The Forecaster

Succeeding in Alternative Markets

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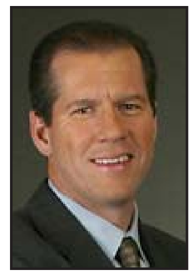
Life insurers often focus on products for market differentiation while other financial sectors look more to brand, service and performance. However, in a market where success depends increasingly on risk management, low costs and effective distribution, life insurers are rethinking the value of product innovation – what they get and what they give up.

Jim McArdle, Vice President, Alternative Markets, recently discussed the impact of product complexity on the sale of life insurance in banks with Dr. Kenneth Kehrer, the renowned expert on bank insurance.

In 2004 Dr. Kehrer received the prestigious Lifetime Achievement Award from the Bank Insurance and Securities Association. He holds a Ph.D. in Economics from Yale University and an M.A. in Indian history from Panjab University in Lahore, Pakistan, where he was a Fulbright Scholar.



By Jim McArdle
Vice President, Alternative Markets

By Kenneth Kehrer, Ph.D.
President, Kenneth Kehrer Associates

Jim McArdle: The sale of life insurance brings new concepts and processes to bank operations - the benefits, the sales process, underwriting and so on. To what extent does complexity affect bank insurance sales?

Kenneth Kehrer: In the bank channel, simplicity has become the coda for the sales organization, and the proof is in sales. If you look at life insurance sales in banks, 85 percent are in single-premium contracts. In part that's because they're simpler than traditional recurring premium products. But bank insurance is still relatively new and the formula is still being developed. I think this channel can open up good opportunities for companies that learn from past experience and make the right adjustments in terms of products, processes and the kind of sales forces that banks should use.

JM: How do banks currently sell life insurance and what adjustments have they made to address complexity?

KK: When you look at the issue of complexity, there's the question of whether the product is too complex for the sales force or whether it is too complex for the customer. Early on, banks recruited retail agents who had experience and understood the product. The product wasn't too complex for them but they weren't able to get enough bank customers to understand the benefits, and, consequently, they didn't sell enough. A few banks continue to use middle market agents but most have shifted to

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platform reps and financial advisors – the same sales forces they use to market their core products and services.

Platform reps are the bankers who sit in desks in the lobby. They open your checking account, help you fill out a mortgage application and so on. They also sell annuities and mutual funds, and they can sell life insurance, too. By their nature and training they would find it difficult to sell a complex saving/ mortality protection product. They also make very few sales presentations for life insurance, perhaps only one or two a week. So it is difficult for them to learn by doing.

Financial advisors – stock brokers who work in banks – like the commissions that traditional life insurance offers but, except for occasional situations, these products tend to get lost in their portfolio. Advisors also find the benefits and the post-sale process too complicated and, in the end, life insurance doesn't get a great deal of their time.

Banks use other methods but the mainstream movement has been to leverage their existing sales forces. So banks have been looking at ways to do that, and one way is to simplify the product, the application and the post-sale process.

The Product

JM: What product characteristics are most important for in-bank producers?

KK: The platform bank channel cries out for offering just one product, and at most giving customers a couple of different price points. "How much of this do you need" as opposed to getting into the different flavors you might have.

In the 1990s, banks took the opposite approach, offering customers lots of choices so they could pick the one that had the best value. That complicated the sales process and made it difficult for the bank producer to have a good, crisp explanation of the product and its benefits. Customers had too many choices so they decided not to buy.

Since then banks have shifted their strategy to, "Here's our product, and it's simple and convenient to buy." They even sell policies in simple denominations – $100,000, $150,000 or $200,000 of coverage with nothing in between. $100,000 costs you so much a month . . . that sort of thing.

Simplified issue term policies have provided good traction for this channel because they're easy to explain, and the process is far less complicated that traditional life. Producers can have an application completed in a few minutes with just a handful of questions and even get approval over the phone for amounts like $100,000.

JM: Are banks selling the simplified issue policies to customers who might not otherwise have bought traditional life insurance?

KK: For the most part these sales are being made to people who are uninsured or underinsured. The bank is doing them a service to get them insured and doing so in a way that the bank can make a little money at it. By having a low cost sales force of platform reps, banks are able to meet the needs of their customers who are otherwise being neglected by traditional agents.

JM: How much does price come into play in a platform sale?

KK: Probably not very much. At the point of sale, the platform rep is talking to a person who doesn't have any insurance. Odds are he has not been approached about buying insurance by anybody before, so the customer is deciding whether to put some of his money aside for life insurance. The customer isn't shopping.

Rates may be important to the bank in deciding which product to use, because the bank is mindful of its reputation with the customers. It's very careful about which insurance company's products it uses and to make sure the company is sound enough to deliver on its contract.

