Bill Boersma - Blog

Good Agent + Good Company = Good Policy? Think Again!

When I'm out and about speaking with advisors regarding what's going on in the life insurance industry, it's not hard to see that conventional wisdom (rhetoric) has blinded many people. What I mean by this is that there is often an automatic assumption that if their clients have insurance policies issued by the top tier carriers in the market or if their clients' agents are among the highly respected professionals in the community, the policies are being managed and they are doing fine.

I have to say that in many situations, quality companies and capable providers equal good results. Think about anything from cars to electronics, professional services to groceries and the good reputation often lines up with good experience.

But there is a difference in the life insurance industry. Don't get me wrong; all things being equal, a highly respected insurance company and an agent with an impeccable reputation should be highly valued. The point I want to make is that these things should, under no circumstances, lead to assumptions of policy soundness or planning success.

When one thinks about the highly rated carriers which are household names (think John Hancock, New York Life, Guardian, Mass Mutual, Northwestern Mutual, Sun Life, etc) one has to understand that these companies have built their reputations on sound underwriting practices, good management, effective investment strategies, etc. But, by and large, their mortality experience, their overhead expenses and their investment results are not dramatically different, if at all, than one another's or others in the industry. When you think about it, they are all insuring the same pool of people and the factors driving overhead expenses affects them all the same and they are all going to the same markets for investments. No one company can have an experience which is meaningfully different than others.

Where the real differences lie is in their individual market niches, corporate management, product philosophy, sales and marketing effectiveness, etc.

To understand how universally applicable this is we need to focus on investment results and how they drive the crediting rates for life insurance policies. If I take three conservative, highly rated, highly regarded carriers; Guardian, Mass Mutual and Northwestern Mutual and look at what has happened to their crediting rates since the mid eighties, we can see that their average crediting rate then was 12.23% and now it is 6.71%. That's a 550 basis point reduction or a 45% decrease in total crediting rate. The decrease in their dividends, commonly defined as the return over and above policy guarantees, has fallen substantively more. These numbers are right in line with peer carriers and almost all carriers in the market. When you experience these results, the effect on the policies in your portfolio is tremendous; greater than almost anyone can imagine.

> Unless your clients' policies are managed meticulously, there is no way they can perform as projected when the crediting rates fall this much.

You might as well assume you are going to live the retirement you always dreamed even though your 401(k) only returned a fraction of what you planned on. Why is the 401(k) analogy self evident but life insurance cause and effect such a mystery? Seriously, I'd like to hear your opinion.

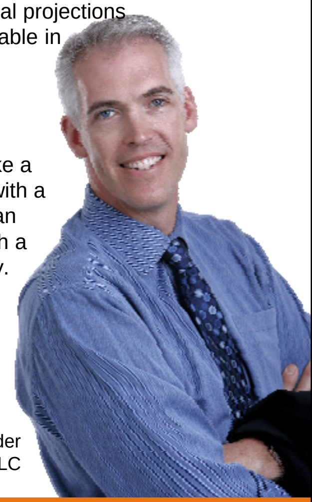
I've also been at industry meetings where an old timer will stand up and state that whenever he was in front of a prospective client and the guy told him he was working with such and such an agent whom the old timer knew and respected, he would back away assuring the consumer that he was in good hands. My experience over and over again reinforces how silly this attitude is. First of all, many prospective clients are throwing this out simply to shut down the salesman, but beyond that, I don't know that many advisors understand how tenuous life insurance relationships are. (I have my opinion on why this is and that will be a future blog entry.)

Repeatedly, I have clients of the most highly respected agents in town directed to my doorstep. And these are clients of agents for whom I have great admiration. The point is, even among the "best" agents, the percentage of clients with whom the agent has no real relationship is amazingly high. This is for a multitude of reasons I won't get into now but they are clearly not always the fault of the agent. Things happen.

One of my favorite agents in town is an incredibly bright, conscientious and successful NML agent but I still get referred to his clients by the client's professional advisors. Why? Sometimes it is a faded relationship. Sometimes the client simply wants some independent input. Sometimes the advisors push for independent input. But more often than not, when I call the agent to let him know I am involved, he is thrilled to hear it because he knows his client will get good information. Sometimes he's happy to see I'm involved because he knows there are issues but the client, for whatever reason, is rebuffing the agent's attempt at meeting to discuss the issues or simply will not listen and take action to solve a pending problem.

I would hope that, in general, policies from conscientious agents working with top tier carriers are being managed better than others, but believe me, do not connect the dots and make that assumption. The best agents can lose relationships and the most conservative, highly rated carriers are suffering staggering reductions in life insurance crediting rates. Original projections are simply not sustainable in most instances and independent advice is ever a bad thing.

Bottom Line…? I'd take a well managed policy with a marginal carrier over an unmanaged policy with a top tier carrier any day. I'd want both, but if I could only get one; no contest.



Bill Boersma, Founder
Opportunity Concepts, LLC

OBJECTIVE INFORMATION DRIVES INFORMED DECISIONS

OPPORTUNITY CONCEPTS

MCKAY TOWER
146 MONROE CENTER, SUITE 710
GRAND RAPIDS, MI 49503
(616) 456-1000
OPPORTUNITYCONCEPTS.COM