

Feature Article

ON BANKS' 'TO-DO' LIST: PERSONAL LINES INSURANCE

BY ANDREW SINGER

WHEN BANKS THINK about insurance, personal lines coverages are usually not

the first products that come to mind. Annuities and life insurance often take precedence. But coverages like homeowners and automobile do have a place in bank insurance programs—or so industry representatives insist.

“Most banks that we talk to are very interested in cross sales to customers,” says Dave Steppat, director of marketing at Securian Financial Network, Inc. (St. Paul, MN), part of the Minnesota Mutual Group. “This is another way to serve their customers.” Auto and homeowners insurance are virtually required products. “It’s something else that they [banks] can bring to customers,” says Steppat.

Most community banks are focused on mortgage lending, home equity lending, and (directly or indirectly) automobile lending, adds Jeffrey Chesky, president of Banc Insurance Services, Inc. (Springfield, MA). Before those loans are complete, however, a consumer needs proof of insurance. “Consumers increasingly see insurance as a commodity,” says Chesky. “If a bank agency can add insurance at a good price, conveniently,” then consumers will buy it from the bank.

Chesky’s firm acts as a kind of ‘master agency’ for about 10 institutions that offer personal lines insurance, and he has observed a “sea change” in this area in the last 18 months.

Banks have gone from hiring consultants that talk about personal lines insurance to actually implementing programs. His own firm’s bank business has grown 30–40 percent annually over the past three years, he says.

A growing business

According to Andrea Martin, president of Comerica Insurance Group (Auburn Hills, MI), the Group’s automobile insurance program with the American Automobile Association (AAA), begun earlier this year, is going “extremely well.”

“The new program is getting off much faster than the old one” (with another insurer), says Martin. “I don’t know how many years it takes [to reach critical mass], but because we’re using a third party, this product has been profitable from the get-go.” She does not believe that the program is cannibalizing Comerica’s own insurance agency business. Indeed, it

appears to be pushing more bank customers to Comerica Insurance Services, the bank's agency.

How so? The AAA automobile offering is mailed to all Comerica checking account customers. But only 'choice' customers—those who maintain a high deposit balance level—are eligible for the AAA discount. Non-choice customers are referred to Comerica's insurance agency. One result: August was the single best month in the past three years for Comerica Insurance Services' personal lines business.

Comerica leads with its automobile insurance product, but it counts on cross-selling homeowners insurance, too. The product is marketed via statement stuffers and employee mailings, according to Diane Weinberger, director of marketing. Why has the program gotten off to such a good start? "Name recognition," answers Weinberger; the AAA name is a big help.

'The right way to go for us'

First National Bank of Santa Fe (Santa Fe, NM) bought the Kelly Agency, an old-line property and casualty insurance agency, about two years ago. The acquisition has already added to the bank's annual earnings per share. "But we have not yet brought the synergies to full flower," says Ed Bennett, the bank's chairman and president. Nonetheless, Bennett is "convinced that it's the right way to go for us."

Is he more interested in automobile or homeowners insurance? "Homeowners is by far the deeper interest," says Bennett. "Mortgages are a great part of what happens at Santa Fe." Asked if personal lines were more attractive because of the potential fee income they generate for the bank, or because they can bind the customer closer to the institution, Bennett said, the latter; "We have to keep an eye on the customer relationship."

Thin margins

Because personal lines is a thin-margin business, expenses must be watched carefully, says Chesky. Acquiring new customers can be expensive. Traditional insurance agencies spend anywhere from 30–40 percent of commission income on acquiring customers, he estimates. Banks can make a real improvement in this area. "If banks can figure it out," they should be able to reduce that 'acquisition' expense by taking advantage of their existing brick-and-mortar branch systems.

Over the mid-term—three to four years, say—banks can build up a "very nice annuity" from personal lines insurance, says Chesky. The product pays a full commission each year, and the annual policy retention rate is about 90 percent. It's not "one and done," like annuities. Moreover, "it's a salable asset." If need be, banks can sell their books of business for anywhere from one to two-and-a-half times annual revenues, he notes.

A 'mixed bag'

Historically, banks have had a "mixed bag of success" selling property and casualty insurance through banks, observes Dave Roush, CEO for ComparisonMarket (Solon, OH). Some are doing a better job than others. It's a low-margin business—unlike credit life insurance, say—and it's an asset-protection product, unlike annuities. "So it presents unique challenges." A few banks have been successful, however.

ComparisonMarket sells only automobile insurance. The firm, whose investors include four insurance companies—Liberty Mutual, Allmerica, Hartford, and Travelers—is premised on the idea that "people shop for automobile insurance when they experience a life event or when they are upset with their current carrier"—because of a price hike, for

instance. In looking for alternatives, customers “want to feel that they have done their due diligence, but they don’t want to make a career of it,” says Roush. The firm’s research has shown that if a customer can secure quotes from three or four carriers, that is the “sweet spot.” ComparisonMarket presents immediate quotes from three or four carriers, including non-owners like Metropolitan Life and Kemper.

Why distribute through banks? Consumers have brand awareness, and banks are often ‘brand names.’ Banks also have on-going relationships. In the past, banks might endorse the auto insurance offering of a single carrier. But it is “ludicrous to say that one company is the best for every customer,” says Roush.

His firm is saying to banks: “Change your paradigm. Instead of endorsing one carrier, present your customers with a service.” His company went to market in June 2001 and is now working with a half-dozen banks, including some of the nation’s largest.

ComparisonMarket emphasizes the name of the financial institution in its programs. His firm is paid a commission, which it splits with the bank. The service is marketed through the Internet, direct mail, statement stuffers, and call transfers. Most sales come from the Internet, however. ComparisonMarket is currently “selling thousands of policies a month,” says Roush.

