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by Kevin McKenna

It's tough to read a newspaper, watch television news, pick up a magazine, or visit news Web sites and not come away with a feeling of gloom and doom. However, the insurance direct marketing industry might beg to differ.

Truth be told, the insurance industry has historically done well during tough economic times, and each recession in the past 30 years has had unique contributing factors and unique challenges.

So what's an insurance marketer to do to beat the climate? Before looking ahead, let's see what insurance marketers accomplished during previous recessionary times.

Insurance Marketing During Recession

During the 1973–1975 recession, the direct marketing of insurance offered an alternative to agent–sold business and the methodology was well received. The response rates of offers targeting the low end of the market increased by 15 percent. Companies such as National Liberty, Union Fidelity, Colonial Penn, and Globe Life & Accident provided a testing laboratory for refining marketing protocols. Insurance direct marketing began to come into its own.

During the period from 1980 to 1982, response rates for insurance products sold through direct marketing increased an average of 12 percent. We witnessed the advent of market segmentation and analysis during this time, as well as an extension of newspaper free falls and the emergence of the successful invitation–to–inquire business model. Insurance direct marketers also discovered creative breakthroughs as a result of increased testing.

The 1990–1991 recession showed a blip in response rates. However, the important development was the acceptance of database marketing, which led to response modeling and which fed into sophisticated policyholder marketing. At

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this time there was also a significant shift to using direct response television to generate leads.

The 2000 recession, spurred by the dot–com bubble burst and terrorist attacks, saw a dramatic increase in interest for Travel Accident and AD&D products. Database marketing continued to be enhanced. Transactional Internet sales engines increased. Auto lead generation dominated all media channels and primary health care was a hot product.

The current recession is highlighted by the sub prime mortgage meltdown, frozen consumer credit, an equity market plunge, and consumer confidence implosion–the perfect economic storm! Not to mention the AIG debacle which has hurt investors and employees of AIG as well as consumer confidence in general.

Five Ways To Beat Recession–Now!

To survive current recessionary conditions, insurance direct marketers need to carve out additional market share–remembering that people still need insurance–and decrease costs by utilizing technology and creativity. Here are some ways to beat the current recession and thrive:

1. Be passionate about leadership
   Attitudes quickly cascade throughout an organization. In the same way, passion becomes infectious. Encourage and enable people to build skills, capability and knowledge.

2. Unleash creativity
   Work towards a creative explosion in your company. Facilitate creativity in communications, formats, offers, product designs, and problem solutions..

3. Integrate communications
   Make it a mission to integrate communications across all media and to all target markets. Deliver the same selling message across all platforms..

4. Create a culture of accountability
   Partner with accounting, actuarial, administration, underwriting, and IT teams to collaborate and measure everything you do..

5. Optimize your marketing supply chain
   Aggressively develop efficiencies and productivity. Watch marketing dollars as if they came from your own savings account..

While there exist many marketing challenges right now–a shrinking universe, high rates of unemployment, pull backs in bank credit card markets, and tightening regulations–the opportunities are there for those who develop an infrastructure for success. Today's wild card–the Internet

What about the Internet? Aside from being a shopper's tool and top consumer choice, it represents a leading example of pull marketing. For insurance direct marketers that are interested in lead generation, it's the place to be. Successful insurance direct marketers embrace these best practices in selling insurance online:

- Know the reasons for building a site. If you've decided that you want to make insurance sales online, then your site must be designed exclusively for making sales. Nothing more, nothing less.
- Ensure that product, pricing and underwriting processes are right for the Internet. Do your homework before embarking on an online effort. Seek the expertise of a marketing partner that has successfully sold insurance online and can guide both technology and marketing choices.
- Dispel the myth that the technology is too costly. It is possible to build a single–product site that sells, quotes, collects policy and payment information, presents an online application, and tracks responses and sales for $50K–or even less in some cases.
- Offer a product that meets an online buyer's needs. Either create a niche product or offer one that meets the needs of an underserved market (such as uninsured students).
- Do not confuse or distract consumers. Develop a simplified offer, lead with it, and provide a clear–cut path to the response vehicle.
- Control the conversation and speak the consumer's language. Use high–level navigation that makes it easy for visitors to arrive at the desired destination quickly. Make a clear offer that is laden with benefits. Demonstrate that you understand the need and can solve the problem.
- Track everything. If you can't test it, it's not worth doing. Test, test and test again. Then refine strategies and tactics to achieve the results you want.
- Know that media should be purchased on a performance basis only. Media should never be bought on a cost–per–thousand (CPM) basis. Partner with vendors who understand and follow this critical rule.
- Leverage other opportunities. Use key words and e–mail, develop and distribute online newsletters, and take advantage of partnerships to leverage your investment.

