

# The Tale of Two Policy Owners

*Objective Information Shifting the Balance of Power*

By **Bill Boersma**

*It was the best of times, it was the worst of times,  
It was the age of wisdom, it was the age of foolishness,  
It was the epoch of belief, it was the epoch of incredulity,  
It was the season of Light, it was the season of Darkness,  
It was the spring of hope, it was the winter of despair,  
We had everything before us, we had nothing before us...*

THESE WORDS CAME TO ME AS I was reading an enthralling piece by Michael Lewis. He is the author of *Flash Boys: A Wall Street Revolt* and the New York Times article on March 31, 2014, titled “The Wolf Hunters of Wall Street.” If you haven’t read the article, I would recommend doing so, as I found it absolutely fascinating. The story is about a guy named Brad Katsuyama with the Royal Bank of Canada. He concluded that Wall Street is rigged in favor of those who understand very high-end technology and how to take advantage of it. High frequency traders with access to ultra high-speed networks and proximity to exchanges can effectively jump into the middle of transactions and game the system to make money off the process rather than make money by bringing value to the market.

Mr. Katsuyama figured this out and, more importantly, did some-

thing about it. What intrigues me is that very large, well known and respected players in the market, the big dogs, sensed something was wrong but couldn’t put a finger on it and said and did nothing. Ultimately, Mr. Katsuyama discovered what was going on and came to the realization, “The deep problem with the system was a kind of moral inertia. So long as it served the narrow self-interests of everyone inside it, no one on the inside would ever seek to change it...” Even after it was discovered and disclosed and there was a system set up to protect consumers from this gaming of the system, he uncovered “just how badly the market wanted to remain in the shadows.” The point was, it is exceedingly difficult to change the behavior of those benefitting when it will cost them money and effort.

This following quote from the article encompasses a point I want to make and how it relates to life insurance; “The US stock market was now a class system of Haves and Have-nots, only what was had was not money but speed (which led to money). The Haves paid for nanoseconds; the Have-nots had no idea that a nanosecond had value. The Haves enjoyed a perfect view of the market; the Have-nots never saw the market at all.”

How dead-on analogous this is to life insurance is shocking. I suppose

the same could be said about a number of industries, but for those who have even a marginal understanding of the market, reading the previous and following quotes from the article with life insurance in mind may be somewhat epiphanic. Every day I see the ultimate effects on life insurance policies resulting from the information the Haves thoroughly understand and apply, which the Have-nots don’t even know exist. Information is power. That’s not a new concept. There’s a reason why the tagline of my life insurance consulting practice is “Objective Information Drives Informed Decisions.” Access to actionable information at the time it matters is critical. Do-overs in life insurance don’t exist like they do in other markets. The problem is that few have information to the extent they need it. Almost no consumers have such access to make the best acquisition, management and divestiture decisions to deploy their capital as effectively and efficiently as possible. Most advisors don’t realize that this information exists or know how to obtain it. Frankly, a shocking percentage of life insurance agents don’t understand it. Consider this quote from the article; “it occurred to (him) that the stock market had become a black box whose inner workings eluded ordinary human understanding...” Sound familiar?

Knowledge and comprehension

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is garnered through resources from and relationships with independent subject matter experts. The Haves gain power and effectiveness by knowing the questions to pose, whom to pose them to and how to apply the attained cognizance (conscious competents). The Have-nots don't even know there are questions to ask (unconscious incompetents) and suffer the inevitable consequences.

We've all heard "The House Always Wins" axiom. All commercial enterprises have to win in the big picture or they will be out of business. But they should win while delivering benefit or at least have a fair shot at it; a win/win as we understand it. Every product is built to be a winner... for the marketer, but despite the euphuistic ring of today's marketing, not every product is built to offer a meaningful opportunity to be a winner for the marketee. However, there are many products available that can be intelligently managed into winners if one is girded with the power of information.

