Friday, July 22, 2011 2:13 PM ET Exclusive

Bank insurance consultant Carmen Effron

Article

By David Dankwa

Insurance gets no respect, that is, within the banking system.

''Having run bank insurance programs here and in Europe, I can say that insurance does not get the kind of attention it needs and deserves because usually it is not big enough in terms of bank's overall revenue stream,'' said Carmen Effron, a bank insurance consultant and president of C F Effron Co. LLC.

In recent years, Effron, who was formerly president of BankBoston Insurance Agency and president of NatWest Bank's U.S. domestic insurance operations prior to their acquisition, has been helping financial institutions assess bank insurance opportunities and remove distribution channel roadblocks through sales process redesign.

In an exclusive interview with SNL, Effron discusses the challenges of distributing insurance through banks and what she believes is important to running a successful bank insurance program.

The following is an edited transcript of the interview.

Carmen Effron
President, C F Effron Co. LLC
Source: C F Effron Co. LLC

SNL Financial: Can you talk generally about how banks sell insurance?

Carmen Effron: Those that do it well try to sell it in a variety of ways. They have found that the more areas that you sell through in a bank, the better your income is going to be. When you think of insurance being sold through the banking organization, you have to think about how the banks are organized. Most banks are organized into retail, small business, commercial and private wealth management, as well as credit card and direct marketing segments. The big organizations sell insurance through every single one of these potential customer groups. They sell it both direct, in the mail and on the Internet. At the lowest level, you have licensed sales people that are selling annuities. Then moving up, you may have a financial adviser who would sell mutual funds investments as well as annuities and some life insurance. If the bank has a property and casualty insurance agency, they might sell personal lines and then move up to the more complex products for emerging affluent and affluent groups. Those people would be selling more complex life insurance products for estate planning, variable life, variable annuity and, in addition, homeowners and personal lines, and maybe consolidate them into a package for the affluent.

Is life insurance a bigger portion of bank insurance distribution than the property and casualty side?

Overall, we get more business from the property and casualty side. There are clear reasons for that. Most banks that have decided to get into the property/casualty business buy an insurance agency. They buy the expertise. For the life insurance side of the distribution, they hire firms like Affinion to help them with a number of different programs. I would say that 99.9% of banks that are selling property/casualty buy agencies or create joint ventures with agencies.

What is the major reason banks like to sell insurance?

From my own studies as well as others, I think the biggest driver is customer retention. When we started in 2003, insurance was all about fee income. Now we see banks selling insurance not because of fee income interest, per se, but for customer retention. They are really looking for ways to diversify in a way that makes sense and is convenient for the customer. It is easier to talk about insurance when you are talking about an investment program or a car loan or home loan. So I think the main reason is strengthening existing customer relationships, second would be fee income, third would be to provide a consolidated financial shop, and then building a brand and attracting new clients. I had one bank client that wanted to extend in a contiguous stage and didn't want to put in branches or buy anything, but decided to buy an insurance agency and extend the insurance operations. By doing the acquisition, they were able to get small commercial business and employee benefit business and use that as a way to sell more mortgages and wealth management services without putting up any branches in that particular state.

Agency acquisitions by banks have slowed. Why is that?

We've had a huge decline in the number of banks that were acquiring insurance agencies. There are a number of reasons: the unemployment, recession, asset devaluation, soft market conditions, credit availability, insurance company pressures and more. Because of that, the purchase of these agencies by banks has been pretty weak. I think interest is picking up this year. We see a lot more interest and banks moving toward purchasing. I am having more calls to help with valuations of P&C agencies.

Your research shows that banks that distribute insurance often face technology hiccups. How do you explain that?

There is always this tension about who is going to be responsible for these administrative systems. Is it the insurance companies, or is it the banks? Is the referral system one that is going to be implemented by the bank 100%, or are they going to get some support from the insurance companies? In some respects, it is a natural tension, but in another respect, it is because the insurance people have not done a really great job explaining to senior management the program and how important it is.

Why do you suppose insurance doesn't get the attention it deserves?

When you talk to bank executives, they really don't understand insurance; they think, "Oh my God, I'm going to have to take risk." When I was president of BankBoston's insurance agency, half of my time I spent educating the executives that we're not going to take any risk, although we did eventually when they got really comfortable. I also think it has to do with how insurance is measured within the overall revenue stream. If you are a big bank like Wells Fargo, when you compare the revenue that you get from insurance to investment banking operations, it is always going to look small. I would like to see it compared to investment assets under management, because that is very much retail-based. That would give you a better way of looking at it. When you have undereducated bank executives and they start to see their income go down, the first thing they want to do is jettison the agency and say it's noncore.

There are also some very successful banks that do a tremendous amount of business. For them, insurance means a lot more than client retention, does it not?

A lot of the successful programs have insurance executives that have been with the banks for a long period of time and bank executives that really understand the program, embrace it, and have said "we want insurance as part of our three-legged stool of investment, banking and insurance." Take a company like BB&T. Insurance is about 34% of their business, and they continue to buy insurance agencies. It is a significant portion of non-interest fee income so they can get the capital they need to keep acquiring agencies to expand their business. You also have Wells Fargo that earned about $1.4 billion from insurance and Citigroup, which earned about $1.3 billion. In the last three quarters of last year, the bank holding companies were selling over $9.7 billion in insurance brokerage fee income. That is up from 2009.