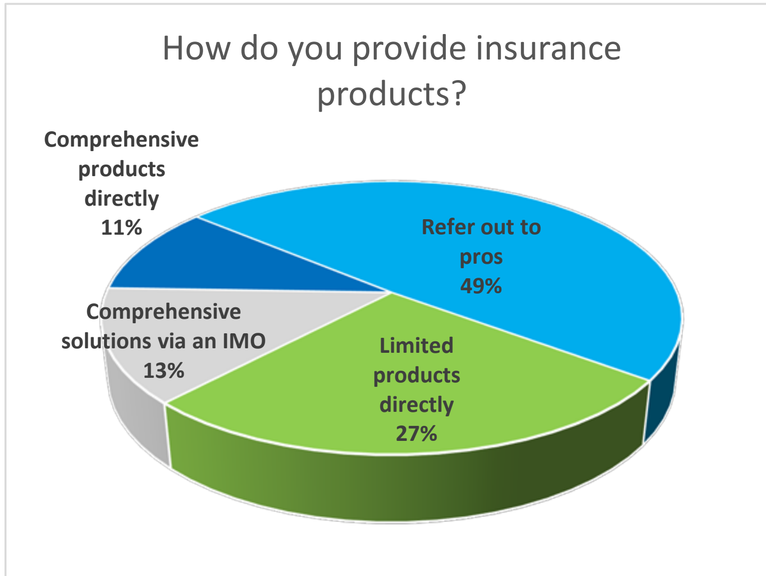
dpl financial partners

RIA Insurance Planning Benchmarking Survey: Executive Summary & Key Findings

I. Introduction

A recent survey of 118 registered Investment advisors by DPL Financial Partners that sought to document industry attitudes and practices regarding insurance products revealed a material disconnect. While 70% of advisors generally agree insurance is essential—calling it "an important component of a holistic financial plan" —only 25% offer clients a full range of insurance products directly.

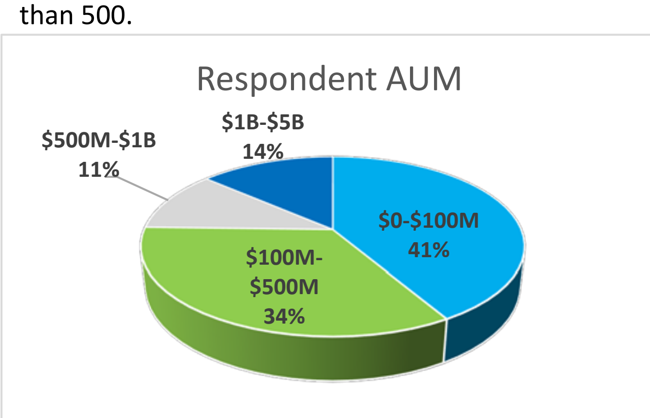


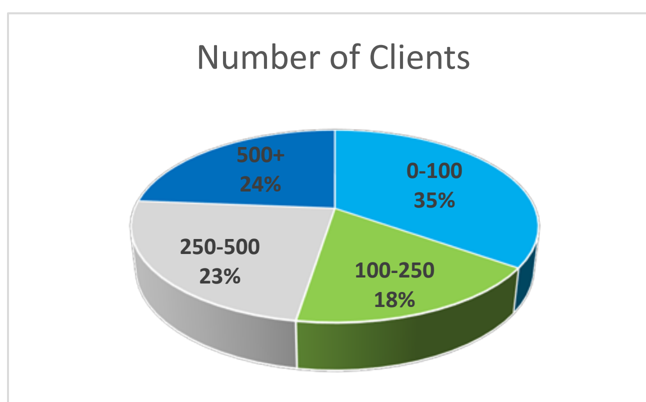
Nearly half the responding advisors reported referring the business out to third parties (and in our experience, such handoffs are extreme, with the advisor often completely out of the picture while their clients work directly with an insurance specialist), and a further 27% of respondents indicated that they offer only a limited set of insurance products.

