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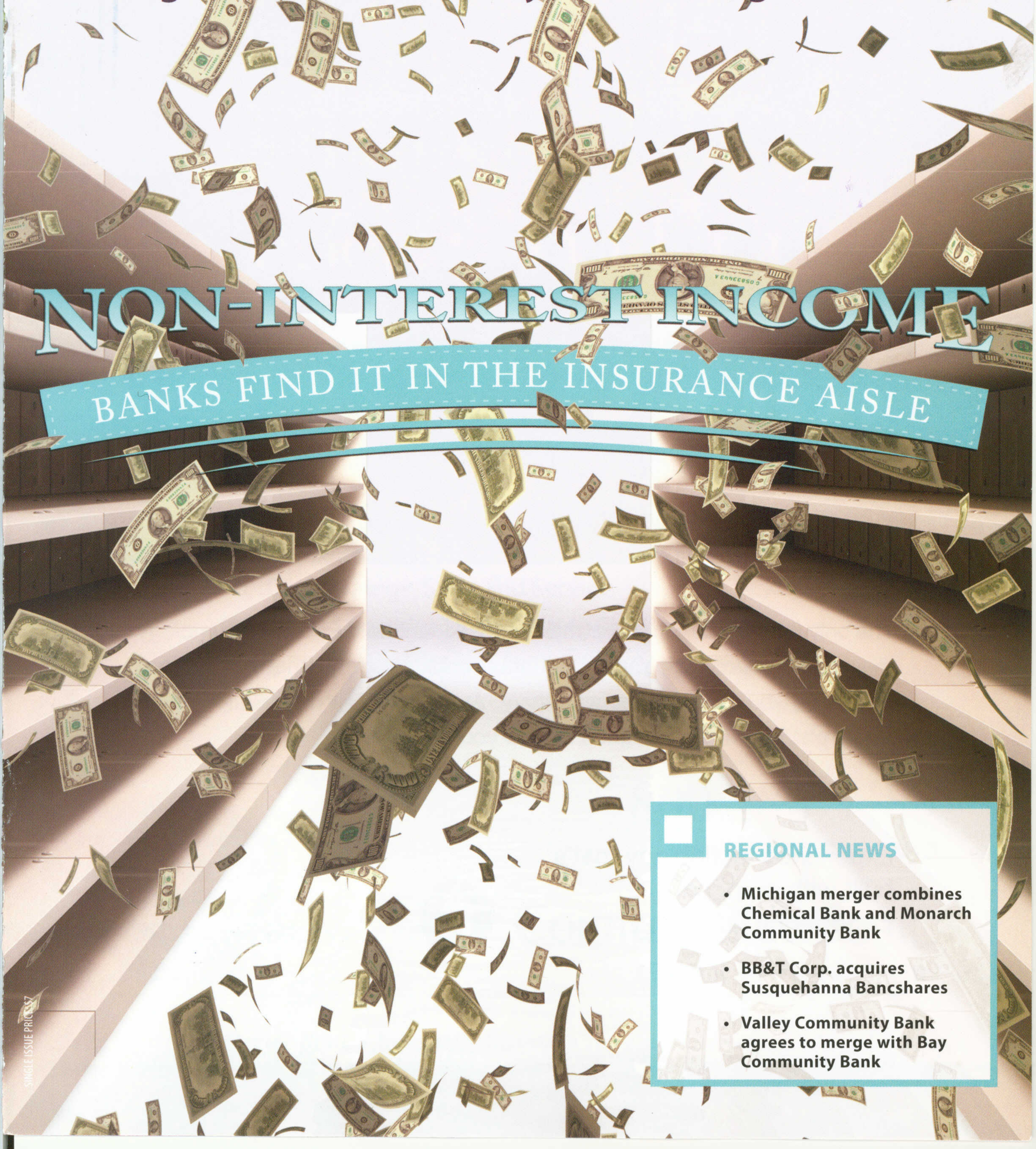

NON-INTEREST INCOME

BANKS FIND IT IN THE INSURANCE AISLE

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NON-INTEREST INCOME: Banks Find it in the Insurance Aisle

By Jeff Chesky

In speaking to bank executives across the country as they conduct strategic planning for 2015, some of the most pressing topics include the growing burdens of regulatory oversight, expanding risks of competitive incursion, and how to generate new sources of fee income. Fee income is my specialty, and from my perspective, is one of the most poorly understood topics in banking today.

A Framework for Understanding Fee Income

Simply put, fee income generation is an emerging science; it is more about identifying a customer's intentions rather than screaming for a customer's attention and more about adding value than extracting a penalty. All fee income is not the same.

