Life Insurance Industry Held Back by Lack of Standardization and Automation

There is a key inefficiency in the life space that the industry should address sooner rather than later. While other financial markets, including annuities, mutual funds, equitives, derivatives and other asset classes, have utilized widespread standardization and automation worldwide, life insurance has fallen behind.

Kevin Lewis,Vice President and head of the Insurance & Retirement Services (I&RS) division at DTCC, the industry-owned utility that implements the aforementioned standardization and automation, says, "It's not that standards don't exist in the industry; they are just not used consistently and not used on a widespread basis."

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ACORD has successfully developed standards for application, commissions and other types of transactions,but with different interpretations of these standards has come a lack of industry agreement. The same goes for automation itself. Different industry participants automate differently, and on top of this, automation often gets confused with standardization, leaving standards to be neglected altogether.

The current lack of standardization in the life insurance industry has three sobering repercussions:

1. SLOW PROCESSING TIMES. When multiple carriers and multiple distributors or financial advisors are trying to support and manage multiple ways of doing the same thing, processing times are significantly slowed. This leaves distributors and advisors frustrated, and it ultimately makes for a dissatisfied consumer who's wondering why it takes up to two months to receive his or her policy after an application is submitted.

2. INCREASED COSTS. It is expensive for the industry to support multiple processes and ways of processing business, especially considering staffing and work hours necessitated by the processes. This cuts profit share, and unfortunately also means that a good portion of that cost ultimately gets passed to the consumer. Again, consumers are dissatisfied, expressing frustration over all the fees involved with purchasing life insurance.

3. LIMITED PRODUCT AVAILABILITY. For distributors and advisors, it's difficult to know all the different processes that go with the different carriers, so they often limit the number of carriers they work with to just a few whose processes they've become comfortable with. This limits choice to the end consumer, creating situations where a "best fit" product may not be offered by the financial advisor because his or her distributor chooses not to work with the carrier that offers it. Additionally, fewer products are developed than could be if more time and funds were freed up by automation.

Why is the industry failing to rectify this crippling problem?

Two big false perceptions are holding everything up. The first is that some firms believe that customization creates competitive advantage. This may be true in the short term, but when a number of carriers create their own customized requirements, this multitude of processes results in a logjam effect, making for serious inefficiency in the long term.

The second misperception is that the life insurance industry is unique, that life products are more complex than other financial products such as stocks, bonds, and mutual funds and therefore cannot be standardized. Lewis says, "The products are different. Of course they're different products. But the processes aren't that different. It's data. It's information and funds that need to get from Point A to Point B."

As it turns out, Lewis is correct. Implementation of standardization is already happening through DTCC, the same company that is behind the automation and standardization of various asset classes worldwide — proving life insurance is not too complex. DTCC, which last year processed over $1.6 quadrillion in transactions for their clients through their subsidiaries, was able to build a successful model for the annuity space based on their standards and automation for mutual funds, and now, in the same fashion, they're using this successful annuity model as a basis for what they're implementing in the life space. All they need now is further refinement and the introduction of new standards for life, along with widespread adoption, to fully optimize value for the industry.

Company Brings to Life Standards that Revolutionized Annuity Industry

In 1997, DTCC, a key financial industry infrastructure organization, created their Insurance & Retirement Services (I&RS) division in order to adapt their existing processes and models for the annuity industry.

With widespread adoption, DTCC had a hand in revolutionizing the annuity industry. Where it previously had taken up to a month after a sale for an advisor to collect a commission, carriers can now pay daily. Where the sales process used to be complicated and fragmented, it is now faster and easier, and financial advisors are much more compelled to sell annuities—enabling them to become commonplace in the market.

Now, DTCC's I&RS division has turned their focus on life insurance, building on the successful model they established in the annuity space and DTCC's core service offerings. The goals of this user-owned and user-governed organization are simple: **drive efficiencies and lower cost** (which they are in position to do with scale of services and adoption) **and mitigate risk.**

Ann Bergin, General Manager, DTCC's Wealth Management Services explains, "Our commitment is to bring this 'utility service' to everyone near-cost, which brings efficiency by definition."

Another reason DTCC is able to facilitate such a striking level of efficiency is that they go beyond mere standardization. They bring straight-through automation and reject variances in standards, and their strict enforcement prevents the inconsistencies that can slow processing times, increase cost and risk, and limit product availability.

Already, the industry is seeing the savings, eliminating manual processes and situations like having one employee do nothing but stand at a fax machine all day. As more firms adopt DTCC's standardization and automated services, more common industry inefficiencies will become ghosts of the past.

The Scale of DTCC's I&RS availability

- **13+ billion** annuity & insurance transactions in 2014
- **$47+ billion** in money settlement transactions is 2014
- **Nearly 10,000** unique insurance products supported, including 3600+ life products
- **71** carrier families & **141** distributors utilizing commissions & money settlement for life products
- **42** carriers & **102** distributors utilizing financial activity reporting for life products
- **59** carriers & **141** distributors utilizing positions & valuations for life products

Media Giants Position to Hijack Life Insurance Sales

Recent buzz indicates that Amazon and Google are both looking to get into the life insurance game. For an industry that's already bleeding agents, this sort of retail shift has understandably stirred up concern. One reason it's even a viable threat is because both Amazon and Google can bring to the table a significant level of automation and modern standardization practices. So the hard truth is this: if the insurance industry doesn't hit the gas on adopting standardization and centralizing processes, they're going to lose ground to the outsiders who are experts in standards and processes and will move in and impose their own.

> "One achievable industry shift might make all the difference."

Unexpected Hero Helps Solve "Disappearing Agent" Crisis

It's no secret that agent recruitment is one of the top challenges in the life insurance industry, especially with an aging agent demographic and comparatively few young professionals seeking careers in the insurance realm. But one achievable industry shift might make all the difference. The "hero" of this change is standardization.

The widespread adoption of automated standardization can allow carriers to focus fewer resources on manual processes and more on strategic matters such as agent training and consumer education, along with better support for marketing and business development. This can greatly improve agent retention as agents become more comfortable with selling the products, while consumers are potentially more willing to buy. Everybody is happier when straight-through processes enable **policies to be issued sooner and commissions paid faster.**

The elimination of cumbersome manual processes and confusing paperwork, along with more thorough product and process education, "demystifies" life insurance and makes it easier for agents who work primarily in other asset classes to more easily add life insurance to their offerings. Plus, agents who work with other asset classes have come to expect more streamlined, automated processes. Finally, Millennials who are ready to join the workforce *demand* speed, efficiency and standardization.

The Allure of a Growing Industry

Another way that carriers specifically can rededicate resources freed up by automation is for product development; considering agents and distributors will be willing to work with more carriers at once when they don't have to learn multiple processes, the overall result is not only more products to hit the market, but a broader distribution of these many products. The potential here is for an exponential increase of product availability to the consumer, with a surge in sales, and a huge leap forward for the entire life insurance industry, and who wouldn't want to be part of that?

Drive Standardization

Join DTCC and help **reduce costs in the life insurance industry** and **bring more products to more consumers.**

Learn more today at **www.dtcc.com/standardizelife** or email **insurance@dtcc.com**.

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