II. Respondent Demographics

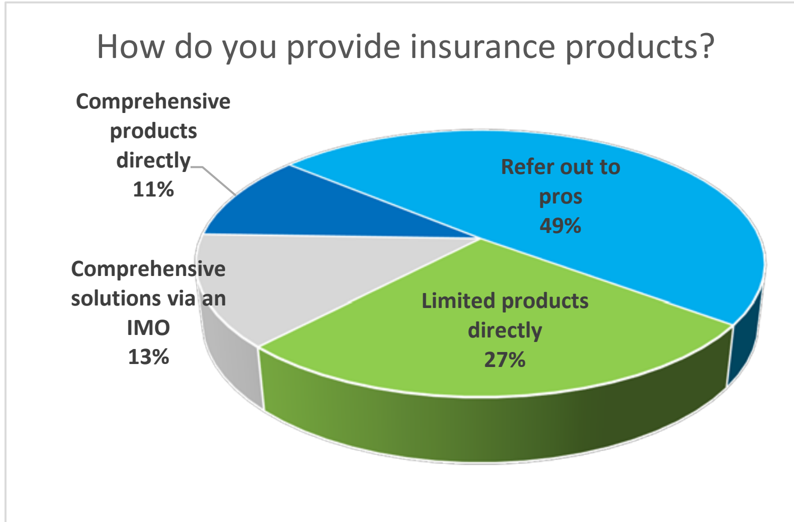
Survey respondents represented a broad cross section of the industry.

In terms of AUM, three quarters of respondents were advisors with up to $500 million in assets under management, 11% had $500 million to $1 billion and 14% had AUM north of $1 billion. In terms of number of clients, 35% had fewer than 100, 18% had 100-250, 23% had 250-500 and 24% had more than 500.



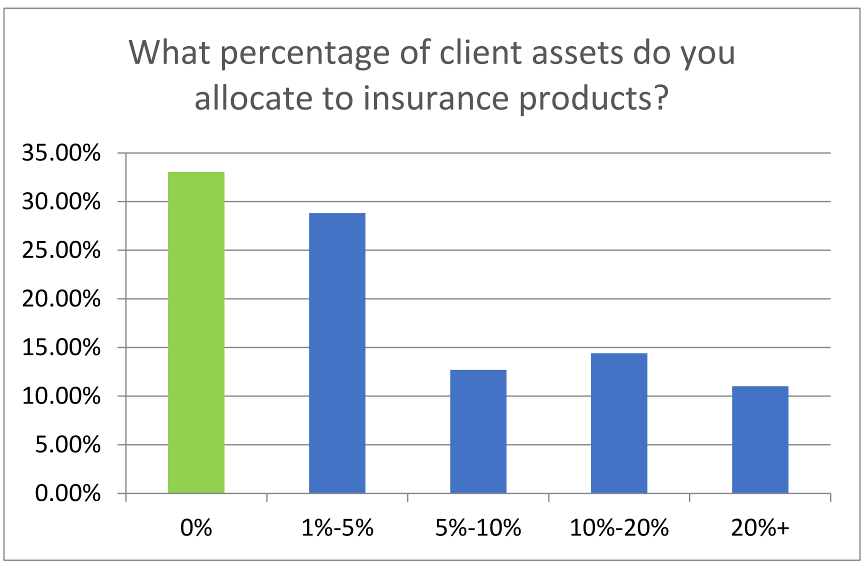


III. General Insurance Practices and Views

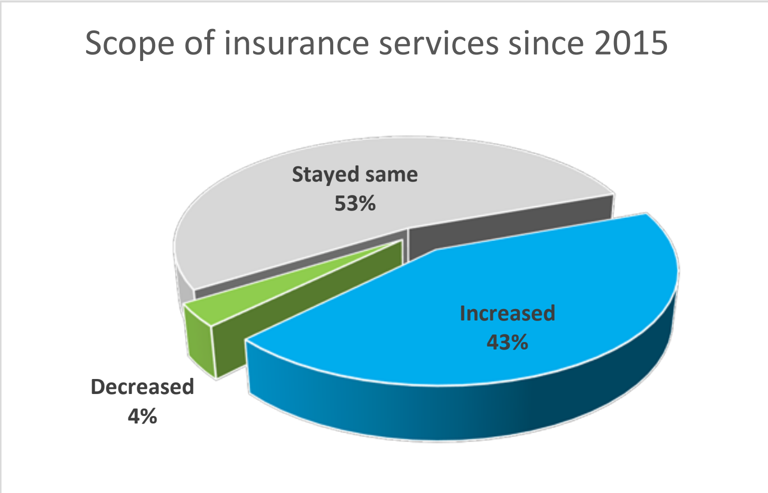


In response to the question "Does your firm currently offer insurance planning?" a full 88% of respondents said they offer insurance planning in some form, while 8.5% of respondents said they don't discuss client insurance needs and 3.5% said they advise clients against using insurance products.

