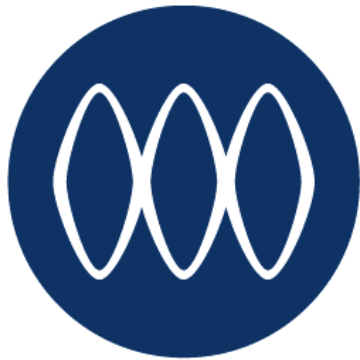


A MILLIMAN GLOBAL FIRM



Milliman

Consultants and Actuaries

**Trends in Life Distribution- A View
from the Field**

Doug Bennett-Milliman

Milliman Research

- | Surveys
 - Producer Priorities and Issues
 - Individual Life Marketing Environment Survey
 - | Producers
 - | Home Office Executives
- | Focus Groups
- | Participation on Compensation Design Teams



A Little Background

- I Two basic type of producers
 - Those with “primary” company relationship
 - I And multiple “secondary” relationships if not exclusive with “primary”
 - Those with no “primary” company relationship
 - Needs and priorities differ significantly



A Little Background

I Definitions

– Primary Relationship:

- I Company that producer prefers to do business with in typical sales situations; majority of producer's business goes to this company.

– Secondary Relationship

- I One of several companies producer turns to in specific circumstances when cannot (or chooses not) to do business with primary company.



Reasons for Using Secondary Relationships

- | More liberal underwriting of substandard risks.
- | Desired products, features, or compensation not available from primary company.
- | Low cost term insurance
- | Competitive comparison of several companies' product features and performance



Producer Expectations of Primary Relationship

It is not all about compensation

Well, at least not completely



Producer Expectations of Primary Relationship

- I Ease of Doing Business
 - Low hassle factor
- I Product
 - Breadth and quality of portfolio
- I Underwriting
- I Compensation



Producer Expectations of Primary Relationship

It has been our experience that 99% of what matters to an agent falls into one of these four categories.



The Individual Life Marketing Environment: Interview with Producers

- I Internal Milliman study
- I 11 In Depth Interviews
 - Sample too small to extrapolate to the whole industry
 - Even so, informative when combined with prior experience
 - Both independent and producers with a “primary” company
 - Generally upper income markets



Trends and Markets

- | Uncertainty about tax environment
 - Sales activity “frozen”
 - Especially survivorship
- | Dramatic surge in no-lapse guarantee products
 - Declines in variable products
 - Expansion of UL (with 2nd guarantees)
 - Term



Trends and Markets

- | Variable decline could be reversed with:
 - Return of strong market
 - Strong product guarantees



Trends and Markets

Consumer

- Continue to be driven by producer
- Wary of life insurance per se
- But strong, and possibly increasing interest in specific solutions life insurance offers
- Producer has to demonstrate solution



Trends and Markets

Consumer

Don't see trend toward accumulation products

- Strong term sales
- No lapse guarantee – 'No cash value'



Trends and Markets

Consumer

Is product is being turned into a commodity?

- Term, “No question”
- No lapse guarantee UL on its way to being a commodity
- But still believe that in their markets they drive the sale



Trends and Markets

Company responses

- Fierce competition
 - | Term
 - | No lapse guarantee UL



Trends and Markets

Consumers are becoming more
conservative

- or more realistic ...



Product

- | No significant unmet needs
- | Multiple benefit products
 - Little experience
 - Some consumer interest
 - But producers perceive them to be more experience
- | Majority dismissed critical illness as not appropriate for their markets



Service and Support

What are positive company trends?

- Innovative
- Guarantees
- Quality, perceived as fair
- Compensation rarely mentioned



Service and Support

Confirmed importance of carrier support

- “can be more important than product”



Service and Support

Confirmed importance of carrier support –disagree on trend

- Some believe it is getting better
- Others see it deteriorating because of cost cutting



Service and Support

Confirmed importance of carrier support – disagree on trend

- One respondent thinks carriers supporting the independent distribution at the level career companies traditionally provide their agents



The Individual Life Marketing Environment: Marketing Executives

- | Internal Milliman study
- | 8 In Depth Interviews
 - Sample to small to extrapolate to the whole industry
 - Even so, informative when combined with prior experience



Marketing Executives

- I Different opinions
 - Think older consumers are losing interest in life coverage, “viatification”
 - Hardening of reinsurance market
 - Mixed opinion on increasing demand
 - Significant concern about declining number of producers
 - Agree solutions offered by insurance is important but give credit to new professions now selling insurance



Marketing Executives

Product Profitability

- Mixed though most said there is a problem
- Rising reinsurance costs
- Companies getting out – evidence there is a problem



Marketing Executives

Product

- Innovation can only be sort term edge
- Companies have to add value elsewhere
- Tradition whole life is declining



Marketing Executives

Unmet Needs

- Payout annuities
 - | Might not be a product issue but rather financial planning
- Multi-benefit
 - | LTC
 - | Critical illness
 - | Generally don't fully embrace



Marketing Executives

Carrier Support

- Viewed a differentiator
 - | Most think it needs to improve
- Technology
 - | Allow a centralized wholesaler approach
- Try to make the agent's life simpler



Marketing Executives

Other

- Corporate governance
 - | Field compliance is primary risk management concern
 - | The cost
 - | Careful companies probably have been impacted very little
- Mergers, fewer players
 - | Redefine competition