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A FOOLS GAME: the Correct Name for Distributing Insurance via Banks?

by Carmen F. Effron

For some insurers the issue of distributing life insurance through banks can be likened to the Michael Bolton lyrics for the song, Fools Game;

> �You know at first you had me so confused
> We used to lay awake at night Strugglin'
> with the feelings I so long refused�
> ....
> First you take me to the highest ground
> Then you keep me hanging like some village clown�

Or, in other words, a great deal of promise and then angst for production revenue that does not seem to be fulfilled; at least easily. However, given the financial services crisis and the resultant battle for deposits by banks; keeping current customers is enhanced by the number of services the bank provides and this should include life insurance.

A 2008 study I completed, which concurrently examines bank and insurer views and is therefore a reflection of both of their opinions, called, *Bridging the Cultural Divide between Banks and Insurers*, (BTCD) showed that 52 percent of all banks are planning to increase their life insurance distribution programs. The service criteria, as well as the need for non-interest fee income, means that insurance within the banks should begin to receive even more attention and this creates an opportunity for those insurers that are not already �in the game.�

If you are an insurer interested in distributing life insurance through banks and wonder if it is too late to begin, the following discusses the issues and the Critical Success Factors to sell successfully through banks. A few starter carrier questions are:

1. Do you have a need to diversify your distribution?
2. Do you have a captive sales force that is underutilized?
3. Do you work with BGAs that may be informally providing back office services and sales personnel to small and regional banks and do you want to create a formal program to expand sales?
4. Do you utilize �straight through processing� and/or simplified underwriting for a number of your insurance products?
5. Do you have a product that is not currently being offered through the banks?
6. Are you willing to devote capital (both human and liquid) to stay in the �game� for a minimum of three years?

If you answered yes to any of the above but particularly the last question, then distributing your products through the banks is an option to explore. However, a word of caution, do not believe that the economics of bank distribution is going to be less costly than independent agents or captives. The emphasis will simply be different.

A question I am frequently asked is, �how small can the insurer be and still work effectively in the bank market?� More important than asset size is ratings, as small insurers with good ratings can be opportunistic and respond to the market needs of the bankers more quickly than the titans. Even with the current �disfavor� of the rating agencies, the compliance, due diligence and risk management committees of the bank will review the insurer�s ratings and look at each insurer by asking and answering the question of whether they would lend money to them.

It is important to understand the internal workings of the bank and how the various divisions work with (or sometimes against) each other. You may have a product that is designed to be sold to the mass affluent market via trained life insurance agents, but in a bank this product would most likely be sold through the bank�s investment representative or financial consultant and be only a small part of what they are responsible for selling. A life insurance process that takes into consideration the way a financial consultant currently sells and what they need means the product has a much better chance of being sold and generating sufficient volumes to make the carrier investment worthwhile.

As an insurer working in the bank market, process is equally as important as the product and the people. For example, term insurance can be sold to the bank�s clients in a variety of ways; on the platform, through the financial consultant, online via the bank�s Web site, through direct mail, and in the trust and wealth management divisions. Given these options, it is the application; underwriting and issue process of the insurer that will drive which of the bank�s potential distribution is the correct one to sell the term product. Without a clear understanding of this issue, you will only be in for more Michael Bolton lyrics: �There is no way to win as long as I am into such a fool�s game. You waste my precious time � better make up your mind.�

Bankers in the 2008 BTCD Study ranked three processes as a number one problem; different applications for multiple carriers, length of time to complete the applications (parts 1 and 2, field underwriting) and lack of feedback and underwriting outcome knowledge of the case. All three areas are very upsetting to the infrequent bank seller of insurance as well as to the insurance agent working within the bank.

