IT'S TIME FOR BANKS TO PUT AN INSURANCE 'AISLE' IN THEIR STORES

For decades, banks have treated insurance products as the red-headed step child to their core business. Pressure on net-interest margins, the need for fee income that comes from helping customers, not dunning them, the focus on retention by increasing products per household, the major jump in on-line banking utilization rates – all of these factors are causing a few innovative Bank CEO's nationally to rethink Insurance.

I know… banks don't have physical 'aisles' in their stores – but when I talk to CEO's I use the phrase to help capture the notion that a bank's customers know that there's deposit gathering going on inside the bank, there's loan making, and in many banks there's investment advisory services as well – these products don't have physical aisles, but every bank customer knows that these products are available to be shopped, compared and purchased within the bank.

When you think about this notion of an insurance 'aisle'… have you ever heard a bank customer describe their bank as having deposit, loan, investment and insurance products and services in the store? Insurance has been and continues to be a footnote to a bank's mission statement.

Today, a few banks can honestly stand up and celebrate the fact that they have an 'Insurance Aisle' in their stores – BBT, Wells Fargo, Bancorp South. Last May, John Stumpf, the CEO of Wells got it half right when he was quoted in American Banker as noting; "Wells is one of the largest originators of mortgages and used car loans, and those borrowers all need insurance… I love the insurance distribution business." What Stumpf forgot to say, or is still working to understand, is that a small percentage of his customers will be borrowing money this year for homes and cars – but 100% of them will be buying auto/home/business insurance – from somebody… this year and every year. His bank doesn't need to generate a loan approval to generate an insurance need. It's nice to have loan products that leverage an insurance sale, but every customer in the bank is buying insurance this year – whether they take out a loan or not.

James Threadgill, the Vice Chairman of Bancorp South probably put it best – "The only financial product that 100% of our customers purchase every year, year in and year out, is insurance – our goal at Bancorp South Insurance is to have a permanent insurance aisle in our stores, so our customers know they will never have to leave our bank to insure themselves, their families and their businesses."

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BANK - INSURANCE REBOOT?

More than a decade after GLB, should bankers revisit the debate about driving insurance distribution to consumers and small businesses in America – should they take the time to re-debate if insurance should be 'core' to a bank's business model? In the summer of 2011, Deloitte published a research paper; 'The Voice of the Personal Lines Consumer'. With all the other noise in the economy, it got very little visibility, and the commentary it did get focused on one of its broader conclusions; 'consumers are increasingly in the driver's seat as insurance becomes increasingly commoditized'.

What was missed was a startling insight from the research – Four in 10 consumers surveyed reported that they use an agent because they don't trust insurers to deal with them fairly --- AND --- another Four in 10 surveyed reported that they bought direct because they don't trust insurance agents to objectively represent their interests. Have you ever seen a better illustration of an opportunity ripe for competitive incursion? And who in America is in a better position to offer a trusted and transparent shopping experience for a financial product that every consumer has to purchase every year... can anyone spell BANKS?

I know, banks are suffering from a 'trust' gap at the moment – I liken it to the trust problem that Congress has – everyone likes to hate Congress but everyone loves their local congressman. Local bankers typically rate near the top of the 'trusted advisor scale' while insurance agents and carriers don't do nearly as well.

So insurance is the only financial product that 100% of your customers purchase every year – year in and year out. And to paraphrase Stumpf at Wells… banks create insurance buyers every day, since they always require proof of insurance before funding an auto, home or business loan. Add to that the Deloitte research that consumers in America have a massive, deep seated mistrust of the two traditional insurance distribution channels in America – Agents and Carriers. Sound like an opportunity?

There's not enough digital space to describe what's gone wrong with Bank-Insurance distribution in America over the

> **[Everyone likes to hate Congress but everyone loves their Congressman.]**

last decade – TD Bank & BBV Compass Bank's recent decisions to sell their substantial insurance agency platforms are testimony to an opportunity gone wrong. John Wepler, the CEO of MarshBerry, the nation's preeminent M&A Advisory Firm for Bank's acquiring agencies, has a thoughtful phrase to describe it – 'post acquisition integration failure.' Simply put, too many banks bought agencies where the CEO never made the decision to make insurance a permanent aisle in their stores --- and to be fair, the acquired insurance agency principals refused to be stitched into the operating fabric of the bank – they had no interest in becoming an 'aisle' in the store.

If women are from Venus and men are from Mars, the corollary for bankers and insurance agents has historically been acknowledged by both industries as something akin to oil and water. Among the comments during the recent financial crisis was the astounding observation from Sandy Weil that he may have been mistaken to think that insurance and banking could be integrated. Ironically, with the advent of automated underwriting of loans and automated underwriting of insurance policies, driven by mathematical models written by underwriters and actuaries – Sandy Weil wasn't wrong with the Citi Travelers merger – he was just over a decade too early.

ARE BANKING AND INSURANCE REALLY THAT DIFFERENT?

Ask an underwriter of a loan what they're underwriting – they will tell you character and collateral … ask an underwriter of a policy what they're underwriting – and they'll tell you character and collateral – the only technical issue that defines the thin difference between the businesses is that the banker is underwriting repayment risk – and the carrier is underwriting claims risk. For decades the two sides have described their business and risk management models as very different – and based on relationships steeped in industry expertise, one-on-one relationships and market intelligence. Well, computer modeling and underwriting have blurred the distinctions to the point where from an underwriting perspective – they are virtually meaningless.

