



Insurance Innovation

Insurance needs to become more flexible to keep up with trends in clients' lives. **James A. Burton** explores the possibilities

If there's one thing the tech industry will never do, it's simply stand still. There's always another developer or programmer pushing the digital envelope, reinventing the best of what has come before, and blowing away customer expectations. Sometimes the advancements come before consumers even understand what those needs are.

The insurance industry could take a page from the technology industry.

Our industry is generally not known to be an early adopter of innovation. Even so, the last half century witnessed some momentous changes: the strategy to buy term and invest the difference gained traction, new money products helped customers capitalize

on soaring interest rates, and universal life added a dimension of flexibility and accountability to the picture. But the adoption of these changes took years and even decades to take hold.

Recently, some advisors have given up on universal life in the face of rising prices driven by continued low interest rates in Canada and around the world. The alternative seems to be a return to the whole life participating policies, but is that the only way forward?

Consumers now expect financial products and services to be more accountable and flexible, and to empower them with guaranteed rights and privileges. Traditional whole life can address the issue of low interest rates. But when rates rise again, as they eventually must, traditional policies don't always offer the flexibility to adjust to markets that consumers expect.

And it's not just about changing consumer expectations. Our population is aging. Banks continue to encroach on the independent distribution system. Robo-advisors are on the horizon. CRM2 is now in place in Canada's investment industry, and the debate is ongoing about advisors' fiduciary duty.

We owe it to our clients to move forward with purpose and to sharpen the best of our learning accrued from years of product development.

Now is the perfect time for the thoughtful introduction of new strategies — to transform our clients' long-term planning and better reflect the way they buy, think, and interact today.

Now is the time for innovation.

We start by asking our clients what they want. Here's what my own firm has found from our research.

Clients want adaptability. The world is changing relentlessly. Clients want to make choices today that allow for all the possibilities of tomorrow. Clients want a plan that can adapt as their life issues and greater investment cycles change. And whether they are hired, fired, married, single, divorced, healthy, choose to travel, or start a new business, they want to elect options within a plan without penalty.

Clients want to be empowered. They want the control — contractually guaranteed — and the means to enable change based on their own timing. Premium hikes to long-term care insurance premiums, announced in 2015, demonstrate how powerless the client can be when companies make unilateral change years after a policy is purchased.

Clients also want control over their cash flow. They want financial products that won't diminish their access to short-term liquidity, so they have access to cash whenever they need it.

Clients want the right and the responsibility to make decisions about their own financial future. They want long-term guarantees, but not to be locked in if circumstances change. What makes an insurance solution accountable? It's the authority to change insurance amounts from single to joint-last-to-die coverage, to change investment strategies, to even stop paying premiums (for disability, job loss, or to allocate funds to an investment opportunity) without losing the coverage.

Over the years, consumers have drifted to term insurance, not only due to the lower cost, but also because it represents a shorter commitment — they're not locked in. But this shift means they are trying to address a long-term need with a short-term solution.

Insurers and advisors understand the reasons why permanent insurance is a better solution for their clients, but is it any wonder that it sometimes gets a bad rap?

Here's a typical story about a client we'll call Sam. He bought an insurance policy in 1996, and like many insurance buyers of permanent coverage at that time, Sam purchased a Level Cost of Insurance minimally funded Universal Life policy.

Seven years later, Sam called his advisor and said, "I just lost my job and need to reduce my expenses immediately. What are my options with that insurance policy you sold me?"

His advisor's answer was unequivocal. "You continue to pay the premium, you have the coverage. You don't pay the premium, you don't have the coverage," he told Sam.

Sam's reply: "When I bought this, I understood this was a longer-term planning strategy and something we wanted to have for my family and estate. But if I had bought the term coverage I would have paid significantly less premiums and at the end of the day, I would have had the same thing, right? Absolutely nothing. So, tell me. Why was this strategy right for me?"

The truth is Sam and his advisor picked the right strategy for his lifelong need. However, his circumstances seven years later put him in an awkward position. What Sam really needed — and what is needed today — is a policy with the liquidity to allow him to stop paying premiums for a period of time and still maintain his coverage.

It's time for a *hybrid* life insurance solution, custom fit to the client.

Just as permanent and term coverages are routinely combined in one overall solution, we can also combine the best features of traditional whole life and universal life to create a new form of insurance.

Up until now, clients have had to choose "either/or" when it came to a permanent solution, but what they really deserve is "both/and." Rather than rigid planning and even more rigid products, it's time for a changed conversation to which clients can easily relate.

When the tech industry discovered the benefits of "both/and," it led to its greatest success: the smartphone. A whole new world of social media, e-commerce, and connectivity has been opened up to consumers through the digital devices they carry in their pockets.

By their very nature, insurance products are long term. When the commitment can last a lifetime, it's difficult for advisors and clients to try new policies on for size. And it's not as easy to discard, replace, and update insurance coverage as it is with a smartphone.

But in today's changing world, the insurance industry stands still at its own peril. We can move forward decisively by changing our client conversations and adopting a fresh approach to planning that recognizes our lives are not linear. These days, we rarely retire at age 65 or die at life expectancy.

We now have the potential to create a transformed criterion for product suitability. Our products should meet and exceed our clients' needs by offering the multiple benefits of "both/and," rather than forcing them into the limitations of "either/or."

A hybrid solution allows for a more consultative and inclusive approach to planning. Welcome to real innovation in insurance. 🌐

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