The 2008 BTCD Study articulated the Critical Success Factors that are important in selling insurance to bank customers. There are 12 elements considered essential for success; senior management commitment, building incentive programs that work, processing support, wholesale support, the ability to integrate insurance at point of sale, institutional trust and confidence, access to bank client base, sophisticated understanding of customer demographics, ability to institute insurance goals, standardized life applications, training support, and standardized appointment process. The study asked banks and insurers to rate the importance of these factors in selling insurance to bank customers and then their satisfaction with the insurers� ability to provide (Figure 1).

While both the banks and the insurers were in strong agreement on the factors that are important to selling insurance successfully, the banks ranked 7 out of 12 or 58% of the components needed to sell insurance to bank customers with greater than a 1.1+ gap, which indicates being extremely dissatisfied with the insurer�s ability to provide. For information on how the results are tabulated go to:

http://www.effronsurvey.com/_vti_bin/shtml.exe/2008/2008-sign-in-page.htm.

Figure 2 below clearly demonstrates that in almost every category the carrier (red) feels they are doing a better job than the bank (blue). The space between each bubble with the same number on it points to the level of disparate views between the insurer and banker for this Critical Success Factor. This indicates that there is undoubtedly an opportunity for new carrier entrants to the bank life insurance business as there is plenty of room to improve on the current carriers� process, people and substance. Armed with this knowledge, new insurers can benefit, and as Mr. Bolton so eloquently sings, �get the secret (to bank life insurance distribution) in the palm of your hands.�

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INSURANCE BROKERAGE FEE INCOME AMONG BANK HOLDING COMPANIES IN 2008

by Michael D. White

According to the *Michael White-Prudential Bank Insurance Fee Income Report,* ™ bank holding companies (BHCs) earned $11.80 billion in insurance brokerage fee income in 2008.[1] That amount constituted a 3.6 percent decrease from a record $12.25 billion in insurance brokerage fee income in 2007. The year 2008 is the first year in which total BHC insurance brokerage income declined.

BHCs with assets greater than $10 billion, and, principally, a handful of them, were responsible for the overall decline for the industry in 2008. Despite them, 65 of the top 100 BHCs in insurance brokerage income registered increased insurance income in 2008.

Click here for illustration of 2008 BHC Insurance Brokerage Fee Income

Compiled by Michael White Associates (MWA) since 2001 and sponsored by Prudential's Individual Life Insurance business, the report measures and benchmarks the banking industry's performance in generating insurance brokerage and underwriting fee income. Year-end results are based on data from all 7,495 commercial and FDIC-supervised savings banks and 880 large top-tier bank holding companies operating on Dec. 31, 2008.[2]

Two in three (585 or 66.3 percent) large top-tier (or regulatory top-holder) BHCs with $500 million or more in consolidated assets in the United States reported participating in insurance activities.

Click here for illustration of Percent of All BHCs Participating

BHCs with assets greater than $10 billion experienced a 4.2 percent decrease in insurance brokerage fee income from $11.56 billion in 2007 to $11.07 billion in 2008, accounting for 93.7 percent of the industry's insurance brokerage income.

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The largest BHCs had the highest rate (93.1 percent) of participation in insurance brokerage activities.

Insurance brokerage fee income produced by BHCs between $500 million and $1 billion in assets decreased 1.7 percent from $147.2 million in 2007 to $144.8 million in 2008.

Only BHCs with assets between $1 billion and $10 billion experienced growth in insurance brokerage fee income in 2008, and they experienced 8.4 percent growth from $540.4 million in 2007 to $586.1 million in 2008.

Annual BHC insurance brokerage fee income in 2008 was nearly two-and-a-half (2.45) times more than it was in 2001, when it was first measured. The total rose from $4.97 billion in 2001 to $11.80 billion in 2008.

Click here for illustration of BHC Insurance Brokerage Fee Income, 2001–2008 (In billions)

Reasons for Slowdown

There were several causes of the slowing in the second half of the year and the slight decline for all of 2008 in BHC insurance brokerage fee income, which had been growing at a compound annual rate of 19.5 percent from 2001 through 2006. First were the continuing, long-lasting soft market in commercial property-casualty insurance and sporadic, but seemingly more numerous, instances of decreases in contingent commissions.

Second, several banking companies that are strong producers of insurance brokerage income converted their charters to thrift holding companies (e.g., earlier conversion of People's Mutual Holdings in Connecticut, People's acquisition of Chittenden Corporation), thereby removing insurance brokerage revenues from the industry count. OTS-regulated thrifts and thrift holding companies do not report detailed, line-item noninterest fee income like insurance brokerage to their regulator. Thus, the insurance brokerage income that a BHC previously reported is no longer reported when that BHC converts to a thrift holding company.

