

identifying best practices and sharing processes we have perfected. We are confident that by the end of this book you will learn the answer to this ultimate question: *How does life insurance and the services around it need to evolve to better serve clients in the future?* We refer to this important evolution as **Life Insurance 10X**, hence the title.

Our sincere hope is for you to confidently build trust-filled relationships with each of your clients so that, when necessary, you too have the privilege to witness individuals with a lump in their throat.

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THE LIFE INSURANCE 10X VISION

An Advisory Process vs. a Sales Process

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Following the economic decline of 2008, a new company came on to the scene with a fresh perspective on the status quo. Their motto was straightforward: “We use technology to give people what they want, when they want it.” Simple, right?

Their first service offering cost about 1.5 times as much as existing options in the marketplace. Despite this, they were seen as a potential threat to the industry and immediately came under scrutiny. Existing companies, rather than examining the innovations this new player was offering and considering how to improve their own service in response, spent the first several years attempting to discredit it.

TRAPPED IN BELIEF

Being well-entrenched, with a near monopoly in their own market (thanks to regulation), the existing players saw no reason to change their ways. They were trapped in the belief that the service they provided in their industry was good enough, and since consumers had no alternatives, there was no need to change. They were certain that government regulators would protect their interests as they had done in the past.

With evidence mounting that the new company was increasingly popular with consumers, leaders and industry associations spent millions of dollars launching a long and costly string of legal battles, lobbied heavily in local and state governments, and then poured even more into negative ad campaigns attempting to discredit the newcomer in the eyes of the public. Meanwhile, the new innovator expanded into market after market, and then internationally, using web technology to replace obscure telephone-based order taking and radio dispatch of service providers. By the time the old-schoolers had exhausted all their options, consumers had already voted with their dollars.

“This demonstrates how a belief trap can undermine an entire industry’s ability to recognize the need for change and when it is time to respond with innovation.”

In just five short years, a little company by the name of Uber had become known as the most valuable startup in the world (with a projected market capitalization of \$62 billion based on late 2016 fundraising rounds). Meanwhile, existing taxi-cab companies had lost over 80% of their market value. In some cities, operating licenses or “medallions” previously selling for as much as \$1.3 million were now worth just \$241k.¹ Only then were cab companies willing to even consider that the new service was, in the eyes of consumers, superior to their own. By now, the time to save themselves had grown short and, if they had any hope of recovering, they would have to choose between sinking more money into court battles or improving their service and pricing.

Finally, as a last resort, some of the cab companies began utilizing a competing smartphone app in hopes of catching up to the new competitor.² Ironically, the taxi-cab smartphone app Flywheel (formerly Cabulous) was developed in 2009, long before Uber had even raised its first round of venture capital.³ However, infighting among the fragmented and Balkanized cab industry fostered resistance to adopting the very technology that would have created a customer-focused, centralized dispatch system.

What this demonstrates is how a belief trap can undermine an entire

industry’s ability to recognize the need for change and when it is time to respond with innovation.

WHO THIS CHAPTER WILL HELP

This book has several intended audiences, some of whom will benefit directly from different topics. We will point that out to you under this heading at the beginning of each chapter.

Largely this book is for insurance advisors who want a role in transforming their industry, and their practice, to better serve clients. We will endeavor to demonstrate that making the experience ten times (10X) better for your clients truly is achievable. We will share actual processes and approaches you can use to begin this transformation—not in some idealistic future, but today, right in your own business.

It will also serve to inform those on the periphery of our industry—referral partners, their valued clients, and anyone desiring to understand how to make wise choices when considering life insurance for their own purposes. We have striven to achieve the right balance to provide you with truly valuable insights, uncluttered by jargon and technical detail. Although not a buyer’s guide, this book offers a glimpse inside the industry to help you better understand agents and policy offerings when faced with options.

THE INSURANCE ‘BELIEF TRAP’

Right now, the life insurance industry is caught in a belief trap similar to the taxi industry. It still operates like a taxi-cab business with most agencies operating either under a large Yellow Cab-like giant, or as part of a handful of other independent operators that have not adjusted their business model. Life insurance is the last product in the financial world that needs to come to consumers on their terms. The insurance industry urgently calls out for an Uber transformation that is built around the customer, not legacy systems of various life insurance companies, arcane paper-based processing and data that is stale. We may soon have self-driving cars, but most insurance products, once placed, often put themselves on a collision course without systems to monitor them or make adjustments to keep them on track.

