



# U.S. Marketplace

Individual Financial Product News

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## We Need Maximum Capacity! Part of the Forces of Change Series

By Laura A. Murach, ACS

*Assistant Director, Distribution Research, LIMRA*



In the most recent issue of *U.S. Marketplace*, the cover article by Patrick Leary shared research from LIMRA's *Forces of Change: Issues Facing Distribution Leaders*. He outlined the seven forces of change that are presently influencing the financial services industry. Two of those forces, sales capacity and its transition to the next generation, are critical to laying the groundwork for future industry growth.

### Sales capacity will drive growth

For the past 10 years productivity improvements have been the primary driver of sales growth. The move to affluent markets, the increase of annuity and investment product sales, and improved technology all fueled this growth. However, this same period saw anemic growth in the number of sales representatives. The need to rejuvenate the insurance and financial services industry sales force has reached a critical tipping point.

#### *What happened?*

From 1998 through 2004, the number of direct sales force representatives affiliated with insurance carriers declined while simultaneously independent representatives selling insurance products increased. However, most recently, that trend has reversed. The direct-sales force insurance channels grew while at the same time independent representatives selling insurance declined. So while we have seen changing dynamics within the industry due to shifting cost pressures and the unstable economy, there has essentially been no growth in the number of sales representatives selling our products and services over the past 10 years.

Contributing to this challenge are turnover and retention rates. Agency-building companies historically struggle with agent retention, and the multiple-line exclusive-agent distribution channel is experiencing the lowest four-year agent retention rate recorded since LIMRA began reporting the statistic in 1994. Retention and turnover have been chronic challenges for the industry and will continue to be so in the near future.

Our study shows that 2 out of every 5 representatives will leave the financial services industry, and investment-oriented reps are more likely to leave than are insurance-oriented representatives.

What can companies do? They can attract and retain producers by offering competitive product lines, consistent and timely underwriting, financially strong and stable carriers,

*(continued on page 2)*

and competitive compensation packages. Companies also need to place their producers in an environment where they are most likely to succeed. Teaming, collaborative business models, and formalized mentoring programs all contribute to a successful start for the representative.

For organizations competing in the independent channel, the equivalent to sales force turnover is the amount of repeat business from the independent producer. Independent sales representatives are shortening their shelf space; consumers are doing more research on their own and are asking more questions of the independent producer. In the new environment, producers feel they need to do more “homework” on the carriers they work with. Our study shows that independent agents have decreased the number of carriers they actively do business with, reinforcing the trend that the aggressive environment for shelf space has and will become even more competitive.

### The transition to the next generation of talent is underway

It is a known fact that recruiting and retention determine sales capacity. Companies need to attract a steady stream of new talent and to retain those whom they have groomed. However, a third influential factor has surfaced and frankly become more urgent, and that is the aging of the field force.

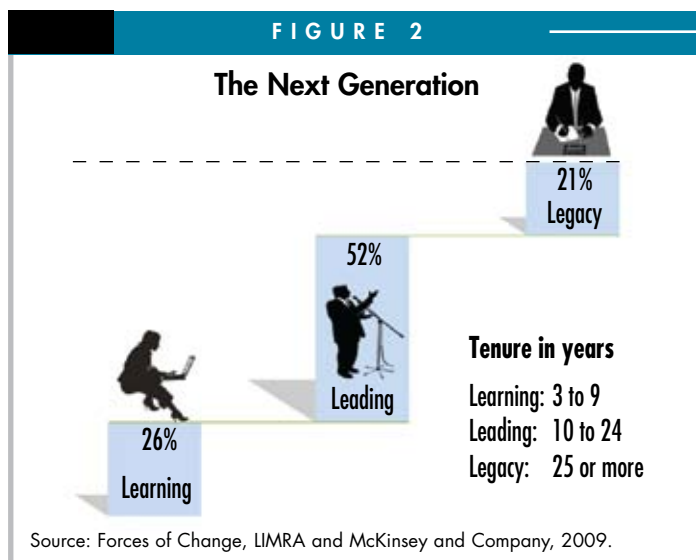
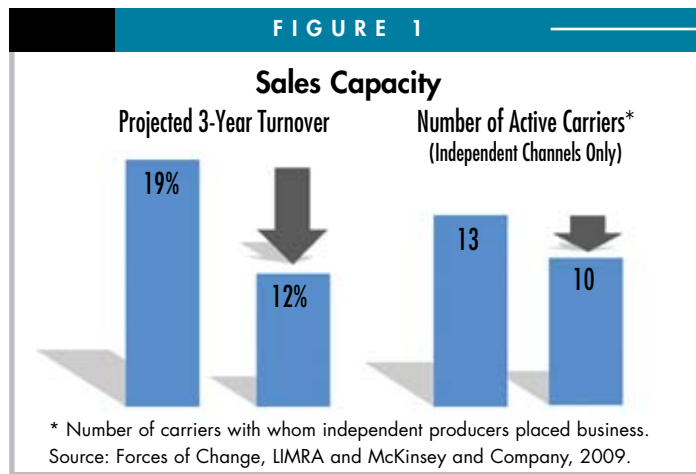
In both the direct and independent channels, the number of representatives over age 50 has increased significantly. Almost 4 out of every 6 representatives in the direct channel are over age 50, compared with 3 out of every 6 in 2002.

