Industry Brief: Life Insurance Multi-Part Series

Publication | October 2020

Summary

The origins of life insurance dates all the way back to the ancient Romans in 100 B.C, however, in the United States, life insurance can be traced back to 1759. In the period between 1787 and 1837, twenty-six companies offered life insurance to the public, where the industry took form and evolved into what we have today. The life insurance industry has since flourished and tried to accomplish many things over the centuries, such as protecting loved ones, gaining from tax benefits, enabling wealth transfer, and for financial planning purposes. These core reasons continue to persist today and drive the life insurance industry.

This series will take a multi-dimensional look at the insurance industry for those seeking an understanding. Matters such as why people buy life insurance, the type of products that exist in the marketplace, the technology ecosystem that has been developed, and other critical matters.

This multi-part series specifically looks across the industry from these different perspectives, including the Industry, Distribution Models, Life Insurance Technology, and the Future.

Part 2: Life Insurance Distribution

This report provides an overview of the different *categories* of distribution methods for life insurance. We will introduce each of the distribution channels, and then take a deeper look at each method for a better understanding. We will also preview elements of the next chapter, technology.

Author

Don Desiderato
Founder and CEO Mantissa Group
d.desiderato@mantissagroup.com

Contents

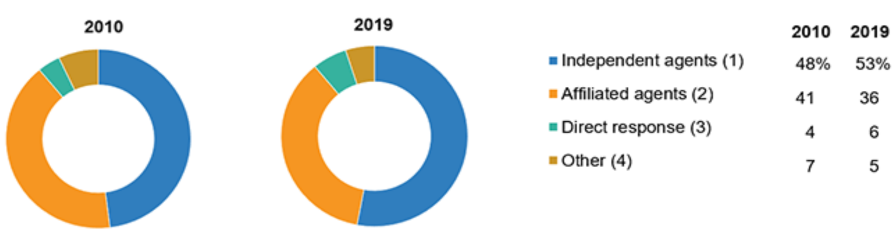
The Need for Life Insurance

According to McKinsey & Company, sales of insurance products are growing at less than 2 percent annually which is below the rate of GDP growth (McKinsey reference). These sales apply to people who make up *all wealth classes*. Thus, it is important to reach as many households as possible, regardless of wealth, and having a variety of distribution methods to do so is particularly important for insurance companies.

Consumers have an expansive range of buying behaviors, so insurance companies may look to a have a large portfolio of distribution channels that can best suit the behaviors of a particular person. Some consumers prefer to meet face to face, while others may be looking to a digital avenue to solve for insurance needs, with limited interface with others. Most, however, are looking for something in-between, using digital channels for research and pricing options and an agent for advice and helping with the purchase decision.

As has been discussed in previous reports, there are countless reasons to purchase life insurance ranging from protecting assets, financial protection of loved ones, estate planning, and more. Having several options to address these needs is not only a value add to the insurance company but can go a long way in helping as many potential consumers as possible.

Life Insurance Distribution



Source: *U.S. Individual Life Insurance Sales Trends, Industry Estimates, 1975-2019, LIMRA*, 2020.

When most people imagine the purchase of life insurance, the thought of an insurance agent coming to their home comes to mind. They think of the insurance salesman going door-to-door offering their suite of insurance products, offering you the perfect policy to meet your needs. Nowadays people have the benefit of a variety of options for who they purchase insurance from, and the method in which they purchase insurance.

Life Insurance can now be sold by a variety of agents ranging from those representing a singular company, known as **captive agents,** to a growing number of **independent agents** who are not bound to offering insurance from one company.

Group insurance is another way to purchase coverage but is different in that it is not a purchase of an individual policy from an insurance agent (whether captive or independent). This type of coverage is offered to those in a particular *group*, which can be acquired through an *employer* or another *large* *association* or *labor organization*. However, when an insured leaves the group, their policy coverage generally ends.

Finally, insurance is now being offered **direct to consumer,** or **digitally**. You may have seen commercials offering life insurance and quotes by simply calling an 800 number or visiting a website. The benefit touted for this type of insurance is its ease of purchase (and low coverage amounts). There is typically no insurance agent that you need to work with as an intermediary.