A life insurance contract offers the opportunity for benefit, but that doesn't mean it will automatically materialize. Another quote from the article is "...where money was made from its incomprehensibility." The insurance carriers don't make money by assisting you in your efforts to increase your chances of success, and that obfuscating contract language isn't unintentional. Insurance contracts are inherently, amazingly and intentionally complex and are shrouded in unintelligible legalese that no consumer could ever be reasonably expected to comprehend on his or her own. Beyond that, there's the ever present but unspoken intimidation factor that

as a consumer, you will never be able to proffer a fair fight when there's an understanding that your opponent has no fear of digging deep to skin you alive if you ever have the gumption to posit a challenge when something goes wrong.

So? Someone loses and someone wins as a result of this imbalance of power/information. That shouldn't

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be a surprise; that's the way the world works. The traditional process will get you where you want to be only by chance. That's not good enough. You have to be willing to go outside the traditional process to make it happen, and you have to remember that it won't be easy. Those who understand and benefit from the system as it is don't have a vested interest in changing the game. Don't focus on the product creator/provider/marketer; you have limited power there. Focus on gathering and intimately understanding the information that will give you the power to be firmly

entrenched among the Haves.

Imagine a world where the information and clairvoyance needed was readily available or you at least know who the Haves are to gather the information required to make the best decisions. Most policy owners don't put a moment's more notice into life insurance acquisition and management than they believe is minimally necessary. Why would one when there appears to be no great reward for doing so? I believe a life insurance transaction is treated differently because there's almost no understanding of what goes into it. This lack of understanding is why I am forever telling policy owners they don't have what they think they have.

Think about acquiring a business or purchasing investment real estate or signing a major contract? Isn't there a clear understanding that a meaningful amount of time and effort needs to be put into these transactions? There's a realization of the numerous decisions and significant attention required before signing on the line to close the deal. Additionally the transaction may require substantive, ongoing management for the investment to be supported. For the more complicated transactions, doesn't one lean on an advisor who's a specialist in the area? Ideally, this would be an independent specialist who isn't a party to the transaction. I am not sure many would be comfortable with an advisor who stood to lose if the deal didn't go through based on his or her advice. Is that being cynical or simply aware of human behavior?

Whole life, universal life, blended products, guaranteed products,

indexed products, securities based products... What are the intricacies of each? How does one objectively compare? The Haves understand the details and decisions going into the construction of a life insurance policy. They know the meaningful differences between traditional policies and modern policies, how niche oriented the market is and the critical understanding of and know-how regarding managing the variables within the policies. They also have access to independent modeling and objective data and work hand in hand with an expert committed to unbiased counsel.

The Have-nots don't even realize there are questions to be asked and decisions to be made. They are unaware that there's danger in trusting what's presented to them as "data." There are few players in the market with the ability to get beyond the superficial sales and marketing talking points. From the consumer perspective, there's little understanding that the market has changed dramatically, most policies aren't guaranteed as understood and policies need to be meticulously managed to realize the inherent benefits. Furthermore, many decisions need to be made to get a policy issued but, unfortunately, many of these decisions may be made without the solicitation of the consumers' input.

What if there was awareness that a particular sales projection had a ridiculously small chance of panning out when subjected to independent stochastic modeling? Is there a full understanding of the effects on a policy in the event there's a fluctuation in the bond market 23 years into the contract? What kind of stress

testing has been performed to gain a realization of premium requirements to withstand market fluctuations within certain parameters? Most consumers simply believe they pay a premium and get a death benefit, but many policies don't work that way. If I started talking about funding a policy to have a 90% chance of persistency to their 85th percentile

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life expectancy, assuming a 150 basis point reduction in the 20-year back tested S&P 500 average, they would look at me like I was from a different planet. However, if someone in a securities based product had not gone through a process that incorporated such questions when constructing a policy, as well as applied diligent ongoing management, the chances of the policy actually paying a death benefit would be marginal. No wonder I rarely see a variable policy that actually projects to live longer than the insured when subject to realistic market expectations.

Similarly, even in a "no moving parts" guaranteed UL, what understanding is there of the effect of early or late premium payments, what are the make up provisions, do they get more than one and what happens if the 11th-year premium is paid 30 days early? Did you know there are products in the market for which paying an annual premium early could lead to the diminishment of the guarantees?