“The insurance industry urgently calls out for an Uber transformation that is built around the customer, not legacy systems of various life insurance companies, arcane paper-based processing and data that is stale.”

This chapter is about our belief traps, including the inherent bias that most insurance agent have when placing policies, and the beliefs that may lead a perfectly good policy to fail in its objective.

It’s not easy to admit that we each have a bias, let alone that it may negatively affect our clients. It takes a strong constitution to look within ourselves and an even stronger one to undertake changing how we view the world and operate in it. By the time you reach the end of this chapter, you will not only be unafraid to examine your potential biases, but will feel empowered and motivated by the newfound approach we offer. Some parts of our approach you may be implementing already. We are simply going to explore how you can bring all the components together to work in concert, for the benefit of your clients and your overall practice.

A MOST IMPORTANT QUESTION

In 2010, after the worst of the financial crisis was over, one of the senior executives within our life insurance business asked me a couple of questions that led to the articulated vision of *Life Insurance 10X*. As a company, we have always been careful to avoid marketing schemes that involve the abuse of life insurance products, and we consistently communicate against the use of these practices with our Member Firms. Knowing this, the executive asked me, “Larry, I know what we are against, but what are we for?” What he was essentially asking me was, “What is our long-term vision for life insurance?”

“Good questions are infinitely superior to answers.”

—DAN SULLIVAN

As Dan Sullivan, the founder of Strategic Coach once said, “Good questions are infinitely superior to answers.” This question about the long-term vision for life insurance was a profound one, and it took me some time to ponder it. I realized the most important elements of

a sound, long-term life insurance practice had much more to do with the advice and ongoing service from the insurance professional than it did with the life insurance company or even the product itself.

“The biggest differentiator between successful agents today and the ones who will dominate the future life insurance business is the system and process they use for ongoing monitoring and servicing of policies, from every company they recommend, once they are in force.”

Yes, great long-term insurance solutions involve careful thought about the companies and types of products to recommend. However, they require an understanding of the specific contractual policy provisions and how they might impact the policy in question under a variety of economic assumptions. Even an excellent product from a great company will provide little utility to clients if it is:

- Not the right type of policy for that client
- Poorly designed, to anticipate change
- Not underwritten to obtain the most competitive rate
- Owned by the wrong person or entity that sacrificed the unique tax benefits that life policies can offer
- Delivered without communicating clear expectations to the policy owner

Only a true-life insurance professional can help the client understand the risks and rewards inherent within different policy types and plan designs. Sometimes they will need to offer wise counsel as to the potential long-term impact on future policy benefits from varying funding patterns or relying too heavily on non-guaranteed elements of the policy. Regardless, a life insurance professional’s most important job is to guide clients to take action and implement a life insurance policy that is built to stand the test of time.

While vital to implementation, the steps outlined above are all part of the sales process. The biggest differentiator between successful agents today and the ones who will dominate the future life insurance business is the system and process they use for ongoing monitoring

and servicing of the policies, from every company they recommend, once they are in force. We have observed that even the best policy could quickly end up in a ditch if it were not being properly monitored and managed after it was delivered. In our 54 years of experience with life insurance products, we have consistently seen advice on the company selected, the product type, the design of the policy, and the ongoing monitoring of the policy make a bigger difference for the client than with any other financial product offered in the marketplace.

LIKE CARS, POLICIES REQUIRE MAINTENANCE

The analysis of these factors essentially led to the emergence of *Figure 1* which more visually articulates what we mean by Life Insurance 10X. It represents a compilation of many innovations we at Valmark created in collaboration with our Member Firms over the last 54 years into a single documented process that can be replicated consistently. It is our basic blueprint for making the life insurance buying experience 10X better for clients and creating 10X better results with their life insurance policies.