In the following sections in this article, we will touch on each of these channels in greater detail.

Captive and Independent Agents

Captive agents are insurance agents who generally works for and offers insurance from one company. A captive agent is paid primarily by that one company, and usually on a full commission basis. One obvious benefit to working with this type of agent is the fact that they have an in-depth knowledge of their insurance company's insurance products and services.

Captive agents also can provide a particularly high level of service to their clients. This is because they have a greater ability to spend more time on relationship building with their clients and providing a high level of customer service. Also beneficial to captive agents is the fact that they receive significant assistance from the insurance company as an agent launches their own business. They have help setting up office space, training and development on insurance products offered, compliance training, technology, and other startup logistics. Additionally, an administrative staff, office, marketing, advertising, and even lead generation is all typically offered by the company. These are the primary reasons an insurance agent would prefer to be a captive agent.

An **Independent agent** differs from a captive agent in that they sell insurance policies from several different insurance companies. The primary benefit to working with an independent agent is the ability to receive many different quotes quickly from multiple insurance companies. This is particularly helpful for those shopping for insurance. It is a much more efficient way to "one stop shop". Having the ability to get quotes from many different companies helps to ensure you are getting the best rate available.

Independent agents are not fully compensated by a single company and are responsible for supporting the needs of their business. This usually means greater marketing expenses, operations expenses, and overhead.

Group Life Insurance

Group Life insurance is different than that offered by captive or independent agents in that the insurance is not a contract for one single person. As the name suggests, group life insurance is one contract for life insurance that extends to a larger group of people. Oftentimes the policy owner is an employer or another large entity such as a labor organization or large association. The benefit to this type of coverage is that it is less expensive than what would be paid for a similar amount of individual life coverage.

The actual policy owner, as mentioned before, is the employer or entity, and they are the one who holds the actual insurance policy. This is known as the *master contract*. All of those who are covered by this master policy will receive a *certificate of insurance*. This is what is used as proof of insurance but is not the actual policy.

Group life coverage is most often term insurance and offered in the form of annually renewable term insurance. When provided through an employer, the amount of coverage usually is around one to two times the annual salary and paid via payroll deduction. This term coverage remains in force until employment is terminated, or until the specific term of coverage ends. Usually there is the option to convert the group coverage to an individual policy, however this generally has much higher premiums than if a person were to purchase an individual life policy. As such, this option is sometimes taken by those who may be uninsurable for a fully underwritten individual policy.

Digital, or Direct to Consumer

Direct insurance is the final of the distribution channels to discuss. If you have seen life insurance advertised on television, this is likely what is being offered. Direct life insurance is normally purchased online or over the phone from an insurance company. The obvious benefit being the ease of purchase, convenience, and that it can be purchased quicker than purchasing through another one of the channels that were previously discussed. Direct insurance often involves less underwriting (with low coverage amounts), with just a few health questions to be answered by the applicant. Guaranteed issue life insurance products are also available in many cases, thus involving no underwriting at all.

While some may see the lack of an insurance agent as a benefit (eliminating agent interaction and potentially lower commission payments), you are limited to the products and underwriting guidelines of that direct policy. Additionally, you would not be aware of other life insurance products and options that may be better suited to your personal needs. While there is no right or wrong way to purchase insurance, one should always consider what your own personal motivations are when deciding what method is best.

Financial Advisors

For comprehensive financial planning reasons, many consumers will consult with their financial advisor. Financial advisors often have an already established a relationship with clientele focusing on a holistic approach to planning for future retirement needs, tax matters, estate planning and wealth protection. Life insurance can play a big role in that planning.

For example, some will purchase life insurance in cases where one spouse is earning most of the household income, and the couple wants to ensure the same living standard can remain unchanged. Along these same lines, life insurance could be leveraged to produce supplemental income throughout retirement. Or perhaps there is a large mortgage expense that would be a significant burden to a surviving spouse, that can be covered with the right life insurance policy. Financial advisors consider these reasons (and more) when considering the right life insurance policy.

