

The Missing Broker-Dealer Puzzle Piece: **Inforce Policy Management**



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Life insurance policies represent both opportunity and risk for Broker-Dealers (BD). Life insurance can provide additional sales revenue and ongoing commission, establish deeper relationships with their policyowners, and prevent inroads to a client by competitors. Business models involving dual registrations (BD/RIA) have an avenue to increased AUM via policy cash value, and eventual death benefits.

However, life insurance products are complex requiring specialized knowledge to grasp the complexities and nuances of the unique tax provisions and pitfalls. The most daunting aspect to a BD is the increasingly hostile and fragmented regulatory environment of policy sales and service. While BDs have established processes to manage the sales aspects, they've traditionally been out of the loop after the sale. With emerging Best Interest standards from federal and state securities and life insurance regulatory bodies, failure to have established service standards exposes BDs to risk.

Conflicting Regulations Make It Difficult To See A Clear Path

BDs face a complex, multifaceted compliance environment when also engaged in life insurance and annuity sales. The SEC, FINRA, state securities regulators, state insurance departments, the Department of Labor...even the CFP® code all lay out rules that create compliance obligations and liability exposure. The obligation can even morph based upon how a Registered Representative (Reps) positions their services and commitments. For example, a voluntary review of VUL cash value holdings may not constitute account monitoring, but it could be considered account monitoring if the RR commits to continued monitoring of

the holdings to the client in correspondence in an effort to win the client's business.

More states pursuing their own conduct standards due to perceived inadequacies in the SEC Regulation Best Interest standard, making compliance difficult for life insurance and annuity sales. With the inevitable unaddressed scenarios and gray areas, the potential for conflicting requirements is high and easily confusing to Reps who occasionally utilize insurance solutions. However, standardized service can help reduce compliance costs and liability exposure.





Impracticality of Managing to Minimum Requirements

While regulatory edicts may have geographic or activity related boundaries, client interactions simply don't. A BD could attempt to craft a compliance system that meets the minimum required standards for every conceivable client interaction. However, that creates operation and compliance inefficiencies as the standards change as the client fact and interaction pattern changes.

In addition, it may create ammunition for lawsuits if the Rep handles a client with exacting care and discipline in one engagement falling under a Best Interest standard but acts without similar regard in a different interaction with the same client. This also has great potential to create a rift in the client relationship. The client experience

in such an environment is likely to be unappetizing at best...infuriating at worst. No Rep wants to risk a client relationship over an insurance transaction. A fragmented compliance approach can easily scuttle the adoption of insurance and annuity solutions by Registered Reps.

The practical solution is manage to the highest standard so a BD has a cohesive client experience, achieves operational efficiencies, and mitigates conduct or process related risks. Leveraging technology that is designed for the unique world of life insurance and annuities is the only practical way to meet such standards and ensure a favorable client experience.

The Life Insurance and Annuity Client Service Gap

Service of life insurance and annuity policies has been historically challenging. Antiquated carrier policy administration systems, inconsistency of data access, multi-carrier client holdings, administrative details mired in contract language interpretation, and agent appointment terminations for lack of production create a challenging service environment. Lack of quality carrier product training and the challenging prospects of remembering nuances of product mechanics years or decades down the road further exacerbate the service gap. BDs didn't create the gap, but clients believe it's the

responsibility of the BD to fix it for products that were bought at the behest of a Rep.

Simple misunderstandings can quickly snowball to formal complaints. Beyond the risk of souring a hard-earned client relationship, complexities of life insurance products as well as the unique tax characteristics create a need for service and management. Managing client expectations and ensuring documented communication is instrumental to building and maintaining a defensible position in a fragmented regulatory environment.

BDs need access to accurate, timely and insightful information to meet today's compliance and client expectations. Surfing carrier websites searching in vain for information, waiting on paper statements, and listening to carrier call center hold music isn't a recipe for success in today's world.

