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About face!

A modest proposal for a change in the term insurance sales process, and an appeal to the vendors who provide term quoting tools.

Guaranteed level premium term insurance has been a remarkably resilient product form – a market leader in the industry for more than 25 years. Yet, we’ve reduced the selling process to a commodity spreadsheet exercise where the only value offered the consumer by brokers and general agents is to search for the lowest price. In many cases, the experience leaves the client underinsured or with coverage that virtually expires before the need does. Yet, one simple step can be taken to more fully engage the client, helping him or her understand the compromise he or she is making when cost is a family budget issue.

History

In the 1970s and for much of the 1980s the dominant form of term insurance was guaranteed premium select and ultimate annual renewable term insurance (or its graded premium whole life equivalent). Rampant replacement activity in the ‘80s caused primary carriers and reinsurance companies to retreat from this product form. Attempts at innovation ensued, and ultimately guaranteed level premium 5 and 10 year plans gained traction (the first major player I recall was Midland Mutual, followed quickly by Federal Kemper and First Colony Life). The consumer appeal of knowing that the price was guaranteed and would not increase was huge, and in time (a long time – sometimes our industry is slow to see the obvious) level premium plans were available for every period from 10-30 years. General agents kept a relatively small stable of companies offering term insurance, choosing them based on competitiveness, compensation, service, underwriting and the strength of their relationship. Brokers relied on their general agent to direct their cases to the right carrier.

Flash forward

It was inevitable that someone would realize that a multi-company tool to compare term prices would meet with high demand, and spreadsheet software began to emerge from third party vendors in the 1990s. Armed with comparisons across a dozen companies, brokers began to demand that their client be placed with the carrier with the lowest price. I believe transparency in term prices is a good thing; all else being equal, the lowest price should win. But spreadsheet selling has some serious shortcomings, including:

- the dilution of other valuable aspects of the product and company – service, financial strength, underwriting, compensation model, convertibility options, special benefits offered at no cost by the company
- It serves as a barrier to product innovation (the spreadsheets’ comparison capabilities drive product design).
- Yielding to the temptation of jumping to the spreadsheet as the first step in the sales process, brokers ignore the critical step of quantifying the need, and unconsciously or consciously, compromise the amount of life insurance needed or the duration of coverage needed when faced with a “budget”.

I’d like to focus on the last point. A modest change to the way we sell could increase the value of our advice to consumers immeasurably, and quite possibly lead to increases sales.

A modest proposal

How often do budgetary constraints drive a sale? Is it more common to hear “Present me with the face amount you think I need for the period I need, then we’ll compare and make a choice”, or “I only can afford a premium of \$900/year, so present the best plan in that ballpark”? I suspect the latter.

And we fiddle with the spreadsheet until we have some output to present. And that output is usually a comparison of premiums across a constant face amount for a constant term period. And in doing this, we’ve neglected to tell the client how much they need, and we’ve made some decisions for the clients that they’re quite capable of making themselves.

What if:

- We first quantify a client’s need (we can do this now – the Life Insurance Foundation for Education’s Human Life Value calculator identifies an individual’s total lifetime value to their family, and it’s so simple you can do it in less time than it takes to microwave a bag of popcorn. It’s available at www.LGAmerica.com and many other places)
- Using the stated budgeted amount, we present an array of term plans across a variety of term periods and designs, **solving for the face amount** purchased by the budgeted premium as the initial premium for each plan. This “face solve” capability is absent from the currently offered quoting engines and is the “appeal” in the subtitle of this article.
- Then, sitting with the client, we can cover the need, and review the shortcomings each choice would represent to the ideal plan. The client can choose where to compromise – face amount or plan design – or choose to increase their budget!

The Legal & General America Illustration Manager includes a “face solve” capability across all of its term plans. The sidebar example uses this capability and the suggested process to help the client choose the right coverage. The “winner” in this example, Life Value Term™, a plan with lower initial premiums with a gently increasing pattern through the guarantee period, is incorporated into the sales presentation nearly as easily as the standard term forms. Life Value Term™, and any other innovative term design, gets lost in the current “same face, same period” spreadsheet format.

