View from the Top:
Top Life Executives Give Their Views on the Industry State Today

by Leila Morris

The workplace will be a growing venue for life insurance sales according to nearly every executive featured in our annual view from the top survey. In fact, one executive expects employee-paid programs to account for most of the growth in life insurance sales. With health care reform, employees will be looking for supplemental coverage as they assume more of their health insurance costs. In response, the brokerage community is focusing more on voluntary products to meet the demand.

More than one executive sees a huge opportunity to help middle class Americans prepare for retirement. The emerging affluent market also remains underserved.

As for popular products and features, executives site whole life insurance, universal life insurance, guarantees, living benefits for permanent life products, and hybrid life insurance/long term care (or critical illness) products.

Low interest rates pose the single greatest challenge to the industry. All life insurers have to make product adjustments in order to manage lower investment income and profitability in the current environment.

1. How is the life insurance market faring in today's economy?

Randy Zipse, vice president of Advanced Markets at Highland Capital Brokerage: The life insurance market is faring well in today's economy. The uncertainty of investment products makes the stability of cash value life insurance very attractive. Increases in federal and state income tax rates have also made life insurance a very attractive retirement strategy, given the tax-favorable treatment of life insurance cash value growth.

Eric Henderson of Nationwide Financial: The steady growth experienced by the life insurance industry in 2012 has continued into 2013. According to LIMRA, total premium growth from year-end 2011 to year-end 2012 was 5.2%. In the first quarter of 2013, life insurance sales continued to increase, growing 6.4% since the first quarter of 2012. Seven in 10 U.S. households own life insurance today, proving that it continues to be an important vehicle for protection in today's economy. However, there is still room for growth because every family should be prepared for the financial disruption that a death in the family can cause, and life insurance is commonly the best tool for addressing this challenge.

Drew Niziak, senior vice president, Broker Sales & Aflac Benefits Solutions: Life insurance products accounted for $526 million of voluntary sales per 2013 First Quarter Sales. For 2013 first quarter growth, all life offerings opened 2013 lower. Term saw a lower percentage decrease than did permanent life offerings or stand-alone AD&D coverage (Source: U.S. Worksite Sales survey, LIMRA, First Quarter 2013).

Michael Ferik of Guardian: Guardian's whole life sales were up 15% for the first quarter vs. the first quarter 2012, while the industry average was up 6%. We remain cautiously optimistic about the prospects for growth in life insurance sales and specifically, whole life. The current landscape, however, is causing us to remain diligent about assessing and mitigating risks – in particular the possibility that interest rates could remain exceptionally low for an extended period or rise more sharply than anticipated. We expect continued market volatility and are positioning our portfolio to deal with a wide range of contingencies. That said, consumer uncertainty is also leading clients to seek safe havens for their money, which whole life insurance can provide. It is one of the few vehicles that allow clients to protect their families and businesses, obtain a competitive tax-deferred rate of return and offer guaranteed cash-value growth.

Steven Johnson, Colonial LIfe

Steven Johnson, assistant vice president, Product Development Colonial Life & Accident Insurance Company: The life market isn't growing as fast as the U.S. economy overall, but there are pockets of opportunity for life products sold at the workplace. Whole life sales through the workplace are growing at 6% to 7% annually. The volume of term life insurance sold in the past five years has increased slightly, but the premium associated with those sales is down as rates have declined, mostly because of improvements in mortality. Another factor at play is that 72% of all life insurance policies are sold at the workplace. The high-volume, low-touch nature of the workplace sales channel is best suited to the sale of simpler products designed to meet less complex consumer needs. Life policies sold at the workplace therefore tend to carry significantly lower face-amounts than those sold through other channels.

2. Has there been a significant change in product mix over the past 12 months in terms of guarantees, variable, or term?

Randy Zipse of Highland Capital: Life insurance products continue to trend toward products offering cash values.

Eric Henderson of Nationwide Financial: Consumer demand for guarantees continues to drive sales of no-lapse guarantee universal life products, which still represent the largest share of the life market. According to LIMRA, indexed universal life sales grew 17.4% since the first quarter of 2012, making it the fastest growing life product. Our indexed product grew more than 370% during that period.