Most strikingly, among the nearly 9 out of 10 respondents who said they currently offer insurance planning, the most prevalent strategy (49%) is referring the business to insurance professionals, followed by offering a limited array of insurance products directly (27%). **In other words, the vast majority of advisors offer insurance planning, but they clearly don't believe they have a good solution for their clients since they are either handing the business off to other professionals or, alternatively, constraining their activities to a limited product set.**

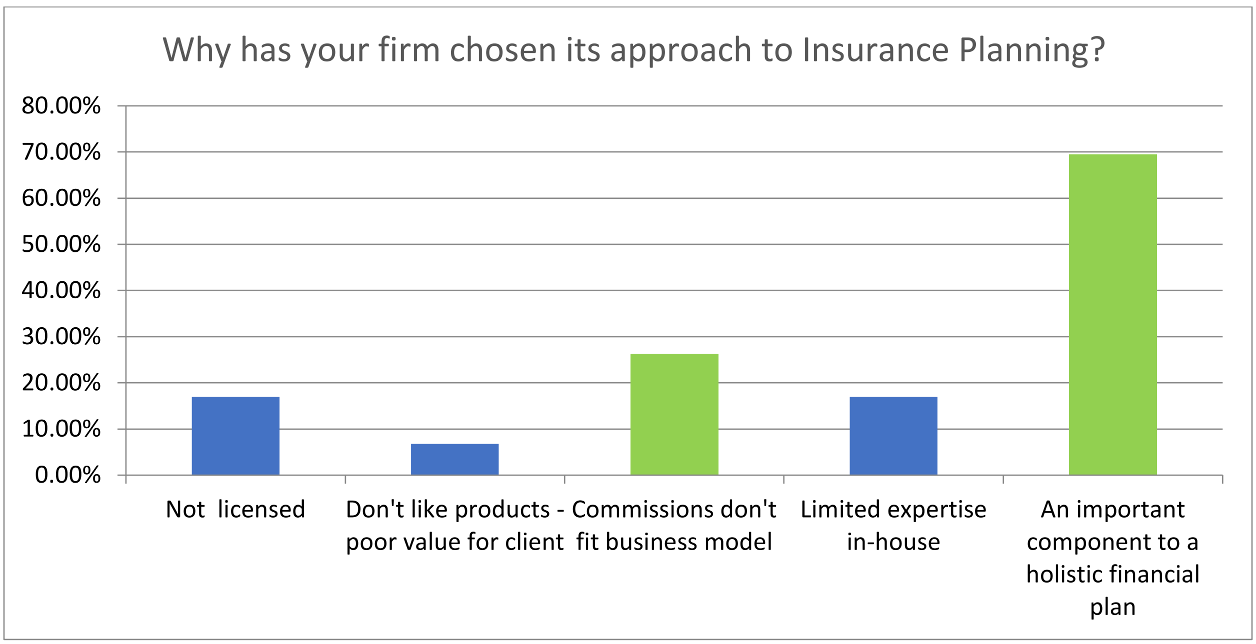


We also asked participants what percentage of client assets they allocate to insurance products and a full one-third of respondents said 0%, while 29% indicated a 1% to 5% allocation. **UPSHOT: The large 0% allocation likely stems from the fact that many advisors aren't actively managing their clients' insurance assets or making allocation decisions. What this unfortunately reveals for the 88% of RIAs who offer insurance planning is a missed opportunity. Advisors create financial plans that incorporate their clients' insurance needs and take the time to make insurance product recommendations. However, they miss out on the opportunity to manage the assets and therefore lose control/visibility over an important part of their clients' portfolios.**



A full 43% of respondents reported increasing the scope of their insurance activities in the last two years and 53% said they either increased them or kept them the same. **UPSHOT: Despite the challenges in offering insurance products in a fee-only environment, nobody is backing away from the market; clearly RIA clients are pushing for insurance planning and advisors wish to meet their clients' needs.**