Fee income can be segmented into two broad categories: dunning fees and value-added fees. For generations, banks have been experts at collecting dunning fees: late payments, NSF, wire transfers — the list is long. In this era of increased disclosure and transparency, politicians, regulators and consumer groups will continue to cap, reduce and eliminate these dunning fees.

Value-added fees are less meaningful to some banks today, where the bank is paid a fee by a customer for helping that customer with something they want or need; loans to buy things, life insurance, investment products and foreign ATM availability. The future of banking will require a serious commitment to the emerging science of building and deploying value-added fee-income generating strategies. One such strategy being employed more and more by community banks is insurance sales through a turnkey agency concept.

What is 'value-added' fee income?

As background, let's define this critical term. Value-added fee income can be defined against five measurable variables.

- First, what percentage of your customers need or want the product you are thinking of selling that will generate the fee income?
- Second, how often do your customers need or want to buy these products — do your customers need to purchase this product once, occasionally or annually?
- Third, do these products generate "one-time" or "recurring" fee income, i.e., a mortgage loan origination fee vs. ongoing loan servicing fees?

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- Fourth, do these products create any balance sheet risk, i.e., repayment, claims or warranty risk?
- Finally, are these product purchases subject to changes in economic cycles, i.e., does a change in the fed funds rate or unemployment impact purchase activity?

An emerging number of bank CEOs are instructing their leadership teams to identify value-added fee income ideas that meet as many of these components as possible. The emerging gold standard for product positioning is to meet all five. Is that possible?

A Gold Standard Emerges

In the words of Wells Fargo CEO John Stumpf at an investor conference in 2012, "The bank is in the market to buy insurance companies. A key reason: Wells is one of the largest originators of mortgages and used-car loans and those borrowers all need insurance." Stumpf has led the entrance into one of the first product suites that meet the gold standard for value added fee income — auto and home insurance. Let's run the test.

- ✔100 percent of bank customers purchase auto and/or home insurance.
- ✔100 percent of customers repurchase these products every year.
- ✔These products generate recurring/annuitizing revenue — average duration over six years.
- ✔These products do not create balance sheet risk – the carriers pay any claims.
- ✔These products are not impacted by economic cycles — even at the height of the great recession, people paid their insurance premiums.

From Product Orphan to an 'Aisle' in the Store — Case Studies

At Mid Penn Bank in Millersburg, Pa., CEO Rori Retrievi understood that the benefits of offering insurance weren't limited to the industry's largest banks. A community bank executive for more than 20 years, he knew banks all had some insurance products kicking around on the platform; term life, credit life, ID theft, etc., but that they were typically orphans within the bank — no ownership, no commitment and no ongoing management. In fact, most bankers couldn't explain the "fee income" characteristics of these products. Retrievi jumped in and embraced the gold standard of insurance sales as an "aisle" in his store — in launching the Mid Penn Insurance Agency, stocked its shelves with the auto, home and commercial insurance products 100 percent of his customers buy every year, and over the last 12 months, 49 percent of the customers quoted by Mid Penn Insurance Agency, ended up buying a policy.

By offering a comprehensive suite of insurance products alongside its traditional banking products, Spencer County Bank in Santa Claus, Ind., has found that it can distinguish itself in the community as a "one-stop shop for financial products and services." As Merle Kendall, chairman and president of the bank noted, "Creating an 'Insurance Aisle' in our stores affords us the opportunity to provide a complete product offering and the technology to leverage our bank's lending opportunity and online banking opportunities." This value proposition has become increasingly important as several of the nation's largest insurance carriers continue to expand their retail banking and lending presence, evident in State Farm's recent "Borrow Better Banking" campaign. For Spencer County, which has insured nearly 1 percent of its retail households over the past 12 months, an insurance aisle not only represents an opportunity to grow fee income but also protection from competitive incursion.

Finally, banks like Mid Penn and Spencer County are combining their commitments to offering insurance to customers with the same energy they do core banking products with the rapidly growing adoption and utilization of their online banking portals. By integrating the insurance aisle into the digital environment, they enable customers to have real-time access to the products they want and need — like auto, home and business insurance, AD&D, ID theft, roadside assistance and travel protection — supplementing and replacing traditional third-party direct mail campaigns, statement stuffers, rack brochures and other outdated analog distribution methods. These innovative bank executives are proving that when their customers visit the bank online to pay bills or check balances, the bank can offer them additional value-added products and services while also driving a critical source of non-interest income.

The pivot to understanding and embracing a new generation of products that generate value-added fee income is already under way. It is a true revolution for both the bank and its customers. BN

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