

Byron Innes, NewLink Group



CONFERENCE COVERAGE

MGA

REPORT

Clients Alone

Carriers, MGAs seek to develop orphan client strategy

BY MARK NOBLE

One of the thornier issues facing the industry is what to do with “orphan” clients in the independent or MGA insurance channels. These are clients who have policies with carriers but are not being serviced by their advisor. Two carrier representatives were on hand at the MGA Symposium to urge Canada’s MGAs to develop a process whereby those clients can be reclaimed by other independent advisors.

The biggest problem with orphan clients is that while they may be neglected or forgotten by their

advisor, there is a good chance they are still generating revenue for their advisor through trailing renewal commissions. For this reason, carriers are hesitant to reassign the clients to another advisor for fear of jeopardizing relationships with the MGA channel, even if the advisor is unlicensed and no longer active in their practice.

Indeed, MGAs’ meddling in client affairs – even if the client is not all that important to an advisor’s book of business – is something advisors do not want, according to a survey of MGA ad-



visors conducted by the Business and Professional Research Group for Rogers Publishing.

According to the survey, only 24% of MGA advisors were comfortable with allowing either their MGA or a carrier to contact their “C” and “D” clients. Half of the respondents were outright uncomfortable with it.

Ray McKenzie, senior vice president of National Wholesaling for Transamerica Life and David Gray, vice president of

Find ways to buy from non-licensed advisors their future renewals.

Wholesale Distribution for Sun Life Financial, stressed that these types of clients often are an opportunity for new business, so it’s imperative for the carrier that they are serviced.

“Unlicensed service is a huge problem going forward. There are advisors out there saying “what the

heck, I’m still getting paid, I’m going to keep this block of business going forward. That’s my end, I’m entitled to it.” But, the servicing of the client is really critical from everybody’s standpoint, Gray says. “We used to solve this problem by having a desk [of career agents]. Everybody got served, sometimes as much as three or four times a year. Now there are these orphans and we have to figure out how we are going to do the mentoring required so these blocks of business get carried forward and serviced.”

Gray notes that Sun Life has a large career sales force that is willing to pick up the orphan cases, but Gray and McKenzie want to find a way that independent advisory channel can service the orphans without depriving the initial advisor of their compensation.

“Within orphan cases are the gems because you’ve got the transfer of wealth, you’ve got the kids, you’ve got the new businesses being done. If the end policyholder isn’t getting the service, we have to find a better way to do it,” he says. He adds, “We have 3,000 career advisors that just sort of sit at the trough and wait for the orphans to be thrown over the fence. I think we can find a better way of doing it ourselves. This process is the lifeblood of the business going forward. It’s the one way we’re going to be able to bring in new brokers through mentoring.”

McKenzie says there needs to be consensus parameters among MGAs and carriers that clearly establish when they should be allowed to step in and reclaim a block of orphan clients. And it would have to be a standard set of parameters, says McKenzie.

“[For example], carriers would give an advisor 60 days’ notice [and] we would be looking at whether an agent is non-licensed, hasn’t been active for a long period of time and has not been in business with an MGA, etc. It would have to be three, four or maybe five parameters that we all agree with,” McKenzie says. “If we find you’ve been unlicensed and you’ve been inactive for a long period of time, we are still going to pay your renewals for the rest of your life. We will basically reassign your book

Underwriting Tip: Leave No Blanks

BY STEVEN LAMB

One of the biggest headaches for advisors working in the insurance space is the returned application. Not only does the advisor have to explain to the client why coverage has been delayed, but it leaves the client exposed while the application is resubmitted.

If advisors want to increase their clients’ chances of approval on the first attempt, they need to be more thorough on their applications, says Kevin Powell, chief underwriter at Equitable Life.

“The quality of applications is sometimes suspect,” Powell told the audience at the Fourth Annual Advisor MGA Symposium. “Getting a clean application in the door – getting it complete and getting the correct information – is essential.”

Equitable conducted a four-month study of the applications it received from one of its MGAs – one that dealt with smaller cases in high volume – with Equitable providing feedback to the MGA. Over that period, 100% of the

20 Universal Life applications they received were incomplete, and were sent back to the advisor. Within the first week of the study period, about half of all applications were returned.

I’ve seen applications come in written in crayon. It makes it very tough to read.

“We developed a checklist for our MGAs and brokers, and a list of common errors that were occurring,” says Powell. “It really helped build this process.”

The feedback seemed to have the desired effect – by the final six weeks, returned applications dropped to zero. Not only did the carrier and the MGA benefit from the reduced workload, but clients were insured much more quickly: Cycle time was cut from an average of 22 days to just 12.

