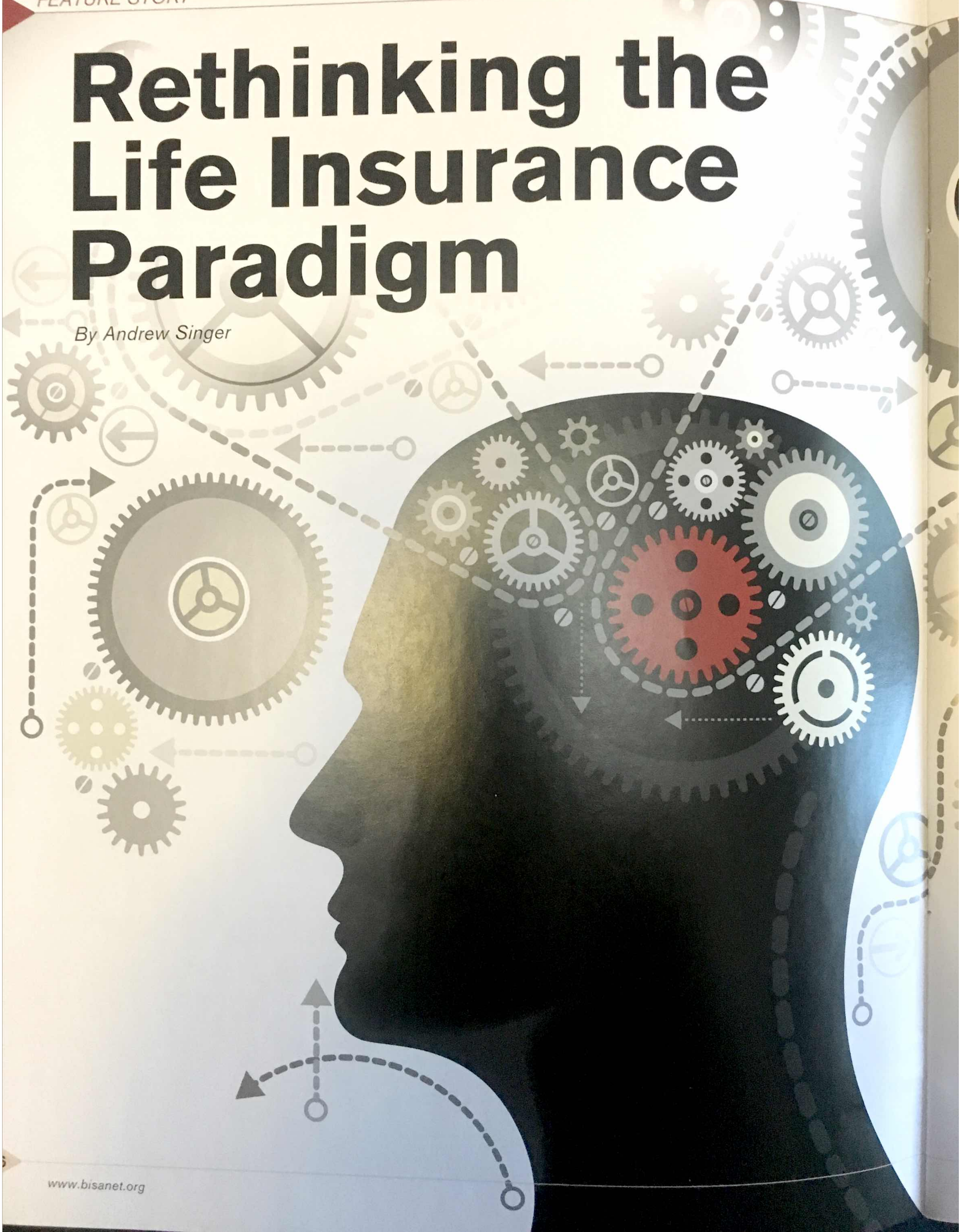
Rethinking the Life Insurance Paradigm

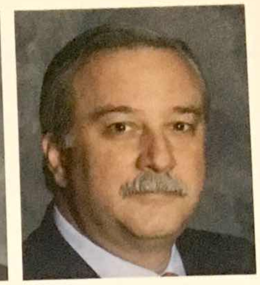
By Andrew Singer



Chris Bergeon

Bob Mittel

Craig Simms



Peter Tedone

Banks just can't seem to move the needle when it comes to life insurance.

In November, Kehrer Saltzman & Associates, the consulting firm, noted in a paper that "banks and credit unions have yet to fully unlock this opportunity" with regard to life insurance.

