



The Forecaster

Life Insurance Value and Effective Producers Will Drive Growth



By Dave Dorans,
Vice President,
Mortality Solutions

The financial crisis caused many life insurers to pause and more closely review their business practices, seek ways to preserve capital and mitigate portfolio risk. Companies adjusted rates and amended benefits. In some cases, they exited business lines to preserve capital and become more profitable or to meet obligations of stakeholders.

Dave Dorans, Vice President of Mortality Solutions, spoke with Jessica Bibliowicz, Chairman and Chief Executive Officer of National Financial Partners, about the changes in the industry over the past 18 months. Jessica believes that the response from carriers and producers largely has been positive. Today they are focusing more on the value that life insurance can play in the life of a policyholder rather than on selling product. This, she believes, can help change the mindset not only of insurers but also the public at large.

Jessica began her career in the financial services industry at Shearson Lehman Brothers, but did not enter the insurance business until some time later. She is a frequent guest on many business news channels and has been featured in numerous financial publications. Jessica was named “Innovator of the Year” in 2003 by American Banker. She is a graduate of Cornell University.



By Jessica Bibliowicz,
Chairman and
Chief Executive Officer,
National Financial Partners

Dave Dorans: Let’s talk about the market briefly. What trends are you and your producers seeing out there?

Jessica Bibliowicz: I guess it’s no surprise that what we’re seeing relates back to what we’ve gone through over the last 18 months. Carriers have had to move away from some benefits associated with certain products – particularly the guarantees and minimum death benefits. They’ve either increased their rates on products with these features or have exited the lines altogether. At the same time we’ve seen a refocus on cash accumulation products. So I think that’s one significant trend.

Another key trend is the importance of ratings and carrier quality. Ratings always have had value, but focus on a carrier’s reputation and financial strength certainly has grown over the past 18 months. People are thinking much more about who you’re dealing with, the counterparty, the firm’s stability today.

And from the producer’s perspective it’s a solid time for life insurance. It’s very much about getting back to the fundamentals – the value proposition that good producers bring to the client. People are concerned about estate planning and dealing with higher taxes, their children’s future, and how to successfully move money from one generation to another. It’s all about security, predictability and peace of mind.

These are the big trends that we see from the carrier, client and producer perspectives.

DD: What are you hearing from the carriers in terms of 2010? Anecdotally we’re hearing more interest in generating sales.

JB: I think there’s a lot more hunger in the system. Carriers want to do business. For some time now there has been so much caution around the financing side of the business. That was difficult for the carriers to navigate through.

But the market has worked its way through the worst of that, so there’s not as much suspicion around what they’re seeing. They’re just more focused on doing good business

with good producer companies, good agents and good clients.

I think they care a lot about the relationship company to company. We announced earnings in February. We're the top independent distributor for seven carriers, because we know what they want: good underwriting, great producers and confidence that a quality firm is backing them up. I think they want to differentiate their value to us, and we want to differentiate our value to them.

If they're going to make an underwriting decision, we want to win that opportunity. It may sound funny, but the fact is we want to be the grown-up in the business, not the one that's trying to beat up on the carrier for a short-term gain.

DD: So as you look at the distribution world, how big of a shakeup was last year? Do you see lasting changes?

JB: I do. Some carriers didn't weather it as well as others. And some agents are just no longer in the business the way they were. The value of a relationship here is critical. If I were on the carrier side I would be much more focused on a company like ours, one that has a compliance arm in place, focuses on reputation, monitors its business, believes that this business is a priority and is leading a return to estate planning. That's where I'd put my precious dollars if I were a carrier. You've got to focus.

Relationships Matter

DD: Focusing on strong relationships is important from our side of the business, too. How has your view on carrier-producer relationships changed over the past year?

JB: I think in some ways that when you go through tough times together, your big relationships are sometimes the ones that count the most. A worst-case scenario was what happened last year when the economy was so bleak and carriers were struggling with their balance sheets. Some market improvements and carriers' success in raising capital were key to us, because without carriers there's not much to sell.

They had to do job one – stabilize their business. Part of that means that some of

the products we might have sold are no longer available. But they had to do that. We have to support carriers putting out products that are good for their business, not just good for us. We understand that.

On the other side of the coin, they need to be in close contact with us about market trends. That means developing products for our clients' needs, getting the underwriting done and keeping the service levels up so that when the client is ready to make a decision, we can make it happen.

DD: As we see carriers starting to emerge from that introspective, capital-conservation phase, we see some inconsistencies in their approach to the market. We haven't necessarily seen the rate increases you'd expect. Is that something that you're seeing as well?

JB: You know, with carriers I've always been hesitant to say, "One size fits all." There will be general trends but you'll always have carriers that behave differently because of their experience or specialty. So yes, there are inconsistencies, but I'd argue it has always been that way because many carriers view their business as unique.

DD: One area where we see less consistency that's harder to explain is in underwriting approaches.

JB: True, but again I think you'll always see some of that. Some companies are just more comfortable with accepting certain risks, and it's our job to study the underwriters at the individual companies and know what they like. So if we have an applicant who has heart disease, we need to know which firms are most comfortable with the underwriting or have the most experience with that impairment. That's part of our job.