FIGURE 1

Looking back, many segments of the Life Insurance 10X diagram were already being used by our best firms. However, they were being used inconsistently, in a piecemeal, informal fashion with documents and records not being retained in a single place for easy access. Through a series of offsite meetings with our best Member Firms and individuals from our internal teams, we built a structure around these processes and created a plan to link and automate many of them through web-based technology. We branded the new holistic process as *Life Assurance 360™* (LA 360™).

With context behind how LA 360™ was created, it is easy to surmise the underlying meaning of its name. We felt that each step of the life insurance process, when addressed in isolation, would always yield results that fall short of those produced when all five are working in concert. By taking a “360” degree, comprehensive approach to life insurance, every agent is able to produce better results for their clients.

EXAMINING YOUR OWN BIAS

Because almost everyone who has entered the life insurance business has come through a career-based insurance company, even the best insurance professionals have not thought about what independent advice for life insurance should look like. In far too many situations, they take a known process around selling and serving a single company, or type of insurance, and modify it to be able to sell multiple companies when they become independent.

Their training also leads them to carry over internal sales scripts that they were taught when they were selling a single company and product type, resulting in prejudices about what kind of life insurance is best for all clients. Agents who came from New York Life or Northwestern Mutual are likely to still believe Whole Life is best for all clients. Agents who started with CIGNA or Lincoln are likely to favor Universal Life. Those who started with New England or Equitable are likely to recommend Variable Life. While none of them are wrong, their lone recommendations will not be completely right or best for every situation. Each of these products holds merit and works best for certain clients in certain circumstances.

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The 10X insurance professional is one who resists their own bias and seeks to objectively help clients match the right kind of insurance policy with their individual time frame, risk propensity and goals, and recognizes the need to put systems and process in place to make this happen consistently.

TRANSFORMING A SALES PROCESS INTO AN ADVISORY PROCESS

The LA 360™ process is an advisory process, rather than a sales-based process. It involves objective criteria drawn from the client to produce a recommendation of a product, or products, that best meets and documents their individual needs. Without asking questions of the client first, there will always be a temptation to prejudge the “best product” or design, or to assume we know what they need.

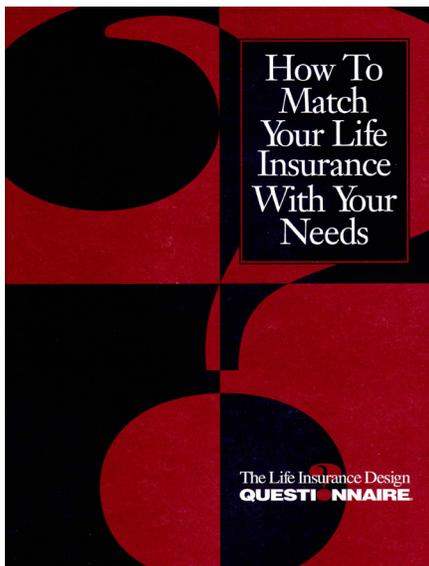


FIGURE 2

The essential principles behind the Life Assurance 360™ process originated from our Members sharing ideas on how to help clients understand fundamental differences in various life products. We took those ideas and sought to incorporate the concepts of the Uniform Prudent Investor Act on the life insurance side. We started with a pencil and paper tool called the Life Insurance Design Questionnaire® that we created in 1995 (see Figure 2). This paper tool went through a series of modifications because of the experiences various insurance professionals had when sharing it with clients. It also evolved over the last 20 years as products changed and bond yields continued to drop. Valmark obtained both patents and a registered trademark for the Life Insurance Design Questionnaire® in 1999.

Some of our firms used it as a method for trustees with Irrevocable Life Insurance Trusts, to help them document the process by which they selected insurance products to comply with the Uniform Prudent Investors Act. The Act requires trustees to use a disciplined process for selecting investments and monitoring them. This process was outlined in two published articles: *Insurance Policy Selection for Irrevocable Life Insurance Trusts: New Challenges for Trustees and Advisors* from the February 2002 edition of *Trusts & Estates*; and *Whose Policy Is It Anyway? The Management of Insurance Policies for ILITs* published October–November 2002 in *The Journal of Practical Estate Planning*.

