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BANKS IN TODAY'S INSURANCE DISTRIBUTION LANDSCAPE

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This article is based on a presentation made by Jim Campbell at the Annual Conference of the Professional Insurance Marketing Association (PIMA).

Since the late 1990s, the banking industry has been second only to public insurance brokers in the number of insurance agencies acquired. Have these acquisitions been successful? For most, yes. But to clarify, let's define success.

Virtually every bank that has acquired an insurance agency has done so for one or more of the following three reasons: 1.) to increase non-interest income, 2.) to grow shareholder value and 3.) to cross-sell insurance products to bank customers. Although the order of priority may differ, the objectives are the same. So let's apply these bank-insurance objectives as the gauges of success.

Increase Non-interest Income

The objective most frequently expressed by banks that buy agencies is to increase non-interest income. Motivated by exposure to fluctuations in interest rate spreads, banks are actively diversifying their revenue sources. More specifically, banks are aggressively growing fee-based businesses, such as investments brokerage, mortgage origination and insurance distribution. Insurance distribution is especially attractive to banks because it provides "renewable fee income" since most policies renew annually at a comparable commission rate.

But is the insurance business delivering on its promise of growing non-interest income for banks? The results are mixed. Some banks that have acquired agencies are earning more than 20 percent of their non-interest income from insurance distribution, while others are earning less than 2 percent. Since most bank-insurance revenue is acquired, each bank's contribution is primarily a function of its appetite and ability to acquire agencies. Overall, the results are compelling, with an impressive and growing list of banks reporting a double-digit contribution to non-interest income through insurance sales.

Grow Shareholder Value

A second gauge of the success of bank insurance is contribution to shareholder value. Again, the results to date are encouraging. Most agency acquisitions have been accretive to bank earnings per share in the first year, and virtually all are accretive in the second year. Additionally, returns on invested capital, though not extraordinary, have been solid, generally reaching double digits by the third or fourth year.

Most banks have been pleased with these results, as evidenced by findings in the 2004 *ABIA Study of Leading Banks in Insurance*. The study reports that, for surveyed banks, more than 80 percent of agency acquisitions are meeting or exceeding financial expectations.

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the enrollment center. By following along in the workbook and filling in personal information as the presentation progresses, the employees get and retain the messages better than with any other more traditional method.

Making Enrollment Affordable

While this level of service for employees is usually too expensive for employers to provide, we have found a way to fund the process so that everyone wins. Basically, by working with clients to find a voluntary benefit or benefits that the client would like to make available to its employees and letting employees enroll along with their other benefits, it is possible to fund the enrollment process without charge to clients.

By providing core benefit enrollment, the employer has a reason to put such a process into place. Because there is no insurance sale, just benefit enrollment, the employee never feels he or she is being sold something. And employees like having more benefit options.

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Cross-Sell to Bank

Two-for-two—not bad so far. But how about the third gauge of successful cross-selling? Have agency acquisitions proved to be the cross-selling boon many expected? The answer is "yes and no."

Some banks entered the insurance business with the expectation that insurance sales would reach across the full breadth of their customer base, growing revenues while helping to secure and retain customers. But results have been less broad-based. Why? Because the core banking customer base is comprised primarily of small businesses and individuals. Conversely, the sweet spot for most insurance brokers is middle market and larger businesses.

This apparent mismatch has narrowed the scope of most cross-selling efforts. Yet collaborative efforts between commercial lenders and commercial insurance producers are producing results worth noting, often contributing 25 percent or more of an agency's total annual new production.

Conclusion

The banking industry is now a permanent and growing component of the insurance distribution landscape. It is proving to be a legitimate participant and, for many, a tough competitor. Although broad-based cross-selling has not yet been realized, other achievements have been made. Acquired agencies have generally helped to diversify the bank's revenue sources while contributing to shareholder value. And, at least with middle market and larger commercial lending customers, some banks are now positioned as the full-service financial solutions providers they have long aspired to become.

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