

Diversification: Good for Your Clients - **And Your Business**



WRITTEN BY

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Diversification. You talk about it, read about it, blog about it, tweet about it and maybe even Tik Tok about it. There's no denying that diversification can serve your clients well.

Diversification comes in many forms – asset class, geographic, duration, taxation, and more. If it serves your clients so well, why aren't you practicing what you preach in your business? Why is your income derived so heavily from AUM fees?

Sure it's great when portfolios are growing, but in a year like 2022, you feel the sting as your income takes a tumble. You're living through exactly what you warn your clients about. What if there was a way to help you ease some of the down market AUM sting? Life insurance may be a way to diversify your income in a way that may not be impacted by declining markets.

Hear us out before you dismiss the idea of commissioned based products.

Do you help your client with planning? Are you a trusted advisor? Do they expect you to bring awareness to the things they don't know about – risk or reward? If the answer is yes, **then you could be doing your clients a disservice if you don't offer them the benefits of life insurance** – living benefits as well as death benefits.

The industry saw a surge of claims due to COVID. Are those families who experienced loss but received life insurance death benefits better off than those who had no life insurance benefits? Are those families who were able to tap into their policy cash value to make ends meet during the pandemic better off? Are those families who had policies with long term care or chronic illness benefits better off? What about families with life insurance cash values protected from our lawsuit happy society? Do they sleep just a little bit better at night knowing they've protected their family? Probably so.

As a trusted advisor, you have tremendous line of sight into the lives of your clients.

Knowing their life and annuity products, in addition to their assets and planning strategies, positions you to provide even more value to the client. You'll better know their options when plans or economics go awry.

How? What if you knew they could skip 2 or 3 premiums when they were in a cash crunch? Happy client.

What if you knew they could tap into their life insurance cash value to pay for an unexpected expense without incurring a tax bill for asset liquidation or having to go through a hardship approval process on a qualified plan? Happy client. What if you knew their annuity allowed a penalty free amount to be tapped into for emergencies? Happy client.

What if you knew your client had short term chronic illness benefits the family could use to pay for care? Happy client. What if you were able to recommend a life settlement because you knew about a particular life insurance policy? **Happy client.**

Risk management is a cornerstone of holistic client planning and wealth management.

You are incorporating various risk management tools and strategies already – Monte Carlo simulations, asset diversification, trusts, etc. Life insurance is just another risk management tool that can enhance other planning. Sure, it can provide cash for estate taxes. It can also create more equitable distribution of wealth to heirs for situations involving family businesses with different levels of involvement amongst the heirs. **Life insurance focused on cash value accumulation can provide a tax advantaged source of retirement income or a pool of cash value to tap into that isn't tied to the markets.** It's a great tool in blended family planning.

Life insurance can have long term care or chronic illness benefits to protect other assets from liquidation when there's a care event. Your business owner clients could benefit from life insurance strategies that help reward and retain key employees. There are numerous ways life insurance can elevate client planning and create a better outcome while also benefiting the advisor who diversifies their revenue sources.



The commissions don't make the products worthless. It's simply a conflict that must be addressed and mitigated through process and actions – before and after the purchase. It also happens to be something that isn't tied to AUM fees. **It gives your business an alternative revenue source that can help offset market related AUM fee declines.**

Do you bank on them? Probably not given the uncertain nature and timing but getting the cash flow can be the extra padding to your bottom line that you need when markets are down, but also be used for strategic purposes when markets are up.

*(A word of caution: there are some new commission free insurance products. If you're getting what amounts to an AUM fee through them, you haven't really diversified your income stream. **You're still subject to the whims of the markets in those products.**)*

Worried about conflicts of interest or perception?

That's a logical concern, but there may be ways to ensure your clients understand your decision to offer such products and the benefits to them. For example:

- Create a simple one-page educational piece that explains why you offer such products and how you could be inadvertently harming the client by not offering them. You already educate them on other matters. This is just one more topic.
- Regulatory requirements may mandate that you disclose the commission related potential conflict of interest and any steps to address such conflicts. Having thoughtful processes you share with your client to mitigate the conflict may provide your client peace of mind.
- Consider setting your own organizational standards for carriers you will represent. Financial strength ratings, service capabilities, streamlined underwriting solutions, data feed integrations, and product features are all very valid reasons for the carriers you choose to represent.
- Treat the policy like an asset and include it with your ongoing service package. (Yes – we went there We suggested the policy is actually serviced after issue.)

These steps can help you avoid any negative connotations and drive home how your expanded product offerings help the client.

Including insurance in your client service and reporting activities maintains high level awareness of client holdings, protections, and potential benefits. It gives you the opportunity to initiate conversations regarding utilization of such assets, updating beneficiary designations (i.e. name changes due to marriage/divorce, address changes), flexibility with products, and overall integration with their financial goals and objectives. **You need a system for managing and reporting on the insurance, and Proformex offers functionality including data feeds from dozens of carriers to make it easy to manage and create reports.**



What else does offering life insurance products do for you?

Perhaps it keeps the fox out of the henhouse. What if your client's insurance agent also does planning and asset management? Do they have an inroad to eventually taking over the asset and planning of the client?

If you offer life insurance products and become a trusted resource in these products, it brings the client to you when somebody wants to tinker with their policies. If you won't talk to your client about products with guarantees, tax advantages, and peace of mind benefits, somebody else will. If you aren't bringing enough value to your client, you risk losing them to a competitor.

At the end of the day, diversification into life insurance product lines makes sense for your client and your business. You have to invest in the systems and processes to deliver on your self-imposed service and quality standards, but the result is truly a win-win for your clients and your business.

Proformex can help you with the systems and processes, but you have to be willing to step up and practice what you preach:

Diversify.

About the Author - David Morris

David joined Proformex, LLC as Chief Marketing Officer in 2018.

Previously, David was CMO of MacroPoint, LLC. MacroPoint is a SaaS-based global technology freight visibility platform for shippers, brokers and 3PLs to get real-time visibility on the freight they have given to third party carriers. It sold to Descartes in August 2017.

He was Founder and President of the Communications Group from 2003 to 2011. The Communications Group was a digital fulfillment platform generating non-traditional revenue for media (TV, Radio, and Newspaper verticals) partners across North America.

Prior to founding the Communications Group, he founded Media Pro, Inc in 1995. Media Pro, Inc is a media buying and marketing consulting agency. Originally focused on TV and radio strategy and buying in the Business to Consumer vertical, the company expanded into Business to Business strategy and branding consulting as well as sports sponsorships with every major professional sports league and NASCAR.

David has been engaged in several SaaS startups as an advisor and investor. He also sits on the boards of multiple companies.

About Proformex

Proformex is a data and technology platform purpose-built for financial professionals and institutions to manage life insurance and annuity assets. With deep data and technology expertise, Proformex connects customers to critical information about their life insurance and annuity businesses and helps them make better informed, data-driven decisions. With Proformex, financial professionals have the technology tools needed to proactively manage life insurance and annuities and enhance value for their clients.

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