WEB EXCLUSIVES

Serving Middle Income Customers Through Financial Institutions

By CRAIG SIMMS

Published 2/10/2009

Most life insurance companies have been more talk than action when it comes to effectively providing middle income households with the life insurance protection they need. Similarly, life insurance companies have experienced a relative lack of success when trying to reach this segment via banks and credit unions.

To be sure, these financial institutions have been—and continue to be—reluctant sellers of protection products, but what strategy has the insurance industry utilized to overcome this reluctance? Increasingly, there is a wrong-minded focus on the supposed convenience of transaction-oriented, simplified-issue life insurance products. This, in addition to a lack of meaningful wholesaling support, can introduce suitability and reputation risk to insurers and the banks that distribute these types of products.

According to LIMRA International research, only 12% of all U.S. households buy life insurance in any given year, far fewer than the 27% of U.S. households who say they expect to purchase it in the next 12 months. So what can life insurers and their financial institution partners do to change the tide?

Life insurers

For life insurers, effectively reaching the middle market has become a holy grail of sorts. Unfortunately, fulfilling the needs of this market profitably, and without distribution conflict, has proven difficult. There are a handful of insurers that focus their distribution almost solely on this market. But reaching middle income households via the financial institutions comes with its own challenges.

First, there is a distinction between banks and credit unions, with specific, and often different, strategies required to achieve success. Second, reaching the middle income customer in this channel often means being willing to develop platform (licensed banker) and direct response distribution within the institution itself. Third, providing a small, simple selection of products to meet the needs of this segment is critical. It is difficult for most life insurers to develop, execute and support this distribution and product strategy and do it effectively and profitably.

What some insurers have resorted to is a more passive strategy. For distribution support, this means providing little or no wholesaling and training resources to the licensed bankers who need it most. This has, in part, led to a flat growth trend for bank-sold recurring premium life products (see chart).

For product offerings, the primary strategy has been to focus almost solely on a simplified issue term product that provides greater profitability to the insurer but may often be the wrong product for the uninformed consumer. Some insurers have even moved to providing online applications for term products up to $500,000 of face amount.

This online process guides the often uninformed customer to a “Yes-No” underwriting decision with little or no agent interaction. In this case, the insurer and financial institution may not be providing the most appropriate or cost-effective alternative for the customer and therefore can risk suitability and reputation fallout as a result. In addition, the financial institution will likely face the brunt of the customer's ire, since the transaction occurred within the trusted confines of the branch or bank's website.

So what can life insurers do to reach the middle income market effectively through financial institutions?

Getting down and dirty

There are no magic bullets. Getting down and dirty with platform distribution is one key. This means, perhaps, developing a distinct distribution arm to focus only on those institutions willing to create infrastructure that can drive volume through licensed bankers. This infrastructure includes components such as vocal senior bank management buy-in, competitive commissions paid to licensed representatives, ongoing marketing and awareness initiatives, and a dynamic referral program. This strategy is not for the faint-of-heart, as it may require hundreds of man-hours on the part of the insurer and the bank for success.

Once developed, there a few keys that can help drive application volume:

The process of completing and submitting applications must be fast, efficient and error-free. If there are any glitches in the process that cause the licensed banker to spend an inordinate amount of time on the sale, the head of retail operations at the institutions will likely remove any support that was earned at the launch of the program.

The life product portfolio available to the licensed banker should be small, yet complete. Anything more than an underwritten term, simplified issue term, basic whole life and perhaps guaranteed issue and estate transfer senior products is probably too much. This multi-product strategy can maximize fee income and reduce the potential of suitability challenges.

Effective and ongoing training for licensed representatives is critical. This can mean frequent Webex-style presentations to small groups of agents and the availability of a 24/7 online resource for product and sales skills information and support. Regional in-person and internal sales desk support also will drive interest and application volume.

Adding a direct response component can be additive to fee income. Messages presented through the financial institution's website, newsletters and direct to homes via the mail and statement stuffers can increase awareness, drive application volume and increase traffic in the branches.

Financial institutions

For banks and credit unions, there are a few key variables in creating a viable life insurance program targeted to core, middle income customers. Creating some level of integration with retail management is a key first step. Without shared goals among key senior and field-level managers, there may be a pervasive "us vs. them" environment created.

Second, creating a distinct and clearly communicated division of responsibilities between retail licensed representatives and their Series 7 counterpart is critical. A program wherein production goals, products available for sale, and the face amount limits within those product categories are clearly and repeatedly communicated will increase the potential for success. Also, depending on product partners for training, marketing and wholesaling support is important. Remember that the insurer is the expert and should be called upon to use this expertise to partner with the financial institution and drive success.

Life insurers and their financial institution partners have a great opportunity—and some might say obligation—to make protection products available for middle market customers. By doing the hard work and putting in place the building blocks just described, the goal can be achieved.

Craig Simms is a senior vice president at VantisLife Insurance Co., Windsor, Conn. He can be reached at csimms@vantislife.com