PROFORMEX

Executive Briefing:
It's Not About Getting Another 1%

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It's Not About Getting Another 1%

Choosing a life insurance distribution partner is about more than getting just another 1% higher payout on commissions. Selecting a distribution partner that aligns well with your strengths and weaknesses can yield far more than a slightly higher commission payout. It's getting more expensive to have the expertise, systems, compliance oversight, and service capabilities required in the insurance and annuity world today. Moving to a distribution partner just for a slightly higher payout isn't the wise choice. Sure, payouts matter, but it's what else a distribution partner brings to the table that will position you for success or for struggles in an evolving life insurance distribution world.

Regulatory Standards

The Department of Labor standards were poised to be the watershed event for changing the life insurance and annuity industries, but a defeat in the courts and a change in leadership in Washington scuttled the rule. Due to the perceived failure of federal action on the fiduciary representation standard, state insurance and investment regulators began exploring their own standards of care in the insurance and investment world. Most notably, New York Regulation 187 (Reg 187) completely upends the standard of care for life insurance and annuity sales. Reg 187 went into effect in April 2019 for annuities and becomes effective for life insurance in February 2020. Reg 187 requires recommendations to consumers to be in the client's best interests. It also requires recommendations on policy service to be in the client's best interests.

The SEC was tasked with exploring a fiduciary standard years ago, but finally issued SEC Regulation Best Interest (Reg BI) for implementation in June of 2020. Reg BI requires recommendations of any securities transaction or investment strategy involving securities (including account recommendations) to be in the best interests of the customer. Reg BI sets forth four obligations: Disclosure, Care, Conflict of Interest, and Compliance. Although tied to securities recommendations, the language is broad enough to easily loop products not normally subject to Broker/Dealer oversight. For example, if the source of funds to buy a GUL policy is a money market securities account, the recommendation is likely to fall under Reg BI.

The CFP® Board delayed its new Code of Ethics and Standards of Conduct to June 2020 to coincide with the Reg BI effective date. The new rules expand application of the fiduciary standard to require CFP® holders to act in the client's best interests at all times. There's no more "wearing my CFP hat and now switching to my product sales hat".

Regulatory compliance isn't just about what was sold. It also involves what was considered in making the recommendation. It involves documenting the "why" of the transaction as much as the "what". How do you prove in hindsight your recommendation was suitable and/or in the client's best interests? Your distribution partner can't simply give you one product illustration. You need more for your files.

More regulatory change is on the horizon with many states already working on their own standards of care. There's even been talk of dusting off the DOL and making another run with a revised DOL standard. The end result is a fragmented regulatory oversight system with the potential for conflicting rules and standards. It is imperative that distribution partners are positioned to help you successfully navigate this evolving regulatory environment now and in the future.

Changing Competition

The face of competition is changing. The evolving regulatory standards create business execution risks that require scale and systems to effectively navigate. Technology is ushering in new competitors especially for small-to-mid-range sales. Carriers are expanding direct to consumer models to reach underserved markets and simple transactions like term insurance. Consolidation of IMOs or BGAs is already happening as evidenced by the combination of Bramco and Lifemark. Multi-level marketing companies have a solid and growing base in the IUL space. Facebook and websites are flush with advertisements of no-lab underwriting programs. It's likely the new competition and methods of product distribution chip away at smaller, steady sales. Prospects are apt to take the purchasing path with the least hassle. You need a distribution partner that provides technology tools to let you efficiently execute low margin business both up front and during service.