A third factor entailed the sales of property-casualty and some life insurance agencies or business lines by certain large bank holding companies, like Bank of America Corporation (North Carolina), BNCCORP, Inc. (North Dakota), Capital One (Virginia), Citizens Financial Group, Inc. (Rhode Island), Commerce Bancorp (New Jersey), Fifth Third Bancorp (Ohio), JPMorgan Chase (New York), National City Corp. (Ohio), Wachovia Corp. (North Carolina), and Webster Financial Corp. (Connecticut).

These BHCs alone represented a loss to the banking industry of $300 million in insurance brokerage income. The sales of those agencies related quite specifically to each financial institution's particular circumstances, strategic aims, and commitment to insurance.

Despite this loss of fairly significant insurance brokerage income from the BHC total, the sales of bank insurance units to nonbanks are not a trend. In the last two years, numerous other bank and thrift companies acquired agencies, among them: Alliance Bankshares Corp. (Virginia), Arrow Financial Corp. (New York), BancFirst Group (Oklahoma), BancorpSouth, Inc. (Mississippi), Bank of the West (California), BB&T Corporation (North Carolina), Central Bancorp (Colorado), CoBiz (Colorado), Cullen/Frost Bankers (Texas), Doral Financial (Puerto Rico), Eastern Bancorp (Massachusetts), First Defiance Financial Corp. (Ohio), First Niagara Financial Group (New York), First United Corporation (Maryland), Harleysville National Corp. (Pennsylvania), Huntington Bancshares (Ohio), Northeast Bancorp (Maine), Shore Bancshares, Inc. (Maryland), Summit Financial Group (West Virginia), and Wells Fargo & Company (California).

Additionally, some thrifts, whose production we are unable to track systematically and include in our report, also acquired more insurance agencies; these thrifts include First Defiance Financial Corp. (Ohio), First Financial Holdings, Inc. (South Carolina), and First Niagara Financial Group (New York).

A fourth factor was the complete removal, starting in 2007, of annuity commissions not earned via securities units from the insurance brokerage income data field reported to the FDIC and Federal Reserve. This has impacted somewhat the insurance brokerage totals over the last two years. Combining BHC annuity commissions with insurance brokerage income, total BHC production of insurance-product, sales-related fee income was over $14.28 billion in 2007 and $14.41 billion in 2008. That latter figure of $14.41 billion constituted an amount equal to 80 percent of the $18.09 billion that BHCs earned from securities brokerage activity.

Click here for illustration of Total Earned by BHCs, 2008 - Nationally
[includes annuity commission income and securities brokerage income]

Leaders

Again excluding MetLife, which did not engage in significant banking activities, Wells Fargo & Company (California), Citigroup, Inc. (New York), BB&T Corporation (North Carolina), Bank of America Corporation (North Carolina), and HSBC North America Holdings, Inc. (Illinois) led all bank holding companies in insurance brokerage fee income in 2008.

Click here for illustration of Top BHCs in Insurance Brokerage Fee Income, 2008–Nationally

Among BHCs with between $1 billion and $10 billion in assets, leaders included

Eastern Bank Corporation (Massachusetts), Old National Bancorp (Indiana), Trustmark Corporation (Mississippi), Johnson Financial Group, Inc. (Wisconsin), and Central Community Corporation (Texas).

Among BHCs with assets between $500 million and $1 billion, leaders were 473 Broadway Holding Corporation (New York), Texas Independent Bancshares (Texas), First Manitowoc Bancorp, Inc. (Wisconsin), Northeast Bancorp (Maine), and MountainOne Financial Partners, MHC (Massachusetts).

The *Michael White-Prudential Report* uses the smallest community banks, those with assets less than $500 million, as a proxy for the smallest BHCs, whose reporting forms do not require them to report insurance brokerage fee income.[3] Leaders among bank proxies for small BHCs were Soy Capital Bank and Trust Company (Illinois), Hoosac Bank (Massachusetts), Stoneham Savings Bank (Massachusetts), SussexBank (New Jersey), and Alliance Bank (Texas).