NOTE: *Among smaller responding firms (those with less than $500M in AUM), relatively fewer—i.e. only 35%--said they have increased insurance planning.*

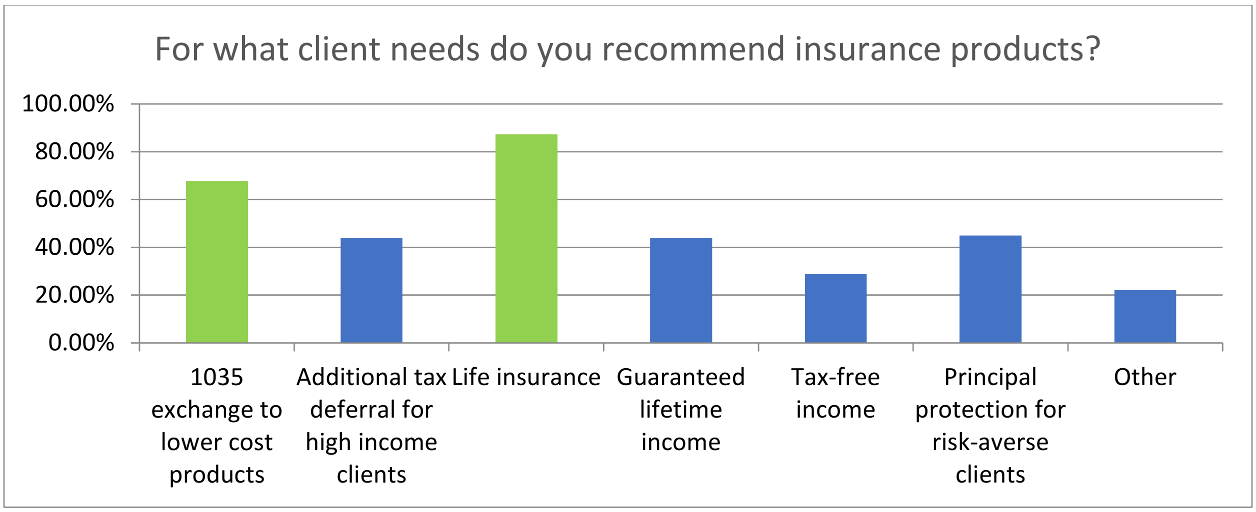


Asked for the rationale for their approach to insurance planning, the largest number of respondents by far, 69.5%, said it was because they believe insurance is "an important component to a holistic financial plan." Yet, the second most common response to the "approach rationale" question was: "Lack of fee-based products - commission doesn't fit my business model." **UPSHOT: Clearly most RIAs think they *should* be offering insurance planning, but it is equally clear that there is a misperception that there are not products available that are suited to a fee-based business model.**

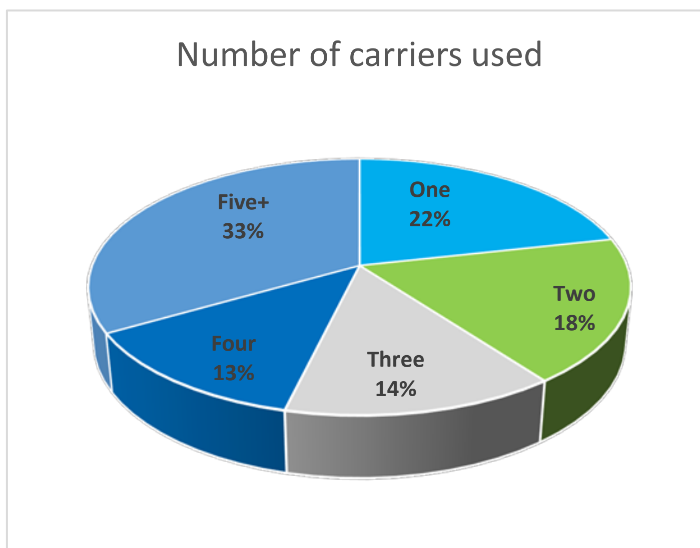
When asked for what client needs RIAs recommend insurance products, life insurance was the most common need (87%), followed by 1035 tax-free exchanges into new policies (68%).