I have seen innumerable "traditional" whole life policies falling apart under the weight of internal loans (when no money has ever been taken out of the policy) when a simple change in dividend options could (or could have) salvaged the policy with no additional cash flow. It's a rhetorical question to ask how many of the policy owners understood at policy inception what dividend and non-forfeiture options were available, the upsides and downsides of each and that there was even a decision to be made, a decision someone else automatically made for them rather than educating them on it to allow them to be a partner in the process.

The equity indexed products and policies with long-term care linked benefits can be utilized quite effectively, but in a preponderance of circumstances, a policy owner could not tell me what they entail, how they work or how to manage them if their life depended on it. "But that's why I have an agent, right?" Are you kidding me? Though there are conscientious agents committed to professional conduct, if that was the predominant situation, consultants like myself wouldn't be called in to clean up messes as regularly as we are.

We know that different consum-

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ers have different needs and want different features. Some want simple and cheap. Some want bells and whistles. Different people need different funding options. Individuals have different risk tolerances. Some care about cash values while others don't. These differences are endless but most consumers never get to see "behind the curtain." Most consumers are presented with only what the given sales rep is familiar and comfortable with or has been taught to sell. The power of institutional indoctrination is almost overwhelming. Whether working with an agent who's trying to sell a particular product or an agent who's commoditizing the market and spreadsheeting numerous companies to find the cheapest pricing, neither approach would likely conclude with the ultimate decision that would have been made as a result of a methodical and nuanced approach.

My days are filled with delivering bad news because the typical consumer (Have-not) doesn't even know what questions to ask or what to do with information he or she may stumble across. The policy owner is shocked and infuriated years later when the policy falls apart and the planning built around it is threatened. I have seen policies lapse after seven figures of premium contributions and policies collapse resulting in unfathomably adverse income tax consequences, sometimes greater than even the expected death benefit. The war stories are endless from those in similar positions.

Empowered consumers (Haves) enjoy an educated view of the market, understand differences between product universes, are aware of the many decisions required to build the best policy for them, have access to third-party financials and inde-

pendent modeling, are cognizant of the need to meticulously manage the contract and have access to objective data through an unbiased professional. This individual isn't left scratching his head wondering what went wrong. He has been in the loop all along and has been an active partner in the decisionmaking and has reasoned expectations of the process and the product.

The value of expert and objective knowledge applies to all your clients at all phases of the process; choosing an agent, deciding on a product style, building a contract, navigating the underwriting process and conducting ongoing management and policy divestiture. Life insurance is an exceptionally powerful and unique financial tool when clearly understood, appropriately procured and meticulously managed. If not, it can be a colossal waste of money and an ongoing source of pain and frustration.

The life insurance process can be, all things considered, relatively fun, intellectually stimulating and as worthy of commensurate attention as other "legitimate" topics. I think it's time to put it on par with other transactions so consumers engage the process rather than view it as something to be avoided. I believe that an aspect of the life insurance market is broken and there are some "wolf hunters" who are working to fix it. They appreciate the advisors who understand the ineffectiveness, randomness and potential downsides of the traditional process and the importance of bringing to the process information and power that can make an almost unbelievable difference to a transaction.

Using this information to ensure a life insurance policy will actually result in a death benefit rather than

lapse with no value is significant and obvious. Less obvious is how tweaking funding and death benefit parameters, finessing dividend options and loan management strategies, utilizing underwriting niches and best aligning product features with planning goals can result in a couple hundred basis point improvement in return on invested capital. What if that same difference was available in a traditional investment, business acquisition or real estate transaction? It would be worth a tremendous amount of attention. Why not life insurance? The results can be the same.

The Tale of Two Policy Owners. The Haves and the Have-nots. Understanding the system, gathering objective information and deploying it intelligently can almost magically shift the balance of power. As a consumer, you deserve it. As an advisor, you owe it and will benefit deservedly. ■

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