Click here for illustration of Insurance Brokerage Fee Income–2008, Bank Holding Company Participation by Asset-Size

The Insurance Concentration Ratio measures the ratio of insurance brokerage income to noninterest income. This tells us the proportion of non-lending income attributable to insurance income. It is a measure of the significance of insurance sales to a banking organization. Among the top 50 BHCs in insurance brokerage income as a percent of noninterest income, the mean Concentration Ratio in 2008 was 45.1 percent. Among the top 50 banks in Insurance Brokerage Concentration, the mean was 72.0 percent of noninterest income.

Nationally, BHC insurance brokerage revenue grew at a compound annual rate of 13.1 percent from 2001 through 2008, slowing from the compound annual growth rate (CAGR) of 19.5 percent achieved from 2001 through 2007. The small growth of insurance brokerage income in 2007 and its slight decline in 2008 caused this lowering of CAGR. BHCs with assets between $500 million and $1 billion grew the most at 17.0 percent annually since 2001.

Click here for illustration of Compound Annual Growth Rate (CAGR) of BHC Insurance Brokerage Fee Income by Asset-Size, 2001-2008

Because there have been two definitions of small bank holding companies since 2001 that exempted them, I used banks in order to calculate an estimated CAGR in insurance revenues for all asset classes of institutions with less than $500 million. (BHCs with assets between $300 million and $500 million grew at a rate of 19.0 percent between 2001 and 2005.[4]) Despite the slowing of growth in insurance brokerage income in 2007-2008, BHCs have attained strong momentum in insurance brokerage revenue since 2001.

Michael D. White, Ph.D., CLU, ChFC, is president of Michael White Associates, LLC (MWA), a consulting and research firm headquartered in Radnor, Pa. He may be reached at mwa@BankInsurance.com.

Foot Notes

[1] These figures for insurance revenues do not include income earned from the sale or servicing of annuities. Adding the income from annuities would significantly increase the total insurance product revenue for banking organizations. Income from related non-insurance products like debt cancellation or debt suspension agreements is also excluded from the insurance revenue figures.

[2] The "large" BHCs were redefined in 2006 as being those top-tier BHCs with more than $500 million in consolidated assets. Consequently, with few exceptions that we do not report here, only those bank holding companies defined by the Federal Reserve as "large" BHCs reported detailed revenue line items like insurance brokerage and insurance underwriting income. Those thrifts and savings associations regulated by the Office of Thrift Supervision (OTS) do not report these revenue line items at all.

[3] Community bank totals are not included in BHC total figures and performance ratios.

[4] Beginning in 2006, with but a few exceptions, only large BHCs with consolidated assets greater than $500 million reported line item fee incomes. Those exceptions numbered 99, and with those 99 BHCs as our sole source of line item data, this asset class between $300-$500 million grew at a rate of 14.2% in 2007.

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PLANS TO EXPAND OUR KNOWLEDGE OF THE UTILITY OF E-UNDERWRITING AND OTHER RAD TOOLS COMING IN THE FALL!

by Maria Thomson

The MaD Section, with the co-sponsorship of the Product Development Section and the SOA Committee of Life Insurance Research, has initiated a research project to determine the risk selection efficacy of e-underwriting in conjunction with the use of e-data such as MIB, MVR and prescription med history. Deloitte Consulting has been awarded the contract to conduct Part 1 of this project. The primary purpose of Part 1 is to determine such things as:

- The types of e-underwriting being employed by companies.
- How the e-underwriting tools are being deployed.
- The markets that are being targeted when these tools are employed.
- The face and age limits for which these tools are used.
- The amount of business being written with the aid of these tools.

Additional information will be sought relating to the utility of these tools, such as reductions experienced in business placement turnaround times and costs, implementation issues, etc.

The results of this part of the research will be presented by Alice Kroll of Deloitte at the SOA Annual Meeting Session I am chairing–104PD. This session will be held on Wednesday, Oct. 28 at 9:00 a.m. A full report will also be published by the SOA.

Session 104PD is entitled, "Trends and Developments in Rapid Assessment and Delivery (RAD)." The first speaker will be Ted Hatcher, the LOMA lead researcher for their annual "Life Insurance Service Turnaround Times Survey." Ted will present the results of the latest survey (not yet published) with regard to new business turnaround. He will compare turnaround times for those companies that use various rapid issue techniques with turnaround times for those that don't, he will let us know what percentage of survey participants utilize the rapid issue techniques, and he will compare current results to historical results.