Michael Ferik of Guardian: Clients are looking for steady returns, safety and financial security, which is illustrated by the continued growth of our whole life product line. As long as the market remains volatile we expect this trend to continue.

Steven Johnson of Colonial Life: As health care costs increase and employers increasingly shift to a defined contribution model for their benefit plans, there's likely to be a general upturn in term life sales as its low cost becomes increasingly attractive to consumers. As LIMRA's 2013 Industry Predictions report points out, the market has moved back and forth over the years between placing risk on individuals and on carriers. Right now, companies are increasing product pricing while reducing the benefits on these guarantees, discontinuing sales of some products or riders, and in some cases exiting the market entirely.

Drew Niziak of Aflac: From a mix of individual life insurance sales by product (percent of new premium), Universal life sales reflect a faster growth compared to term, whole and variable from 2009 to 2013:

	Universal	Term	Whole	Variable
2013	43%	24%	27%	6%
2009	38%	27%	28%	7%

(Source: U.S. Worksite Sales survey, LIMRA, First Quarter 2013).

3. Do you see growth in particular niche markets?

Eric Henderson of Nationwide Financial: Guarantees remain in high demand. Nationwide Financial is seeing an increase in sales of single premium immediate annuities and variable annuities with living benefits. Some carriers have pulled back on variable annuities with living benefits or even exited the VA business completely due to the ongoing low interest rate environment. Nationwide Financial remains committed to its variable annuity business for the long run. We believe variable annuities with living benefits satisfy an important consumer need, and that's why they will continue to play an important role in the suite of products and solutions we offer advisors and their clients.

Michael Ferik of Guardian: In addition to the valuable death benefit protection life products offer, we see a continued trend towards living benefits for permanent life products. The last few years have seen a shift in how consumers can protect themselves using long term care (LTC) insurance. The market for traditional LTC is shrinking, while the need to address the expenses associated with living longer are becoming more prevalent. Guardian believes a longevity solution that combines life insurance coverage with the ability to cover LTC is the most economical option and is in the process of rolling out a LTC rider to address this need.

Randy Zipse, Highland Capital

Randy Zipse of Highland Capital: The fastest growing product is the hybrid life insurance/long term care (or critical illness) product. Consumers are very concerned about the fast growing cost of long-term care expenses and see these hybrid products as a very effective way to protect themselves and their families from the high costs of long term care. Consumers like these hybrid products because, unlike traditional long-term care products, a benefit will be paid regardless of the long-term care need. The only question becomes if the policy will be utilized during life to pay for long-term care or if it will be paid at death as a death benefit.

Drew Niziak of Aflac: We have not observed any substantially different growth of life insurance sales in any particular niche market. By all accounts, there is a significant need for increased life insurance protection, both term and permanent types of coverage, among the middle income wage earners in the United States. We believe the most efficient and effective way to reach that target is through programs offered at the workplace where employees have streamlined access to life insurance through guaranteed-issue underwriting along with the convenience of payroll deducted premium collection.

We anticipate continued growth in life insurance sales at the workplace as more and more brokers and employers recognize the need to offer this valuable coverage to their employees. In fact, voluntary product sales offered through the worksite continue to steadily grow with premium volume increasing by 7% over the prior-year according to LIMRA's U.S. Worksite Sales: 2012 Fourth Quarter Review.

Steven Johnson of Colonial Life: Life insurance is needed across all markets as working Americans, in general, are uninsured or underinsured. A 2011 LIMRA study reported that 43% of U.S. adults don't have enough life insurance, and 41% have no life insurance at all. This tends to be especially true of younger workers who may not yet have families and mortgages, so they don't see the need as strongly as older workers. But as Gen Y begins to take over the workplace in the coming years, this represents a good opportunity to educate employees about their needs and help them match those needs with the right type and amount of coverage. The Hispanic population is growing also, so there's a growing need for benefit counselors who not only speak their language, but also understand their culture to be effective in this market.

