

Achieving Success in Bank-Owned Insurance Agencies

Since 1999, regulatory changes have encouraged financial institutions to surge into the property and casualty insurance business as the “next big thing.” Over the past seven years, banks and credit unions have invested billions of dollars in buying, building or starting property and casualty insurance agencies.

The initiatives, however, have generated mixed results, to the shock and disappointment of many senior executives who jumped headfirst into these inviting waters. In fact, several of the early players are already exiting the business, divesting previously acquired agencies. Others – huge industry leaders among them – continue to struggle with alternative delivery models.

What’s going on here? Our analysis of financial institution insurance referral data indicates these failures are a matter of a structural misalignment between the financial institution and its insurance agency. A few findings include:

- Selling auto, home and business insurance to bank customers and credit union members is commodity driven
- Most insurance agencies purchased by financial institutions are relationship-driven
- Financial institutions have failed to research and understand the insurance needs of their customer base

Can a financial institution sell insurance to its customer base profitably? Absolutely. But until the institution addresses the fundamental misalignments between the institution and the insurance agency, the institution-owned agency will fail to expand wallet share, fail to grow fee income, fail to drive market share, fail to promote customer retention and continue to dilute earnings. Bank acquired insurance agencies are simply not capturing the synergies between the institution’s customer base and the revenue opportunities.

Financial institutions of all asset sizes have tried and failed to leverage their acquired agencies into platforms to cross sell insurance to the bank’s core customer base – retail households and small businesses – and the problem is misalignment. The agencies that these banks have acquired do not have a platform or business model that is designed to sell insurance to retail households or small commercial accounts, which typically represent more than 90 percent of a bank’s customer base.

Does this mean the entire pursuit was just one big misadventure for banks? Absolutely not. Unlike many banking products, insurance is a permanent need of the entire customer base.

The areas in the bank that generate the highest number of insurance product referrals correlate with those areas of the bank that have the highest levels of customer contact – branches and the call center. In a recent study ProfitStars conducted examining 5,000 bank referrals, 50 percent did not lead to a quote. It’s clear that banks can generate a very large number of insurance leads ... 100 percent of their customers use insurance. The greatest challenge for the bank and its insurance agency lies in managing the type and quality of those leads.

A bank-owned agency has to be engineered to accommodate the referrals that the bank makes. In order to drive the opportunity for the high margins and customer retention features of personal lines and small commercial lines insurance, the bank needs a technology-rich agency platform that operates in a highly efficient environment.

The problem is structural, and banks will need to build or outsource an insurance solution for their core customer base of retail households and small businesses. Independent agencies across America do not have the operational infrastructure required to profitably support the insurance referrals of a financial institution, and they can't or won't build it.

Unless the banker adopts a new paradigm for his insurance business, it is unlikely that he will ever turn it into a profit center. The new paradigm must assume the following:

- Bank insurance is a commodity business.
- A high percentage of bank referrals will not be actionable.
- Correcting the structural impediments to success means NOT trying to change the bank, the bankers or the referral filtering process. These activities will only dry up referrals.
- Correcting the structural impediments means re-positioning the insurance platform to manage a high volume of referrals/quoting activity.

Once you've understood the structural misalignment plaguing your insurance business, you can actually work on making it better. And the bottom line is that there are powerful opportunities to do so. Financial institutions are experts at capturing and analyzing customer data – the very data that insurance agencies also need to do their work. Some of these opportunities will require technology developments and data integration that once in place will blow the doors off competitors when it comes to serving the financial institution's customer base.

The absolute "musts" for the successful bank insurance agency operating environment include:

- Focus referrals on quantity, not quality. Don't try to drive up the "referral to quote index" by teaching bankers how to identify and make a "good" referral. It doesn't work.
- Build front-end solutions that benignly dampen referral-processing expenses. Without asking bankers to make referral quality judgments, you can build in soft hurdles to your referral processing to benignly screen out those who are nowhere near a purchasing decision.
- Clarify referral-reporting requirements. To improve productivity of the agency, the referral framework must be systematized.
- Develop electronic referral requirements. The only efficient way to manage the high volume of referrals generated is to place them in a highly automated environment.

As industry observers have noted, the rush to bank-owned insurance agencies show little sign of abating. The success of these partnerships and acquisitions, however, is by no means certain. Understanding the structural challenges of aligning these two disparate financial offerings – and creating operating environments, systems and processes to overcome them – is the key factor in how profitable these acquisitions are to the financial institutions that make them.

Jeffrey Chesky is the president of Insurance Agency Outsourcing Group of ProfitStars, a division of Jack Henry & Associates (JKHY:NASDAQ), one of the leading providers of completely integrated technology for banks and credit unions throughout the United States. He can be reached at jchesky@profitstars.com. To review a recently published white paper on Bank Agency Integration, go to www.profitstars.com/freewhitepaper.