One common explanation as to why banks have been underachievers, particularly in the case of 'protection' life, is that institutions just can't make much fee income selling products like term life insurance—compared with juicier-commissioned items like fixed annuities.

"That's $300 in fee income for 20 minutes of work" on the part of the licensed bank employee (LBE), Tedone told us in an interview. "Where else can you generate $300 in fee income for 20 minutes of work in a bank?" You can't get that from opening a $5,000 checking account.

"Banks have to rethink that paradigm," i.e., that you can't generate fee income selling protection life insurance. You can, says Tedone. Moreover, protection life insurance brings other benefits. It's been shown that banks that are good at selling life insurance are usually good at selling many other financial products and services. They typically have effective sale cultures, suggests Tedone.

> *There is always an investment goal in banks, but there isn't always an insurance goal, says Prudential's Mittel. They need to set insurance goals.*

But Peter L. Tedone, president and CEO of Vantis Life Insurance Company (Windsor, CT), doesn't accept that. Look at the math, he suggests.

If you sell a 20-year level term life policy with a $250,000 face value to a couple in their 20s, they might pay $200 a year each in premium, or $400 together. The bank would command 75 percent of the premium as commission in the first year.

He is not alone in this view, and, as a consequence, there is more emphasis on protection products in banks these days, notes Robert J. Mittel, vice president, financial institution channel, Prudential Life Insurance (Newark, NJ). This goes along with the more general bank focus on recurring revenue; there's also less infatuation with "one and done" products like single premium life insurance (SPLI).

When a bank starts selling simplified-issue protection life insurance, continues Mittel, it often finds that *permanent* life insurance sales activity—i.e., traditional (underwritten) life insurance—also picks up.

"What we're also seeing is a focus again on platform programs," says Mittel, who cites a large West Coast bank that recently went from a referral-only sales approach vis-à-vis the platform to direct platform sales of life insurance. With their growing emphasis on financial planning, banks realize they need to offer protection life insurance. It is a critical component of financial planning. Otherwise, what you provide is *investment* planning—not financial planning.

Great-West Life & Annuity Company (Greenwood Village, CO) has long been a leader in the sale of life insurance through the bank channel.[1] It began with protection products like term life insurance many years back, but today its primary focus is on the higher end: wealth-transfer life insurance, e.g., single premium life. Great-West still distributes protection life through banks, however, including simplified issue products, and remains a leader in this area, too.

Can protection products really generate meaningful fee income? "We have been able to develop a meaningful level of sales [from protection products] from my perspective," i.e., from the carrier's point of view. "I can't answer if it's meaningful to banks. I can't speak to whether it's significant income from the banks' perspective," Chris Bergeon, vice president, financial institutions markets, told us.

Premature celebration?

A few years ago, there was an uptick in bank-sold life insurance, and everyone got excited, recalls Craig D. Simms, senior vice president, sales and marketing, Vantis Life (Windsor, CT). The needle was finally moving. But a closer look revealed that almost all of the increase was from single premium life insurance designed for wealth transfer—a stop-gap substitute for traditional fixed annuity sales, which were suddenly in decline due to historically low interest rates. Banks were *not* selling protection life insurance at this time, notes Simms, which is what banks and their customers really need.

Banks have to set insurance goals, compensation has to be 'reasonable,' and the best banks also tend to have an internal insurance wholesaler.

To make protection life work, several components must be in place. A bank platform sales program is critical, in Simms' view. He isn't aware of a single bank program that sells a significant amount of protection life insurance (e.g., term life insurance) through full-time financial advisors *only*. All successful programs have licensed bankers selling, too, and top LBE programs can generate 75 percent or more of a bank's overall protection life insurance volume, says Simms.

That doesn't mean full-time financial advisors should not be selling protection life. Advisors at many successful programs, like M&T Bank and Astoria Federal Savings, sell these products (as do the LBEs), he says. But it really works at those institutions because expectations have been established.

"It may not be realistic to have licensed bank employees (LBEs) selling *all* [the bank's] protection life," adds Simms. For one thing, some bank clients who purchase life insurance may also have substantial investable assets, and it makes sense to put those clients in front of a full-time financial advisor.

Making it work, however, usually requires an "edict" from senior management, i.e., 'We want to offer products that our customers need,' explains Simms. And management must be willing to compensate employees appropriately for selling those products.

Is there one critical thing that banks need to do better? "It's no one thing. They need to do a series of things," Robert Kerzner, president and CEO of LIMRA, tells *BISA Magazine*. "And they must do them consistently for two to three years."