Now you see how LA 360™ was built on 20 years of thinking around helping clients make better decisions about how life insurance policies work and inherent tradeoffs of product types and funding patterns. LA360™ takes paper systems and supercharges them, while creating greater collaboration though use of technology and a comprehensive record retention system. It also forms a strong base so that this same data becomes the basis for ongoing management of these policies.

By asking questions and recording answers about what life insurance was supposed to do, the time horizon for the need, and the resources for funding the policy, we transformed a sales process into an advisory process. Those professionals who follow this process can help clients and other advisors understand the inherent tradeoffs of various product types or design structures. Similarly, clients can make more informed decisions about the policy that will work best for them.

“LA 360™ creates a 'flight plan' for the policy so that it can be independently monitored by a professional in the form of a life insurance policy management statement over time.”

LA 360™ was a move from the life insurance industry's prevalent sales-based process (with a predetermined outcome), to an advisory-based process reflective of individual client needs and individualized design stemming from clients' personal risk-reward tradeoffs. Moreover, it creates a “flight plan” for the policy so that it can be independently monitored by a professional in the form of a life insurance policy management statement over time.

HARNESSING EXPERIENCE TO SHIFT THE INDUSTRY

At Valmark, we believe we are uniquely positioned to transform how insurance products are offered because of the collective experience of our internal teams and the professionals we work with. The average insurance experience of our approximately 120 independently owned firms and internal experts in dealing with life insurance companies and policies is 20+ years. Together as an organization, we have helped Valmark firms place \$43 billion of in-force death benefits with approximately \$6.25 billion of cash value. Collectively, these policies been placed with five dozen or more insurance companies over five decades.

In any endeavor, there are always more important lessons learned by the things that did not work out, than by those that did. In our experience, while there were tens of thousands of policies that worked as expected for clients, important lessons were learned by those that failed to meet client expectations.

“There are three methods by which we may learn wisdom: first, by reflection, which is noblest; second, by imitation, which is easiest; and third by experience, which is the bitterest.” —CONFUCIUS

Confucius said there are three methods by which we may learn wisdom: first, by reflection, which is noblest; second, by imitation, which is easiest; and third by experience, which is the bitterest. LA

360™ is about harnessing that experience and collective wisdom and about working with a vanguard of firms that are truly passionate about transforming the customer experience.

HOW THE LIFE INSURANCE INDUSTRY GOT TO THIS POINT

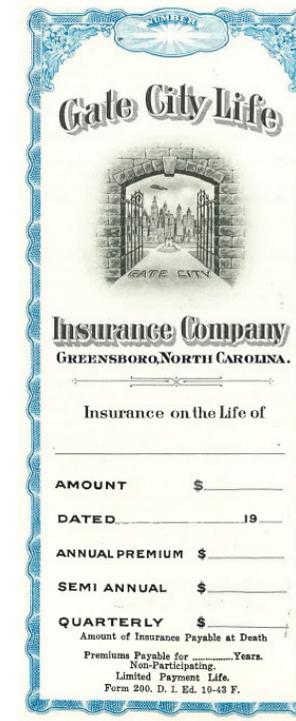


FIGURE 3

Over the last 53 years, we have seen the life insurance business change drastically; some insurance carriers have left the business, some have merged with others, and some have failed and gone into rehabilitation or receivership. Amidst all of this, we even saw new carriers enter the market. When my father started Valmark's predecessor company, Executive Insurance Agency, in 1963, there was only one kind of permanent life insurance: Whole Life. Every company offered it and there were minor variations in the contract (see Figure 3).

Whole Life was a product type conceived in the mid-1800s that had been virtually unchanged, and its standardized design fit a completely paper-based, recordkeeping industry. Because all companies sold a standardized version of the product, the industry shared a standard set of reserves, operating mechanisms, contractual provisions and procedures. Like Henry Ford, “You could have any color as long as it was black.” Figure 3 is an example of the standardized nature of the product. The only customization was typing in the client's name and multiplying the amount of the death benefit and premium by a factor for that client's age. In 1963, there was no such thing as independent distribution. Every agent started with, and was tied to, a career life company and learned and memorized a canned sales talk that articulated why their company was best.