Double-digit growth

Securian Financial Network has been working with banks for years in the personal lines arena. “We’ve had double-digit growth every year in terms of sales,” says Dave Steppat. “We’re trying to increase the number of people who call us,” such as credit-union customers who phone Securian’s call center for automobile price quotes. Securian generates these calls through newsletters, statement stuffers, and other means. “It’s a growing component”; hit rates are much higher than with outbound calls.

Most leads, however, are still provided by mortgage loan officers who pass on a name and number to Securian’s outbound tele-agents. Homeowners insurance has traditionally been the group’s lead product, although the automobile component is growing. “There is turmoil in the homeowners market,” observes Steppat, the result of years of under-pricing. He has seen rate increases of 15, 25, even 40 percent in some instances, price hikes that would have been considered “astounding” only a few years ago. Some large carriers, like State Farm, have withdrawn from some states. “We’re coping with that kind of turmoil.”

The average annual homeowners’ premium is \$600; the typical auto premium is \$1,400, says Steppat. About three-quarters of Securian’s bank business is in homeowners, and one-quarter is in automobile. If homeowners customers are offered a package discount, they will sometimes ask for automobile quotes, too.

Securian is selling more auto insurance through credit unions, where automobile lending is often the principal business, says Steppat.

Is it profitable?

Can personal lines products make banks money? “If a bank is doing it just for fee income, they are looking at the wrong product,” says Steppat.

“They [banks] know that just selling automobile and homeowners insurance is not going to make them rich overnight,” observes Ruth Ann Richter, vice president of Allied Group Insurance Marketing Co. (Des Moines, IA), “but it helps to retain customers, and it does provide some fee income.”

Allied has worked with financial institutions for 18 years. The business “has blossomed slowly,” says Richter, although the pace has picked up in the past five or six years. Today, Allied has about 25–30 relationships, of which they are actively marketing to about 15 institutions. The company sells auto, homeowners, umbrella, recreational vehicle, and boat coverages through banks. They make use of direct marketing, inserts, and “warm transfers,” such as referrals from a mortgage loan officers. Most bank sales are generated by direct mail. The bank often doesn’t want to take on the responsibility of actually offering price quotes. They want their loan officers to continue acting as loan officers, notes Richter.

Allied markets in 26 states. They usually begin with automobile insurance and try to cross-sell homeowners later. In some programs, customers can get a price quote right off the bank’s Website. This seems to be most prevalent in California, where more people seem comfortable using the Internet for online quotes, Richter says.

The personal lines products require a lot of expertise—and also a lot of capital, particularly if a bank is operating across several states. This means that high volume is required to ensure profitability, which is one reason institutions tend to outsource the business, notes Steppat.

Increasingly, banks are saying to independent agency owners, “I’m not going to buy the agency. But I’ll buy your book of business,” says Chesky. They can do this by paying 1¼–1½ times the annual revenues; whereas they may have to spend 2 times revenues to purchase an agency outright. The bank is not buying the buildings or the producers in this instance. The insurance agency actually closes down. But with its new customers, banks not only have an income stream; they have a new market into which they can cross-sell bank products. “It’s a much more efficient way for banks to grow their deposit base,” says Chesky. “It’s much more efficient than taking out an ad in the local newspaper and competing on interest rate.”

Measuring success

How does one measure success in such personal lines programs? The most important ratio, according to Chesky, is the referrals-to-quotes ratio—that is, what percentage of agents actually get so far as to tender an automobile or homeowners price quotation to a customer who has been referred by a banker. “We try to get 60–70 percent,” says Chesky. Also important is the quote-to-close ratio. What percentage of those offered a price quote actually purchase insurance? Here, they look to be in the 45–60 percent range.

In a well-run program, it's not unusual for a bank to sell homeowners insurance to 10 percent of new mortgage applicants, adds Steppat.

What is the key to making it work? "You need management support up and down the line," says Steppat. "Insurance is another line as important as any other program." It requires training, and good tracking and reporting."

Much depends on teaching bankers to pass on leads. "We tell our banks: If you don't get our phone to ring, you can be sure nothing will be sold," says Chesky.

Comerica's Martin strikes a word of caution, however. "What seems easy and a sure thing often isn't so easy with banks in insurance"—despite frequent assurances from third-party vendors.

The future?

How big can personal lines become in banks? "Very few kinds of insurance will approach the success of annuities any time soon," says Martin. "It's a nice, profitable business, but it won't move the dial too much in terms of fee income."

"Banks don't view it as a huge money maker, but it is something they are looking at. You see more interest at banks in doing this," says Allied's Richter. She has seen a 16- percent increase in her direct-written premium compared with the previous year. That encompasses all of Allied's affinity groups, of which banks comprise about 40 percent. But she says that banks are holding up their end. Last year, the increase was 9.6 percent.

Roush expects more banks to be selling automobile insurance five years hence. All the surveys suggest it. And auto insurance is "ubiquitous—virtually everyone has a car." Says First National Bank's Bennett: Insurance is part of the "fundamental nest of financial services, and we think it will be a major profit center." Can they cross-sell personal lines products to bank customers? "We think we can. We do anticipate selling insurance in our bank lobbies and in our mortgage center." Overall, Bennett sees "real potential for personal lines insurance for community banks."

"I'm convinced that banks will be a substantial distributor of personal lines insurance in America," adds Chesky. He likens it to annuities, in which depository institutions are now a major (if not the leading) distributor in the country. "No one could imagine that community banks could be effective distributors of annuities; the same thing will happen with personal lines insurance"—although it may take another 5 or 10 years before banks can establish a leading market position. "There is not a bank president that doesn't have personal lines on his 'to-do' list," says Chesky.