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Implementing Quick Programs: The Bank Distribution Model

by Robert Ireland

Editor's Note: The Product Development Section sponsored a series of three panels at last October's Annual Meeting on the topic of "Implementing Quick-Issue Programs: The Product Development Process." These sessions were #62 (covering distribution), #76 (covering underwriting) and #96 (covering technology). All the handouts for these sessions are available on the SOA Web site under the "meetings/seminars" section. Robert Ireland spoke in the distribution session, and was asked to write up his presentation for our newsletter.

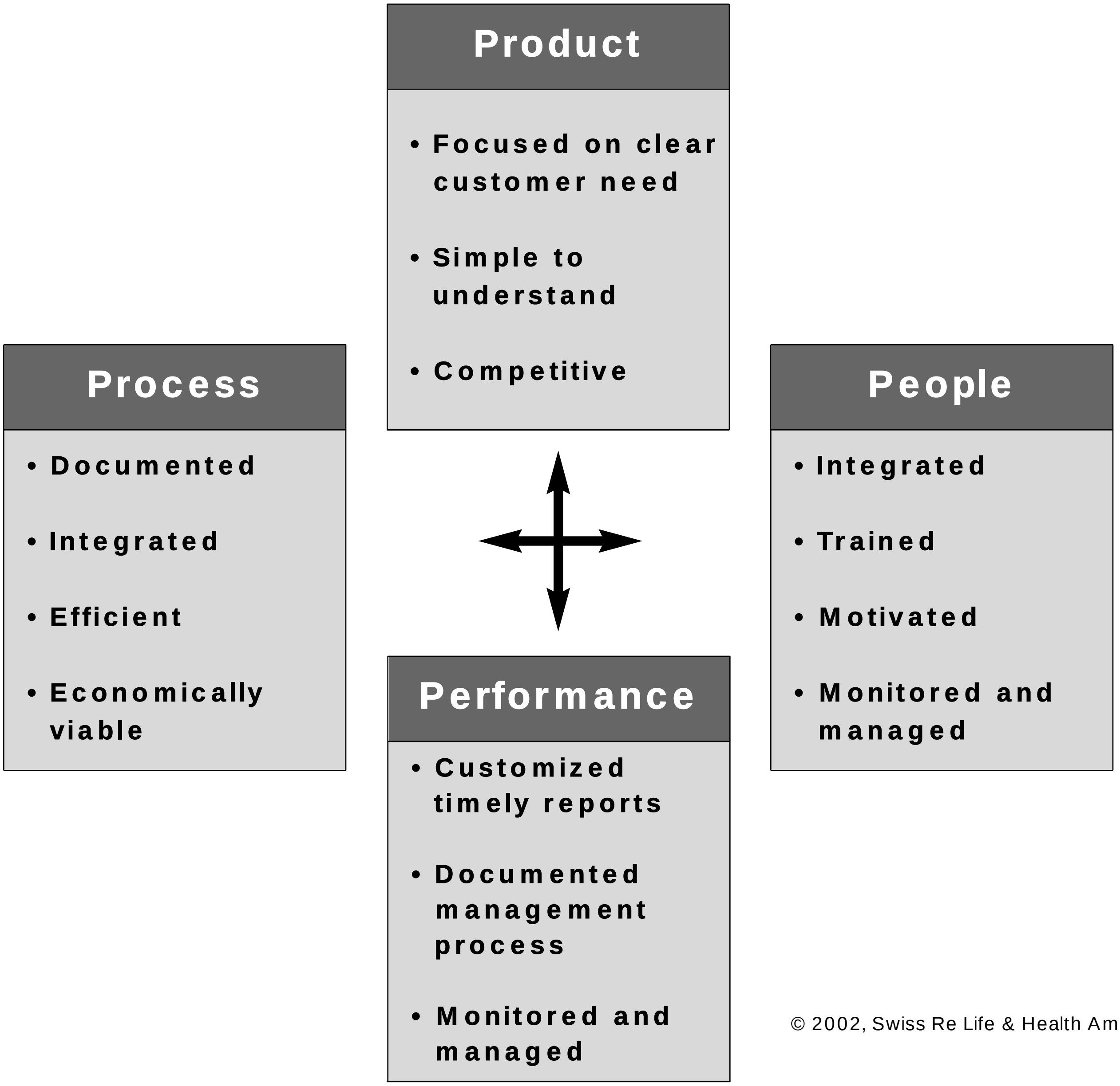
A MetLife survey, published at the end of 2002, indicated that almost one-third of Americans over age 18 have no life insurance protection at all. Of the remainder, 30 percent have coverage amounting to less than one year's income. It seems that nearly two-thirds of Americans are under-insured, and it is likely that the majority comes from 'mass market' households—where the income is between $30,000 and $100,000 per year.