PRODUCT COMPLEXITY OUTPACES SYSTEMS AND PRACTICES

In the 1970s, the first product innovations in Universal Life were introduced, which “unbundled” some of Whole Life’s inflexible features and gave consumers greater latitude in how to fund policies and receive benefits. Mainframe computers and systems technology in home offices allowed companies to innovate and create systems to bill different amounts of premium for individual policies. Later, a few companies created a more dramatic offering by introducing Variable Life products, comprising both securities and life insurance products, where the client could choose where to invest his or her cash. These products were considered securities, requiring securities licensing and filing of prospectuses with the SEC.

“While more choice for clients is generally a good thing, on the other end, it introduces a heightened level of complexity that makes it increasingly difficult for consumers and agents to accurately compare and assess policies.”

Product evolution continued with the advent of personal computers in the 1980’s, which allowed agents to illustrate how products would work under a variety of assumptions, including funding patterns and economic conditions. Today, we have at least one dozen different types of insurance policies with dozens of variations of each type issued by several different companies. While more choice for clients is generally a good thing, on the other end, it introduces a heightened level of complexity that makes it increasingly difficult for consumers and agents to accurately compare and assess policies. It also greatly increases the complexity for agents to track and service several generations of products from a dozen or more carriers.

The standards, education and systems around life insurance, plus increasingly diverse and complex products, have not kept up with the demands that these products require. The licensing requirements that were put in place to sell a single, simple Whole Life product have not substantially changed since the 1940’s. No formal education is required to obtain a life insurance license. In most states, 40 hours of online or classroom training at a local hotel, followed by a simple test, are all that is required to sell life insurance. State insurance

regulation assumes that companies will “supervise” sales of their products. However, if an agent claims to be independent and is “comparing” products, there is little to no regulation or standards on how this comparison can or should be done. It also leaves real questions as to whether any of the companies that the agent works with is responsible for supervising his or her work.

By comparison to the 40 hours required to give critical financial advice, anyone wishing to be a barber must go through at least three months of training and demonstrate proficiency in cutting hair; this in spite of the fact that bad haircuts grow back!

There has long been a misperception that life insurance is a “simple financial product with few moving pieces.” While this may be true for some life insurance products, like Term Insurance, it is not true of various forms of cash value life insurance.

“The licensing requirements that were put in place to sell a single, simple Whole Life product have not substantially changed since the 1940’s. Regulations require barbers to demonstrate more proficiency than those giving critical financial advice.”

Life insurance products today allow custom design for the individual client. The client’s age, health condition, life expectancy, earnings pattern and individual propensity for risk allow for a very wide range of appropriate recommendations that must be customized, based on that client’s needs. The life insurance contracts with these customized parameters result in the most complex financial products we offer as a firm. The very low levels of requirements for state licensing are at odds with this level of complexity in the products and timeframe the average client is expected to hold the asset. This, again, reinforces the need for a consistent advisory-based process for designing, underwriting, and managing life insurance contracts for the long term.

REGULATION ONLY ADDRESSES SALES

The regulation of life insurance also places very little responsibility on the agent or the company after the policy is delivered. This light transactional regulation by the state insurance regulator is focused on

the time of sale and does not address who is responsible for managing these products after they are issued. This type of regulation may have made sense with standardized, inflexible Whole Life policies sold in a paper file-based world, but not today. In practice, there is often very limited communication by the agent or the company on how changes in interest rates, internal charges or changes in premium payment will impact the policy. With some companies, the client is passed from agent to agent as an “orphan policy” because life insurance companies often prevent those who wish to be independent from continuing to service their policies when they leave a career company. In other cases, an agent retires, and their in-force policies are left behind. Such circumstances create an orphan policy mentality and a complete absence of advice continuity. An essential element of the LA360™ vision is to fill this void, and go above the minimum state standards, with a clear commitment to clients to monitor their policies on an ongoing basis.