The insurance and financial services industry does not have enough new entrants. To achieve a steady state — that is, stem the shrinkage in the number of sales professionals and have enough new talent to replace those leaving or retiring — the industry needs to increase this “learning” segment (see Figure 2) from 26 percent of the total to nearly 40 percent.

So how can the industry set in motion an orderly transition to a new generation of sales professionals rather than a disorderly downward spiral?

As a start we must take on succession planning with a sense of urgency. To date only one channel, the independent registered investment advisor (RIA) channel, is starting to take succession planning seriously. Of the independent RIAs aged 55 and older, almost half have succession plans. For the same age group, the figures for the other channels are a bit discouraging.

What are the obstacles for those sales professionals with no succession plans? For those professionals, age 55 and over, the number one hurdle is the misperception that it is too soon to worry about succession. The second obstacle is the difficulty in finding a worthy successor, and finally, in some cases, that the decision will be left to others. These issues need to be



addressed sooner rather than later in order to ensure a smooth orderly transition for all parties involved — the representative, the customer, and the company.

We can learn from those who already have plans for how to address the major obstacles.

For those with plans, the biggest obstacle is letting go of relationships. Equally challenging is “finding a worthy successor” — and, while important, determining a fair price and formalizing the agreement are not the major impediments one might assume. As mentioned earlier, teaming and mentoring strategies can help with the transition, and at the same time address retention issues.

Sustainable growth will come from increased sales capacity and orderly transitions to the next generation — by reaching maximum capacity. These are monumental obstacles and enormous undertakings but essential for survival. One challenge remains, and that is *change* itself, but opportunities always lie within.

Murach, who joined LIMRA in 1989, is responsible for conducting benchmarking studies for multiple-line exclusive-agent companies. She serves as project director for studies pertaining to recruiting, retention, productivity, costs, and compensation, and is research staff representative to LIMRA’s MLEA Committee. She also conducts topical surveys such as the MLEA Cross-Selling and New-Agent Financing surveys.

### Individual Life Insurance Sales Improve, but Only Slightly in Second Quarter 2009

While showing a bit of an improvement since last quarter, individual life insurance sales were still 20 percent lower in the second quarter of 2009 than they were during the same period of 2008.

Variable sales (with the strongest ties to the market) continue to suffer the most, down about 50 percent for the quarter and 55 percent for the first half of the year (Figure 3). The product's market share remained at 7 percent for the second quarter in a row (its lowest premium share since 1991).

Universal life (UL) also continues to bear the effects of the current recession. The product's annualized premium sales fell nearly 30 percent for the quarter and the year so far. Another factor likely having a large effect on UL premium is the recent decline in sales to older buyers. According to preliminary results from LIMRA's Annual U.S. Individual Life Insurance Sales Supplement, seniors' share of premium sales, which had been increasing significantly over the past few years, fell in 2008. Overall, seniors paid nearly 15 percent less in UL premium than they did in 2007 (compared with a 2 percent decline for younger adults).

Companies continue to note that they are issuing smaller UL policies, and the average size of policies sold during the second quarter of 2009 was 18 percent smaller than those purchased during the second quarter of 2008. (This is the largest drop in average UL policy size ever.)

On a brighter note, 8 percent **more** UL policies were sold between April and June of 2009 than during the same period of 2008. With fewer older, more affluent buyers in the market for life insurance, agents may be turning their attention to the traditionally underserved middle market.