In talking to carriers, we think that if we do a better job of pre-underwriting for them, of doing some of the field work, that will help them make quicker and better decisions, hopefully in our favor. That's something that carriers continue to want.

In the field I think there is some truth to "underwriting is done by agents." An agent's reputation for delivering solid facts on a client and a good history matters in

the underwriting process. We invest a lot in training and in developing links to the carriers. As a result, I think we're seen as being smart in ensuring that all of the facts are clear so that the decision is the best possible for the carrier and the client.

DD: What's been the big discussion point in underwriting for your group?

JB: Over the last 18 months, financial underwriting has become a very big topic. What is the true net worth? How do you value it today? What's changed? What's in the client's investment portfolio – how much is in real estate? I think carriers generally are much more careful, and we're attuned to that. It really boils down to the motivations the consumer has for purchasing coverage. But with the tax changes we expect to happen – especially with estate taxes – I think a lot of these cases are pretty legitimate.

Product vs. Advice

DD: With estate planning, so many of the industry's products are geared toward high-end clients. Are you seeing much change in the marketplace due to the financial crisis?

JB: The current market environment cuts both ways. If you're a really high-net-worth person and you're crazy about your grandchildren, you'll want to do more to protect their future right now. So a solid estate plan using insurance actually plays to that pretty strongly. Taxes going up is a big deal. Still, I'm sure that many people understand all this but are still afraid to commit to a big premium because of that instability. There's also an opportunity for some of the accumulation products to appeal beyond the high-net-worth, to people in their 40s, 50s, 60s. I'd like to see us reach out to that market.

DD: Do you think these market conditions could open up opportunities for greater production if approached in the right way?

JB: Yes, but we've got to be able to sell the value story, and we've had a hard time doing this in the past. There's this great line: "Price is only an issue in the absence of value." At NFP we use terms like wealth management, estate planning and business planning because these words describe what we *do*. But it's a

real uphill battle because at the end of the day people ask what you do and you say, "I sell insurance."

As an industry we've been too quick to buy into this concept of the "insurance salesman." A salesman's instinct is to go straight to a product and its cost. A producer who just sells product doesn't necessarily meet needs.

Contrast that view to a producer who really sits down with a client, listens to their issues, looks at what they have and what they should have, reviews their portfolio, thinks about how to move money and to deal with trusts and gifting. You can't get more complex and integral to a family than when you're preparing an estate plan for them. We touch their financials, their health, their family set up, their taxes, their assets.

DD: So what you're saying is there are opportunities to take on new clients, but you really need to approach it by providing professional advice.

JB: Take it from someone who didn't come out of the insurance industry: I think that a life insurance professional is one of the most under-rated players in the financial services industry. Their level of expertise – what they need to know about their clients, what they need to understand about the products and how they merge these two into addressing what the client needs – I think it's exceptional. Their value is incredible.

DD: Your company has been involved in life settlements as an estate planning tool. Any thoughts on that market?

JB: What a ride that's been! I've always believed that under the right circumstances some policies probably should be settled. Some people are holding the wrong product for the wrong reasons and could use the cash more than the death benefits – particularly in today's environment.

The credit crisis caused capacity for settlements to dry up. Investors *will* return, but it'll be less of a cottage industry and much more of an organized, appropriate return-on-investment business. But nobody knows when this will happen.

I've always thought, though, that if there was an exit for people beyond dying or lapse, more consumers would be more open to buying carriers' products in the first place. But there's got to be proper disclosure and explanation to avoid abuse.

Looking Ahead...

DD: Is the technology that a carrier has in place to support front- and back-end processes a big criteria in determining who a producer group will do business with?

JB: Absolutely. Our business involves a lot of information, and we need to pass it back and forth very quickly and easily. Front-end technologies like U-Connect – our case submission tool – are becoming table stakes. If a carrier can't deal with that, then that will be a problem. We also use technology to help producers navigate product designs and pricing. From a placement perspective, carriers that are more technologically tied in will just show up more in quotes. It's easier for our firms to perform searches than it is to go through paperwork.

The missing piece is reporting from the carrier on compensation that's broken down by product. We'd like a better understanding of the business – where first-year commissions are coming from, product trends – the stuff that gives you real information on market trends. Right now we just get a statement of the income items, but nothing that's really actionable.

Most carriers are very willing to work with us, and certainly our top carriers are well aligned with our efforts. But most companies aren't at the point where they really integrate their business into ours – where they think about the clients, education, all of that qualitative information that hopefully will keep great business flowing.

DD: What's your best guess as to what the market will look like five years from now?

JB: Market volatility and its effect on wealth and resulting concerns about future generations will be a very important topic. Discussion around risk is very front and center in the American mind, too. So everything from term policies for young families that lose an income producer to a true estate plan is a reasonable topic.

And I think to the extent that insurance companies and firms like NFP can be valued risk partners in meeting these family needs, it will be great for the insurance business. If we can make our industry better understood, demonstrate the value we add and what goes into a sale like this, I think we'll all be better off.



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TFN-0110-2000-03