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Take Stock of Your Clients' Life Insurance Portfolio

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New shift in life insurance portfolio management has advisors adopting a fresh approach to their business, while tapping into new tools and resources.

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An evolutionary shift, currently underway within the life insurance industry, stands to have a significant impact on the manufacture and distribution of products, while enhancing results for financial advisors and their clients.

In order to maximize their effectiveness within this new environment, advisors are adopting a fresh approach to their business, while tapping into new tools and resources. This movement toward Life Insurance Portfolio Management is transferring life insurance policies into the realm of transactional assets, and out of the long-held mold in which clients tended to give very little thought to a particular policy once they had completed the task of purchasing it. As such, Life Insurance Portfolio Management is creating a new framework for fee income, market differentiation, information exchange and strengthened client relationships.

Toward a New Management Model

If it is difficult to envision life insurance as a transactional asset that is managed within a portfolio, think back to how investments were sold just a few decades ago — before mutual funds, before 401(k)s and IRAs, before standardized performance reporting, third-party information resources, and just about everything that is now taken for granted in the investment business. Stockbrokers used to sell investments. Now, advisors sell "investment services," based on a set of predefined parameters and an assumption that adjustments will be made to the portfolio as economic and market conditions change, new opportunities arise, and client needs change.

A similar mix of market and regulatory forces that reshaped the investment business are now at work within the life insurance business. Key among them:

A growing awareness that the tremendous volume of capital tied up in insurance policies can represent missed opportunities. Life insurance policies constitute the largest pool of unmanaged consumer capital in the entire financial services industry – amounting to cash value accounts of more than 200 million in-force life insurance policies, which total more than $3 trillion of unmanaged, invested assets. By contrast, within the $6 trillion mutual fund business, there is a vast array of research, services and support designed to help investors to maximize opportunities and understand their options. It is inevitable, given the size of the market, that life insurance assets will soon become subject to a similar level of scrutiny.

The introduction of "investment grade" life insurance products. Generally speaking universal life has been marketed to policyholders during times of high interest rates. Due to declining interest rates on Universal Life products and uncertain market performance for market-correlated products, portfolios need to be actively tracked and managed according to clients' needs and expectations.

The emergence of an official life settlement secondary market. Clients now have unprecedented opportunities to sell insurance policies that no longer suit their needs, in order to "trade" into a more appropriate insurance product holding.

The emergence of new service providers. The potential for Life Insurance Portfolio Management is fueled by a range of dynamic portfolio administration, measurement and management tools to include:

Third-Party Administrators like Insurance Trust Monitor, Resource Insurance Consultants and TrustBuilder (to name a few) who offer record-keeping services to assist advisors in the monitoring of policy holdings;

Publishers of performance data for invested assets underlying policy cash values like Ebix and Morningstar allowing advisors to set more realistic expectations as to the role of a given policy holding within the overall portfolio;

Publishers of insurance product research like TheInsuranceAdvisor.com empowering advisors to measure and/or justify policy expenses and determine and document product suitability based on both quantitative and qualitative factors;

Anticipating Market Resistance

Convincing clients of the opportunities inherent in Life Insurance Portfolio Management depends, in large part, on how it is positioned. Keep in mind that many clients might be suspect of, "The Next Big Thing."

A few decades ago, the government came out with a study that led many to the conclusion that whole life insurance was a bad investment. This sparked an industry-wide campaign to replace whole life policies with Universal Life policies.

Clients and their advisors are now confronting the realities of UL policies that were projected out for 30 years, even though rates were never guaranteed.

Nevertheless, the solution is not a new product. Life Insurance Portfolio Management is a process – one that helps identify objectives and employs new tools to optimize opportunities and enhance the exchange of information.

This new approach calls for a renewed commitment to current clients, as well as a means to measure and report on various facets of insurance costs and rates or return against industry benchmarks. It's also critical to have broad market access to a wide range of insurance products and lifetime settlement companies.

Broad Base of Benefits

Life Insurance Portfolio Management sets the stage for a high level of strategic differentiation for agents and advisors. It is a practice that builds confidence among clients and employs objective processes that mitigate against commoditization. In short, Life Insurance Portfolio Management builds trust, builds bridges and builds business.

Life Insurance Portfolio Management: A Five-Step Process

Based on a disciplined and objective process, Life Insurance Portfolio Management consists of the following five functions:

Define portfolio objectives.
Measure portfolio pricing and performance.
Identify strengths and weaknesses of products in the portfolio.
Investigate available insurance or investment product alternatives if necessary.
Make changes if needed to maximize benefits and minimize costs. If no adjustments are warranted, determine parameters for tracking.

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