Distributors are tempted to "go where the money is"—meaning upscale. But there are over 54 million households with income between $30,000 and $100,000 per year. Swiss Re calculates the aggregate income of these households is $3,100 billion. This total is $600 billion more than the aggregate income of those households with income greater than $100,000 per year. Naturally, the spending power of the higher income segment will be greater. But even if we ignore any moral imperative to help the underinsured, improving penetration of the ignored mass market looks like the proverbial 'low hanging fruit.' The trick is to offer simple life cover solutions through a low-cost distribution method. That's where simplified issue term comes in.

Banks are in regular contact with mass-market customers and are the obvious distribution choice. For bankers to sell life insurance face to face with customers in branches, the product has to be similar to their bank's core products—simple to explain and transact. Distributors in this market are looking for less underwriting and a simple sales and issue process. It all adds up to one of the fundamental sales propositions—convenience. And convenience has a price.

Bank distributors usually want to compete cost-wise with the most attractive fully underwritten rates available on the Internet. Many of them are reticent about requiring bankers to ask even the few medical questions needed for a simplified issue application. Most bankers will try to persuade carriers to reduce the number and complexity of questions. They have to be helped to understand that any relaxation of underwriting standards must be priced for. For every compromise in risk assessment a distributor asks of a carrier, there is a balancing compromise on price or compensation. The only methods that insurers have of driving down prices in this market are: asking more questions on the application, validating the answers before issue, putting a limit on the face amount and finding proxies for the hard medical information derived from 'fluid' testing. Of these, research into proxies has been a fruitful area for investigation. The protective values of income level, driving history, personal history interview and prescription data are all being either used or tested.

Whatever the distribution channel, the product is merely one of four 'P's' that



comprise the overall protection solution. The other three P's are; People, Process and Performance management. Each is an important component. The people involved in selling the product have to be trained and motivated to sell. They should follow a documented sales process and their managers should follow a documented sales management process. The performance of all the parties has to be measured, monitored and managed.

This is often difficult for the carrier because three of the P's are in the hands of the distributor. Where this is a third party with a completely different core business (e.g., a bank), it is hard for the carrier to ensure that the people and the processes are performing properly. The carrier's product manager has to be able to influence the distribution management to provide this support. Failure of the product is inevitable without the distributor's retail management support. Wholesalers and sales support tools can encourage retail management cooperation but they involve an extra cost to the carrier that has to be included in the pricing.

Consideration of the lack of control over the sales process brings us to a fifth P—a Web-enabled platform that dictates the process that delivers the product into the hands of the people so that they can perform properly. Carriers are now offering Web-enabled solutions that can be integrated with the distributors' internal systems to

