products, including checking accounts, savings accounts, and CDs. For the platform employee, a natural extension of CD sales is the offering of relatively simple products, such as fixed annuities.

Consumer Lending Department

Another natural extension occurs in the consumer lending department, which supplements its lending activity with the sale of credit and automobile insurance. Because of

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Chairperson's Corner

Distribution is King?

by Edward F. McKernan

It is interesting how one's perspective of *value* changes depending upon your employer affiliation. My employment experiences have included life insurance companies, consulting firms (including one of the big—six, five, four … it's difficult to keep track), and an insurance agency. During my consulting experiences, clients not only included insurance companies and agencies, but also financial institutions (e.g., banks, thrifts and S&L's).

During these experiences, regardless of the enterprise, *value* has often been defined as return on assets, profit margin, return on investment, embedded value, and so on. Through these experiences, however, the focus has always been, either directly or indirectly, on a stream of expected earnings. This was always a comfortable notion as it is consistent with our actuarial training, which taught us to focus on the profitability of a product or the appraisal value of a book of business in force.

However, now that I have become entrenched in the world of distribution, a common phrase that I often hear is: "Distribution is King." Now, mind you, I do not hear that phrase from my colleagues, but rather from the product manufactures … the insurance companies. The focus has changed from value in terms of product profitability to the value of distribution. And, not only has distribution become King, but the goals of

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the relative simplicity of credit insurance, the consumer-lending officer will usually initiate and close the sale. Since automobile insurance is more complicated, the officer may initiate and close the sale or may refer the customer to an agent associated with the bank.

Trust and Private Banking Departments

These departments target high income and/or net worth customers, who generally require more complex insurance planning because of their more complicated financial needs. These customers may be interested in wealth accumulation products (e.g., variable deferred annuities) and/or wealth transfer products (e.g., single premium universal life). Similar to platform employees, the personnel in these departments may be licensed to sell insurance, or they may make a referral to an affiliated insurance agent.

Commercial Lending Department

The everyday activities of this department can acquaint bank employees with the business owners' needs for commercial insurance, as well as personal insurance. The business owners may need products designed to address their unique buy-sell needs—as well as insurance to address their personal financial needs. Depending on the bank's preference, the commercial lending officer might serve as an insurance agent or make a referral.

Dedicated Specialists

The previous distribution channels involve bank personnel that typically sell bancassurance on a part-time basis. Bank employees selling insurance on a full-time basis are called dedicated specialists. Examples of such specialists are:

- Investment specialists focus on the sale of investment products, such as securities, mutual funds, and annuities. Often these people reside in the bank-owned broker dealer.
- Insurance counselors usually offer advice on the more complicated products, such as variable universal life. These counselors may also conduct financial planning seminars for seniors who need long term care insurance.
- Other specialists sell packaged insurance products at the work-site. Their products might include flexible premium deferred annuities, specialty health insurance, and simple forms of term and universal life insurance.

BANK CHANNELS

Distribution Channel	Sub-Channel
Bank Employees	Platform Personnel Consumer Lending Department Trust Department Private Banking Department Commercial Lending Department Investment Specialists Insurance Counselors Work-Site Specialists
Third Party Marketer	Managed Program Platform Employee Combined Program
Insurance Companies	Managed Program Platform Employee Combined Program
Direct Marketing	Mail Phone Center Statement Stuffers ATM Notices Internet Kiosks
Insurance Agency	Bank-Owned Agency Independent Insurance Agency

Third Party Marketer

Because of their unfamiliarity with the sale of insurance, many banks entering the bancassurance market elect to use third party marketers (TPMs). A TPM's role may take several forms:

Managed Program

The sales people in managed programs are the TPM's agents. Thus, the TPM performs not only the marketing function, but also the actual sales function, sales management, recruiting, and training. Because the agents typically sell insurance on a full-time basis, they can usually handle a wide variety of annuity, life, health, and property and casualty products.

Platform Program

The TPM (a) assists the bank in developing its bancassurance strategic and

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tactical plans, (b) selects the specific products and insurance carriers, and (c) trains, supervises and manages the bank's agents. The product of choice in recent years has been the fixed deferred annuity.

Combination Program
A combination program might unbundle the TPM services. For example, the TPM might perform agent training and carrier selection, and the bank might handle the agent sales function.

Insurance Company
Several insurance companies are offering bancassurance programs that include TPM services—in addition to the normal policyholder services. Such programs offered by insurance companies are similar to the TPM types described above. The programs focus primarily on the sale of deferred annuities, but life, health, and property/casualty products are gaining popularity.

Direct Marketing
According to the ACLI MAP study, approximately 70% of the U.S. population do not have a life insurance agent. Even for household incomes in excess of $75,000, 55% do not have an insurance agent. Banks may be able to reach the unserved market because they have banking relationships with many of these individuals. Because many customers do not frequently visit a bank's lobby, the following direct marketing channels are employed:

Mail
Products sold through this channel are usually simple in design (e.g., fixed annuities and term insurance) because products with complex issue and underwriting processes may not generate adequate sales penetration. A mail program is often supplemented with a phone center.

Phone Center
Inbound and outbound calls can be used for selling to new or existing bank customers. Inbound inquiries to the phone center may be initiated by the customer at a kiosk. The kiosk, which may be located in the bank lobby, will allow the bank customer to discuss insurance questions via a phone conversation with the bank's remote phone center. Usually simpler types of insurance products are distributed via a phone center.

Statement Stuffers
Monthly checking, savings, and mutual fund statements can initiate the sales process by introducing basic information about a bancassurance offering. The stuffer will give the customer an 800-phone number for further information.

ATM Notices
ATM notices generally offer the least amount of information about insurance, but provide a means for accessing the bank customer who frequently visit the bank lobby.

Internet
Banks are using the Internet to offer annuities, term life insurance, and automobile insurance. Some Web pages include preliminary applications, premium quotes, needs analysis, and insurance carrier information. Often Internet sales are integrated with a phone center for completing the application and answering questions.

Insurance Agency
Another approach for bancassurance distribution involves (a) the acquisition of an insurance agency, or (b) a joint venture with an agency that has an office located off-site or on the bank premises. Banks that have strong relationships with small business owners might focus on agencies that specialize in commercial insurance. Banks with strengths in mortgage lending might be attracted to an agency dealing with homeowners insurance. Banks with significant relationships through their trust and personal banking departments might prefer agencies specializing in advanced sales, such as wealth transfer products.

* * *

There is a wide array of distribution channels that a bank can select. Optimal bancassurance programs will consider the best channel for connecting the insurance product and the targeted customer segment.

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