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REINVENTING THE LIFE INDUSTRY

CEO: Consumers need products, not the industry

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Among the most outspoken of the life insurance industry's authorities is Ronald Butkiewicz, president and CEO, Irish Life of North America (ILONA). In speeches to industry groups, including a 1995 presentation to the Actuarial Society of Greater New York, Butkiewicz makes the challenging statement, "American society doesn't need the life insurance industry."

However, said Butkiewicz in an interview for this article, "It does need our products. I am also quick to add that I don't think American society needs banks, either."

Like many observers, Butkiewicz sees life insurance becoming part of one, big financial services industry. Major players right now are insurers, banks, mutual funds, and investment brokers. "I really think the mutual fund industry — the smarter mutual fund players — are far better positioned to deliver financial services of all sorts than the insurance industry is," he said.

What happened to insurers?

- "The business has operated quite differently at point of sale than it has at the home office. This is magnified now by the class-action suits."
- In the insurer's three-legged stool — company, agents, and policyholders — "the agents and policyholders have ganged up on the company. There's something out of whack when the customer is getting the better value for the money and the agent or seller is getting a larger share of the pie while the company's margins are shrinking."
- Consumers no longer automatically see a need for life insurance as was the case 20 years ago.

While the industry must make many changes to adapt to the new world, Butkiewicz said, two stand out: take a customer focus and combine "the right information with the right technology."

"Consumers' needs have changed tremendously, and the insurance industry has not adapted," Butkiewicz said. "Mutual funds have responded most successfully, and banks have adjusted somewhat as well. But there's nothing about the insurance industry that's the least bit appealing to the consumer. When you buy a life insurance product, you get pricked by a needle, fill up a bottle, wait six weeks for a contract, then over the years the only thing you

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hear is when the money is due. We view customer contact as administrative rather than as service opportunities. If you call a mutual fund company, they work to take care of you and they're positioned to see whether you have other needs. But if you call an insurer and say you want a policy loan, the feeling is, 'It's a chore to us.'"

Success in the new business world also will depend on a combination of technology and information. "I believe that in the future, the right technologies with the right information will be far more valuable to a company than capital," Butkiewicz said. "In today's world, our business derives from its capital, because our products require so much capital to support them. But if you look out 3-5 years from now, even if you don't have capital, you'll be able to sell and to build a business if you have the right technology, good information on people, and the competence to design the tools to use them. On the other hand, you can

have all the capital on earth, but if you don't have the technology and the information to compete with mutual funds and discount brokers, you're out of the game."

What many life insurance companies have done, Butkiewicz said, is to choose from one of three options: acquire or merge, go "back to basics," or "become a commodity player." The fourth and probably the best option for most insurers, he said, is to "find new ways to engage the customer," providing products "built from the customer's needs outward." These "personal financial products," in Iлона's lexicon, would combine elements of several financial services sectors to support the customer's goals. Butkiewicz offered a college funding example: the product would combine life coverage on the parent to pay the child's tuition if the parent dies prematurely and a funding vehicle for tuition. A third element is information about the customer's specific circumstances, "because it might make more sense to fund to repay interest-free college loans instead of tuition." Such personal financial products would be easier for customers to understand, "but more importantly, they emanate from the customer's needs rather than from the company's or agents' needs."

The turmoil in the industry today reflects trends that are unstoppable. "We're not going through cyclical change. We're going through change that is unparalleled in the history of our industry." From Butkiewicz's perspective, customer focus is the only way to go.

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