AMERICAN BANKER
On Focus and In Depth

Get the Cross-Sell You Bought the Agency for

American Banker, Friday, August 19, 2005

By Steinar Ryen and Oliver Sommer

Bank-owned agencies play an increasingly important role in distribution of insurance products.

From 1999 to 2003 bank-owned premiums increased at a compound annual rate of 21%, to $78 billion, according to an American Bankers Insurance Association study. The number of bank holding companies reporting insurance revenue rose 11%, to 1,413, and the revenue itself climbed 22%, to a record $41 billion.

This robust growth is largely the result of aggressive acquisition. The top five M&A advisers facilitated 361 bank/agency deals from 1999 to 2004. Banks owned 25% of the top 40 insurance brokers by 2003.

With insurance carriers focusing on reducing distribution costs and regulators scrutinizing commission structures, many independent agents have come to view sale to a bank as their best recourse. They think of banks as strategic buyers willing to pay two or three times revenue, though in 2003 only 13% of the premiums in such deals were larger than two times revenue.

Banks have bought insurance agencies to add stability and strength to noninterest income.

The trend is likely to continue. According to the ABIA study, 86% of banks that bought insurance agencies said they met or exceeded financial projections.

The fit of insurance with personal and commercial lending is obvious. New mortgages, cars, and commercial facilities all require insurance policies. By offering insurance concurrently, the bank is helping clients protect these assets.

But the cross-selling potential has proved difficult to realize. According to a 2004 benchmarking study by Regan Consulting, revenue from cross-selling typically made up only 5% to 8% of bank-owned agencies' total - and in some cases as little as 2%.

Only 1% of the owner banks' commercial lending customers had been cross-sold property and casualty insurance. For retail banking households the figure was less than 0.5%.

Though some claim modest success in insurance cross-selling, for most results are dismal. The main reasons are a clash of corporate cultures and lack of trust.

Insurance agency producers and principals, frustrated by bank bureaucracy and mediocre sales skills, quickly adjust back to their "independent" model. They interact with the bank only enough to justify the deal premium through back-office synergies.

The culture clash can seem insurmountable.

Agents used to being big fish in their pond find bankers stoic and blinkered by rules and procedures. Commercial lenders, branch platform staff, and mortgage originators tend to view the "insurance folks" as slick, shallow salespeople with limited respect for banks' customer-service culture.

After buying an agency, one regional bank encouraged its branch staff to solicit customers for insurance needs and provided a monetary incentive for referrals.

Referrals flooded the agency - but turned out to be 98% nonqualified. The result: a massive workload and a near-zero success rate.

The referrals could not be acted on in a meaningful way because branch customers had unacceptable risk profiles or policies whose cancellation penalties outweighed the benefits of switching. Though agency employees understood the importance of expiration dates, branch employees did not.

The agency employees quickly decided that the bank's clients were not worth pursuing. The branch employees concluded that the insurance people were unwilling or unable to help bank customers.

A structured approach to assessing such culture gaps can help to overcome them. The analysis must take place at the time of acquisition, and common operating processes must be established at the start.

Opportunities to align and integrate back-office, call-center, and account-management functions must be carefully examined. Putting agency and bank employees in the same location can pay off in efficiency and in cultural terms.

Some banks sidestep the cultural issues so as not to endanger a deal. The effect can be entrenched cultural challenges and associated costs.

The key strategic drivers of the bank's operating philosophy must be mirrored in the acquired insurance agency. For example, if the bank intends to be customer-centric, the insurance agency should not be product-centric.

The bank and the agency must also synchronize in customer segmentation. Otherwise, there is little chance of meaningful cross-selling.

Through a structured review, one regional bank found a solution to the branch referral experiment gone awry. Rather than reward branch employees for referrals, it rewarded them for collecting information about customers' insurance policies - for example, expiration and carrier.

Armed with this information, the agency could target customers as renewal approached and offer value-added policy reviews as well as a chance for a better deal by shopping among carriers.

This approach, backed by a sales-management tool that actively tracked referrals, leads, and follow-ups, helped build confidence on both sides of the fence and enabled the agency to boost its personal lines premiums by 20% in the first year alone.

Mr. Ryen and Mr. Sommer are managing directors of Aston Associates, a Stamford, Conn., consulting firm specializing in strategy and operational design.