Revenue Pressure

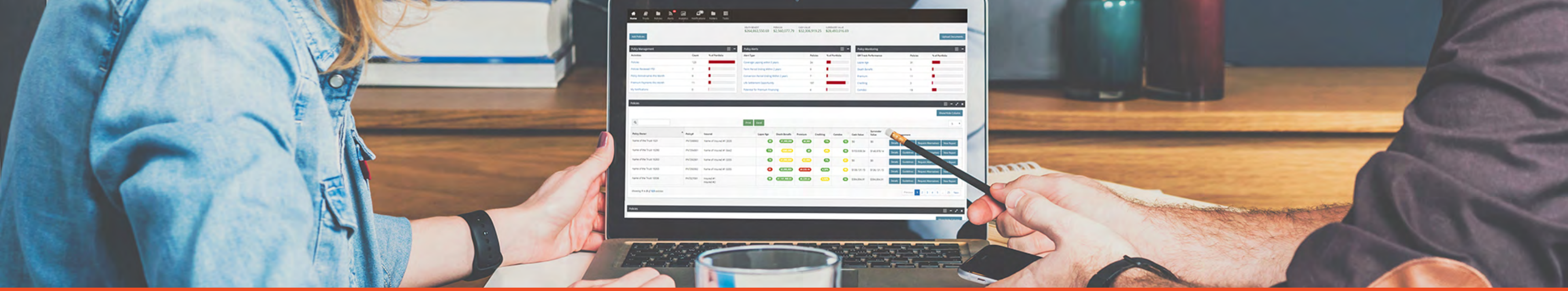
The new regulatory environment has focused a spotlight on compensation as a key determinant of acting in the client's best interests. Expect pressure on large, up-front commissions to increase. Carriers are already offering a few fee-only life and annuity products, and many more are exploring such options. A switch to fee-only or even level compensation models will be tough for producers with high overhead costs and large employee counts. Doing more with less will be necessary to make a successful transition to lower compensation structures. Underwriting may need to be outsourced to a centralized provider. Policy service will need to be automated. Product selection will need to consider ease of issue and service, not just client costs and underwriting. Fee-sensitive clients will demand more for their fees, and producers will need distribution partners who help them showcase value beyond product access or underwriting expertise.

Cross selling is another area of importance. Can your distribution partner offer up ways to turn 401(k) clients into buy/sell or key-man clients? Does your distribution partner allow you to offer life settlements on unwanted inforce policies? Does your distribution partner offer up social media marketing campaigns? With pressure on margins and the potential for changing revenue models, you need a partner who helps you optimize your client base for the sake of your clients and your business.

The Importance of Process

Efficiency requires standard, repeatable processes. Compliance in a multi-jurisdictional, fragmented regulatory environment requires processes to avoid slip ups and liability exposure. Efficient processes also lead to proficiency in execution which can help manage staffing resources. Streamlined underwriting is a process. Technology and process go hand in hand. Processes should be the backbone of your organization, and you need distribution partners who are process-focused with technology solutions to help you execute your processes. Those systems and processes should work for both you and your distribution partner. What processes does your distribution partner have to help you track and verify revenue? To service policies? To underwrite policies? To obtain quotes? This will impact your organization every single day.

Process is also at the heart of much of cyber security: two factor authentication, encrypted data, backups, avoiding phishing and social engineering attacks. It all boils down to standardized processes. With the multitude of state laws on cyber security, a breach can quickly run up a six-figure bill by the attorneys and forensic experts. Reputational damage from a breach can be high as well. Proper security requires physical and digital processes to mitigate the risks of data exposure. Does your distribution partner take cyber security seriously? Are they helping you or exposing you to more risk? It's imperative you do your homework.



Achieving Operational Efficiencies Using Outsourcing and Technology

Although we've touched on the benefits of scale and need for efficiencies, we'll dig a little deeper into some areas here to showcase ways a distribution partner may help or harm your efforts to operate an efficient business.

1. Integration with Other Technologies

Although it's impractical to expect support for every single software program available, distribution partners need to support and offer integrations with your key systems to the largest degree possible. Whether it's Salesforce, Redtail, Junxure or some other CRM system, you'll be most efficient if your distribution partner can support use of data in your CRM and where possible your CRM processes. Embracing LaserApp to prefill forms saves time and avoids errors. Adopting digital signatures helps streamline processes and avoid the need for faxes, snail mail, or non-secure email. Do your homework on your existing distribution partner's systems. It's critical to your operational efficiency.

2. Underwriting Pathways

Streamlined underwriting processes have come a long way, but the client experience can be very different if the wrong pathway is chosen. Drop tickets are another hot topic. Does your distribution partner have 5 or 6 different processes for drop tickets, or have they standardized the process across the bulk of carriers with which you do business?

