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Robert W. MacDonald

Affecting change within a business culture requires leadership that can effectively penetrate the imposing bureaucracies that grow from within. In any industry, however, bureaucratic systems often serve two opposing masters: the status quo and the need to grow. It takes an entrepreneurial spirit to move a culture away from its own systemic restraints, and what is at stake, be it a company or an entire industry, is often your very heart and

soul.

These are the things Bob MacDonald ponders daily. What makes his story more intriguing, of course, is that he did all of his research in this industry. MacDonald's career spans 40 years, including a stint as CEO of LIFEUSA in the 90s. MacDonald spoke with LIFE&Health Advisor about what he feels is a bureaucratic stranglehold that is preventing the financial services industry, especially life insurance manufacturers, from regaining prominence in the market, as the battle for supremacy in the retirement income sector intensifies.

L&HA: Where do financial advisors typically encounter corporate bureaucracy?

RWM: There has been a significant shift within the relationship between manufacturers and distributors, between companies and agents. There is an attitude of self-preservation that works against the practitioner in the field. This is typical within bureaucracies: protect what you have rather than try to build anything further. So, instead of more innovative products and better support from the companies, which should translate into more quality business from the broker, there is more conflict between the two. They are no longer working in parallel with each other.

L&HA: What's driving this wedge between two parties that really should be working in unison?

RWM: There is much more concern today about doing something that might get you in trouble, as opposed to doing something that might help you achieve your goals. I see this particularly in product development, which I think has become more a process of fine-tuning instead of being revolutionary. More than ever, products, and particularly insurance products, have to be reinvented, but today's companies are just not willing to do that. They have begun to view the practitioner in the field as just not important.

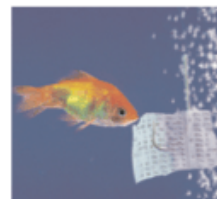
L&HA: But isn't the agent still the linchpin to product distribution?

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RWM: Well, I've been in this industry for 40 years, and the one constant throughout that time has been a search for what companies have euphemistically called the "alternative distribution system." In other words, how can we replace the agent? The good news is, they've been unable to find it, because these are still products that need to be sold and the agent is still the best person to do that. It is no small irony that the part of this industry that stands to gain the most from a strong agent base, the companies, have been the most aggressive in trying to replace them. But it comes down to this: who's going to deliver the mail?

L&HA: Can you answer that question?

RWM: The way things are going, I believe the bulk of distribution will begin to flow through the registered-rep distribution system. With the increase in regulation and compliance, with new supervision and disclosure standards, I just think that it's being pushed in that direction.

L&HA: How will that impact the sale of life insurance and annuities?

RWM: Life insurance sales have been declining for the last 20 years. And pure life insurance is being looked upon now more as a commodity than a value product. So, when you're selling commodities, it's easier not to have to deal with the distribution system like the agents, because the agents work best when they're selling value, not price. I don't see a big future for the pure life insurance product, because people are just buying less of it. And there aren't any real new and relevant life insurance products being developed. The real problem, and I've been arguing this for a long time, is that the life insurance industry has forfeited an opportunity to get back to being a dominant player in financial services. There has been a fundamental change in need, from people being concerned about dying too soon to people being concerned about living too long. This presents a potential boon for the life insurance industry to do some things that bank and investment companies cannot do, but in order to do this they would have to change their basic business concepts.

L&HA: How do you begin to affect that kind of change?

RWM: You have to look at the needs of your clients. When you go out and try to sell life insurance, people are asking "why should I buy life insurance?" They see their own parents at 80 years old enjoying vibrant and active retirements. They're no longer afraid of dying too soon. What they are looking for is a retirement income that they cannot outlive. The life insurance industry is the only industry that can guarantee that your income will be there as long as you live. It's the only industry that can use both principle and interest to generate income, and can generate a larger income from a smaller base of assets because they're managing the mortality risk. No one else can do this.

L&HA: What kind of product innovations do you propose?

RWM: You can design an annuity that would work as follows: you put in \$500,000; you get an income of \$35,000 per year; it is indexed against inflation and the income would increase if you got disabled; in the end, the company would return the \$500,000 when you died, even if you had drawn down \$1,000,000. You can design a product to do that, but no one has.

L&HA: Why not?

RWM: It's considered too hard, which just isn't true, but when you are stuck within a bureaucracy, it's too hard. Change is viewed as a threat. They spend their time trying to fine-tune traditional life insurance policies, or they jury-rig existing annuities to make them

appear innovative, but all they've done is made them more complicated. No wonder they're being hit with class-action law suits!

L&HA: You've established that entrenched bureaucracy has to be fought, but how do you do that without sacrificing the whole company?

RWM: It has to come from the top. Leadership has to set the tone and create the environment that encourages entrepreneurial thinking and action at lower levels. You have to build a culture that battles the bureaucracy.

L&HA: Who do you see that is willing and able to take the initiative to affect this kind of change?

RWM: I do not see any leadership within the life insurance industry that really gets it, and that's a disappointment because it is the life insurance industry that has the experience necessary to really do this. I see more innovation coming from the investment community, things like with variable annuities working on a death benefit, working on an inflation coverage, working on managing the money. What's missing is that they are unfamiliar with the risk management part of the problem, and the guarantees, that an insurance company can give. Very simply, the insurance industry has all the tools to do this, all the experience, but I see too many of them frozen in their own bureaucracies. What they need is an entrepreneurial culture, but instead they are in retreat. They're saying "let's get back to basics," but I believe that the basics have changed.

L&HA: How do you see it playing out in the short run?

RWM: I think you're going to see more desperation on the part of insurance companies with regard to how they will sell their products. With the (SEC) 05-50 ruling, companies that were selling annuities lost 20 to 30 percent of their top producers, so I think you'll see more and more of these companies trying to do deals with the broker/dealer and investment communities. That is an easy thing to do; they can buy their way in. The problem is, any company that gives up control of access to its distribution gives up control of its future. Instead of going to them hat-in-hand asking to put your product on their shelf, you need to develop products that will bring them to you hat-in-hand. The life insurance industry still has the experience and the knowledge to do this, and it can regain a dominant role in the industry.

P.E. Kelley

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