OPINION

Inform The Annuity Agent When Bad Stuff Happens At An Insurer

By **Danny Fisher**

Danny Fisher, CLU, ChFC, is publisher of Fisher Annuity Index, Dallas. E-mail him at Danny@MrAnnuity.com

Like it or not, bad stuff happens, even to insurance companies.

In the early 1990's, a rash of life company failures hit. Since then, laws have been enacted to dramatically improve the financial stability of insurers. However, even with the best of oversight, a few companies have still gotten in financial trouble.

Given the proper time, most, if not all will not only survive, but thrive. The problem is, what do the three interested parties do during the "rehabilitation?"

The first priority for regulators, insurers, agents, and clients is to protect policy values. Everyone is working towards the same goal. They just have different perceptions on how to do it and "therein lies the rub!"

Clients who own life and health policies seem to take it in stride and weather the storm very well when an insurer is in peril. But, if the client owns an annuity from a troubled company, the fear factor increases considerably, bordering on hysteria.

As the saying goes, the best defense is a good offense. Financially troubled companies should aggressively provide timely and accurate information to agents and clients on plans to restore the company's financial integrity.

If the problem is one that can be solved in a short few months, care should be taken not to frighten clients unnecessarily. Still, agents always need to know what is going on.

On the other hand, if the company is receiving bad press and the problem is going to take time to resolve, tell the agents *and* clients exactly what the insurer is doing to solve the problems.

These suggestions result from witnessing past financial company struggles. In every instance I'm aware of, the insurer distributes little or no information to agents or policy owners. The attitude seems to be one of keeping agents in the dark. The companies usually send a short note stating all is well and not to worry, but there is little substance and no hard facts in those communications.

If the client owns an annuity from a troubled company, the fear factor rises considerably

With no information, agents and clients are left to come up with their own interpretation of what's happening. The natural instinct is to predict the worst-case scenario.

Professional agents take their fiduciary responsibility to clients very seriously and have a zealous desire to offer the best advice possible, but they can't do it in a vacuum. Without the facts, the tendency is to cut and run, with the agent and client taking a "better safe than sorry" attitude.

Agents are between the proverbial rock and a hard place on this issue.

If the agent advises their clients to move the money, often inflicting surrender penalties and loss of higher renewal rates and then nothing happens to the company, the agent is viewed as inept and greedy for a new commission.

On the other hand, if the agent does not tell the client of the problems and the company is placed in receivership, with funds frozen, the agent is viewed as inept and uncaring.

Agents need help in making proper recommendations to their clients. That information can only come from the home office and/or regulators.

I've seen situations where companies were placed in rehabilitation and no information distributed to agents or clients for months and even years. That situation is intolerable and cruel.

Clients hound agents for information that is simply not available. In that situation, I blame the regulators from the various Departments of Insurance.

Complicating matters is the fact that distribution of information from the insurer's home office typically is not possible. That is because most, if not all, of the executives and staff have been fired.

If a company is in trouble, and before the regulators step in, it is the direct responsibility of the chief executive officer to make certain that the insurer has distributed reliable and factual information about the situation to the agents and clients. For example, if the CEO has a plan to improve the financial status of the company, it's a no-brainer to tell the agents what that plan is.

Another observation: When a company gets in trouble, the home office very quickly starts treating agents as pariahs, unimportant and something to be dispensed with. But, if the company starts to thrive and wants to sell more policies, then the home office executives start trying to woo agents back with sweet stories and inducements.

It would be much easier to get business going again if the insurer kept agents as friends and partners, rather than discarding them like old shoes.

When bad stuff happens to an insurance company, no one likes to talk about it. But it does happen. Thankfully, these are rare events.

True, regulators have strict laws and procedures they can use to solve the financial problems. However, virtually no directions exist for how companies are to deal with agents and clients in a more forthright manner. This is a situation that needs to be rectified.

My best advice to a regulator or CEO of a troubled company is notify the agents and clients every month as to what steps are being taken to safeguard policy values. It is money well spent to shore up faith and confidence in any insurance company. **NU**

J:\wordc\articles\Stuff1.doc