3. Term Engines

Term business is low margin at best, and an operating loss at worst. You need to find ways to optimize your term business. Does your distribution partner have a mobile friendly quote engine you can put on your website? Does it include preliminary underwriting logic? Is there an efficient process for underwriting and delivering a term policy? Do you want or need such capability? As new technology competes for term business, you may need to enhance your offering in this area. Find a distribution partner who has the right tools to fit your business model.

4. Case Design / Presentation Support

Products are nuanced today to be very scenario specific in terms of competitiveness. Your distribution partner should provide access to tools and deliverables that give you confidence you're making informed decisions about product and carrier choices. If you operate in the business marketplace, you'll want a distribution partner who can easily help you craft a key-man, buy sell, or executive bonus presentation. Explore the capabilities in this area to determine if your current distribution partner needs to up their game.

5. Information Management

The downside to access to multiple carriers and products is the amount of information that bombards you and your staff. Product information, how to process an application, special service considerations, underwriting programs, compliance processes, and more for 10-15 carriers adds up quickly. How do you recall important processes or information without spending hours in vain on a carrier website? How do you document your own processes that dovetail with carrier or distribution partner processes? You need this systematized for efficiency and for training. Does your distribution partner help you in this area? Are their communications effective or just a massive data dump to check the box on notification? A distribution partner who is efficient and thoughtful in information management and distribution will save you and your staff time.

6. Inforce Policy Management

After a few years in the business, policy service quickly takes a life of its own. It's tough to read and interpret every carrier communication. It's time consuming to do detailed reviews every year.

Are you still preparing policy service reports manually? Are you manually transferring policy information from carrier websites to your own system for your homegrown reporting? Are you complying with rules related to consolidated statement data sourcing? A quality, affordable policy management system is critical. Does your distribution partner provide access to such a system? Does the system also help you identify sales opportunities like term conversions or explore life settlements? Do you have dashboards for at-a-glance identification of problem policies? Does it schedule premium reminders? Does it automatically order inforce illustrations, or is your staff still doing this for every single policy? Does it produce client-ready reviews, or do you have to cobble something together in Excel every year?

This area is likely ripe for overhaul in your organization. Proformex is the leading life insurance policy management tool in the industry. Does your distribution partner offer access to Proformex or support Proformex? If not, what tools do they make available? What are you losing on the service side of the house by using that distribution partner?

7. Multi-Carrier Challenges

Working with multiple carriers creates inefficiencies. Different systems, terminology, processes, and requirements all hamper your efficiency. Where possible, try to use carriers that use common technologies (i.e. the same drop ticket system) or have similar process. Carrier selection needs to consider how they help you execute and service business.

8. Dwindling Attention Span

In this digital age, attention spans are shrinking. Agents and consumers alike demand information quickly and in a succinct format. Does your distribution partner provide aesthetically pleasing, easy to read reporting? Are client service reports simple to understand for your client? How quickly can you access policy information whether inforce or pending? You need systems that operate quickly and effectively. Explore what your distribution partner offers to make doing and servicing business easier for you.

9. Data Mining

You could be sitting on a gold mine of data, but absent robust systems you'll never tap into it. The most obvious source of data is inforce policies. Hear about a carrier exiting the life insurance business? Run a report quickly identifying impacted policyholders. Carrier raising COIs? Do the same. Want to know who has an expiring term conversion? Run a report and start a marketing campaign. The possibilities are limitless to how you utilize your data if you have systems that help you manage the data.

In today's world, it's expensive and impractical to try to build everything yourself. There's likely technology in existence today to help you address your inefficiencies and open up new markets. An examination of your technology and processes should be a regular part of your business planning.

Business Succession

For years, the "graying" of life insurance producers has been a concern. An aging sales force with no clear-cut succession path creates challenges for carriers and consumers. What does a producer have to sell? Renewal commissions tend to fade into nothing after a few years. Trail commissions may not be material until many years have passed or not exist at all. A buyer doesn't want your office or your overhead. They want ROR: revenue, opportunities, and relationships. If you're at the point you want to consider a transition out of the business, the challenge is convincing a potential buyer of the value of your business.