4. What is happening with your distribution systems?

Drew Niziak of Aflac: The brokerage community is expanding its reach in the voluntary market every year. In response, ABS is in the process of growing its distribution system to meet the growing demand. We expect to have a presence in most of the large metropolitan markets by the end of 2014.

Eric Henderson of Nationwide Financial: Nationwide is hiring new primary agents for our exclusive agency channel, although we have largely maintained the size of this distribution force. We're excited about the continued progress we've made in recruiting experienced financial services associate agents within our agencies. Our retention rate for financial services associates remains well above average for the industry. We're also making a lot of progress developing a growing number of strong relationships within the independent agent channel. Nationwide's acquisition of Harleysville Insurance allows us to expand this presence further.

Our relationships with nonaffiliated distribution channels, including brokerage general agents, regional and national brokerages, wirehouses, and banks continue to yield positive results. The breadth and depth of our strategic distribution relationships are a competitive advantage for Nationwide.

Randy Zipse of Highland Capital: Highland Capital Brokerage is a life insurance distribution company. It specializes in independent distribution and is not tied to a single life insurance company. Highland Capital Brokerage has been adding to its distribution force.

Michael Ferik, Guardian

Michael Ferik of Guardian: Guardian has had three consecutive years of recruiting and net field force growth, with 2012 being our strongest single recruiting year in our 150+ year company history with 930 new recruits. Guardian also has a retention rate of 33%, well above the industry's average of 10%. Guardian is focusing its recruitment efforts in 2013 on career changers and recent college graduates with a strong entrepreneurial spirit looking to begin their careers. Guardian's training and mentoring program allows new financial representatives, no matter their financial planning experience, to get the necessary certifications while learning, on-the job, to effectively provide clients with the best possible planning solutions. The company also anticipates hiring more women in 2013 than ever before, which is an increasing demographic within the industry.

Steven Johnson of Colonial Life: Colonial Life's career agency distribution system is strong and growing. It was at a record high last year, and we plan to continue building it this year. There is a tremendous opportunity in worksite benefits for people who care about helping others, who want to be their own boss, and who want to set their own level of earnings and success. Especially since the recession, a lot of people are seeing the value in being able to determine their own future. Our agency sales organization works both directly with employers and through brokers to serve their clients.

5. What kind of growth do you see in life insurance sales as an employee-paid or employer-paid benefit?

Randy Zipse of Highland Capital: With today's high income tax rates, we are seeing an increase in cash value life insurance as a supplemental retirement tool. This is true of both employer and employee-paid plans.

Steven Johnson of Colonial Life: The shift toward employees taking more responsibility for benefit decision-making and purchasing is going to continue. In today's economic environment, employers aren't looking to increase their costs. Even for employers who continue to offer some employer-paid life insurance, the amount usually is far less than what a typical employee's family would need. That's why voluntary life insurance is so important. It gives employees access to the additional coverage they need at more affordable rates and, in some cases, the opportunity to talk to someone face-to-face so they understand their needs and what they're buying.

Drew Niziak, Aflac

Drew Niziak of Aflac: Most of the growth in life insurance sales will be seen via employee-paid programs offered at the worksite. However, we continue to see many employers reducing, if not eliminating their contribution to employer-paid life programs as they struggle with increased health insurance costs. For instance, offering robust benefits while staying within budget/cost constraints is a top benefit challenge for 40% of large business, 48% of medium-sized business, and 47% of small businesses according to the 2013 Aflac WorkForces Report.

Michael Ferik of Guardian: We continue to see a substantial opportunity to position life insurance as an ancillary benefit, especially as small businesses look for ways to retain talent while shifting some benefit costs to their employees. Guardian operates one of the largest dental networks in the United States, and protects more than six million employees and their families at 115,000 companies, making us well positioned to extend our life product to this market. In 2012, Guardian continued to invest in our multi-life DI and life offerings. We want to make it easy for an employer to offer supplemental group coverage for both DI and life.

Our year-over-year growth rate for multi-life DI has been at 50% for the past three years. Through that offering, we've been able to establish multiple relationships with industry-recognized benefit firms, which have opened the door for our employer-based Life and 401(k) offerings.

