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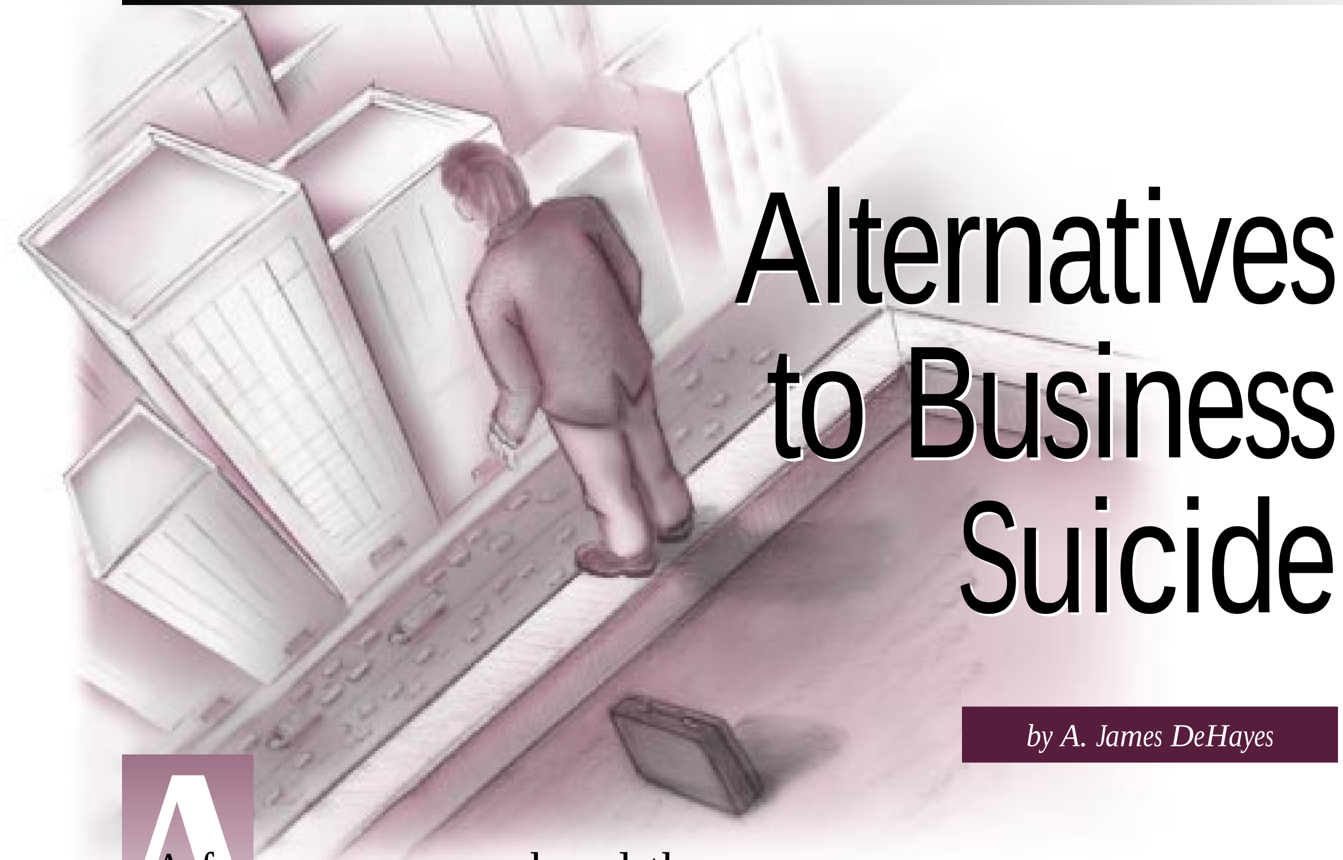

Alternatives to Business Suicide

by A. James DeHayes

A few years ago we heard the bizarre story of a suicide attempt that should have failed but succeeded in a most unlikely way. Here is how it happened:

A man jumped off a ten-story building with the obvious intent to kill himself. Unknown to the man, there was a safety net that wrapped around the entire building so he probably would have lived except for one thing: on his way down he was killed by a shotgun blast.

