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Product Development Considerations For The Bank Market

From the Seminar, "Successfully Selling Insurance In Banks — The Whole Picture"

Washington DC, February 8-9, 2001

by Maria N. Thomson

A well-rounded faculty assembled by the NTM Section discussed all aspects of developing successful bank insurance programs. Speakers included Maria Thomson, FSA, MAAA, and Alan Wade, CLU, both Principals of Thomson Management Solutions, Inc., a consulting firm that specializes in helping banks and insurers develop successful bank insurance operations; Steven Ostlund, FSA, MAAA, principal of Actuarial Consulting, a firm that specializes in credit insurance; Barnett Ovrut, a partner of Morisson, Mahoney and Miller, LLP, a law firm that specializes in insurance; and Les Webb, FCII, FLIA, FInstSMM, strategic marketing director with NMG Europe, a multinational actuarial/distribution consultancy.

In a day and a half, this group covered legal issues, sales models, bancassurance in England, relationship structures between banks and insurers, and product development issues. This article recaps the product development issues discussed.

Products for the Loan Market

According to Ostlund, credit products are a natural for banks, they are comfortable with this market and see credit insurance products as protection for themselves. In fact, before the Gramm Leach Bliley Act, banks had secured the right to "underwrite" their own version of credit insurance: debt cancellation or deferment coverage.

This coverage is considered to be a part of the loan agreement, rather than insurance. Some banks secure group insurance protection to cover their risk for this, which provides insurers a market opportunity. Features that can be included with such coverages are debt deferral for unemployment, marriage, divorce, childbirth, and family leave.

Credit insurance is very easy for banks to offer, Ostlund added. The coverage matches the loan amount, it is guaranteed issue, and the premium is included with the loan payment.

Products for the Affluent Market

These products are most alien to banks, since they are complex and require sophisticated advice. However, because these products are what most insurers are now selling through their agency forces, they are easiest for insurers to offer, other than credit insurance. These products fit with banks best in their private and corporate banking areas, which cater to the affluent market.

Products for the Mid-Market

As pointed out by Maria Thomson, the keys to this market are simple, cheap products that can be issued quickly. She reiterated the points discussed at the Annual Meeting in the "Products & Services for the Bancassurance Market" session, covered by this newsletter in the previous issue.

Pricing Products for the Mid-Market

Every aspect of pricing has to be reviewed for products designed for the mid-market.

If policies are issued in the field, then issue and underwriting functions in the home office are largely eliminated, which is a great cost-saver. There will be some additional costs borne by the bank, such as increased time devoted to the sale, printing costs, and special software by the bank to enable field issue, if the bank is paying for this. This additional cost may have to be covered by paying additional compensation.

Issuance

If advanced technology such as electronic application transmission, workflow software, or expert underwriting systems is used to speed up the sale, then the cost of this will have to be amortized. If dramatic reductions in time-to-issue are achieved, then additional costs will be at least partially offset by much-reduced not-taken rates and reduced manpower costs to issue.

Underwriting

If underwriting standards are lowered to speed up issue, then mortality or morbidity rates will increase. In contrast, if using underwriting tools can lead to faster decisions, without lowering standards, then the underwriting expense assumption may have to be changed. In either case, a speedier underwriting process will lead to reduced manpower needed to process an application, which would lower the expense assumption.

Service

Banks do not want to devote much time to servicing the insurance products they have sold, so insurers should try to shift service to the home office as much as possible. This means additional staffing of customer service areas, more phones, a voice response system, and possibly Internet access and fax lines. Additionally, there should be a well-staffed sales support unit. These costs should be covered by reducing or eliminating renewal-service compensation.

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Mortality

There's insufficient information in the U.S. market to lead us to develop special mortality assumptions for bank insurance. In the U.K., Les Webb noted, bancassurance mortality is up to 15% less than traditional insurance mortality. The reason is not known for certain, but possibilities include:

- Less anti-selection
- Better application completion than in the traditional channel
- Less "hard sell"
- More frequent use of expert underwriting systems

Persistency

As in the U.S., the U.K. has experienced first-year lapses of 20% to 25% in the traditional channel. However, some U.K. bancassurers have first-year lapses less than 4%. Part of the reason may be that many sales are loan related, and there is a high propensity to sell single-premium products.

Distribution Costs and Productivity

Bank agencies have lower office maintenance costs and are more productive than traditional agencies. Overseas, it has been shown that up to eight sales per week are viable for a bank insurance agent, compared to two per week for a traditional agent.

The Bottom Line for Mid-Market Sales

Keep mid-market products simple and low cost. Get policies delivered quickly. These are the essential principles of product development for the mid-market, regardless of the distribution method.

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