By Richard K. Berry

Just as the initial wave of baby boomers is starting to retire, so will an increasing number of life insurance agents.

Who Will Sell Life Insurance in Five Years?

A fundamental challenge for life insurers is to develop ongoing, mutually productive relationships with advisers whose practice, market focus, expertise, interest and support needs are aligned with theirs. Particularly for insurers who aspire to grow their life business profitably, developing strategic insights into the market of advisers who do, or may come to, provide life insurance advice and product solutions to their clients is becoming a requirement for success.

While many insurance companies know their producers reasonably well in a day-to-day, tactical sense (through their wholesalers or field management network), we wonder how many possess a deep, strategic understanding of the adviser marketplace. Developing such insights—and then managing distribution resources to act on them—is increasingly difficult. In fact, it's a bit like trying to describe an elephant while blindfolded, as one seeks to infer broad knowledge based on contact with but a few parts of the elephant.

Various dynamics are affecting the adviser marketplace and challenging carriers' efforts to understand and act on distribution opportunities:

• Traditional "adviser categories" are imprecise at best. One carrier's broker is another carrier's personal producing general agent and another carrier's career agent. Labels tend to say more about a particular insurance company's compensation arrangements than about an adviser.

• Consumer demand for advice is increasing as a maturing work force assumes responsibility for the risks and decisions associated with defined contribution retirement (and perhaps health-care) benefits from their employers. In addition to seeking asset- and investment-related advice and products, consumers face increasing protection and risk issues for which insurance solutions are appropriate.

• Research continues to demonstrate a gap between consumers' life insurance needs and what they actually own.

• Despite the demand for advice and need for life insurance, the number of life insurance agents continues to decline as insurance companies recruit fewer inexperienced agents. This trend will be exacerbated by the steady maturing of established agents, whose median age is now estimated to be in the early- to mid-50s. Just as the initial wave of baby boomers is starting to retire, so will an increasing number of successful life insurance agents slow down their practice-building efforts and eventually leave the business.

• Whatever the population of full-time life agents is today (LIMRA estimates 161,000 affiliated agents and 155,000 independent agents), many are in multiple businesses, at least to the extent that they provide clients with more than life insurance solutions. Some have largely abandoned life insurance in favor of investment products; others balance a portfolio of health (individual and group medical, long-term-care and disability), investment and life insurance products.

• As to the broader provision of advice, non-traditional advisers are likely to play an increasing role. The Securities Industry Association reported a 20% increase in the number of Series 66 Registered Investment Advisers in 2004. By contrast, there was no growth in the number of Series 7 Registered Reps. Early in 2005, the SIA forecast that 35% of all retail production would be on a fee-only basis—suggesting a fairly significant shift from transaction-oriented to consultative, advice-based relationships. To the extent that the scope of "financial planning" includes consumer needs for which life insurance products are a valuable solution, such generalist and advice-oriented advisers may be a source of significant future life insurance business. More promising may be the fact that securities reps and independent financial planners/advisers tend to be 10 to 15 years younger, on average, than full-time life agents.

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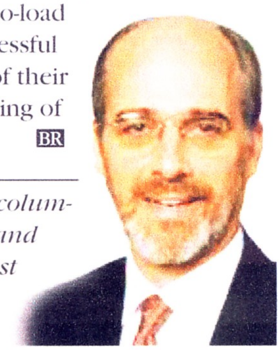
• Reinforced by regulatory pressures, broker-dealer firms are becoming more interested in the "outside business" of their registered reps—thus setting the stage for broker-dealer firms to take more active interest/control in their advisers' sale of fixed insurance as well as variable products. Further, firms are showing an increasing interest in the choice of products offered by their advisers, thus focusing some attention on the quality and objectivity of the insurance advice being provided.

What might the implications of such trends be for life insurers over the next five to 10 years? Perhaps, a gradual increase in the importance of point-of-sale support by life experts working with generalist advisers; an increasing role of non-proprietary as well as proprietary products as part of the intermediary's wholesaling support; a step-up in the role of independent, wholesale intermediaries; more interest in level commissions or fee-based compensation; or more demand for low- or no-load products. Whatever develops, successful life insurers will manage because of their strategic and insightful understanding of the entire adviser marketplace. BR



Richard K. Berry, a Best's Review *columnist, is a Towers Perrin principal and consultant for the firm's Tillinghast business. He can be reached at* insight@bestreview.com.