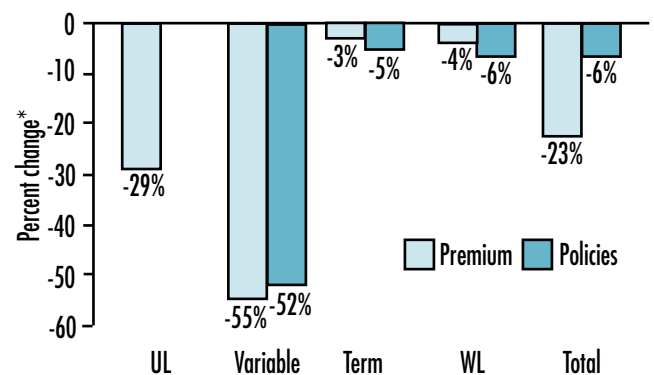
Term and whole life (WL) sales have remained steady in 2009, declining by only single digits in the first and second quarters. Both products are relatively simple compared with

their UL and variable counterparts, and companies continue to note that term's affordability is making it easier to sell during the current economic crisis. Overall, 60 percent of term writers and half of WL writers were able to increase their premium sales in the second quarter of 2009. (This compares with just a third of the UL writers and only three variable writers.)

Altogether, 40 percent of companies were able to increase their individual life sales in the second quarter, compared with fewer than 30 percent of companies in the first quarter of 2009. So signs of improvement do exist. (Look for preliminary third quarter results from LIMRA's Monthly Life Insurance Sales survey, which will reveal an early glimpse of sales results for July and August 2009.)

FIGURE 3

#### Second Quarter 2009 Year-to-Date Individual Life Sales Growth\*



\*Percent change is based on new annualized (planned recurring plus 10% of single) premium

LIMRA's Individual Life Insurance Sales survey represents approximately 85 percent of first-year premiums in the United States. For more information please contact Ashley Durham at 860-285-7761 or [adurham@limra.com](mailto:adurham@limra.com).

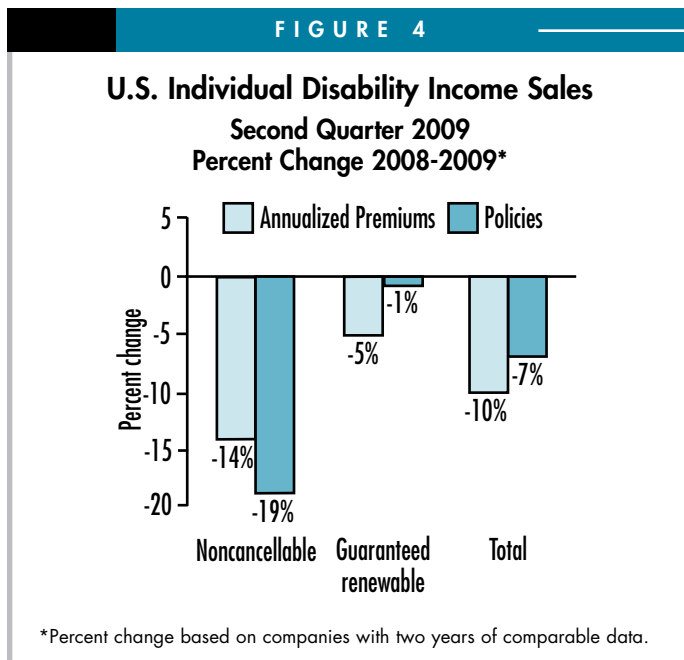
## Individual Disability Sales Decline Accelerates

The decline in individual disability sales continued for the third consecutive quarter. New premium was down 16 percent for the quarter and 10 percent through the first half of 2009. Declines were widespread with new annualized premium increasing for only 2 of the 18 carriers (only one of which was in the top 5).

Guaranteed renewable products, which maintained a small level of growth in the first quarter, lost the battle in the second quarter. New premium was down 13 percent for the quarter and 5 percent year to date. Five of the 13 carriers managed to increase their sales. Personal sales, which represent the majority of guaranteed renewable sales, were also down 5 percent at the half.

The decline in sales of noncancellable products, which represent two thirds of new premium, continued to accelerate (down 18 percent for the quarter and 14 percent year to date). Policy and premium sales were down for all but one carrier and for personal and business policies alike.

Policy sales were poor as well as only one company experienced an increase in policy sales compared with the first half of last year. While a few carriers managed small increases in either noncancellable or guaranteed renewable policies, declines were in the double digits for most carriers.



