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ReaganView

Do Recent High-Profile Divestitures Spell Doom for Bank-insurance?

To our Clients and Friends:

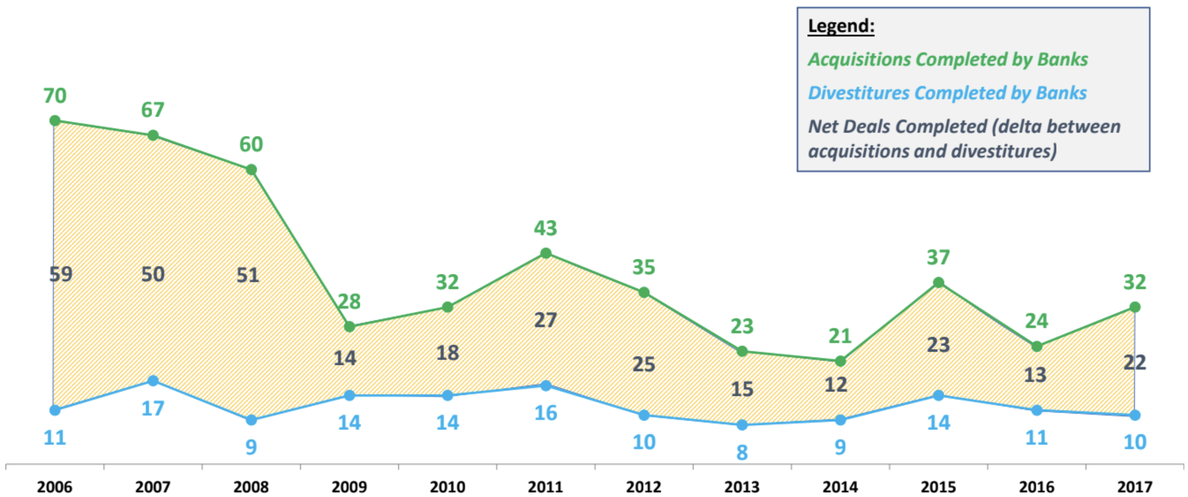
Regions' announcement earlier this year that it was selling its insurance agency sent shock waves through the bank-insurance community. It was the third such announcement over a short span, following close on the heels of similar announcements by Wells Fargo and KeyCorp. The latter came only a few days prior. Fueling the angst was the fact that these were some of the crown jewels of bank-insurance, each ranked among the ten largest bank-owned agencies by Business Insurance. It was enough to make even the most committed bank-insurance advocates think twice.

Predictably, speculation soon followed in the media and elsewhere that the bank-owned agency model was faltering. Bank-owned agencies were presumed to be under-performing, leading banks to transition from agency buyers to agency sellers. But is this an accurate interpretation? Consider the following.

1. **Acquisitions.** The number of agency acquisitions by banks took a nose-dive in 2009 following the financial crisis and has never returned to its pre-crisis level. But banks have averaged ~30 announced acquisitions annually since and have shown some resilience in recent years even as the market has become increasingly competitive. Banks announced more agency acquisitions over the three-year period ending in 2017 than in any three-year period since 2013.
2. **Divestitures.** Despite rumors to the contrary, there has never been a significant wave of bank-owned agency divestitures. In fact, the number of divestitures has been notably stable for more than a decade. And in each year since banks jumped into the agency marketplace, the number of agency acquisitions by banks has exceeded the number of sell-offs.
3. **Performance.** Analysis conducted this year by the American Bankers Association found that, rather than being under-achievers, bank-owned agencies are performing at levels comparable to or slightly above industry benchmarks across a range of key performance metrics related to growth and profitability. Perhaps the bank-ownership model works after all.

The recent insurance brokerage divestitures by Regions, KeyCorp and Wells Fargo add to the list of large banks that have exited the business. Regional and national banks have often struggled to achieve their objectives in this space. BB&T, the acquirer of Regions Insurance, is a notable exception. But what may be overlooked in the frenzy surrounding these divestitures is a strong and steady under-current of community banks operating successful agencies that they intend to grow. Whether these banks can successfully compete for acquisitions going forward is an open question that is likely more relevant to the future success of bank-insurance than is a handful of high-profile divestitures.

Agency Acquisitions & Divestitures by Banks



Source: S&P Global; Reagan Consulting analysis

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ReaganView is Reagan Consulting's forum for providing an occasional perspective onissues and opportunities relevant to the insurance distribution system

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