Boosting the Value of Your Business

There are several ways to help boost the perceived value of your business. However, it takes work, systems, and processes just like we've discussed herein.

Good Data – What is the value of your inforce book of business? It depends on quality of your data. A room full of paper files is going to have less value than the data contained in a robust policy management system. Identification of the types of policies, carriers, sizes of policies, recurring premiums, and more all will help establish the value of your book of business.

Transferable Relationships – Can you prove you have established relationships with your client base? Documented communications like inforce reviews help demonstrate that you've maintained relationships with clients rather than dropped the ball over the years. A CRM system with logs of client activity also help prove the relationships.

Meeting Client Expectations – Service and communication help ensure you're meeting client expectations. A prospective purchaser of your business wants to know the relationships haven't soured due to unmet promises. Again, ensuring your CRM and service systems document management of client expectations can go a long way to alleviating the concerns of a prospective buyer.

Multiple Touch Points – A demonstrable process involving multiple client touch points is great evidence of an engaged client base. An email marketing system can keep your name and brand front and center. Policy reviews and premium reminders offer up more touch points. Proactive informational campaigns (i.e. when a carrier merges with another carrier) demonstrate you are staying in front of clients and their advisors. This is much more valuable when trying to establish the value of your business for succession planning.

Measurable Opportunities – What are tomorrow's opportunities in your book of business you're selling? It's quantifiable with the right mindset and the right mentality.

- A $10 million policy on an 87-year-old isn't a life insurance sales opportunity. However, it could be a settlement opportunity. It could also be an opportunity to establish relationships with the beneficiaries prior to the death claim in order to potentially manage a portion of the eventual death proceeds for a buyer with an AUM business.
- A demonstrated process for identifying term conversion opportunities ensures the foundation exists to continue mining that element of your book of business.
- Finding common legal or trust advisors in your book of business may give a prospective buyer an opportunity to establish a new relationship for new business opportunities.

The better your data and ability to extract actionable information, the more valuable your business will be to a prospective buyer. Make sure you have the systems and processes in place and are working with the right distribution partner to help maximize the potential succession value of your business.

Choosing a Partner Matters

The life insurance business is complex. It's tough to do everything well yourself. That's why you need to search for technology and distribution partners who fill in the gaps of your skillset and expertise. Are you as efficient in servicing your clients as you are in processing sales? Why not be proficient in all aspects of your business by engaging the right partners and solutions? Proformex can help you with your life insurance policy management. Who else can help you address other aspects of your business? If you haven't examined your relationships in a while, isn't it time for you to reevaluate your partners and processes? It could be one of the best decisions you make. An extra 1% payout isn't nearly as valuable as finding the right partners, processes, and systems to help you manage overhead, improve efficiencies, enhance client relationships, and establish the value of your business for future succession.

About the Author - Michael Pepe

Michael Pepe capitalized on his nearly 20 years of life insurance policy expertise by launching Proformex, an inforce policy management platform that helps fiduciaries, financial planners, insurance brokerages and agents monitor, manage and govern their life insurance policies. Its SaaS (Software as a Service) solutions are designed to proactively alert customers of potential problems with their life insurance policies and protect against degradation and asset erosion.

Prior to founding Proformex and serving as its President, Michael started in the life insurance business with Mass Mutual and quickly became a leading agent. Soon after, he co-founded River Financial Group, a full service financial advisory firm. His focus was on building a highly successful financial planning practice which took into account the various parts of a holistic financial plan. As he focused on estate planning, he started The TOLI Group, a life insurance firm which was designed to fill the gap in the market for insurance consulting and the need for ongoing policy monitoring and management support, especially as it relates to trust owned life insurance.

About Proformex

Proformex provides life insurance inforce policy management solutions to independent agents, financial advisors and trustees. The multi-carrier and distribution agnostic platform enables users to securely store, manage and analyze their entire inforce book of business in one place. Designed to proactively monitor policy health, Proformex expedites the policy review process and proactively identifies potential problems with a client's life insurance policy, protecting policies against lapsing, degradation and asset erosion.

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InForce Policy Management

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