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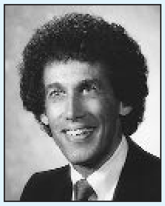

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EDITORIAL

Missing: vision

by Robert D. Shapiro

The life insurance industry is not known for its vision. Although there are exceptions, the bulk of the industry persists in doing the same old things within the same old business models and consciousness. This is particularly true in distribution, where today's recruiting, training, development, and compensation protocols look very similar to those created many years ago.

The starting point for any company seeking to reinvent distribution is its particular company-specific vision for distribution. This vision has to integrate management's views of the company's strengths and potential with the opportunities emerging in the financial services marketplace. Such a vision requires much more than cutting costs, adding distribution, and broadening product lines. Most companies have great difficulty escaping the "tweak and extrapolation" method of change, because they lack commitment to a compelling vision for their organization.

Why do we need a vision?

Dramatic changes in the business world have made the waters murky for insurers. Those without a guiding vision will struggle tremendously, and perhaps drown.

What are some of these changes?

The future ain't what it used to be. Consumers are much more educated and technologically enabled today, and hence are able to take greater responsibility for defining and managing their financial security. Competitors are smart, nimble, and often unencumbered by traditional life insurance company infrastructure and cultural baggage. The capabilities and economics of many of our historic life insurance business models no longer are acceptable.

- "The heaviest burden in times of change is experience." (J. Paul Getty)
- "Fanaticism consists of redoubling your efforts when you have forgotten your aim." (Santayana)

You can't steal second base and keep one foot on first — Without a clear, compelling context for new thinking and development, plans are "bent back to what has always been."

- "Warning to all personnel: Firings will continue until morale improves." (Office joke)
- Does the name Pavlov ring a bell? "The only reason some people get lost in thought is because it's unfamiliar territory." (Saul Fox)

"It is better to know some of the questions than all of the answers" (James Thurber) — An imperfect strategic context for the future is better than perfect execution of obsolete and/or unsustainable activities.

"One hundred thousand lemmings can't be wrong" (Graffiti) — Just because peer companies are taking the ostrich approach to the future, don't think there isn't a deadly cliff ahead.

'Untangling distribution'

This issue of *The Actuary* explores the reinvention of distribution under the banner, "Untangling distribution." Articles by Sam Turner, Chris Greis, and Jay Jaffe and the cover story featuring interviews with Bob Carlson, Barry Jacobson, Bruce Nicholson, and Tim Tongson paint an exciting, though challenging, picture of what it will take to succeed in the future. Several messages come through loud and clear:

1. Traditional life insurers must find ways to overcome significant structural and cultural challenges to compete successfully in the future.
2. Customer affluence and the sophistication of customer needs will drive

product complexity, the nature of the insurer-customer relationship, and the appropriate distribution strategy.
3. Successful companies will work hard to establish precisely how emerging technology and the Internet will be integrated into their vision and related long-term strategies, and such companies will quickly build platforms needed to support this effort.
4. Ultimately, life insurer profits are driven by the quality of the original sale and subsequent customer relationship, which in turn are reflected in measures such as persistency and products per relationships.
5. Life insurance is unique in that it is acquired and then usually "put away and forgotten." Common wisdom has been that life insurance must be sold. Some nontraditional competitors are challenging this mantra, particularly in middle markets.

Most companies need thought leaders and documented successes in their efforts to rethink and reframe their businesses and the distribution "heart" of these businesses. Our hope is that we move you to share your insights and experiences with us and other members of our profession.

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To grow the business (continued from page 1)

weighed in at $55.9 billion — more than 20 times the year-earlier dollar figure. Conning & Co., the company authoring the study reported in *Business Insurance,* included mergers of major entities in the 1998 figures to reflect changes in distribution, especially in the financial services area.

Jacobson at Travelers noted, "This is the primary business environment change. For the first time, there is tremendous consolidation among distributors as well as insurance carriers. Life insurance is a mature industry, we have to get price in line, and scale helps this." Nicholson of Lutheran Brotherhood agreed, saying, "Mergers and acquisitions are commonplace as companies try to gain critical mass."

What's fueling this industry restructuring? What factors are forcing an overhaul of life insurance distribution?

Nicholson cited several external and internal factors.

Externally — "from the customer's perspective" — customers are "more demanding, have more choices, and are less loyal than ever before." Aggressive marketing leaves them cold; they use call blocking to avoid sales calls. Add to that, "customer expectations are established by Disney, L.L. Bean, and Federal Express, not by other financial services firms," and you have an usual situation in the history of commerce. Added Nicholson, "Distribution systems need to be clearly perceived as adding value to a customer who is better informed and more demanding."

Internally, said Nicholson, "our industry is undergoing a fundamental restructuring the likes of which we haven't seen before." In addition to the consolidation among distributors, many large mutuals have announced demutualization plans, and the career agency system "is producing fewer new agents every year." To top it off, there's the growing population of the aged — 76 million strong in the United States alone as the baby boomers enter their later years — leading insurers to "write more annuities and less life insurance than ever before."

From his post at Travelers, Jacobson sees seven points of change regarding distribution:
1. Consolidation among distributors
2. Financial and estate planning becoming the dominant source of consumer financial product sales
3. Variable life passing whole life in total market share, "a dramatic change for the industry,"
4. Decline of the career agency system
5. The rise of new distributors, such as banks, work site programs, and the Internet
6. A change in the regulatory environment, "moving toward zero tolerance" for any type of market misconduct
7. Technological changes and advancements; "the Internet is probably the biggest change — getting direct sales, generating leads, providing faster information flow"

Oddly enough, while many decry the problems of the career agency system, many also say part of the problem is that it isn't big enough. Said Carlson at Northwestern Mutual, "While the industry grew, companies failed to develop cost-effective distribution through the agency system. Most companies didn't grow distribution while the market was growing in the '60s, '70s, and '80s."

That has led to a shortage of trained agents at a time when the insurance industry is watching expenses more closely than ever. If the supply of agents met or exceeded the current demand, thereby keeping costs down, the career agency approach might be more viable today than economics allow (although the system would still need to change, probably to a financial planner model). Noted Nicholson, "Much of the higher cost associated with agency distribution stems from the high cost of developing a career

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