More than half (52%) of the respondents with $500M or less in AUM also cited Principal Protection for Risk Averse Clients as a need they meet with insurance products, versus just 24% of the larger firms.

NOTE: In our experience, most 1035 tax-free exchanges are in relation to variable annuity products and the catalyst for the exchange is cost savings. However, it is worth noting that there is a whole suite of insurance products, including life insurance and fixed annuities, that can benefit from 1035 exchanges. And while cost savings should always be the prerequisite for an exchange, there are a host of other benefits RIAs can reap for their clients such as better income guarantees, more tax efficient withdrawal mechanisms or guaranteed death benefits.

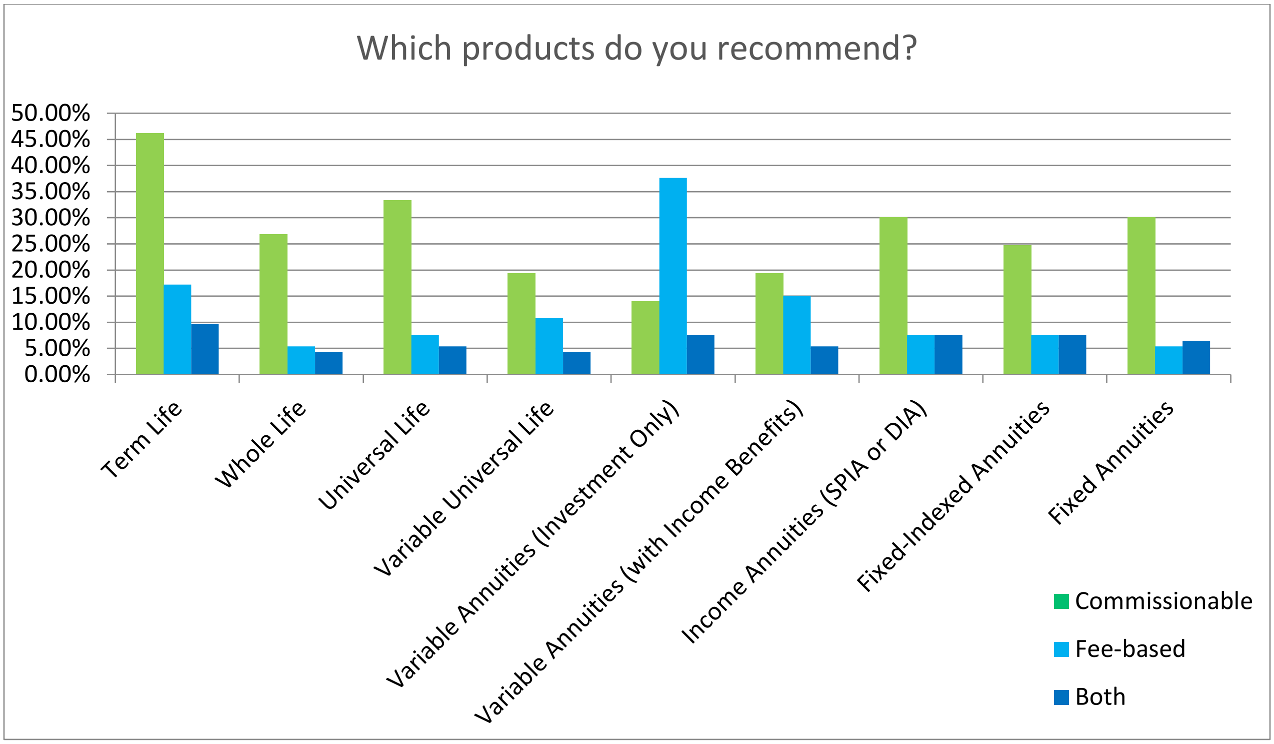


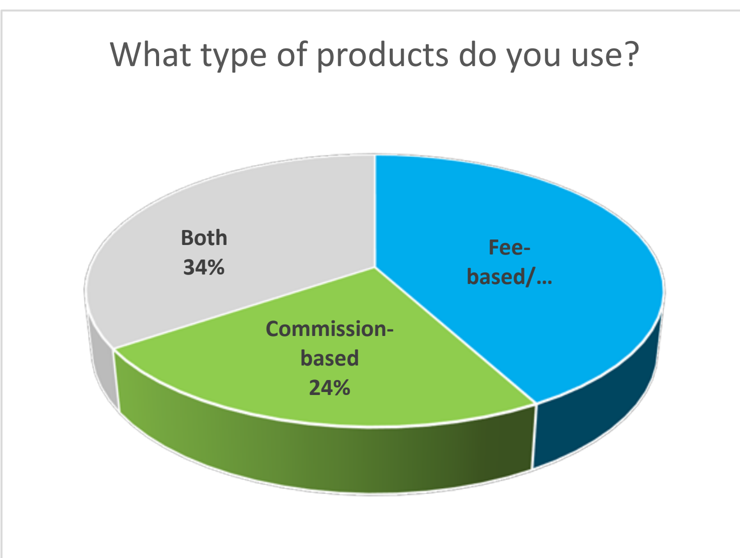
Among the respondents that do offer insurance products, one-third said they work with five or more carriers. **UPSHOT: That is a lot of relationships to manage and we assume those advisors working with five or more carriers are doing so because of the challenge, documented elsewhere in the survey, of finding best-in-class products that suit their clients' needs and are aligned with their fee-only business models. We believe many RIAs would benefit from an offering that consolidates "RIA-appropriate" insurance products from multiple carriers under a single umbrella.**



IV. Insurance Products

