

# Fattening the Coffers

Using LBEs to cross sell annuity sales programs to encourage deposit growth

by Michael D. White

In the past decade, banks and thrifts became the fastest growing annuity distribution channel in the country, selling \$186 billion and producing an estimated \$11.2 billion in gross commission revenue. In 2000, banks sold a record \$30 billion in annuities, generating \$1.8 billion in commissions, leaving little doubt that bank annuity sales programs have been embraced and are welcome sources of fee income.

One of the issues facing banks that want to get into the annuity business is the question of how the product can be sold to their customers. Many banks use licensed bank employees, or LBEs, to sell annuities, either as stand-alone sales forces or in tandem with dedicated investment representatives. Licensed bank employee-only programs, also known as platform annuity programs, are more common at community banks. Hybrid programs, which use both licensed bank employees and full-time investment reps, are more common among large banks.

Critics of annuity cross-selling claim paying bank employees to sell annuities encourages deposit disintermediation in exchange for a small, one-time fee. They maintain that bank platform staff should just do deposit transactions as fast as possible, keep lines moving and, if a bank must insist on having an annuity program, leave any annuity cross selling to others hired specifically for that purpose.

Evidence shows, however, that programs that pay licensed bank employees to cross sell annuities tend to increase deposits rather than encourage disintermediation and are generally productive and inexpensive. Because



licensed bank employees are eager to "do right" by their bank customers, they are quite attentive to them and their banking needs.

Historically, annuity sales do not disintermediate banks. Bank customers have money parked in many places other than the bank. Bank employees who take time to talk with customers uncover previously undisclosed funds that can be invested in annuities and other products that better meet their customers' needs. Moreover, many of the internal funds used to purchase bank-sold annuities were heading out the door when a platform employee saw an opportunity to save the account and the customer relationship by offering an alternative.

On top of this, 15 years of sales tracking and studies show most customers replace the internal funds they used to purchase bank-sold annuities

within 12 to 18 months.

MWA's database of top-producing bank annuity programs shows that 140 of 150 banks with less than \$2 billion in deposits increased their deposits in 2000. Only 10 banks, fewer than 6.7 percent, experienced a decrease in deposits. Deposits at two of the ten banks were virtually level, and deposits at four others declined less than 2 percent.

## More for Your Money

Using licensed bank employees to sell annuities can be an economical proposition. Because they are salaried, licensed bank employees typically receive sales compensation in the range of 25 to 50 basis points of the annuity premium, roughly 10 percent or less of the gross commission. Some bank programs pay the lower end of the range on internal funds and the higher end for purchases made with external funds.

Thus, these salespeople are further encouraged to learn more about their customers and their disposition of assets.

Banks earn 3 percent to 5.5 percent of the annuity premium, depending on whether or not a third-party marketer is involved and shares in the revenue. The initial annuity sale often leads to additional contributions to the existing annuity and more sales. Annuities can also pay assets-under-management or trailer fees for several years after the sale. Most customers replenish old funds or bring new deposits to the bank, expanding their relationships with it.

MWA data show that, five years ago, licensed bank employees represented 53 percent of bank-employed annuity and insurance-licensed sales agents, and they continue to constitute the largest sales force among financial institutions:

- Licensed bank employees rank second in sales of fixed annuities and term-life products and place third in sales of whole life and single premium life products.

- Licensed bank employees are the leading annuity producers in one-fourth of financial institutions, accounting for a median 94 percent and an average of 64 percent of annuity sales. Where LBEs are part of a hybrid sales force, they lead annuity sales in 59 percent of the cases.

- Licensed bank employees are significant life insurance producers at one in six financial institutions, where they account for a median 45 percent and an average 54 percent of life insurance sales. When LBEs are part of the mix of hybrid sales forces, they lead in life insurance sales 23 percent of the time selling single premium life, term and whole life insurance products.

## Case in Point

One of our small community bank clients with less than \$200 million in retail deposits launched a new licensed-bank-employee annuity program in

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2000. During the prior year, the bank's deposits had decreased 1.4 percent. In its first year, this program sold \$4.4 million in annuities, achieving a 2.25 percent annuity-to-retail-deposits penetration ratio. This penetration rate was 135 basis points higher than the highest median penetration rate by deposit-size category, namely, that achieved by institutions with \$10 billion or more in deposits.

Annuity gross commissions represented 7.2 percent of the bank's total noninterest income and contributed nearly 3.2 percent to the bank's pre-tax net operating income. Initially, 58.8 percent of sales were with internal funds, a phenomenon that usually does not last long. Nonetheless, by the end of the program's first year of operation, this bank's deposits increased 3.7 percent.

This program performed well for several reasons. First, bank management and directors invested time and effort to assess the bank's insurance-sales potential by product lines and distribution channels. Then, the bank took

more time to settle on an appropriate strategy, evaluate third-party marketers that would support a licensed bank employee program, plan the program's rollout, license and train a select group of bank employees, and establish suitable referral procedures and sales tracking systems. The bank was serious about developing a successful program. The bank maintains the program's momentum through constant communication, continuous education and training for all bank employees, licensed bank employee and branch goal setting and accountability, and performance monitoring.

In the program's second year of operation, the licensed bank employees became more comfortable with the products, learning about customers, and talking about their assets. Consequently, internal funds constituted only 36.7 percent of annuity sales, and external funds constituted more than 63 percent.

The bank achieved 155 percent of its annuity sales goal by third quarter and increased total LBE annuity sales by 50 percent. The average sale's size increased 25 percent. And, deposits were up, again, substantially.

The outlook for this bank is terrific. With a successful two-year-old licensed bank employee program under its belt and deposits growing, the bank plans to add full-time Series 6-licensed insurance agents and tier its insurance offerings with a hybrid program of platform staff and life specialists.

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