Insurance service systems are notoriously paper driven and labor intensive, yet clients expect...and often demand...a digital experience. Technology providing the feel of a high touch yet digital experience without high labor costs can be invaluable to BDs. Technology can streamline secure, centralized storage of client documents

for regulatory and service purposes. Household portfolio level insurance reporting similar to securities holdings can be achieved. Automated information requests and tracking saves time and money. Standardized reporting ensures Reps and clients stay adequately informed. It can aid in meeting best interest standards as Reps provide advice and recommendations on existing insurance policies while demonstrating efforts to support and service clients. With the integration of insurance and annuity products into many retirement, long term care, estate, and wealth transfer strategies, they simply must be properly serviced and maintained.

Obligations Turned Into Opportunities

Holistic client wealth management simply can't ignore life insurance with its frequent utilization in client planning. However, lack of timely, quality, easily accessible policy information continues to frustrate BDs dealing with the insurance world. Fortunately, technology can help ease the irritation while turning regulatory obligations into opportunities on multiple fronts.

Clients don't draw distinct relationship lines by a product. A Rep referral to an insurance arm of an entity doesn't end the obligation of the Rep in the mind of the client because the purchase was a fixed life or annuity product rather than a variable product. The relationship gets colored by what happens with the policy too in the mind of the client.

Many of today's Guaranteed Universal Life and guaranteed

death benefit VUL policies are extremely sensitive to premium timing that advisors or clients won't infer from a reading of the contract or the illustration. Allocation changes can eliminate a death benefit guarantee or dramatically increase the cost of it.

Whole life and universal life policies continue to suffer from poor dividend and interest earnings. Corrective action may be advisable and often more efficiently achieved with early intervention.

Carrier mergers and acquisitions as well as inforce rate actions may also harm inforce policyholders. Whether actual under regulatory/legal standards or client inferred, service expectations for life insurance exist. Failure to deliver will impact the relationship.





Managing expectations of product performance and consequences of client choices (i.e. skip a premium or extract cash value) is critical to client satisfaction. Technology can help quickly identify at-risk policies and help avoid unwanted surprises for clients. Proactive identification of affected policies enables communications of risks and managing of expectations.

With any book of inforce policies, revenue generating opportunities that are in a client's best interests often exist. Clients may choose to execute term conversations or take advantage of improved pricing over an existing policy. Client objectives or risk tolerance may change

as well making a policy with strong guarantees more desirable. Execution of premium refund features may be advisable. Systems are needed to identify these opportunities so clients may choose actions that align with the current needs and financial resources.

Revenue opportunity identification becomes more important as fee compression continues in the investment world. Helping Reps understand these opportunities within their books of business helps attract and retain Reps. A well serviced client family can also help relationships transition from one generation to the next and ward off competitors.

Overlooked No More

Management of inforce insurance products simply can't be ignored in the current regulatory environment. It requires thoughtful, coordinated, and efficient processes and systems. Broker Dealers who fail to recognize this reality put themselves at risk of compliance violations and relationship strain for Reps and their clients.

Active monitoring of policies can also mitigate the risk of policy mishaps that threaten the entire client relationship. Astute BDs will recognize the opportunity to achieve compliance, operational efficiencies, new revenue sources, and a better client experience by embracing technology for inforce policy management.

About the Author - Kristie Beck

Kris Beck is the Chief Executive Officer at Proformex, an inforce policy management platform for the life insurance industry. Kris believes in the value of Proformex to protect the investment that hundreds of millions of Americans make in life insurance to protect families and grow wealth.

About Proformex

Proformex is the leading inforce management platform offering data aggregation, analytics, and portfolio monitoring for life insurance and annuities. The platform is purpose-built to help independent life insurance and advisory firms protect their clients' best interest and ensure regulatory compliance by monitoring individual policy performance, identifying at-risk policies, and uncovering new sales opportunities. Our automated solutions make inforce management more efficient, more profitable, and results in better experiences for policy owners.



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