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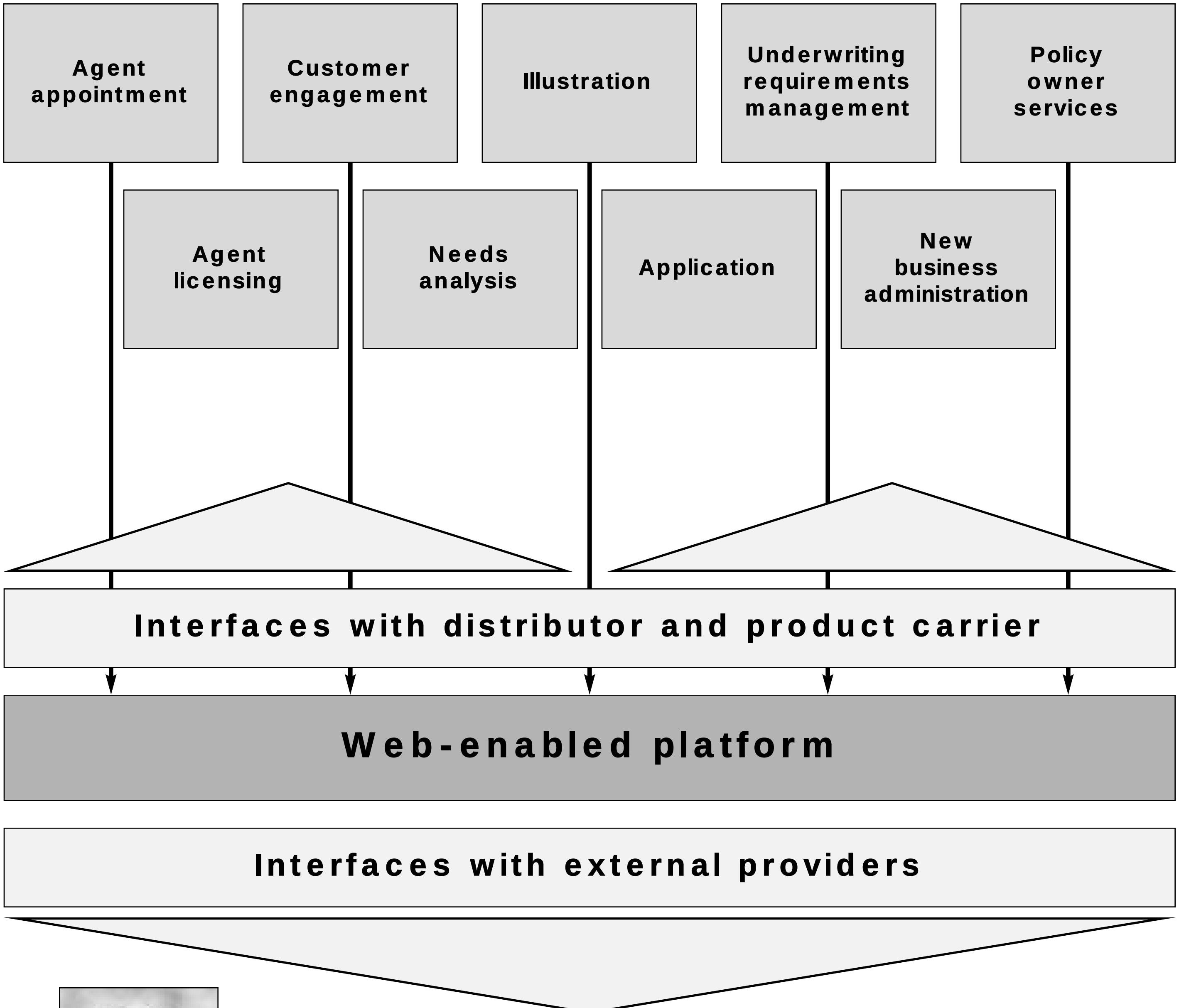

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lock them in to a particular product. One of the concerns for the industry is that this could lead to a proliferation of such platforms—one per product. Swiss Re has been working on a vanilla solution that could become an industry-wide platform for all protection-based products—simplified issue and fully underwritten.

Of the, now five, P's, Process is the most important. A properly documented and efficient process ensures that everybody knows how the product is to be put into the hands of the customer. It facilitates training, systems design, management—everything. A good process supports the product across the carrier-distributor divide and, if it is adhered to, will ensure the product's success. □