It turned out his mother had disowned him several years ago and he was devastated and angry. The man was aware that his stepfather often intimidated his mother during arguments by pointing an unloaded gun at her. Without the couple's knowledge, the son had entered their apartment and loaded the gun, knowing the couple's next argument would be fatal for his mother.

Several weeks passed without incident. Despondent over his failure to successfully engineer his mother's murder, the man proceeded to jump from the roof of the apartment building. As he fell past the ninth floor, the couple were in the midst of an argument. The stepfather aimed the gun at his wife and pulled the trigger. The blast missed her, went out the window and hit the son as he was falling[1]. It seemed to be a case of a death wish that refused to be denied.

While life insurance executives are not yet jumping off buildings or loading guns that might be fired in their direction, some are displaying alarmingly suicidal tendencies in the face of old and new challenges confronting the industry today. This edition of *The Senior Executive* takes a look at these challenges and some of the tendencies that can be fatal for companies. It then identifies some attitudes and responses that can transform these challenges into opportunities.

Challenges

The array of challenges confronting life insurers today is truly daunting. The perennial problem of recruiting and retaining high-quality agents and providing competitive products on a profitable basis has been exacerbated by recent developments.

Seemingly overnight, companies are watching as their "old ways" of doing business are being challenged. It is clear that the public, the courts, and the regulators are holding company executives accountable for the actions of any agent selling the company's products. This has led to increased costs and tighter procedural controls as management tries to exercise a degree of control that many had never previously contemplated.

One of the pressures involves rapidly accelerating litigation costs in the marketing and claims arena. These costs create financial anxiety, especially when coupled with an increase in compliance issues involving 50 distinct state regulatory bodies. Each state holds a different set of rules and regulations, which results in marketing nightmares for companies expanding their distribution capabilities. Delays involving price adjustments and product features are inevitable when new products are introduced across state boundaries.

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Concern about market conduct has also led regulators to conduct more frequent and more intensive compliance examinations, and in some cases, to take longer than ever to act on proposed new product and rate filings. Unfortunately, recent developments suggest that the wave of litigation on market conduct issues may get worse before it gets better.

Lastly, new technological developments are forcing the retirement of old equipment and systems and making it more costly (at least in the short run) to provide competitive service and sales support. The effect of this change is to increase the volume of business needed to provide the critical mass that will enable a company to operate at a competitive expense ratio.

Suicidal Tendencies

Facing these kinds of challenges, perhaps the most dangerous suicidal tendency is to be paralyzed by pessimism, to hunker down and hope that "this too will pass." In today's competitive, regulatory, and litigious environment, management does not need to jump from a building or load a gun to commit suicide. Simply continuing to do business as usual can be enough. Perhaps the most fatal suicidal action is inaction. Reluctance to try out new strategies, to pilot test new ways of improving training and productivity, of speeding up product development and turnaround times, and reducing costs might have been considered prudent in the past. Today, it can seal a company's doom.

In addition to a reluctance to change past strategies, policies and practices, management is often hesitant to face up to the need for "fresh blood" to carry out new strategies and programs and to inject new vigor into existing operations. Too many executives do not feel comfortable aggressively recruiting the "best and brightest." With the new challenges facing life insurers today, the luxury of feeling comfortable with old ways of doing things and familiar people may have to be sacrificed to ensure survival. In the past, the prudent course of action was to avoid "rocking the boat." In today's environment, the boat that isn't rocked is likely to sink.

Recognize Basic Strengths

Fortunately, life insurers have some basic strengths they can build on in confronting the onslaught of new challenges. If these strengths are recognized and appreciated, they not only can provide a safety net like the one that could have saved our ill-fated suicide victim, but can also provide a foundation for strategies to overcome the negative impact of the new challenges.

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The first of these strengths is the uniqueness of the life insurance product, particularly permanent life insurance with both living benefits and death benefits and its value for estate conservation.

The second is that life insurance has broad appeal. Even though the tax advantages are especially valuable to the affluent, the family security that can be provided by the product is particularly important and valuable to middle income families, a vast market that has become increasingly underserved.