A simple proposal? You bet. Perhaps even trivial. But I was raised to believe the most important aspect of life insurance was the face amount in force today and on the day survivors need it. And I believe the current process shirks our responsibilities to American families when it shortchanges the amount of coverage.

Are the term quoting software vendors reading this?

Frank Gencarelli joined The Legal & General America Companies in November 2009 as senior vice president, Distribution and Marketing. He is responsible for the overall direction and management of the marketing, sales and promotion of LGA products and services. He has been charged with changing the LGA current business model to a more dynamic one, taking advantage of emerging business trends and industry opportunities. Frank has a graduate degree from MIT and more than 30 years experience in the life insurance industry. He can be reached at fgencarelli@LGAmerica.com.

Sidebar: Example of Needs-Based Sales Approach

Sean Williams is a 42 year old father of two young children. He and his wife June just “stretched” to purchase a new home that they expect will be their home for life – their “dream home”. Sean has a promising position with a local accounting firm and feels comfortable that his career will expand to cover the “stretch”. He needs life insurance to be sure the dream will be fulfilled, even if he dies. Yet, right now he can only afford \$100 per month in life insurance premiums. A simple Human Life Value calculation indicates that Sean needs \$2,080,000 of face amount, today. As is often the case, this is a surprise to Sean. Yet he has no quarrel with the analysis. Sean’s agent, Bob Crowley, presents all of the options available for \$100 per month using Banner’s Illustration Manager face solve comparison capability. The illustration is attached. After discussing the options with Bob, Sean settles on Life Value Term 30 for \$1,996,000. It features premiums that gently increase from his budgeted amount, but Sean is confident that his financial profile will expand sufficiently to absorb these increases.

Banner Life Insurance Company
 Life Value Term and OPTerm Premium and Face Amount Comparison

Initial Premium Comparison

Designed for: Sean Williams, Male, Age 42, PAC Premium, Underwriting Class [redacted]

Banner's term life insurance portfolio includes six term life insurance plans each of which provides a level death benefit with guaranteed level premiums for the initial period of time selected. At the end of the level premium series, the premiums will increase annually. The OPTerm Series table below provides initial guaranteed premium rates for the period shown and is based on the age, sex and underwriting class shown above.

| | | | | |
|--------------------|-------------|-------------|-------------|---------------------|
| Coverage Amount: | \$2,994,048 | \$2,113,445 | \$1,418,233 | \$786,757 |
| Insurance Plan | OPTerm 10 | OPTerm 15 | OPTerm 20 | OPTerm 30 |
| Guarantee Period | 10 Years | 15 Years | 20 Years | Duration too short. |
| Annualized Premium | \$1,200 | \$1,200 | \$1,200 | \$1,200 |
| PAC | \$100 | \$100 | \$100 | \$100 |

Comparison illustrations now include reference line that includes proposed insured name and other specs.

Face amount not enough.

Duration too short.

Life Value Term 20 and 30 are renewable and convertible term life insurance policies that provide a level death benefit and coverage to age 95. Premiums increase annually and are guaranteed for the initial 20 or 30 year period thereafter premiums increase annually and are guaranteed to never be greater than the maximums stated in the policy. The Life Value Term Series table below provides initial guaranteed premium rates for the period shown and is based on the age, sex and underwriting class shown above.

| | | |
|------------------|--------------------|--------------------|
| Coverage Amount: | \$2,763,736 | \$1,996,032 |
| Insurance Plan | Life Value Term 20 | Life Value Term 30 |
| Guarantee Period | 20 Years | 30 Years |
| Premium Year 1 | \$1,200 | \$1,200 |
| Premium Year 5 | \$1,664 | \$1,640 |
| Premium Year 10 | \$2,506 | \$2,499 |
| Premium Year 15 | \$3,609 | \$3,715 |
| Premium Year 20 | \$5,408 | \$5,140 |

Face amount too much.

Sean can afford LVT 30 premiums now and in the future.

LVT 30 offers the full face that Sean needs.

The initial coverage amount shown above may be continued to age 95 if the appropriate annual renewal premiums are paid. The renewal premiums required after the initial guarantee period expires are not shown in this report.

This report is neither an illustration nor a contract. Your agency can provide an illustration for any of these term life insurance policies. Agents appointed with Banner Life may also obtain illustrations from the Banner Website located at www.BannerLife.com

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