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COVID and Its Impact on the Life Insurance Sales Process

By Bruce Fuller

As a part of my research for the SOA COVID-19 Symposium that was held earlier this year, I interviewed independent distribution life insurance agents in order to get a better understanding of what it has been like to sell life and annuity insurance products in the middle of a pandemic. In short, the consensus was that it has been challenging. However, the agents that I spoke with ultimately felt like they could adapt and thrive in this new sales environment. I focused my time with them on a few key questions, which I have summarized below.

What has changed about the sales process that has made it either more challenging or perhaps easier?

Similar to all of us, virtual meetings have become the norm for insurance agents as they interact with their clients. When the pandemic became widespread in the U.S. in March, face-to-face client meetings disappeared from everyone's calendars. No agent clients wanted to meet in person, so virtual meetings became the norm. This shift created challenges for them because their ability to meet new people and build new relationships with them was greatly limited. Most have opted to take this time to get back to the basics and focus on the need for insurance protection in financial planning. They have also embraced social media as an opportunity to showcase their personalities and make those initial connections that have been lost in recent times. Selling insurance can be an intimate experience, and it usually involves the client having to reflect on future events that can be uncomfortable or are simply avoided. Making that personal connection can be key to having a client open up during these discussions.

Another sales challenge that impacted the agents that I interviewed was the pace at which product offerings changed in the market during the COVID months. Increases in prices, temporary suspensions of products being issued, and volatility in caps related to index products were among the primary challenges noted. In their opinion, clients cannot be pressed into buying insurance due to deadlines on product changes, so this volatility likely led to some missed or delayed opportunities to make sales.

One final item to note is the underwriting process. At the outset of the pandemic, their clients obviously had no interest in seeing anyone, including doctors or other outside examiners. Carriers made accommodations during this time by focusing more on digital solutions and relaxing the need for an exam. As time passed, clients became comfortable visiting doctors, but their expectation is that a well- documented set of medical records can be as effective as an exam in a number of cases.

What has changed about the sales process that you think will never go back to pre-COVID methods?

All of the agents agreed that virtual meetings are here to stay, though they also believe that in-person meetings will eventually return. They must learn how to effectively manage the different forms of meetings to optimize the client experience. For them, integrating the personal engagement, a standard facet of their face-to-face meetings, into the video meeting arrangement while keeping its efficiency will be a key to success. In addition, they must work to ensure minimum disruptions or distractions that a virtual meeting can bring. Not being in the same room as a client during the virtual meetings requires all parties to be focused so that key details are not overlooked by either party.

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The other item that they believe will experience a permanent change is the underwriting process. With the frequent ability to utilize robust medical records in lieu of an exam, especially during the beginning months of the COVID period, agents believe that the industry discovered that these records can effectively provide a picture of individual being underwritten. They feel that the added efficiency of removing the exam is worth the potential additional cost to their clients, which they feel is very little when ample medical records are utilized.

How do you feel about the remainder of 2020 and 2021?

The responses to this question were surprisingly consistent. Everyone that I interviewed noted that the first half of 2020 had not been materially impacted. They had clients that were going through the sales process or that were in the "pipeline" throughout the beginning of 2020, and that momentum carried them through the first half of the year.

However, there is some trepidation regarding the remainder of 2020 and 2021. The inability to make new connections and meet new prospects for a number of months in 2020 could have a negative impact on new business sales in the near term as they adapt to the changing sale environment.

In addition to the lack of new meetings, there is also a large amount of uncertainty in the world today. The spread of the COVID-19 disease has made some clients think about how quickly life can change, which has led to them wanting to be better prepared for the uncertainty. However, there are more individuals that have been "frozen" by the fast-changing environment. With the presidential election, COVID challenges in the U.S., economic volatility, and social unrest, many potential insurance purchasers are delaying their decisions until there is more stability and certainty with some of these key issues.