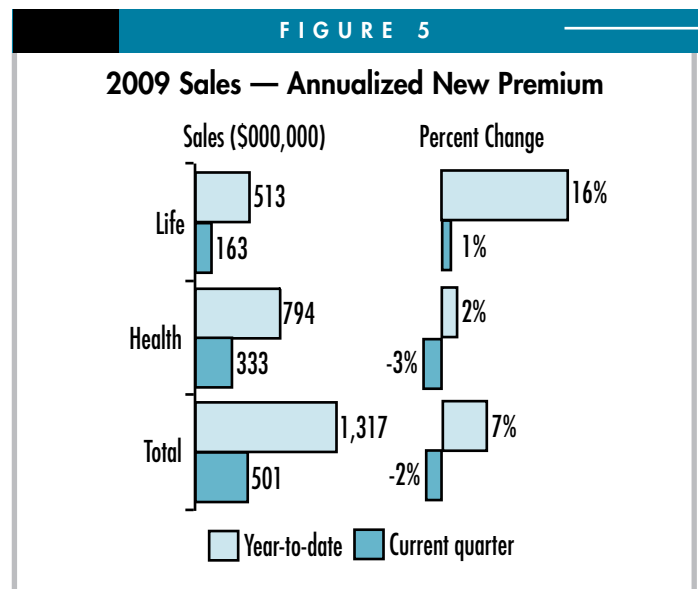
For more information on U.S. Individual Disability Income Sales, contact Karen Terry at 860-285-7757 or [kterry@limra.com](mailto:kterry@limra.com).

## Worksite Sales Decline in the Second Quarter

Voluntary sales trended downward in the second quarter of 2009, but remain ahead of mid-year 2008 levels. Results from LIMRA's U.S. Worksite Sales survey indicate more than \$1.3 billion of new premium written so far in 2009 (Figure 5), which is 7 percent ahead of last year's pace for participating carriers. The 2 percent second quarter decline partially offsets the impressive gains made in the first three months of the year.

While still outpacing last year's volume by a considerable margin, voluntary life sales were flat in the second quarter. Term products have grown the fastest over the past six months, whole life and stand-alone AD&D premiums are even with 2008 levels, while universal life (UL) sales are still trailing their 2008 pace.

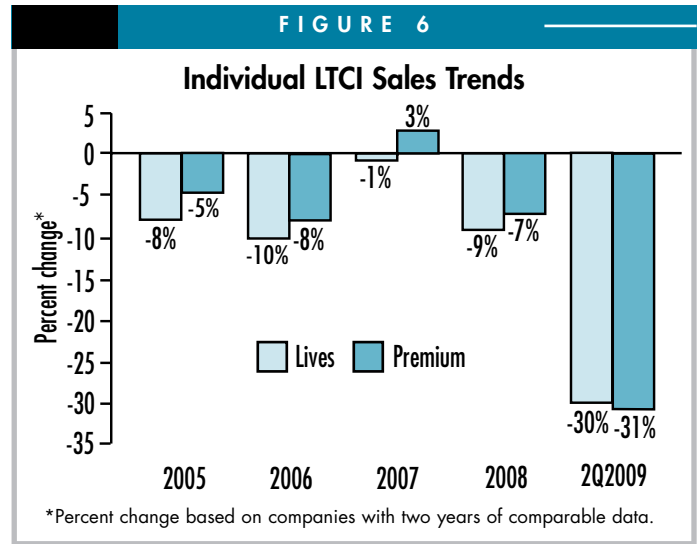
Voluntary health products have declined by 3 percent in the most recent period of 2009 and are 2 percent higher for the year. Long-term disability, dental, dread disease, accident, critical illness, vision, and medical lines are all posting increases at the midpoint of 2009. Meanwhile, voluntary short-term disability, and long-term care products are lower. Results for 34 participating companies are summarized below.



For more information on U.S. Worksite Sales, contact Ron Neyer at 860-285-7836 or [rneyer@limra.com](mailto:rneyer@limra.com).