Incomplete applications may result in the underwriter requesting an attending physician’s state-

ment (APS). Despite what advisors might think, carriers do not enjoy demanding such detailed information.

“Underwriters do not like getting APSes. The average cost of an APS in Ontario is pushing \$140 now. It’s a costly process to go and get an APS, we don’t like to get them, but if the app is incomplete, or we don’t have the correct information, or we know the client went to the doctor but we don’t get any details, we’re going to have to get a report.”

The current trends in underwriting are by now familiar: increasing rates of type 2 diabetes, and rising risk factors – including high blood pressure, cardiac disease and bad lipid counts – being found at younger ages.

All these conditions are traceable to the soaring obesity rates across Canada. In 1985, not one province had an obesity rate over 10%. By 1998, only British Columbia and Quebec reported rates under 15%.

It’s hard to ignore the value of a well-written insurance policy. As Dennis Craig, vice-president RBC Insurance, pointed out, a properly completed application and \$75 a month can create \$1 million in capital.

Yet he says even RBC’s simplified underwriting applications – which consist of just a handful of



Erin Anders, AgencyWorks
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questions including such easy answers as name and blood pressure – still result in about 40% of applications being incomplete. Since RBC processes between 20,000 and 30,000 of these applications per year, the carrier is returning up to 12,000 applications to the advisor for completion.

“If you like to give us all the information, put it all down; we’d be happy to look at that and accept that risk,” says Craig. “If MGAs want to filter some of that and hold it back, then we go into the broker risk-sharing scenario, which I don’t think any of you want to be in.”

Another fault that Craig says is common in applications is the lack of financial statements, which demonstrate that coverage is justifiable.

Powell offered some rather commonsense tips for underwriting

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Orphan Clients

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to your agency for servicing.”

McKenzie is adamant it's the MGAs that should take on the process rather than the carriers and they should be looking to re-

munerate advisors for blocks of orphan business rather than individual clients. He thinks MGA in-house resources could facilitate portions of the new sales process.

“It should be MGA-controlled, not carrier-dictated. MGAs assign to new, growing and/or very or-

ganized ‘active’ agents,” McKenzie says. “I know MGAs have a number of folks that constantly ask for leads or books, which obviously they want for free. Here's an opportunity.”

In a video presentation to the MGA Symposium, Michel Kirouac, an executive with Quebec-based MGA, the Groupe Cloutier, stresses orphan clients are as much a concern as an opportunity for the industry.

“From a survey we conducted earlier this year, only two out of 13 carriers were clear that they will not pay renewals if an agent is not licensed. One does not specify anything. Ten of them clearly specify

that renewals will be paid even if the broker doesn't have an active licence,” he says. “The situation seems simple, but imagine if they have seg funds, UL policies with cash, term to convert or even death claims. We have many concerns.”

Cloutier notes with a greater variety of products, many with a higher degree of complexity than in the past, not servicing a client is inviting all sorts of liabilities for advisors and their MGAs.

“What will happen if a client learns they could have reset their seg fund earlier when the market is down 35%? Who will be blamed, the broker, the MGA, or the carrier?” he asks. “Another example is

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term-conversion. Many companies do not send notice to clients about this. What will happen when you have a 76-year-old client calling your agency to convert his policy half a year too late?”

Cloutier says that the original advisor who sold the product need to be given their due, but believes its imperative more active licensed advisors take on the servicing of orphan accounts.

“I'm not talking about stealing clients but finding ways to buy from non-licensed advisors their future renewals,” he says. “Non-licensed or non-servicing advisors have earned their business, they've earned their renewals and they earned our respect. Together we need to realize that non-licensed or non-servicing agents are not the right way to serve the client and are not the future of our industry.” **AER**

Underwriting Tip

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ing: fill in the application with a black or blue pen, which will make it easier to read.

This piece of advice may sound obvious, but Powell says some applications are still being submitted in red ink, or have been filled out with a felt-tip pen.

“I've seen applications come in written in crayon,” he claimed. “It makes it very tough to read.”

Advisors should avoid vague answers, such as describing a client as a “social drinker,” because the advisor's definition of social means little to the carrier. Far more useful is a quantitative answer, such as “consumes five drinks per week.” Better still, include the client's preference – is he a wine drinker, or is she pounding boiler-makers?

In today's heavily medicated society, most advisors know they should list the prescriptions their client may have, but far too often, Powell says, the dosage is omitted. He offers the example of anti-depressants: if the dosage is relatively low, it shouldn't pose a barrier to approval. If the client is taking 80 mg of Paxil, however, the risk will be rated significantly higher.

“Underwriters tend to be a suspicious little group,” Powell said. “If you're missing information, that may mean the client is trying to hide something, so make sure the application is complete.” **AER**



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