



Sales of insurance pay off

Small banks find insurance a good fit, but not a simple one BY ASHLEY BRAY, CONTRIBUTING EDITOR

From a macro point of view, the bank-insurance market appears to be stalled—participation and revenue generation have not changed. But just under the surface, community banks are stirring up quite a bit of activity.

“There’s a growing group of banks that are having a lot of success in insurance and are deriving some meaningful financial impact from it, and they’re virtually all community banks,” says Jim Campbell, partner at Reagan Consulting and leader of the firm’s Bank Consulting Group. “I would say that the interest level among community banks is probably as high as we’ve seen it.”

According to *Bank Insurance Fee Income Report*, of the 50 bank holding companies that generated the highest percentage of their noninterest income from insurance revenue last year, 44 have less than \$3 billion in assets. Of those 50 banks, the median contribution to noninterest income from insurance was 38.3%. (The report, by analyst Michael White, will appear in the 2014 *American Bankers Insurance Association Study of Banks in Insurance*.)

Deanne Marino, executive director of ABIA, also has noticed an uptick in interest from community banks: “We continue to get a lot more questions about bank insurance as banks overall are looking for other ways to enhance their noninterest income.” ABIA offers a number of resources to help banks considering insurance, including education, advocacy, and networking opportunities.

“[Insurance is] a proven model for community banks,” says Campbell. “There are plenty of community banks out there that are gaining significant noninterest income from insurance brokerage.”

Growth by acquisition

How a bank determines its approach to the insurance market depends on its goals, objectives, and time frames. More often than not, however, the reason for getting into insurance is noninterest income. “The question is what level of noninterest income do they need to achieve through insurance, and what’s their time frame for doing it?” says

Campbell. “What many banks will conclude is to get to a meaningful level of fee income, an acquisition is the only practical approach.”

This was the case for \$423.6 million-assets Soy Capital Bank and Trust Co. in Decatur, Ill. “We had had some good success in the late ’90s expanding our fee income business,” says Robert Smith, vice-chairman and CEO. “[We] felt that we could expand that part of our business by getting into insurance.”

The first hurdle Soy Capital faced was finding an agency with the right size and revenue that also covered the bank’s footprint. In addition, the bank wanted an agency that didn’t require management changes. “We didn’t want to acquire an agency and turn it around,” says Smith. “We also didn’t want the owner to hand us the keys at closing.”

In 2002, the bank closed on an agency that had principals in place and a variety of personal lines, property and casualty lines, surety, and some benefits products for small groups. To round out its offerings, Soy Capital acquired another agency in 2008 that offered benefits for larger groups. Smith says that acquiring agencies is a long-term cultivation process: “We’ve talked to a lot of agencies over the years. One of my sayings is, ‘You kiss a lot of frogs before you find your prince.’”

Today, the bank’s two agencies have merged into one corporation that operates as a bank subsidiary. Insurance makes up 34% of the bank’s noninterest income, and total noninterest income represents 65% of revenue.

The insurance side operates separately, but Soy Capital still makes an effort at cross selling and referrals. It makes

joint calls, tracks the referral process, and includes referral expectations in employees’ annual performance evaluations. Smith says one of the biggest challenges to the referral process is trust. “The thing you’ve got to remember is, ‘I’m referring to you my best customer, and now I’m putting that relationship in jeopardy if you don’t handle it right,’” he says. “It’s an interesting learning experience.”

Alternative avenues to growth

Agency acquisitions may be the quickest way to build substantial noninterest income, but they aren’t the right solution for every bank.

After looking at agencies, \$1.1 billion-assets Mascoma Savings Bank in Lebanon, N.H., found that acquiring wasn’t the right fit. Instead, the bank began offering insurance through a Connecticut-based third-party agency. The relationship lasted from 2008 to 2013, and while customers were interested in purchasing insurance from the bank, they were less enthusiastic about the impersonal call-center model the third-party agency used. In addition, income growth wasn’t up to par. “The growth trajectory wasn’t going to reach a level of significance for the bank, so [we] wanted to make the investment to bring it up to that level,” says Philip Latvis, the bank’s CIC vice-president, insurance agency manager.

According to its agreement with the third-party agency, Mascoma could service the customers it had gotten through the arrangement, so the bank decided to open its own agency. It created a plan, presented it to the board, and won support. “Our plan was essentially for fairly rapid growth and also to position ourselves to take advantage of opportunities for acquisitions in the marketplace as they came up,” says Latvis.

Mascoma hired a staff, conducted training, and received appointments for lines of coverage from insurance companies. “We deliberately overstaffed our agency for the size of the business we were, but we did that so we would be able to handle the growth and deliver the service levels that [customers had] been accustomed to at the bank,” says Latvis. “We hired a couple of folks with a lot of insurance experience and a couple that had some banking experience but no insurance experience.”

The agency works out of a separate office near bank



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community banking

BANKS IN INSURANCE

headquarters. Having just launched in April 2013, insurance is still a small portion of the bank's noninterest income, but the bank is looking to grow that by revisiting agency acquisitions. Referrals also are helping. "When we launched the insurance agency, there was already a pretty strong culture of referring customers for their needs," says Latvis. "It was a bit of a learning curve for us in the insurance agency to understand the different types of referrals that we were getting and how best to service those folks."

Integration is a challenge

Integrating an agency through cross selling and referrals is the ultimate goal for some banks, and it's a goal that \$1.2 billion-assets Extraco Banks in Temple, Tex., has accomplished. But it didn't happen overnight.

Extraco entered the market by hiring an individual with significant insurance experience and contacts. From there, the bank began looking for an agency in its footprint to not only provide a source of noninterest income, but also satisfy its commercial and real estate customer needs. "The main thing is we knew that everybody has to have insurance, and we wanted to be able to provide the one-stop shop," says Tanner Moore, executive vice-president, director, commercial and financial group sales, Extraco Banks.

Extraco found a large property and casualty agency and acquired it in mid-2001. Agency integration happened slowly, with Extraco working to get lenders, consultants, and others in each line of business to expand their discussions, so that all lines of business could share customer information to drive referrals and cross-selling efforts. "Integrating a true independent insurance agency, with producers that are commission-based with extensive flexibility and little regulatory pressures, into a traditional community bank, driven by core focus on deposit gathering and lending, was somewhat of a cultural disconnect," says Moore.

To facilitate integration, Extraco has spent the last decade implementing formal joint calling programs and expectations. The bank also has created a system of questions to ask customers to obtain key information for cross selling or referrals. "We want it to be multi-directional and obtain actionable pieces of information," says Moore.

Extraco has made a number of acquisitions, and the bank now offers all commercial lines, personal lines, and a full array of group benefits. As of mid-year 2014, insurance represents 6.1% of the bank's net operating revenue (net interest and noninterest total), and 16.6% of the bank's total noninterest income. Acquired agencies are folded into the insurance channel within the bank. "Now, it's much more of a teamwork effort that we've got in place, and we've learned with each acquisition," says Moore.

Banks considering insurance would do well to learn by example. "I think it can be an extremely lucrative and beneficial business line for any bank," says Moore, "if delivered properly and integrated properly." ■