## Individual LTCI Sales Still Down

Individual long-term care insurance (LTCI) sales continued to post double-digit declines through second quarter 2009, with new lives down 30 percent and premium down 31 percent (Figure 6). On a more positive note, however, the rate of decline eased in the second three months of 2009. Both new policies and premium were down 28 percent in the second quarter alone, following declines of 32 percent and 34 percent, respectively, in the first three months of the year. Individual carrier growth continues to be discouraging through the second quarter, with 18 carriers experiencing declines greater than 10 percent and only four carriers experiencing growth. Nine of the top 10 writers experienced declines that for four of them were greater than 20 percent. The top 10 writers accounted for a combined market share of 88 percent in the first half of 2009, up two percentage points from the same period in 2008.

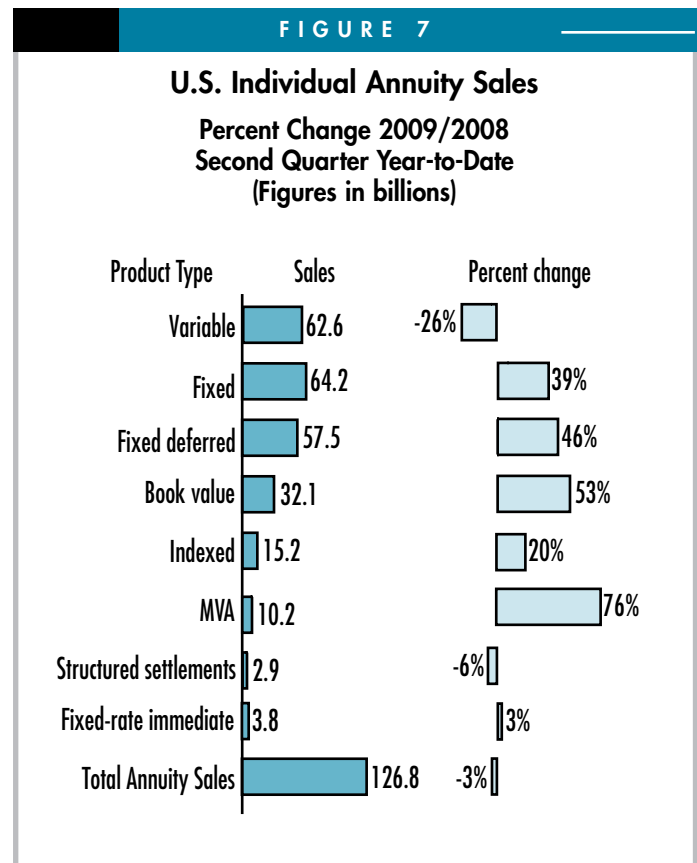


This report provides individual LTCI data for 24 U.S. companies representing over 95 percent of the individual LTCI industry. For more information on the Individual Long-Term Care Insurance report, contact Karen Fisherkeller at 860-285-7883 or [kfisherkeller@limra.com](mailto:kfisherkeller@limra.com).

## U.S. Individual Annuity Sales Drop in Second Quarter

In the first half of 2009, total individual annuity sales fell 3 percent to \$126.8 billion (Figure 7). Fixed annuity sales were up 39 percent reaching \$64.2 billion, and variable annuity (VA) sales declined 25 percent to \$62.6 billion for the year to date. All fixed annuity sales components, except for Structured Settlements, rose year to date as a result of strong growth in fixed deferred annuity sales. Sales of book value products, the largest fixed annuity product type, jumped 53 percent, and MVA product sales increased 76 percent. Indexed annuity sales improved 20 percent. Fixed immediate annuity sales remained steady at 3 percent growth.

Total annuity sales in the second quarter of 2009 were \$60.5 billion, down 11 percent compared with the second quarter of 2008. This was due to a 24 percent decline in variable annuity (VA) sales while fixed annuity sales grew 11 percent. However, when compared with the first quarter of 2009, second quarter 2009 total annuity sales slipped 9 percent. Although VA sales experienced a small turnaround when compared to the first quarter of 2009, growing 4 percent, the overall decline was due to a 20 percent drop in fixed annuity sales. VA sales growth was the first improvement in quarter-over-prior-quarter sales since second quarter 2008. The quarter-over-prior-quarter drop in fixed annuity sales was the first decline since first quarter 2007. The decline in fixed annuity sales was mostly due to falling book value and MVA deferred annuity sales yet indexed annuity quarterly sales hit a record high of \$8.1 billion in second quarter 2009. Indexed annuity products can be attractive in a positive yet uncertain market, which we have experienced recently.



For more information about the U.S. Individual Annuity Sales study, contact Martina Fialova at 860-285-7756 or [mfialova@limra.com](mailto:mfialova@limra.com).