Still not convinced – take a standard FNMA home mortgage application – and list the fields of information collected by the bank to underwrite the character of the borrower – and then take the property appraisal done by the licensed appraiser, and list the fields of information collected by the appraiser to underwrite the collateral that will secure the loan. Now, take the standard Accord Form for a home insurance policy – and throw in the 'cost replacement estimators' data dictionary that the carriers use to estimate replacement cost coverages. There are only three data fields that the insurance carrier needs to underwrite claims risk that the bank doesn't collect from the loan application and the appraisal;

Does the insured smoke… i.e. fire hazard?

Does the insured have a pet… i.e. bite hazard?

Does the insured have a trampoline in the backyard… i.e. broken bone risk?

Please… no jokes about smoking dogs on trampolines… And yes there are a few more data elements the carrier needs... distance to fire hydrant etc. Yet to hear bankers and carriers describe their businesses – oil and water doesn't quite capture the tension in the way they see each other and their business models. Today, a bank owned agency can get firm pricing indications from insurance carriers in an instant for home insurance once we provide them with the data generated from a mortgage loan application and appraisal, period.

[Try typing 'affordable insurance' into your browser – last count was you'll get over 14 million hits.]

THE ELEPHANT IN THE ROOM (AKA BRANCH)

Ask your teenagers where they would go to buy insurance. Now take a moment to imagine their response. The first words out of their mouth… (or texted to your smart phone) would be "I'd go online". GEICO or Progressive… Allstate or State Farm… 'Call now or go online.' As I write this I don't remember how much GEICO spends on advertising direct to consumers – let's just say there's a lot of zero's involved. And like any good business model that is trying to help consumers as they vote with their digital wallets, they are offering customers a chance to shop and buy insurance online.

Now here's the irony. Every business owner in the world that owns a web site has two KPI's for their web site – increasing the number of unique visitors and generating online sales, agreed? Try typing 'affordable insurance' into your browser – last count was you'll get over 14 million hits. And which of the millions of insurance offers land on the coveted first page of a Google insurance search? – all the big guys who can afford to buy ad positioning on Google and Bing. You probably get a couple of spam messages a day offering to help you with 'search engine optimization – SEO' – so your customers can find your offer among the millions of online competitors. Insurance distributors are faced with confronting one of the largest challenges in any industry – insurance shopping is currently ranked as the number 1 financial product that is researched online – and carriers and agencies are unequipped to respond to the consumer's demand for a healthy mix of choice, pricing transparency, convenience and service.

So, let's get back to our business – the business of banking. As a former bank executive I can say that occasionally we're not the brightest bulbs in the lamp. Every business owner in the world is staying up nights thinking about how to have potential customers find their web site – because they know their customers are shopping and buying more and more online. Now for that elephant – can you think of one business in the world that enjoys over 40% of its customer base visiting its web site an average of 6.8 times per month without ever paying for 'clicks' or 'search engine optimization? And coming back again, month after month after month? And all without any cost for attracting these valuable repeat 'eyeballs' – as they are called in the SEO business? If only Bank of America had thought to charge $5.00 per month for free online banking services – rather than a 'low balance checking account' – what consumer wouldn't have agreed when it was first launched that online banking was a fabulous value? So millions of visitors are coming to our bank web sites, coming back over 6 times every month – all for free – engaging in financial transactions… so where is insurance, the one financial product they have to buy every year – and are anxious to shop for online?

CAUTION - INSURANCE 'AISLES' UNDER CONSTRUCTION HERE!

A small but enlightened group of bank leadership sees this convergence; understands the brand equity and brand trust their bank offers to consumers looking for financial products and services – these same leaders are pioneering efforts (with some nudging from regulators) to provide pricing and product transparency, and are realizing that if they treat insurance with the same commitment and focus as deposit and loan products, they can arbitrage the anxiety and deep seated distrust that insurance agents and carriers have created and are perfectly positioned to establish themselves as distributors of auto, home and small business insurance for consumers nationally.

Is anything different now that suggests why an insurance aisle will work? There's a convergence of several events that are changing the risks and rewards profile for banks building out an insurance aisle.

A few banks nationally are embracing the fact that 100% of their customers buy insurance every year, and have proven the maxim that 'if you treat insurance as seriously as you treat deposit gathering and loan making – and create an insurance 'aisle' in your store – your brand equity and trusted advisor position will transform deposit and loan customers into insurance policy holders'.

With today's technology – banks are in a unique position to dampen the time, effort and investment a consumer has to make to get an insurance quote that features pricing transparency and trusted advice. If you are underwriting loans – you are perfectly positioned to underwrite insurance – all at the same time.

Carriers have made significant advances in automated underwriting of auto, home and small commercial insurance – just as banks have made significant strides in automating underwriting of car loans and mortgages. The opportunity to provide a one-stop shopping experience for borrowers and insured's is astounding with current technology.

Think of your web site as an e-commerce site rather than a brochure-ware site. You don't have to explain to your customer how to shop for insurance online – GEICO and Progressive are spending billions doing that for you – you just have to let your customer know that they can shop, compare, and buy insurance online through you – their trusted advisor.

In 2013 we'll start to read more about insurance 'aisles' being designed, built and managed inside banks. The opportunity created by this convergence of events that is driving the realignment of traditional insurance distribution models is inevitable. More bank executives will begin to understand every time they approve a loan, they create an insurance need – and that their customers will welcome an opportunity to purchase insurance coverages every year from distribution models they can trust. Insurance carriers will begin to recognize the power of the brand equity, trusted advisor role, and sophisticated technology platforms of banks – and that banks represent the best new 'shelves' for them to put their insurance products on.