



Business Learning By Dan

Understanding Our Members' Businesses: Life Insurance

By Dan Topf*, CPT

"I don't know what's going on!"

The life insurance business is a bit of a mystery, after all. I mean, when a life insurance company employee attends a family event and her cousin's brother-in-law asks what she does for a living, can she clearly describe what she does? Or, does she say "I work at XYZ Insurance" and then comment on her aunt's seven layer salad?

What is going on in a life insurance company? And more importantly, how can we understand it enough to fluently discuss it with confidence, align our training programs to drive performance, and avoid scaring away our relatives.

First, let's talk about how a life insurance company makes money. Insurers take in cash from customers for life insurance premiums or deposits for products such as annuities. This money coming from customers is then invested in various types of assets, such as stocks and bonds. The insurance company considers these as "Assets Under Management" as it is obligated to return some of this money to the customer when they die or retire. This obligation is represented by the company's life insurance and policyholders reserves/accounts.

The insurance company is counting on the investment income from the assets under management to provide profits to the company. It's common that net investment income is 30% to 40% of a life insurer's net income (profit). Without investment income the insurer would clearly be unprofitable. For many products (such as annuities) the insurer guarantees some kind of return to its customers on the assets deposited with the company. Therefore, the company only earns the interest rate spread on the assets under management. Therefore, if the company earns 5% on its investments but guarantees the customer 4% it earns a net of 1% spread on those assets. This spread is often expressed as basis points which are 1/100th of a percent (1% is 100 basis points). In today's markets, life insurance companies are likely earning 50-100 basis points depending on the product. Perhaps this doesn't sound like much, but life insurers have billions of dollars of assets under management, and it adds up to real money (0.01% of \$1 B is \$100 K!).

Once you understand the unique way life companies make money, consider what's happening in today's markets. First, the investment markets are down--by a lot! So, there are investment losses on the company's books. When the investment returns are less than the guaranteed minimum, the life company still has to make their customers whole and this reduces capital, which puts the company at

risk. When the company’s capital is at risk, the company is perceived as less able to honor its promise to pay a life insurance claim. Further, when the markets are soft, and customers aren’t buying or investing like they used to, there is less revenue to start with. AND, when customers’ investments perform poorly, they’re more likely to take their assets out before their contract is profitable. It’s a perfect storm! To quote Charlie Brown, “AAAAARRRRRGHHHH!”

Enter the training and learning professionals! Yes! There is opportunity for our profession to add real value, but we must be focused. Consider how you can align to these drivers and what training and learning offers the business:

Life Insurance Business Driver	How it matters:	What training and learning can do to help:
Assets Under Management	It’s the basis for the company’s investment income from managing other people’s assets. It’s a big number!	Teach excellent process, sales, investment, and customer service skills for every customer touch point. (Some Life products aren’t profitable until more than 5 years on your books!)
Customer Satisfaction	It correlates to persistency, a key indicator of asset retention and customer satisfaction over the long term.	Teach excellent process, sales, and customer service skills for every customer touch point.
Sales Efficiency and Capacity	Getting new sales and new assets on the books is critical for the growth of the company.	In addition to sales skills, provide support to make your sales organization more efficient (higher close rates) and get more done with less (higher capacity).
Image and Branding	Integrity and promise keeping are core values to the life industry. This enhances customer confidence, sales, and persistency.	Teach brand alignment. What’s it mean to be an employee, customer, stakeholder in your company? What’s unique to your brand promise? Align your skill development, processes, and support to deliver!
Cost Effectiveness	Every dollar saved in sales and service expenditure while growing the business enhances the Assets Under Management.	Teach effective process and procedure, with an eye toward innovation leadership. Facilitate leaders and others to find new ways to enhance process and technology to save big money and enhance customer service.

When you understand what's going on in life insurance, you can better align training and learning to drive real business impact. When we use our skills to improve the performance of service associates, sales people, fund managers, process managers, claims operations, underwriters, and others, we directly impact the business through Assets Under Management, Customer Satisfaction, Sales, Branding and many other ways. It's amazing. You can really make the difference for your life company. You may even enjoy the next family reunion as well. Good luck!

For a "Top Ten List" of ways you can learn more about the Life Insurance business, email Dan today at DanTopf@MDI-Learning.com.

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Topf Ten Ways to Learn More About the Life Insurance Business:

10. Have coffee with your VP of Underwriting, Sales, or Operations to learn which products are most profitable and how training can help.
9. Read your company's 10-K and Annual Report to analyze how you're making money.
8. Complete the LOMA StepOne Series of introductory education on life insurance:
www.loma.org/stepone.asp
7. Attend your company's product training seminars and workshops. Take home the brochures and fact sheets to study.
6. Check into our local University executive and continuing education programs. Drake, Iowa State, and Iowa have robust insurance education offerings.
5. Meet with your personal financial planner. Ask lots of questions about the companies she represents. Ask how one company compares to another in how it does business, keeps its promises, offers differentiated value, etc.
4. Read the rating agencies report on your company. All life companies are rated. Rating agencies include A.M. Best, Standard & Poor's, Fitch, etc. Ask around your company to see the report.
3. Ask your personal financial planner to allow you to attend an employee enrollment/service meeting with a 401(k) or group business client.
2. Subscribe to *The National Underwriter: Life and Health News*, or perhaps read the copy your company already has in the break room. See www.lifeandhealthinsurancenews.com.
1. Contact Dan Topf for a free Life Insurance Simulation seminar for you and your employees. Call 515-292-2602 (Shameless plug!). Really. I'll do it for free!