Life insurance is a financial product that is held for a very long term relative to other financial products, and is highly personalized and dependent on future economic assumptions and funding patterns by the client. The computer-generated illustrations and projections of economic assumptions and policyholder funding patterns are completely linear. One thing we can be certain of is that these linear assumptions will be wrong as most of the underlying assumptions will change over the life of a policy. This book seeks to help consumers of insurance products and their advisors make educated decisions based on how these policies will work over time, not just on the day the policy is delivered.

At Valmark we have had the benefit of seeing how and if the policies sold in the 1960s, ‘70s, ‘80s and ‘90s worked, or did not work, for clients. Some of the agents who started with my father in Cleveland, Ohio in 1963 are today still serving clients and the policies they purchased through them years ago. Because of some of the suboptimal experiences we have seen, we are introducing new context, as change agents, on how and why the life insurance buying experience must change in order to meet clients’ needs.

“Good policy design must always start with a base level assessment of the economic return in the financial instruments that back the product in question.”

Over the last 54 years, we have witnessed several business cycles, including times when short-term money market rates were paying 15%, and times like today where it is hard to find a five-year CD that pays even 3%. We have seen times when equities were booming with double digit returns and times of extreme volatility when equities dropped 30% in a week. Any policy projection is a computer model of what the underlying bonds and mortgages (or equities, in the case of separate account products) will return over time, less contractual fees. Changes in the yield of underlying instruments must impact the policies in question. Life insurance companies that are investing in 3% bonds can no more turn this into a 6% or 7% financial instrument than alchemists could turn base metals into gold. Good policy design must always start with a base level assessment of the economic return in the financial instruments that back the product in question.

MATCHING EXPERIENCED MEMBERS WITH SUPERIOR SYSTEMS

Valmark only works with established independent firms, whose owners and advisors have survived the brutal process that weeds out 85% who enter the business. Our minimum gross revenue standards and the costs of running an independent office mean we are working only with firms that are in the top 1–3% of their profession. We also require that they obtain and keep in good standing securities licensing through Valmark Securities, the broker-dealer that holds their licensing and supervises any variable product sales.

Most of our firms have been serving clients for decades and were attracted to Valmark because our business model allows them to serve their clients better, across multiple insurance companies and product types, without the restrictions and quotas that career companies often impose or some of the requirements they have to sell proprietary products. We have attracted a group of professionals who have perfected their craft by experience and who wish to work

collaboratively to build something better for their clients than each of them could do on their own.

Valmark is now a company whose value proposition goes far beyond just life insurance. Our affiliated asset management company, Valmark Advisors, manages close to \$6 billion in assets (some for life insurance companies). In addition to supervising variable products, our broker-dealer assists with corporate retirement plans for over a thousand companies.

Our commitment to improving the process of designing, underwriting, monitoring and managing life insurance policies is not just something we do for our clients...it is something we have invested in at our own company. Valmark and its shareholders invest over \$600,000 a year in premiums to fund approximately two dozen policies that are essential for our own business continuation, key person insurance and non-qualified benefits funding for our key people. This demonstrates that we not only believe in the products and process we recommend to clients, we employ them as key instruments in our own planning. This is the essence of the renowned “Golden Rule,” which has been the cornerstone of Valmark’s philosophy for over half a century, acting as a guide for every business decision and dealing we encounter.

CONCLUSION

The commitment to building a business around making Life Insurance 10X better for clients puts us on a road of continuous changes and improvements in everything we do. The development of the LA360™ tablet-based technology, the perfecting of unique ways to underwrite large policies on older individuals, the creation of a separately capitalized policy management company (The Valmark Policy Management Company), and the compilation of downloaded data from many of our carriers with our systems, all represent achievements within that journey. But we have not arrived at our destination. This book recognizes the huge milestones we have traveled in making life insurance a transformative experience for clients who buy it, but it is also meant to be a call to action for insurance advisors who really want to transform an industry to continue to make the experience ten times (10X) better for their clients.

- 1 "Price of Taxi Medallions Falls to Lowest Level of 21st Century Amid Uber Lyft Competition." *Market Watch*. April 2017.
- 2 "Flywheel Gives Taxis New Ammunition in Fight Against Uber." *Fortune*. April 2015.
- 3 "Can a Smartphone App Save the Taxi Industry from Uber?" *The Daily Dot*. May 2016.