In closing, I wanted to share a quote from one of the agents that sums up the positive outlook that the individuals in life insurance distribution shared with me when speaking with them. "The general ambient forces of concern about mortality, taxes and financial/social/political uncertainty also create an environment where our planning processes and our products can be a big part of what helps our clients to find more comfort and security. We just need to persevere and succeed at finding ways to help them continue with their insurance planning." ■

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Marketing and Distribution: Compensation for Sellers and Distributors

By Nick Ortner and Brendan Costello

Building on our previous newsletter article ("Who Sells and Distributes"), we continue here in our attempt to define and clarify distribution terms that may be confusing or misunderstood. In this article, we focus on seller and distributor compensation, which includes payments to customer-facing sales experts for policies remaining inforce along with separate allowances for the entities supporting those experts. In this article, we use the term "agent" and intend its use to also capture "brokers" and "producers" in reference to customer-facing sales experts, while appreciating there may be subtle differences between them (see "Who Sells and Distributes" for more on this).

As we noted in our initial article, we view this series and emerging glossary as a work in progress and encourage feedback on items we may have omitted or defined incompletely.

SALES PATHS GUIDING COMPENSATION

One of the factors influencing compensation is the path by which sales develop. **Inbound sales** start when a potential customer contacts the insurance company or agent/sales organization with questions about a product (i.e., the inquiry is "inbound" to someone who can proceed with the sales process). **Outbound sales** are the result of outbound prospecting to customers regarding products offered by the organization and insurers the agent represents.

Both inbound and outbound sales can result in commission payments to the expert guiding and facilitating the sale. Commission payments for outbound sales are generally higher due to the additional costs associated with generating and developing leads.

AGENT COMMISSION COMPENSATION STRUCTURES

Insurers structure commission compensation to the agent in a variety of ways, summarized in Table 1 and detailed in the following paragraphs.

Table 1
Agent Commission Structures

Commission Description	First-Year Compensation	Renewal Year Compensation	Product Examples
Flat Fee	Flat dollar amount	Same dollar amount or zero	Annual open enrollment and/or guaranteed issue individual health
Heaped and Levelized	Stated percentage of premium. Higher than renewal years; first-year rates for heaped are higher than levelized	Lower than first-year; renewal rates for levelized are higher than heaped	Annuity; individual and worksite life; individual supplemental health
Level	Stated percentage of premium	Same percentage of first-year premium	Group life; group health; individual supplemental health

Unsurprisingly, agent commission rates tend to be higher for more complicated products or more complex sales, as well as lower premium products (e.g., dental or vision) to provide agents a sufficient incentive to market such products. Renewal compensation also tends to discontinue eventually on long duration contracts.

Flat fee compensation (one-time or annual dollar amount for a specified period) may be paid for products requiring reduced sales resources/effort (e.g., annual open enrollment and/or guaranteed issue individual health).

Heaped commissions are a structure where the commission scale is high in the first year and lower in subsequent years. Heaped commission schedules are intended to reward agents by providing a strong incentive to close new customers and recognizing that sales of more complicated products may demand more significant use of agent resources upfront. Like heaped commission sales, levelized commissions have commissions that are higher in the first year than in renewal years, while typically differing from heaped scales with lower first-year commissions and higher renewal year commissions.

Level commissions pay a level percentage of premium for a specified number of years, with those commissions typically paid as a percentage of the customer's first-year premium for all years (i.e., the agent is not paid for inflation on premiums, if applicable). Level (and levelized) structures provide agents an incentive to enroll clients for the long-term and provide high quality service to those clients because renewal commissions are not paid on lapsed policies.

Another common type of agent compensation is **service fees**, which are generally similar to renewal commissions and paid at a lower rate (perhaps 1 percent to 2 percent of premium) in later years as an incentive to sustain the occasional service needed on the policy and maintain the client relationship.

Target premiums are common in flexible premium universal life coverage, where a higher commission rate is paid on premiums up to an established target premium amount and a lower commission rate paid thereafter. Some products may have a **rolling target**, meaning that agents are paid first-year commissions on premium paid during the first two years of the policy, up to the target premium established at issue.

AGENT COMPENSATION ADJUSTMENTS

Agent compensation may also have additional complexity and adjustments. **Advancing of commissions** represent a financing arrangement akin to a loan from the insurer to the agent in anticipation of future commissions, typically paid back through future commissions earned. **Chargebacks** occur when the insurer takes back unearned compensation paid to agents for policies sold that subsequently lapse/cancel, often accomplished by reducing commission payments in the month following policy cancellation. **Vesting** represents agent ownership of commissions regardless of whether the salesperson still works for the insurer or sales organization, as a result of the account renewing with a carrier past the sales contract's initial policy term. Such commissions are payable to that agent (or her/his estate) even if that salesperson no longer sells business for the insurer.