Financial advisors, having insight into all areas of one's financial situation, are in a unique position to provide insurance solutions to address issues that could arise throughout retirement years.

Life Insurance Technology – *a preview of our next report*

In a subsequent report, we will address the technology ecosystem for life insurance; however, we wanted to introduce the key components. Our belief, from an architectural perspective is that making technology decisions holistically is advisable, as opposed to pieces of the ecosystem. Therefore, we do not believe in one-off vendor selection projects, where only pieces of the ecosystem are being evaluated – in fact, we see that as dangerous.

Life insurance technology is like an orchestra, made up with the key sections, normally 4-6 major platform solutions, that must work in harmony and be understood ***in advance*** of any major technology decisions. Following are the key *sections* of the ecosystem:

1. **Engagement**

   This is an incredibly significant part of the insurance ecosystem where the sale is made. **Agents** will be armed with a suite of technologies that need to work in harmony with each other. **CRM** solutions, such as Salesforce, **illustrations** platforms such as Insurance Technologies, **eApp or Agent/Broker** platforms such as iPipeline, and **engagement** software such as Sureify all make up what is commonly known as the *front office*.

2. **Underwriting**

   The most difficult and lengthy part of the overall process, and the most need for technology integration into the policy administration system. Companies with software solutions for **accelerated underwriting**, such as RGAx or SCOR, or integration with **electronic health records** such as MIB will have a big impact on the underwriting process, as part of digitizing the *front office.*

3. **Administration**

   Policy administration systems (PAS) is the *mid office* accounting platform, that generally comes packaged with some front or back office capabilities. However, life insurance companies rarely settle for all these lightweight capabilities (although they may use some, such as new business processing), but rather integrate with more enterprise class capabilities.

There are several well-known and established **PAS platforms**, such as FAST, ALIP, or Oracle OIPA. More intriguing are the new entrants leveraging cloud technologies such as Penn River or Socotra. Selecting a PAS is normally the most critical of decisions as the ecosystem is being architected.

4. Servicing

Servicing the policies once in-force is a key *back office* function. Making transactions such as address changes, processing payments, loans, and death benefit processing is all handled by this function. Technologies in this space vary ranging from custom build platforms, using the out-of-the-box capabilities from the PAS system, leveraging a vendor solution such as Sureify, or leveraging the *force.com* platform from Salesforce (same platform as CRM – see "Engagement" section) all fall into this back office category.

There are other considerations in the technology ecosystem such as agent portals, consumer portals, data, analytics, reinsurance, claims, and emerging vendors with fit-for-purpose solutions. All this needs to be contemplated as part of an overall architecture, and certainly before initiating a vendor selection project. More to come on life insurance technology in the coming report, but we wanted to introduce these technology considerations.

Concluding Thoughts

While Life insurance has been in existence for centuries, the industry has recognized the importance of accurately representing the value of the product.

The diversity of product types and the social good the product offers families is substantial. Therefore, **distribution** methods are important. Certainly, some insurance companies have proprietary distribution channels, whereas some companies source their distribution to 3rd parties. Most companies are investing in **digital** distribution capabilities, and financial advisors are adequately equipped to explain the product set. All of these distribution methods are contemplated by insurance companies in their *omni-channel* distribution models.

We have introduced life insurance technology in this report as a teaser, and our next chapter in the series will focus on technology. There are significant considerations, and most life insurance companies are dealing with older, legacy based technologies while trying to launch their digital presence. It is an interesting and exciting time for technologists!

About the Author

Don Desiderato is a former insurance industry Fortune 100 CIO executive and founder of Mantissa Group LLC, a strategy consulting firm serving the CIO executive and their extended leadership teams. Don is a recognized industry expert, and a deeply experienced senior technology executive helping leaders with their **technology strategic plans,** as well as simultaneously focusing on **leadership development and culture**.

About Mantissa

Mantissa Group provides business and technology strategic consulting services. Mantissa supports the Chief Information Officer executive and their leadership teams, with a focus on CIO engagement as a business leader. Mantissa has practical experiences supporting leaders with **technology strategy, executive coaching, leadership development**, and relevant **research** for technology organizations.