The third strength is that the life insurance agent has proved over the past 15 years of being buffeted by changes in products, tax laws, regulations and investment climate to be remarkably adaptable, resilient and creative. Fifteen years ago, several pundits predicted that 200,000 agents would disappear by 1990. The number has declined, but only from 250,000 to 225,000.

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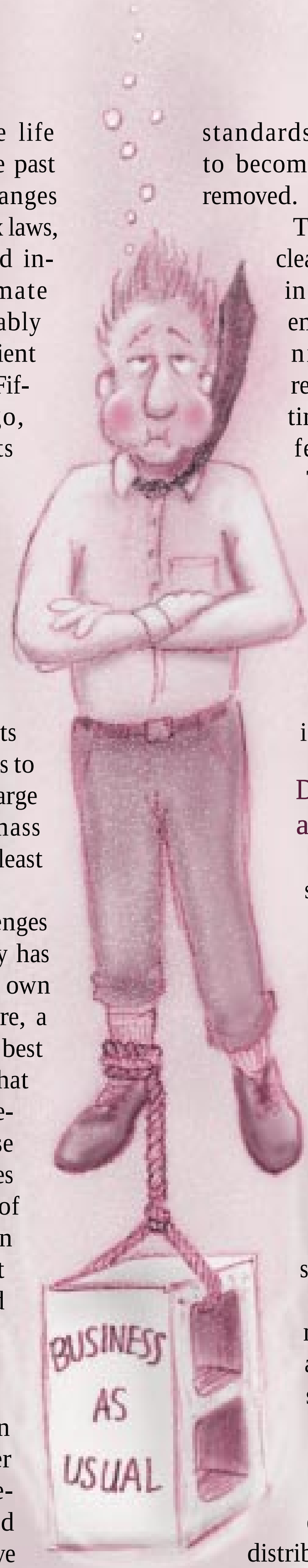
A fourth strength that is available to most companies is a mass of assets substantially in excess of requirements to meet policyholder obligations and large enough to provide the critical mass needed to compete effectively in at least one product line.

Although many of the new challenges affect all life insurers, each company has its special market position and its own strengths and weaknesses. Therefore, a response that is most vital and works best for one company may not be one that works for another. Countless strategic responses are available to those companies willing to face challenges head-on. Specifically, new ways of thinking should be considered in the following areas: Product/market focus and distribution efficiency and effectiveness



Product/Market Focus

Many companies have been successful by not going any further than their own front door. By re-examining their own products and markets with a critical eye, many have eliminated products and product lines that have proved stagnant with performance below acceptable standards. If major investment is necesarry to become competitive, these products are also removed.

The advantage of a thorough house cleaning – brushing aside hidden cobwebs in the hard-to-see places – is the natural emergence of new opportunities. Companies who have tried this method of re-examination now find themselves with time and motivation to concentrate on a few carefully selected target markets. This strategy provides a perfect occasion for management to actively involve their agent field force in product selection and in the program design process. When agents become recognized contributers to the marketing side of selling insurance, management has found that agent morale and enthusiasm increase.

Distribution Efficiency and Effectiveness

Corporate reorganization and downsizing have been a dominant economic theme since the late 1980s. However, many insurance companies have either avoided this route out of fear and misinformation, or have made the leap without sufficient research. Currently, many companies are experiencing success by confronting setbacks in the industry utilizing a step-by-step process of evaluating and restructuring their current distribution system. Initially, a thorough and realistic evaluation is conducted of all existing systems. Options are then identified to strengthen