SUPPORTING ORGANIZATION COMPENSATION

Supporting organizations higher in the typical distribution hierarchy (also known as "upline" entities) may also receive compensation. **Overrides/marketing overrides** are payments received by a sales manager and/or upline sales organization based on the sales made by those lower in the sales hierarchy ("downlines"). Overrides serve as compensation for the upline individual/entity for training and managing agents. Overrides are effectively "commissions paid to uplines based on downline sales."

Gross dealer concessions (GDC) represent revenue to brokerages when a commissioned securities and insurance salesperson sells an investment or insurance product and the agent receives a percentage of the GDC figure—for example:

- A mutual fund with a 5.5 percent sales charge is sold to someone investing $20,000, with the sales agent assumed to receive 30 percent of the GDC.
- $1,100 GDC (5.5 percent of $20,000) would be created by the sale, resulting in an initial account balance for the investor of $18,900 ($20,000 less $1,100).
- The sales agent receives $330 (30% of $1,100 GDC).

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In wrapping up this brief overview of compensation for sellers and distributors, we continue to seek feedback on these installments as we build an SOA Marketing and Distribution glossary that we hope helps simplify and clarify some of the terms and verbiage you may encounter. Over the next several newsletters, we anticipate adding further to the understanding of distribution with exploration of support for sellers and distributors and the pertinent regulatory elements and framework surrounding marketing, sales, and distribution. ■

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Selling Insurance Six Feet Apart Redux

By Nick Ortner

As part of the SOA's July 22, 2020, COVID-19 Virtual Symposium, the following Marketing and Distribution (MaD) Section Council members presented "Selling Insurance Six Feet Apart" with insight into emerging sales and marketing processes, challenges, and opportunities for the product spaces noted:

- Life and Annuities: Brendan Costello, Manisha Dias and Bruce Fuller
- Group Benefits: Mike Prendes
- Individual Health: Nick Ortner

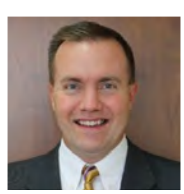
Building on (and independent of) MaD's recent presentation, we provide the following excerpt concerning broker preparedness for the upcoming Medicare annual open enrollment period/annual election period (AEP) to lend further perspective into the evolving insurance sales landscape in a COVID-19 world.

Thank you to AIS Health (www.AISHealth.com) for use of the following passage from its August 20, 2020, RADAR on Medicare Advantage newsletter and the article titled "E-Brokers Are Poised for Success in Digital Medicare AEP."

As Medicare Advantage organizations prepare to promote their 2021 offerings this fall with no new guidance from CMS on marketing during a pandemic, plans and their broker partners are proceeding as though the safest approach is through digital and telephonic channels. One area that may see more growth than expected is the online broker space, although the investment plans make in that channel will depend largely on their size, competition, location, and how well their own customer service and internal sales departments can back up their increased online presence, experts tell AIS Health.

Unlike the federal government's Medicare Plan Finder, a website sponsored by an e-broker (also referred to as an electronic marketing organization, or EMO) by no means represents an exhaustive list of enrollment options for a consumer. Rather, the broker contracts with a handful of insurers in a specific market and trains agents on the finer points of those carriers' products, and the agents earn a per-enrollee commission. Moreover, how consumers end up on an e-broker's site varies. For example, they may navigate to it after seeing a television commercial for what appears to be a generic Medicare help line or receiving a mailer directing them to the website, or they may land there after doing a basic Google search for Medicare options in their area.

"COVID forced telemedicine to grow three years in three months, and COVID is going to force more sophisticated, more consumer-friendly retail type experiences for digital purchasing of Medicare Advantage (MA)," predicts Lindsay Resnick, executive vice president with Wunderman Thompson Health. "It may not be to the same extreme [as telehealth], but the smart MA plans saw this coming and made investments in that digital experience, and I think you're going to see more uptake than we've seen in past AEPs," he says, referring to the 2021 Annual Election Period that begins on October 15, 2020. ■



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