## What Are the Latest Agent Trends?

### Agent Retention

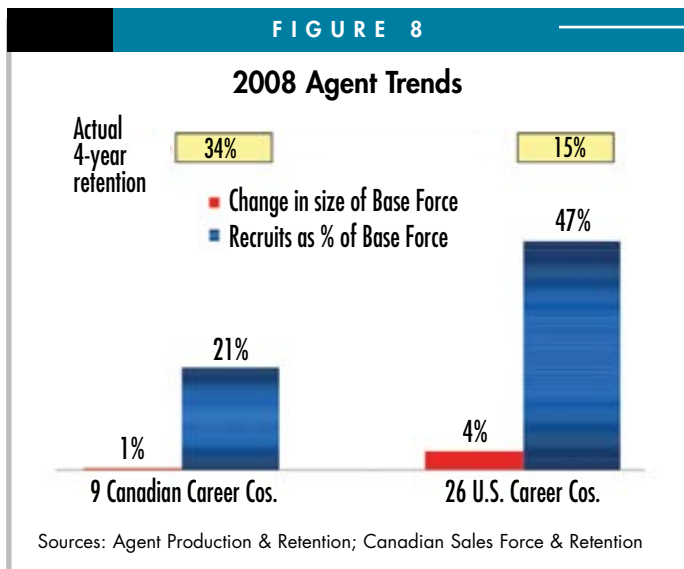
The actual four-year retention shows the percentage of agents who are under contract through December of the fourth year after hire. The 2008 retention rate for 26 U.S. career companies was 15 percent and 34 percent for 9 Canadian companies.

### Percentage Change in the Size of the Base Force

This number is analogous to the “bottom line.” It shows the percentage difference between the number of agents at the beginning and at the end of the year. It reflects the net effect of agent turnover and recruiting.

### Recruits as a Percent of Base Force

This statistic measures recruiting effort. In 2008 U.S. career companies recruited 47 agents while Canadian companies recruited 21 agents for every 100 agents under contract at the start of the year.



Contact: Margaret Honan, mhanon@limra.com, 860-285-7877

## Did You Know?

- Across Europe Internet usage is now the norm — over 178 million people (60 per cent of the population) are online every week; over half of these are online every day.
- Over half of all Internet users now bank online — LIMRA’s UK research found that the majority of consumers use Internet banking because it is convenient and log on to their accounts at least weekly, if not daily.
- Only 10 per cent of companies participating in LIMRA’s survey say it is currently possible to purchase protection products online, although almost half anticipate adding some form of online transaction for protection products by 2012.
- Few people are shopping for life insurance on the Internet and even fewer actually end up buying there. The many reasons for this include the difficulties in completing the buying process, concerns over security, and the Internet’s impersonal nature.

For additional interesting facts, read the recently released *Life Online — Selling Through the Internet*.

## 2009–2010 Meeting Dates

### Conferences and Meetings

#### LIMRA ANNUAL MEETING

October 25-27, 2009  
Hilton New York, New York, New York

#### DISTRIBUTION CONFERENCE

February 24-26, 2010  
Las Vegas, Nevada

#### RETIREMENT INDUSTRY CONFERENCE (Jointly sponsored by LIMRA/LOMA/SOA)

April 11-13, 2010  
Washington, DC

#### LIFE INSURANCE CONFERENCE (Jointly sponsored by LIMRA/LOMA/SOA/ACLI)

April 13-15, 2010  
Washington, DC

#### MARKETING & RESEARCH CONFERENCE

June 2-4, 2010  
Orlando, Florida

For information about prices, hotels, convention sites, travel bureaus, vendors, continuing education credits, or registration, contact Events Registration at 800-235-4672 (860-285-7789 outside the U.S. and Canada) or email [customer.service@limra.com](mailto:customer.service@limra.com).

## Publishing Mutual Fund Information

Six companies contributed to a recent LIMRA MarketScan on publishing mutual fund information. Key findings include:

- On average, companies publish fact sheet fund information on their public Web sites 15 days after the end of the quarter. Three out of six companies publish information within 10 days.
- Complete fund holdings are disseminated on four of the six companies' Web sites. Companies post these holdings an average of 30 days after the reporting period.
- In addition to HTML-based information on companies' public sites, five companies also produce PDFs with the same information for other channels. Two companies produce PDFs for proprietary sites serving retirement platforms, three companies for third-party distributors, and one for "all channels."
- No companies report having fund information tailored to specific retirement plan platforms. Plan-specific sites link back to public Web pages/PDFs for four companies.