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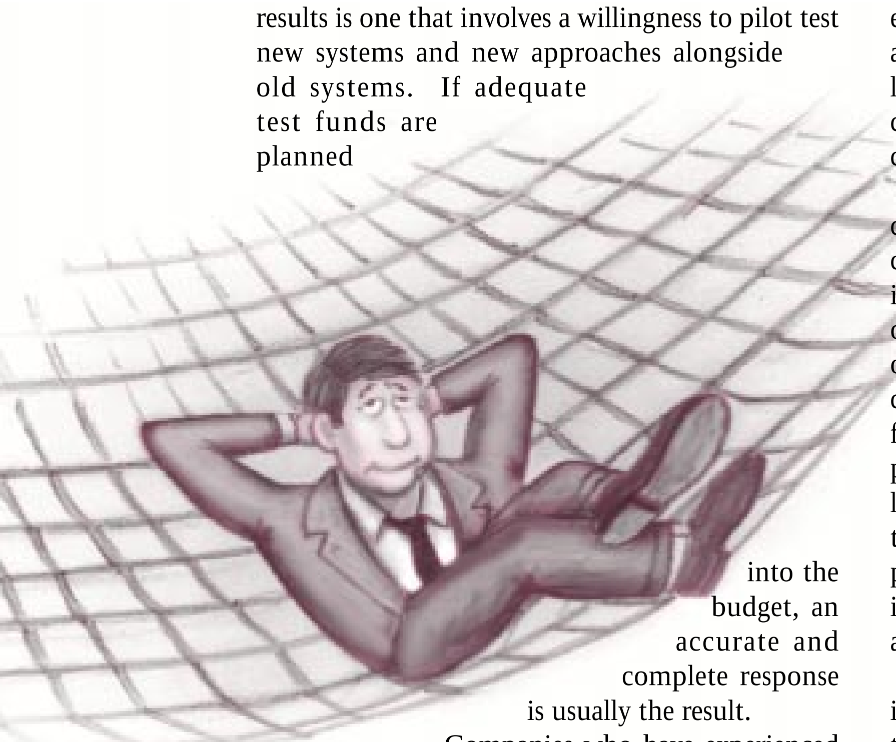
each system, or action is taken to withdraw from any system that is not salvageable.

Once companies have decided which systems to retain, the role of each system is clearly defined, both for the sake of management and the agent field force. Additionally, an attitude that has met with positive results is one that involves a willingness to pilot test new systems and new approaches alongside old systems. If adequate test funds are planned into the budget, an accurate and complete response is usually the result.



Companies who have experienced renewed growth by taking a second look at the effectiveness of their distribution system boast a reputation which always involves their field agents throughout the entire research and decision process.

Positive Responses

Flexibility and adaptability are twin precepts that should be used to characterize future efforts. For every issue pertaining to this industry, there is another direction to consider. Many leading companies in the industry have decided to take a leap into the unknown, but it is not a suicidal jump; they are fully aware of the safety net waiting below. For these companies, venturing into the unknown is worth the risks. To meet the challenges of a rapidly changing climate, several corporations have adopted new ways of thinking with positive results.

Special attention is paid to new market and distribution methods. Efforts are increased to escalate distribution efficiency and include requesting agent feedback, pilot testing new approaches, and starting "clean-up" practices in areas where new beginnings are most urgent. Care is taken to clearly define target markets for each distribution system currently in use. This close re-examination encourages a new concentration on lines of business where critical mass exists or can be developed.

New ways of thinking about the industry exist. With a bit of creativity and a lot of open-mindedness, we can get ourselves out of a sticky situation.

Another option successful, positive-minded companies are considering is the possibility of outsourcing other lines of business. No longer considered a leap of faith, outsourcing has proven to be an excellent, cost-effective way to gain functional expertise, reduce operating complexity, lower expenses in the start-up mode, and improve flexibility.

Fortunately, those of us in the financial services industry need not throw up our hands and head for the roof. New ways of thinking about the industry exist. With a bit of creativity and a lot of open-mindedness, we can get ourselves out of a sticky situation.

[1]Mills, Don Harper. Annual Awards Dinner, American Association of Forensic Science, 1994.

A. James DeHayes has been associated with the insurance industry for over 30 years and is Chairman of DCG Corporation/DeHayes Consulting Group (DCG). DCG is dedicated to the financial services industry and provides consulting assistance in distribution development,merger and acquisition support, strategic counsel, strategic alliances, health care/managed care and endorsed market development. DCG offices are located in Boston, Chicago, Dallas, Denver, New York, Sacramento, San Francisco, and Sydney, Australia.

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