My second speaker will be Susie Cours-Palais, who is based in Britain. Susie is a partner in the underwriting consulting firm, SelectX. She has helped many companies build underwriting rules for e-systems. Susie will present some of the results from a recent survey her firm has conducted and provide information on how e-underwriting tools are being used around the world, the ways in which they are being used, and the level of sophistication incorporated in these tools.

The final speaker will be Alice Kroll of Deloitte to present the results of Part 1 of the new U.S. survey on utilization of e-underwriting tools.

If Rapid Assessment and Delivery is of interest to you, don't miss this session! It's the last day of the SOA Annual Meeting, but worth delaying your departure for.

Maria Thomson, FSA, MAAA, is the founder of RAD Insurance Holdings. She can be contacted at maria.thomson@radinsuranceholdings.com.

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Chairperson's Corner

by Keith Dall

It is hard to believe that we are more than halfway through 2009. The Marketing and Distribution Section Council has completed many tasks and has plans to complete several more before the end of the year.

Our core responsibility is to provide continuing education to our members and all members of the SOA. We continued that effort this year by sponsoring several sessions at the SOA spring meeting and the Product Development Symposium. Andy Ferris coordinated the sessions that MaD sponsored at the spring meeting. This year we added a networking opportunity by offering a chance for our members to get to know each other during a special MaD section reception.

Chuck Ritzke coordinated the sessions for the Product Development Symposium in Los Angeles, which continues to be a popular seminar. We are delighted to continue to be one of the sponsors along with the Product Development section.

The SOA annual meeting will be in Boston at the end of October. Jennifer Brady has been working diligently to offer several sessions sponsored by our section. We are co-sponsoring a breakfast this year. The theme of the breakfast discussion and breakout sessions will be generations and the impact each generation has on product development, distribution and products. The MaD section will also have a separate reception to get to know our fellow members.

We have set a goal to sponsor three webinars this year. Mike Kaster organized the first, on bank insurance, in May. The seminar was very successful, with 68 participants. The second webinar will be in September on credit insurance; the final webinar for

2009 will be on e-data.

We also plan to work with the SOA, LOMA, LIMRA, and ACLI to coordinate a session at the LIC meeting in the spring of 2010. This meeting is a good match for our section as we try to offer our members continuing education on topics related to product development processes and distribution channels.

Maria Thomson is working closely with the SOA to organize a research project on underwriting mortality risk utilizing electronic tools. The MaD section is assisting the SOA to fund the research project. It is possible that preliminary results of the survey may be available to be discussed at the SOA annual meeting.

The SOA is working on updating its Web site along with each of the section Web sites. Mike Kaster is then going to update all of the content on the MaD section Web site.

Doug Bennett is writing a textbook for ACTEX that covers the economics of individual insurance distribution. Several council members and friends of the council will be reviewing and editing the textbook.

By the time you receive this newsletter, the election process will be over. This year, we had a full slate of candidates for the elections. All of the candidates are very qualified and we are excited to be adding three new council members in the near future.

We are always interested in receiving feedback from our members. Please let me know if you have any comments, questions or great ideas to enhance the membership of our section.

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EDITOR'S COLUMN

Summer's over, school is back in session, and 2009 is quickly disappearing from our view. MaD presents this, the second issue, of our newly formatted electronic newsletter. We hope you find it informative.

Our issue includes articles from several authors. Kevin McKenna presents his perspective on the Recession and Insurance Direct Marketers. For those of you who did not attend the Bank Insurance Webcast, we present articles from two of our presenters, Carmen Effron and Michael White. Maria Thomson, coordinator of a session at the Boston Annual Meeting, provides some additional information to whet your appetite and encourage you to attend. As always, we feature the Chairperson's Corner.

My term as a council member for MaD is approaching its end. I'll be stepping aside to make way for a new editor. I encourage each member to contact the council or me for the time until the annual meeting in Boston with your ideas, your articles, your suggested authors, any comments that you have to make NewsDirect more useful to you.

Thanks for allowing me to serve on your MaD council these past three years. It's been a wonderful ride. Good Luck to the continuing and new Council members.

Nancy Manning

Marketing & Distribution Section

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