Sales Process

JM: When a platform rep talks to a customer about life insurance, is it usually because the platform rep uncovered an insurance need or because the customer brought it up?

KK: Banks that are successful in selling simplified issue products are essentially driving the customers to the platform reps. The customer walks up and asks, "What about this low-cost life insurance that I heard about?" Then the bank rep explains the product, gives the customer an application and closes the sale.

A platform rep generally does not sit down with a customer and say, "Okay, let's look at your financial picture here and see where the holes are." That's more the role of the financial advisor, because the platform rep is usually dealing with one product at a time.

JM: What is driving life insurance sales through financial consultants?

KK: Banks are trying to do more with recurring premium products through the financial advisers. It's driven more by their desire to take a comprehensive look at the customer's financial planning needs and become the trusted adviser for that customer across the financial spectrum – banking, investment and risk needs.

The key to developing these sales has been assistance at the point of sale. Rather than putting much effort into simplifying the product or the process, you basically have somebody available who knows the product and process and can sit down with the customer and the adviser.

So the adviser's job is really to interest the customer in the fact that they need some life insurance in their plan.

JM: How important is the buying experience for the bank customer, i.e., the application length, underwriting requirements, the amount of time required to get a decision and so on?

KK: Banks believe that's a barrier, and that's why they have flocked to these methods where they have approval in 10 minutes after one phone call with the insurance company. Banks give several reasons for not being able to sell successfully, whether it's through the platform rep or through the financial consultant, such as:

- The salesperson is embarrassed asking health questions.
- The customer doesn't want to give fluids or have a health exam.
- It takes too long for the customer to get approval.
- It takes too long for approval, and hence it takes too long for the producer to be paid.

I think for the customer experience side of this, it's really a question of setting expectations. It's not like the customer who wants to buy a new car to drive on vacation next week, and the color he wants is not on the lot. He understands that he'll have to wait four months for a blue one to be built in Germany, or he'll have to take the green one on the lot. That's part of setting expectations.

Moving Ahead

JM: What key piece of advice would you give an insurer who wants to enter the bank channel with a simplified issue product?

KK: You need to have a way to train the platform reps on selling it. That's probably going to mean a train-the-trainer approach. Provide the material to be able to train and encourage the platform rep to sell it.

Then we get down to tactical issues. Do you go after banks that have already proven that they can sell a lot of life insurance and try to take the business away from other insurers? Are you going after banks that have not yet done this? If you choose to take on insurers at banks who have already been successful, you've got to have a really good value proposition to get the bank to switch to your product.

JM: Where will we be five years from now and why?

KK: I think in five years we could expect to get up to say five percent of all life insurance being sold through banks. I think we are over

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two-and-a-half percent now, and we are growing at about 50 percent a year.

Two things are happening now to drive this growth: one, more banks are starting to sell life insurance or at least are focusing more on it; and two, banks that are focusing on it are getting better at it.

Both banks and insurers are moving forward, making an investment in the bank channel. To be successful selling through bankers, an insurer must deliver simplicity in the product and the process and make it meaningful to the bank itself. Banks really want to do a better job at selling life insurance, but life insurance is just one of many initiatives. The insurer who makes it easier for the bank to be successful will find good growth potential in the bank channel.

Enabling Success in the Retail Markets

Dr. Kehrer's remarks call attention to the vast potential of the middle market. In contrast to the high-wealth market that many insurers compete over, the middle market offers immense opportunity for organic growth. LIMRA International estimates this segment's value to be worth over $17 billion.

For most traditional insurers, however, the challenge is to develop products that appeal to those distribution points that have the greatest contact with the middle market consumer. As Dr. Kehrer commented, for both the producer and the consumer, this demands a simpler, more easily understood life insurance product.

We recognize that our clients are always seeking more efficient ways to reach the retail term market and have developed services to help them do that. To improve our clients' ability to access the middle market, we have created a proprietary automated underwriting system for term life face amounts up to $250,000. This system uses prescription drug history and other data sources to provide more accurate risk assessment than traditional simplified issue. The lower per-unit costs and greater risk certainty allow for higher available face amounts than usually seen in the simplified issue term market.

For the traditional term market, our Product Consulting & Development Solutions assist our clients in manufacturing and delivering a more competitive term life product. These tailor-made services are designed to minimize both the financial and human capital a company must allocate while still meeting ongoing demand from producers to offer a competitive term product with quality service. Each of these services encompasses our expertise in product design and development, risk management and capital relief.

By using these and other solutions, Transamerica Reinsurance helps clients build and sell term life insurance products faster, with less up-front investment, and with a better impact to their bottom line. We invite you to contact Bruce Wing at 704.344.2805 or bruce.wing@transamerica.com for more information.

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