Life lessons

"RIA once said, 'I didn't think the company ratings matter'... Now, he is just trying to NOT have a conversation with his clients."

While I have never sold or endorsed any company or product, I have heard many a tale from the front lines. I wanted to take the time to share with you some lessons learned in life insurance, by friends and colleagues.

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Competitive ENLGs result in MIA TPAs

A long-time career agency owner that I know, has an entire book of business that he wrote using the nation's most competitive extended no lapse guarantee (ENLG) life product ever developed; an indexed universal life (IUL) contract. The product had the lowest guaranteed premiums in the nation at the time it was marketed. It was a slam-dunk, term-to-120 sale with super-low premiums for permanent cash value life insurance. All that had to happen was that the policyowners had to pay the exact premium amount required, on time, as illustrated. Remember that.

Nearly a decade after the product first hit the streets, who would have known that insurance company would sell to one company, who would then sell to another, who would then sell to another, who would sub-out their policy administration services to a Third-Party Administrator (TPA)? And who could have EVER conceived that the TPA would have problems such as products being "suspended" for nearly five years, policyowners not receiving annual statements or premium notices for just as long, and dividends actually disappearing off of their policies? While the insurance company has been manually "fixing" the GULs that had premiums paid a great many years later, there are also policyholders that received astounding premium notices of many years' insurance premiums being paid all-at-once, years later. Can you imagine being an agent, and having those kinds of conversations with clients?

Hot MYGA rates lead to tough conversations

A friend of mine that is an RIA, recently contacted me about a notice he received about an insurance company going through the receivership process. Insurance companies being at risk of becoming insolvent happens so infrequently; I am certain it was this young man's first experience hearing about such an unfortunate event. Over the course of the conversation, his questions became increasingly specific, and worrisome. He asked about what is involved in the process, and how the policyholders were able to access their money. When I asked why he was so worried, he responded that he had sold multiple annuities with the company that had been taken under control by insurance regulators. He wasn't sure what to tell his clients. One of the policyowners was needing access to his policy values, but I had to explain that there was a six-month moratorium on receiving access to annuity funds due to the receivership process.

"Those multi-year guaranteed annuities they offered had the best rates in the country though!" he remarked, "I didn't think the company ratings mattered!" Now, he is just trying to NOT have a conversation with his clients and praying the insurance company is acquired before he has to meet with the annuity purchasers again.

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Low cost UL ends-up costing big on the back end

When I worked on a sales desk, there was a company that I always lost sales to for their low-cost death benefits. ALWAYS. I could not win a stinking case against this insurer; they were highly rated, established, and had great financials in addition to fantastic marketing/brand recognition. And oh- the death benefit solves! For years, each time an agent would tell me that they were in competition against this European-owned company, I would coil. Eventually, I moved into a product development role, and I no longer had to experience the feeling of personal loss due to a futile attempt to compete with this behemoth.

Close to a year ago, a national news article reported that the aforementioned company settled a class action lawsuit, affecting 70,000 UL policyholders, for increasing inforce cost of insurance (COI) rates- as much as 38%. To date, the company has been involved in numerous lawsuits regarding their increases in COI rates.

The takeaways

I don't have all the answers. How would I have suggested the first vignette have been avoided? I don't know- I actually bought many of those same insurance policies myself. As for the lesser-rated insurer's MYGA, I have intentionally purchased products from companies that are rated less than an "A" with A.M. Best. As for the final "lesson," I don't know that anyone could have anticipated what would have happened with this life insurance company? Every case is different.

However, two things stand-out to me, after hearing all these experiences:

If it looks too good to be true, it probably is.

- **Translation:** if a product is SO MUCH MORE competitive than everyone else's product, the insurance company will have to be made whole eventually.

We can all benefit from the wisdom and experiences of those who have served before us.

Translation: share your knowledge, and mentor others, so that the industry is better-off for it, and uncomfortable conversations can be avoided.

"If a product is SO MUCH MORE competitive than others, the insurance company will have to be made whole eventually."