

Banks Vs. Insurers: Customers Will Decide

By John A. Laurino

The right of banks to sell insurance has been debated for more years than anyone cares to remember. While the battle is far from over, banks are in line to be the ultimate winner. Paradoxically, the outcome has less to do with the bank's initiatives than the lack of marketing investment by insurance companies in protecting their franchise.

In simple terms, the average consumer of financial services, whether banking- or insurance-related, has little at stake in this battle. These households (averaging about \$38K in income last year, it should be remembered) have even less affinity for the individual banking, insurance or brokerage company that provides them with services.

To address this lack of consumer interest, banks have focused on creating brands. Meanwhile, insurance companies continue to rely on a "push" selling strategy that depends on a network of expensive agents and brokers. Unfortunately, agents and the commissions required to support them have forced insurers to focus their attention on increasingly affluent households and other large accounts, leaving the average household to fend for themselves. This is where the banks come in.

The average consumer needs a set of basic financial services, including banking and insurance, available easily and conveniently and at a fair but competitive price from a trustworthy source. When these values are combined, the equation favors banks over insurance carriers. Banks are more convenient, they can distribute product more efficiently (hopefully, sharing the savings with

their customers), and they enjoy a higher degree of trust, particularly as the banking industry polarizes into either the local bank or the branded megabank.



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However, banks shouldn't get overconfident, as their insurance success is not assured. Directly selling insurance looks easy, but in reality it isn't. Historically, what banks have called selling insurance has been nothing more than a direct marketing list rental, a third party endorsement providing fee income with no risk and no work. Unfortunately, this has taken banks in the wrong direction strategically.

The successful financial services model for the 21st Century requires a branded relationship with the consumer. And by definition, achieving brand status for any category means that the consumer trusts his or her choice to represent some confluence of values. The final price for any product or service is only a clearing point for this value set. When defining insurance values, key factors in the equation are convenience, ease of purchase and information and advice about the appropriate coverages for one's overall needs.

Unlike the third-party model, to be strategically successful the bank

must actually perform many of the tasks currently being provided by agents and brokers. The bank's insurance selling opportunity is to market to a better organized group of customers than is enjoyed by most agents and brokers. Its challenge is to do it as well and more efficiently.

So the advice for any bank hankering to distribute insurance products is: Change the traditional paradigm from the bank and insurance company as partners serving the bank's customers to the bank and its customers as partners opposite the insurance industry.

The difference: In the first model, the insurance company attempts to leverage the bank's distribution muscle, paying the bank for the opportunity. In the second instance, the bank attempts to leverage the buying power of its entire customer base, demanding volume discounts and services from the insurance company in return.

While this strategy may not get the bank insurance manager invited to a lot of insurance industry boondoggles, it is guaranteed to bring greater value to the bank's customers. Stronger and deeper relationships with customers are the only long-term strategy for surviving the continuing amalgamation of the financial services industry.

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