6. Are you more or less active with alternative distribution systems (banks, stockbrokers, direct)?

Michael Ferik of Guardian: We are continually exploring new distribution methods that complement our career agency system. For example, we have a bank-owned life insurance (BOLI) product and, as I mentioned, our multi-life DI platform has been a great opportunity for group brokers, pension brokers and P&C firms. In addition, we continue to be focused on growing our brokerage life business through our career agencies. We've hired eight new life brokerage managers already in 2013, with an eye to appointing 15 by year's end. Our life brokerage business continues to group at a double-digit rate and this approach has enabled us to reach alternative channels such as banks, wires and large independent broker-dealers.

Randy Zipse of Highland Capital: Highland Capital Brokerage is a leader in bank and stockbroker life insurance distribution. Both banks and wirehouses are continuing to see steady life insurance sales growth.

Drew Niziak of Aflac: Benefit broker and career Agent segments continue to be the most productive distribution systems for Aflac's products and services.

Eric Henderson of Nationwide Financial: We remain very active with banks and wirehouses and value their business and partnership. Brokerage General Agents are also important partners for Nationwide on the life side.

7. What recent events have affected the way you do business?

Randy Zipse of Highland Capital: Recent tax changes have affected the life insurance business. Higher income tax rates are driving cash value life insurance sales. Higher estate tax exemptions have put the focus on traditional life insurance needs, such as estate equalization and income replacement and away from estate tax planning.

Steven Johnson of Colonial Life: Health care reform is on everyone's mind, but it really hasn't changed the way we do business. Voluntary benefits are mostly exempt from the provisions of the health care reform law, and they still offer a great way for brokers to help their clients offer a more competitive, customizable benefit package with no effect on the bottom line. This is true for all employers, even those sending employees to exchanges for major medical coverage: they can still make their benefits stand out from similar employers by offering voluntary benefits to their employees. And no matter which route the employer takes, there's still a tremendous need to help people understand their needs and coverage gaps and which options best meet those needs. So one-to-one benefit education and counseling is going to be more important than ever as health care reform is implemented.

Drew Niziak of Aflac: We expect that health care reform to have a positive effect on our business. As employees assume more of the insurance costs they see a greater need for supplemental insurance coverage. In response, the brokerage community is focusing more on the voluntary space to accommodate their customers' demand for these supplemental products.

Eric Henderson, Nationwide Financial

Eric Henderson of Nationwide Financial: Product diversity is key to Nationwide's strategy. We have a robust property and casualty business and a full line of financial services products. This variety of product offerings helps us absorb short-term fluctuations in the cycle of specific products, while maintaining commitment to our long-term business and product strategy. We continue to be a strong, financially stable company with Midwestern values that producers and customers can rely on now and in the future. Our risk management strategy and financial strength uniquely position Nationwide Financial to deliver on our mission of helping people prepare for and live in retirement.

Michael Ferik of Guardian: In today's low interest rate environment, we have remained thoughtful about the volume of excess single premiums we take in, particularly from sophisticated investors that are looking for ways to leverage our dividend. As a mutual insurer, our core mission is to maintain financial strength to meet our future obligations to policyholders, and to pay a competitive dividend to our current ones.

8. What, if any state or federal legislative issues are you concerned about?

Eric Henderson of Nationwide Financial: The entire industry should be concerned about the long-term implications of the federal deficit. As lawmakers work to address this challenge, it's important that they continue to recognize the critical role that the tax benefits of life insurance, annuities, and qualified retirement plans play in helping Americans achieve a secure financial future.

Michael Ferik of Guardian: Over the next 17 years, 10,000 people will retire every day. Social Security alone is not enough to provide an adequate retirement. Today, 75 million American families count on life insurers' products for peace of mind, long-term savings, and a guarantee of lifetime income when it's time to retire. Savings in permanent life insurance and annuities represent more than 20% of Americans' long-term savings in this country.

