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It's time for the life insurance industry to ditch illustration comparisons

Top 10 reasons why it's time to 'break up' with projected policy values

By Barry Flagg | *October 9, 2017 - 10:00 am EST*

The life insurance industry is "married" to illustration comparisons. This is not to say policy reviews aren't needed. Life insurance is the last, largest, most-neglected asset on the client's balance sheet. As is often the case, neglect breeds poor-performance, and life insurance is no exception, having been among the worst-performing assets relative to clients' expectations for decades.

As such, policy reviews are both desperately needed and a terrific way to attract new clients. However, not all policy reviews are created equal. In fact, much of the disappointment in performance of life insurance is due to the misuse of illustration comparisons.

Here is a list of the top 10 reasons it's time to "break-up" with illustration comparisons.

10. Figures lie and liars figure. Hypothetical illustrations are just that. Projected policy values are calculated using a multiplicity of assumptions. These assumptions can be manipulated by the insurer, the distributor and/or the broker.

9. Overcomplicates decision-making. Illustrations are comprised of dozens of pages, hundreds of numbers, based on thousands of calculations, and copious "fine print" footnotes too often ignored or word-processed away. Explaining all this to clients is way too complicated; not explaining this leads to uninformed decisions.

8. Disrespects clients' time and intelligence. Because illustration comparisons are complicated, trying to explain why one product is superior to others using hypothetical comparisons is also time consuming.

7. Hinders deep connections with clients. Deep connections with clients are built on trust. Trust is built by telling the truth — the whole truth. However, comparing illustrations of hypothetical policy values actually hides the information essential to prudent decision-making. Instead, answer the questions they all want to know: What am I really being charged for life insurance? What am I really getting in performance?

6. Increases risk of client disappointment. Because hypothetical comparisons encourage questionable behavior and force clients to make uninformed decisions, they increase the risk of underperformance and client disappointment.

5. Increases risk of client complaints. Without a solid connection built on trust, what happens when clients are disappointed with performance? More complaints, arbitration and litigation against advisers, brokers and insurers. Cochran v. Keybank and Nacchio v. Goldman Sach's Ayco are just two examples of how illustration comparisons are a primary reason for both client disappointment and litigation.

4. Hides product weaknesses. Costs inside life insurance policies vary by as much as 80%. Hypothetical illustrations are a commingling of actual costs with some performance assumption. Once scrambled together, these illustrations too often hide high costs.

3. Make clients work too hard. Every purchase decision is a function of quality, cost and convenience. Illustration comparisons rarely examine the quality of actual historical performance and too often hide actual policy costs. And because illustration comparisons are based on so many assumptions, it's at least difficult and more likely impossible for clients to ensure comparisons from different brokers are "apples-to-apples."

2. Limits success in high-net-worth market. Working with HNW individuals also means working with and through their CPA, tax attorney and/or trust officer. These fiduciary advisors require certain information, like the internal policy costs and actual historical performance, neither of which is found in illustration comparisons.

1. It's just wrong. All too often I hear "the only thing I can say for sure about illustrations is that they're wrong" from the very same people who then compare one illustration to another as supposed due diligence for a product recommendation.

Instead, get the detailed expense pages (year-by-year schedule of all policy expenses) available from most illustration systems. Measure these costs against peer-group alternatives to identify truly competitive products, and get more referrals and build deeper connections with clients using transparency and a more comfortable and understandable decision-making process.

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