COMMENTARY

DISTRIBUTION

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At a Crossroads: Bank Distribution of Life Insurance

In 2000, the Gramm-Leach-Bliley Financial Services Modernization Act was anticipated to bring about a new age of life insurance distribution. The walls were breaking down between different parts of the industry, with banks and credit unions expected to play a major role in life insurance distribution. Many pointed to the success of "bancassurance" in other parts of the world and predicted similar success in the United States. Banks and credit unions were going to be the distribution channel to connect with underserved markets on a far-reaching scale and provide one-stop shopping for savings, insurance, and investment products. Agent distribution — both career and independent — was to face aggressive new competition for life insurance sales.

Almost 20 years later, where are we? Have these predictions come to pass? Have banks and credit unions emerged as an impactful distribution channel for life insurance?

Research from various perspectives supports the fact that banks and credit unions have yet to make their predicted impact on life insurance distribution. Bank distribution commands just single-digit market share. The overwhelming majority of sales represent single-premium wealth transfer business; sales of recurring premium, protection-oriented coverage are relatively small compared to other channels. LIMRA consumer research continues to show that on a policy basis, the bulk of life insurance continues to be purchased through agent and direct-to-consumer channels.

Opinions regarding bank distribution seem to be changing. As I talk with industry executives about the evolution of the channel and its potential, the conversation has shifted from one of optimism to one of skepticism. I am beginning to hear sentiments such as "niche market" or "specialty" when considering the bank channel's role in life insurance distribution.

What is disappointing is that there is tremendous potential within financial institutions to provide life insurance to their customers that remains untapped. The life insurance market is far from saturated, particularly among middle market and emerging affluent segments — just about all of whom have a banking relationship. Our research further shows that life insurance is a profitable product line if positioned effectively in an institution. Proven best practices that can be deployed — setting production goals, selling within a planning mindset, providing life insurance reviews to bank customers — have been shared and acknowledged, but in many cases dismissed. Most financial institutions are just not willing to do what it takes to incorporate life insurance as part of their strategy in a meaningful way.

There are pockets of success: a group of enlightened financial institution program directors who are willing to embrace life insurance and do what it takes to make it work. They are experiencing success in their institutions, providing their customers the insurance protection they need. Overall, however, it is still an uphill battle to convince financial institutions to do what it takes to generate meaningful results.

What does the future hold? While it remains to be seen where the industry lands on advisor fiduciary standards, such standards could provide the impetus for new attention on life insurance. New technologies around predictive underwriting and other data analytics offer the promise of overcoming some of the barriers that have hindered banks and their advisors in the past. Will these developments infuse new energy into the channel? Bank distribution requires a commitment of resources, training, and wholesaling support. Will it be worth the effort? Or will organizations say, "Been there done that," and look elsewhere for distribution opportunities? Bank distribution of life insurance is at a crossroads: Which path will it take?