In the face of unprecedented retirement challenges, public policy should continue to encourage Americans to save more, plan responsibly and protect their financial and retirement security. So, obviously, we'd be concerned about any efforts that might make it harder to do so.

Drew Niziak of Aflac: One area of growing concern is how essential it is for employees to be educated about upcoming state or federal legislative issues that could affect their current benefits. The 2013 Aflac WorkForces Report has shown that 75% of employees agree that health care reform is too complicated to understand. Additionally, 53% of employees agree with the statement, "I believe I may not adequately manage my health insurance coverage, leaving my family less protected than we currently are."

Steven Johnson of Colonial Life: Low interest rates are the single greatest challenge facing the industry. These low rates will continue to put pressure on financial services companies and the interest-sensitive financial products they issue, including life insurance. All life insurance products are affected to varying degrees, but long-term contracts that rely heavily on earned interest, such as whole life and universal life, are especially affected. All life insurers will be challenged to make product adjustments in order to manage lower investment income and profitability in the current environment.

9. Speaking of life insurance customers, are their certain niches or age groups that brokers should put more of a focus on?

Drew Niziak of Aflac: At ABS, we focus on the employer market. We typically target a wide array of industries and demographics; that said, from an underwriting perspective, desirable employer qualities are often lower turnover, and a propensity to buy; the latter might push one towards female-centric groups. Further note that the larger the group, the greater the potential for underwriting flexibility and customization.

Eric Henderson of Nationwide Financial: More than 58 million, or half of U.S. households, say they need more life insurance according to LIMRA. The industry has a huge opportunity to help middle class Americans bridge this gap. Brokers who win in this business focus on a business model that is repeatable and scalable with a heavy emphasis on education around the protection gap. Another growing niche for brokers is the emerging affluent market. These individuals are focused on accumulating assets and have high incomes. They seek life insurance solutions to protect their families, as well as accumulation strategies that allow them to build wealth. Brokers winning in this business offer a high touch, customized approach to meet client needs.

Michael Ferik of Guardian: Emerging segments, such as the Millennials, are the clients of tomorrow. Even today, based on many estimates, there are more Millennials than Baby Boomers. The challenge is to understand and address the ways this segment wants to be approached and ensure we are adjusting for this market accordingly. Social media is a great tool for brokers who want to get serious with this group. We've seen some good early success with our career producers who have adopted social media into their practices.

Randy Zipse of Highland Capital: The large case and older age market is heavily served for obvious reasons. Younger people and the emerging affluent remain underserved.

Michael L. Weintraub, Ascension Benefits

Michael L. Weintraub, CLU, president of the retirement division of Ascension Benefits and Insurance in Walnut Creek, Calif.: A couple of years ago, while chairing the Life and Health Foundation for Education (LIFE), it became clear that we are not doing enough as an industry to provide consumers in the less affluent market to get the coverage they need and what they want to buy. LIFE has been working with LIMRA over the last few years to do an insurance barometer study to track the perception and behaviors of the less affluent market in the U.S.

A quick synopsis of the top findings in the Barometer study show there is a market we need to find a way to reach better:

- 66.6% of consumers are concerned about having enough money for a comfortable retirement.
- 33.3% of consumers believe they don't have enough life insurance.
- 33.3% of consumers experienced the death of a relative or close friend in the past 2 years, and are more likely to be concerned about leaving dependents in a difficult financial situation.
- 17% of consumers are willing to purchase life insurance through retail outlets, such as warehouse clubs and superstores.

According to the survey, younger families think life insurance is much more expensive than it really is. Getting them to talk with an advisor can help them understand the life insurance they need is most likely within their budget. Brokers need to focus more on educating young, middle-aged American families who would benefit from term insurance now, with the option to convert the policy later to permanent coverage.

Many consumers in this demographic gather information about complicated purchases like cars and life insurance by doing research on the Internet first. Then armed with information, they prefer to make the purchase face-to-face. This is why we need a friendlier way for brokers to be able to take an application on a reasonable amount of life insurance and have a policy in the insured's hands within a week or so.

