Advisor Focus on Finance Robs Families of Insurance Guidance

The returns and peace of mind that come from insurance products just can't be found in any other vehicle.

By Ray Phillips

Wouldn't this make a fascinating case study for a Harvard Business School class? Suppose there's a market providing a product that almost everyone recognizes they need, that almost everyone genuinely wants, and that has been grossly underpenetrated. Would this be a market that such a class would suggest had potential and could be ripe for profit?

Well, upon further contemplation, it probably would not be a fascinating study, as the answer is so obvious that it's sad. Of course, you recognize this as the fixed insurance market. This is a market with so much growth potential that I can't help but wonder why good old market forces haven't reacted sooner to bring it back into equilibrium. Simply put, the demand and the opportunity are there. But it seems that we as an industry are willing to cede decisions to consumers to pursue online tools and commoditized selling machines.

How well have consumers been doing in "steering their own insurance ships?" Let's review some oft-repeated statistics. LIMRA suggests that only 61 percent of men and 57 percent of women have any life insurance *at all*. Remember, the statistic says any at all. The fact that this number has some kind of life insurance – not that it's the correct form of life insurance coverage or that it is an appropriate amount – is somewhat reassuring. In fact, a survey by Nationwide found that married couples simply are underinsured, if they do have any coverage. A staggering 98 percent of married couples with insurance did not have enough to replace their lifetime income earnings. Further puzzling and frustrating is that 33 percent of those polled suggested that income replacement was their primary motive for purchasing life insurance.

Let's switch to one of my personal favorites, disability income insurance. The statistics are pretty blatant there. A LIMRA/LIFE Foundation Barometer Study suggests that only 30 percent of American workers own a disability income plan. Numbers from the Social Security Administration Fact Sheet from February are almost exactly the same; they state that 69 percent of the private sector workforce has no disability insurance. I'd be willing to bet that a significant percentage of the remaining portion of the workforce that does have coverage has only group limited coverage. That can be a worthy benefit, but very often either high income earners are underserved in their group disability plan, or the definition of income is such that bonuses or commissions might not be covered. The unfortunate reality is that many group insureds do not understand or appreciate the potential shortcoming and exposure of their benefit plan.

Disability income insurance's morbidity-based sister product, long-term care insurance, has long suffered from underpenetration as well. A George Washington University article published in 2012 suggested that fewer than 12 percent of long-term care claims were funded with long-term care insurance. Even the federal government has tried to point out the validity of purchasing long-term care insurance with Long-Term Care Partnerships being given the go ahead as part of the Deficit Reduction Act of 2005.

Another disturbing reality is that these trends aren't new. The statistics weren't much different 10 years ago. The question is, why?

Well, from my perspective as a brokerage general agent for the past 25 years, many advisors have avoided discussing fixed insurance. Among the many brokers with whom I speak, the reasons for avoiding this discussion revolve around cumbersome underwriting, lack of profitability in the insurance sale, and just a general unfamiliarity and rustiness because they haven't concentrated on insurance.

Sadly, I have a notion that many advisors have forgotten the "moral value" of insurance products. The "moral value" is simply the influence that insurance can have on a family or business. The returns and peace of mind that come from insurance products just can't be found in another vehicle. I remember that several years ago, the industry railed against insurance agents holding themselves out as "financial planners." It's almost as if we've done a 180-degree switch as an industry and now many "planners" totally leave the insurance aspect of a plan off the drawing board.

This switch is what drives the apathy toward making sure that a client has adequate and appropriate insurance. As a result, many consumers end up making buying and coverage decisions on their own. Or often, they end up not making a purchase at all.

These are just observations and unscientific views from my perch. But the cold, hard reality is that opportunities in the fixed insurance market abound. Statistics show that the American public is in desperate need of a conversation with an insurance professional. For all of the technological devices available for them to learn about and purchase insurance, Americans still are woefully underinsured. We owe it to them and to ourselves to seize the opportunity to promote and sell the very products that created the industry: fixed insurance products. Life insurance, disability income insurance and long-term care insurance should be given consideration. Fixed insurance can be the foundation of every person's overall financial plan.

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