

Does Your Agency Have What It Takes To Partner With A Bank?

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Are you an agent wanting to sell to, or partner with, a bank? Are you a banker wanting to launch your bank into the "bancassurance" arena?

Where do you start? If you are an agent, you need to know if your agency is one which will be attractive to a bank. On the other hand, if you are a banker, you need to be aware of the attributes that may make an agency desirable — or make an agency one to avoid.

Type of Agency

My firm has handled many inquiries from both agents and bankers wanting to take advantage of the new opportunities that banks and agents perceive, now that banks are allowed to offer insurance products to their customers. Most bankers, however, have only a vague idea of the type of agency to consider. I've also found that some agents haven't really considered some of the more important aspects of what will make a relationship with a bank successful. It takes more than just being able to run an agency and make a profit.

Agency Traits

If your agency or bank fits the legal definitions and parameters of being able to conduct the business of insurance, what agency profile would be most likely to ensure a successful, long term relationship, with minimal problems? Although every situation is different, the following agency traits (both positive and negative) may be well worth considering initially, whether pursuing a sale of an agency or a joint venture.

1. Multilocation agency. If an agency already has more than one location, it will have the operational, logistical, human resource and automation systems in place for successfully operating the bank location, too, with minimal additional hassle. This may be one of the most important factors to consider, since single location agencies may be highly challenged in such a transition. I find, however, that this trait is rarely considered.

2. Ability to be a team player. Independent agents are usually "take charge" people. Bankers may be more conservative in their risk assessment of new ideas. These are generalizations only, but each player must be willing to compromise and work successfully with others. An agency that has experience in purchasing or merging other agencies may have a stronger track

record of being a team player, since it has had to deal with effectively integrating others into the existing organization.

3. Local reputation and goodwill. An agency with a tarnished or high pressure reputation may not project the image that the bank wants. One objective for the bank is to strengthen its relationship with its customers. This is difficult to accomplish when the players have differing philosophies and attitudes.

4. Quality of the agency. This differs from reputation and goodwill. Quality refers more to management's ability to effectively and successfully operate and manage an insurance agency. Does the agency have a good track record with its companies? Does it pay its bills and companies on time? Has it incurred errors and omissions claims due to sloppy procedures? Does it have good loss ratios? Has it earned any special privileges from its carriers? Do employees and management perform as a team, with minimal problems? Is a productive, ongoing training program in place? Does the agency set and achieve goals? If you are a banker, answers to these and many more questions may be difficult to obtain, but with some well placed inquires, you may be able to find more answers than you would think possible.

5. Hidden agency liabilities. Are there unreported embezzlements? Has the agency paid any E&O claims out of its pocket? Are there potential E&O claims or lawsuits waiting to explode? Does the agency carry an adequate E&O policy limit? Are there family or employee loans that are not properly shown on the agency's balance sheet? Is the agency's book of business, or are other assets, pledged to others through verbal buy/sell agreements? Is there danger that a principal's divorce could financially upset or damage the agency? Do all principals work together effectively? Are key employees near retirement age, or are many of the employees new to the agency? Is there IRS trouble?

6. Compatibility with bank customers. It is important that the agency serves, or has the ability to serve, the bank's clientele. If many of the bank's customers live in million dollar homes, does the agency have markets to write these, to write high value autos and to place high limit umbrellas? Is the agency versed in providing investment

opportunities for higher income clients? If the bank has many Hispanic customers, can the agency relate culturally? Do any of the agency's employees speak Spanish fluently, to serve those customers who communicate more easily in Spanish?

7. Profitability. Both the bank and the agency may be required to commit financial resources. An agency with above average profitability may be better able to meet these challenges. Besides, success helps breed success, and profitability is one measure of success.

8. Diversity of company representation. An agency that has quality relationships with several, or many, companies, may be able to serve the bank's customers more effectively. Multiple company relationships normally translate into more kinds of policies and situations that can be written. An agency should be experienced in writing, as well as having the company representation to write, all lines, from personal and business insurance to life, health and annuities.

9. Competitive pricing. Without competitive rates, your ability to write policies will be impaired. Regardless of all of the press about value added services being more important than lower pricing, many people still want to know that they are paying a reasonable and competitive premium.

10. Potential loss of existing business. If you, as the agent, write the insurance for three banks in the area, will you lose these policies if you partner with some other bank? Will you lose the business and personal policies written for directors of these existing bank clients of the agency? From the agent's perspective, will the gains provided by a new partnership more than compensate for the losses caused because of the partnership? From the bank's viewpoint, any losses of agency revenue should be reflected in the price offered, if an agency is to be purchased.

These are just some of the initial questions that agents and bankers must ask and answer before even considering a relationship with the other. If both players feel comfortable with the answers, then the way will be paved for further evaluation.

Roger Thomas, CIC is a principal of Thomas & Thomas Agency Consultants and Appraisers, Inc., located in Livingston, Texas. Thomas specializes in assisting agents in all matters relating to sales, mergers and acquisitions of agencies; provides litigation support to insurance companies and agents; and consults with agents and companies regarding most agency and company issues. Thomas presently serves as president of the American Association of Insurance Management Consultants (AAIMCO). ■