Anyone can discover almost anything about anybody on the Internet today. Why must it take months to have a life insurance policy issued? It is not unreasonable to suggest that the industry finds a way to better serve the middle market by making it faster and easier to purchase and deliver policies. Perhaps this can be accomplished by working closely with top producers who work with middle market customers that are in industry trade groups, such as the Million Dollar Round Table (MDRT). The consumer, industry and broker will all benefit.

10. What are some of the common characteristics of your most successful life insurance producers?

Randy Zipse of Highland Capital: Life insurance remains a relationship business. Successful life insurance producers have strong relationships with their clients and often serve as a key advisor to their clients.

Eric Henderson of Nationwide Financial: Common traits of successful life insurance producers include a lifelong commitment to learning and a focus on client needs. For example, good producers will observe a trend, such as the lack of consumer understanding about the cost of health care in retirement, and then position themselves as someone who can help Baby Boomer clients address this challenge. We provide our producers with access to The Nationwide Institute Health Care Cost Assessment tool to help them estimate potential health care and long-term care costs for clients. The producers can then provide guidance to help clients close that gap, whether that is through the use of life insurance, an annuity or another financial service product.

Steven Johnson of Colonial Life: We strongly believe in the value of one-to-one, personal benefit counseling sessions to help employees understand their needs and options to create an effective financial safety net for themselves and their families. So our most successful life insurance producers are those who are not only experts in product knowledge, but who also excel at this customized counseling approach. They create trust and credibility, as well as long-term relationships – they'll be back in the same account next year and the year after, talking to the same employees, whose needs likely will change. We're developing a certification process so brokers, employers and employees can be assured they're working with the best in the business when it comes to individual benefit counseling.

Drew Niziak of Aflac: Our most successful life producers are our most successful worksite brokers. They understand and thrive in the employer marketplace typically focusing on mid/large size groups. These brokers often bring us proven relationships built upon some foundational success fundamentals including:

- Cultivating strong client and prospective client trust, rapport, and confidence
- Taking a strategic, and long term, approach to the client relationship cycle
- Constantly seeking to understand client needs and expectations relative to a changing marketplace
- Understanding the merits of both term and permanent life insurance plans; enthusiastically promoting life insurance to their clients on a consistent basis as a vital part of an overall benefit strategy
- Appreciating the value of a team approach and valuing team members who have a keen sense of process management and technical detail

Being a responsive and relentless advocate for their clients

Michael Ferik Guardian: Our most successful producers are sticking to the basics – sound planning advice and simple sales approaches. During economic uncertainty, the key is to not get caught up in trendy fixes, such as consistently recommending some products that offer favorable illustrative but possibly unrealistic rates.

Any Other Insights?

Drew Niziak of Aflac: With the implementation of health care reform looming, there are valuable opportunities at hand for brokers to provide companies with guidance not only on health care reform, but also about the ways voluntary insurance can bolster their benefit offerings with little affect to their bottom lines while helping employees protect their families' financial security. In fact, 46% of brokers expect the proportion of voluntary workplace benefits they sell to increase substantially in the coming year according to the 2013 Aflac study. Further, nearly half of these brokers (49%) say the voluntary insurance product that generates the most volume in terms of revenue is term life insurance.

Eric Henderson of Nationwide Financial: As Baby Boomers age, long-term care hybrid products are increasing in importance. Utilization of our long-term care rider has increased more than 10% from 2011 to 2012 and is on pace to grow even more in 2013.

In addition, there are still too many families who do not own life insurance and even more who don't have enough. We're urging consumers to think about life insurance in terms of income replacement. In other words, if you make $50,000 a year and plan to retire in 20 years, you need $1 million in coverage to replace your income. Consumers need to understand that if they fail to replace their income with life insurance, their family may be forced to reduce its standard of living. According to a survey of consumers we recently conducted, the average person has replaced only 16% of their income with life insurance. When you think about expenses later in life, such as weddings and college for children and the high costs of health care and long-term care in retirement, it's easy to see how a family that loses 84% of a breadwinner's income may face significant financial disruption. The good news is that life insurance is more affordable than most consumers think. ❑