First, banks need "The Big C," that is, commitment, from senior management, says Kerzner, and it must be reflected in compensation plans that motivate *others* in the bank to care about life insurance, including branch managers and regional managers. Banks also need to have the right processes—ones that are regimented and well thought out—as well as simpler products that can be more easily understood by advisors *and* customers. Another element is sales assistance, including help from wholesalers to get people more comfortable with the product. Banks have to be active, too, in all client segments (e.g., high end, the mass market), and both advisors and LBEs should be involved, says Kerzner.

"Protection as a theme is coming around," notes Prudential's Mittel, but you need three or four components to make it work. "There is always an investment goal in banks, but there isn't always an insurance goal." Only about half of banks with established investment programs have set goals for insurance, he estimates, but crucially, *all* of the bank insurance leaders set insurance goals—institutions like First Niagara, Astoria Federal, Union Bank, and Fifth Third. This is important, because "goals drive behavior," says Mittel.

Banks have to set insurance goals, compensation has to be "reasonable," and the best banks also tend to have an internal insurance wholesaler (i.e., a life insurance specialist who champions insurance within the bank), says Mittel. When banks add this last element, Mittel has seen "sales go through the roof."

What is reasonable compensation? For a bank platform program, 10 percent to 15 percent of the first year life insurance commission would be a reasonable compensation for licensed bank employees, says Mittel. As for full-time financial advisors, they should not be disadvantaged (relatively speaking) for making an insurance sale. Commissions must be in line with those paid for investment product sales.

Great-West's Bergeon agrees. "Banks that include it [insurance] on their advisors' performance scorecards—so it matters to the advisor"—seem to perform better.

"If you can incorporate insurance into their [i.e., advisors'] daily routine, then the transformation process begins, and they begin to look at their book [of business] in a new way."

Vantis Life, known as The Savings Bank Life Insurance Company (SBLI) until 2002, once focused on Connecticut banks alone, but now it now sells protection life insurance through some 140 financial institutions countrywide, including Regions, M&T, TD Bank, Peoples United, and Astoria Federal, among others. Their typical term life product has a $260,000 face amount. A typical whole life policy runs between $50,000 and $60,000. Clients tend to be middle-income folks who want life insurance "so the surviving spouse [in the event of early death] doesn't have to deal with debt," adds Simms.

Revenue growth at Vantis has been 10 percent to 15 percent annually in the bank channel over the past few years; last year it was about 12 percent. Simms anticipates roughly the same in 2014.

What's different now?

For nearly 25 years, banks have been talking about selling life insurance to their customers. What, if anything, is different today?

For one thing, those banks that have made a big commitment *have* improved how they sell the product, notes Kerzner. "What I think is the game changer over the next three to four years is technology and simplified issue," he adds. In the future, a bank customer could sit in front of a video screen and be in immediate touch with an insurance specialist. That expert could be employed by a wholesaler or by the bank.

In addition, "products have gotten faster and simpler," says Mittel.

Banks are 'chronic underachievers' with regard to life insurance, *Bank Insurance Marketing* magazine noted in *1996*.[2] Aren't they still underachievers?

It depends on what you're comparing them with, suggests Bergeon. If you compare their progress with the European models, or with what banks have done in annuities, banks are still underachieving. "But in the last 10 years, wealth-transfer [life insurance] and single premium life has grown in banks," says Bergeon. "It fits in well with what a bank does, and it has established a firm market share."

But that still begs the question for protection life insurance, especially simplified issue term life. "For protection, I'd be surprised if it's changed much in the last 10 years," concedes Bergeon.

You can't treat all banks the same when it comes to life insurance, says Tedone. They say at Vantis: "If you've seen one bank, you've seen one bank." The one-size-fits-all approach doesn't work when it comes to bank-sold life insurance. "The devil is in the details."

Fifty percent of consumers say they need more life insurance, and 44 percent say they would consider buying life insurance from a bank, notes Kerzner, citing recent studies. All this means "pent-up demand." The only question is, "Who is going to go get it?" ▲

Footnotes

1 *Great-West Financial achieved nearly $465 million in life insurance sales through banks in 2012 – breaking the previous industry record of $426 million set in 2011, according to BISRA's Life Report, Fourth Quarter 2012.*

2 *See Singer, Andrew, "Life Insurance Update: Still 'Waiting for the Breakthrough,'"* Bank Insurance Marketing Magazine, *Winter 1996.*

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