You can access the full MarketScan summary at <http://www.limra.com/abstracts/abstract.aspx?fid=10153>

## 403(b) Product Platforms, Market Segments, and Compensation Methods

In a recently conducted MarketScan of the 403(b) market, 10 responding companies supplied information on their product platforms, market segments, and compensation methods, and the following are some highlights:

- Primary product platforms vary by market size; individual annuities are more common as a primary product platform in the small market than in the mid and large markets.
- Most companies (8 out of 10) do not offer guaranteed lifetime income riders on their 403(b) products.
- Only 4 out of 10 companies use advisors to sell products in small, mid, and large markets. Two companies do not use advisors to sell products in any size market.
- Of the six companies that have a primary destination for accounts when participants terminate from service, two

use mutual fund IRAs as the primary destination, two refer participants to an advisor, and two use other destinations.

- No companies report any changes to their compensation structure in terms of which types of compensation methods used.
- In the small market segment, mutual funds have made up 100 percent of new sales over the last year for three companies. Meanwhile, another three companies report that group variable annuities have made up 100 percent of new sales over the last year.

Note:

Small market = Plans with under \$5 million in assets as of 12-31-2008

Mid market = Plans with \$5 - 15 million in assets as of 12-31-2008

Large market = Plans with greater than \$15 million in assets as of 12-31-2008

You can access the full MarketScan Summary at <http://www.limra.com/abstracts/abstract.aspx?fid=10102>

## Field Communications Practices MarketScan Results

Results of a recent MarketScan of 10 U.S. companies about their individual lines of business field communications practices reveal:

- Participants are most likely to use email and content on the sales force Web site to communicate with their sales organization; 4 of 10 companies use these modes of communication daily, while an additional three use them weekly.
  - Companies are also likely to use electronic newsletters to communicate with the sales organization; seven companies indicate that they send them weekly.
  - Only 2 of 10 companies use online social communities on an "as needed" basis, and only one company uses discussion boards.
- Participants generally say that the communication methods companies use are "somewhat effective."
- All 10 companies use a combination of subject matter experts and communications professionals to develop field-related communication content.
- All 10 companies have standards for the appearance or writing style of field communications. These may include the AP Style Guide, brand guidelines, and internally developed standards that provide a consistent format for various communications.

Contact Shawn P. Flynn at 860-298-3832 or [sflynn@limra.com](mailto:sflynn@limra.com) for more information.



## October 25–27 • Hilton New York

Today as we face unprecedented changes in the economic landscape, what are the new rules of engagement? Achieving sustainable growth depends on our ability to

- Rebuild consumer trust
- Meet distribution challenges
- Innovate within a new framework of risk and regulation

The 2009 Annual Meeting will help you explore ways to realign your business strategy to meet today's challenges and grow revenue. This meeting will provide you with practical solutions, concrete strategies, and conceptual insights that will keep your company a solid contender in this changing marketplace. For more information, visit [www.limra.com/AnnualMeeting](http://www.limra.com/AnnualMeeting) or call 800-235-4672.

## LIMRA's Executive Development: The Solution to Your Leadership Development Needs

In challenging times, strengthening your leadership skills and business acumen creates the advantage your organization needs to push ahead of the competition. Focusing on the strength of your people means focusing on the success of your organization. Now more than ever, organizations need to invest in their top performers to keep them engaged, motivated, and productive. LIMRA's Executive Development continues to be the financial services industry's trusted source for leadership development. The 2010 calendar offers a mix of both classic and innovative programs that cover both leadership skills and the technical, industry knowhow to succeed.

<http://www.limra.com/pdfs/events/execdev/10Calendar.pdf>

## Where can you find the most frequently requested trend statistics in a single source at LIMRA?

MarketTrends LIMRA's Factbooks for the United States and Canada provide those trends but do not replace the in-depth reports and studies from which the data is drawn. *2009 Trends in Canada* includes key research statistics in the areas of Canadian markets, products, distribution, retirement, and technology and will help companies compare trends within their own business with industrywide trends. *2009 Trends in the United States* provides key research statistics in the areas of U.S. markets, products, distribution, retirement, and technology and will help U.S. companies compare trends within their own business with industrywide trends.

## U.S. Marketplace

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