



SOCIETY OF ACTUARIES

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## REINVENTING THE LIFE INDUSTRY

# Price vs. service is distribution 'tug of war'

by Marvin Meyer

Competitive pressures are dramatically altering the distribution process for life insurance. Product pricing and client service are cornerstones in the changes to distribution.

Market segmentation is becoming more pronounced. The advent of "bargain-basement" term policies has brought about a commodity-like atmosphere for cheap insurance protection. Simultaneously, the upscale market is increasingly service-oriented. With the rapid accumulation of wealth in the stock markets over recent years and the associated needs for estate, business succession, and executive compensation planning, life insurance competition in the upscale market is becoming more service driven.

These market trends have already impacted distribution channels, and the pace will accelerate in the next several years.

The "tug of war" between price and service is likely to cause the demise of the traditional career agency form of distribution. Two fundamental problems are crippling the traditional system: expense and objectivity.

- **Expense:** Recruiting, training, and managing career agents is horrendously expensive. Typical costs for agent recruiting and training can exceed \$200,000 per retained agent in some companies. A major contributor to this problem is the

fact that as many as 80-90% of agents fail within five years of joining the business. The net impact of high distribution costs is that products cannot be priced to both meet marketplace requirements and provide life insurers with acceptable profits.

- **Objectivity:** Most of our clients are seeking products that are both competitive and customized to their situation. No insurance carrier can compete in all situations; therefore, agents must seek products outside their career company — an approach that is more objective than loyal.

There also has been a dramatic change in the landscape of life insurance products. Guaranteed-level premium term insurance for 10, 20, 30, and even 40 years is capturing a significant market share. These policies have tremendous appeal in most households of moderate means, largely because these products are being differentiated on price. To compete, insurance carriers must distribute these policies more efficiently than the usual career agency economics permit.

In addition, universal and whole life plans are faced with competition from both protective products such as term insurance and equity accumulation vehicles such as mutual funds and variable annuities. Again, more effective distribution is required to enable these policies to retain market value.

The result of these factors is a bifurcation of life insurance marketing systems. We see professional brokerage as a successor to the career agency system. This professional brokerage system will dominate the upscale market. The middle and lower markets will be dominated by lower-cost institutional distribution approaches, including the Internet, banks, broker dealers, credit unions, other work site marketing arrangements, and face-to-face marketing systems that are yet to be invented.

**Marvin Meyer is president and CEO, TowerMark, New York, a financial services marketing firm specializing in insurance. He can be reached by e-mail at [mmeyer7444@aol.com](mailto:mmeyer7444@aol.com).**



## All SOA members welcome at June board meeting

Interested Society members are welcome to attend the SOA Board of Governors meeting on June 21 at the Grand Wailea Hotel, Maui, Hawaii, between the first and second SOA spring meetings.

Minutes of board meetings are available by request and on the SOA Web site (under General Libraries at [www.soa.org](http://www.soa.org)). For more information, call the SOA office at 847/706-3500.