Among respondents that offer insurance products, term life insurance was the most popular (75%), followed by variable annuities. **UPSHOT: 1) The vast majority of RIAs who recommend term life insurance are using commission-based products—simply because there are virtually no fee-based life insurance products available. 2) From the popularity of variable annuity products, it is clear that RIAs have been deeply focused on annuity rescue business.**



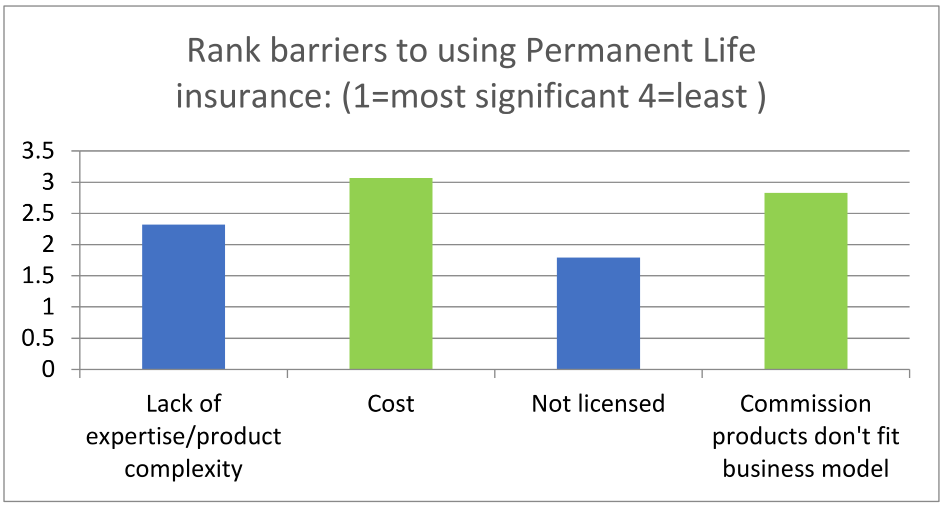


When recommending products, there was a bias to fee-based, versus commission based. **UPSHOT: It's unsurprising that RIAs would gravitate toward fee-based products, but the fact that 58% of fee-based RIAs use commission-based products or a combination of commission- and fee-based is somewhat surprising.**

Although perhaps it shouldn't be. After all, we found that 70% of advisors view insurance as an important component of a holistic financial plan. We also know that, historically, the market has been dominated with commission-based insurance products. So rather than sit back and do nothing about their clients' needs, advisors have been forced to find the best possible insurance solutions given the products available, many of which are commission-based. And this appears to be the mentality at RIAs of all sizes—large and small alike. In fact, Michael Kitces' 2015 analysis of CNBC's "Top 100 Fee-Only Wealth Management Firms" found that 9 out of the top 10 firms in the U.S. were not technically "fee-only" because of how they handled insurance products.

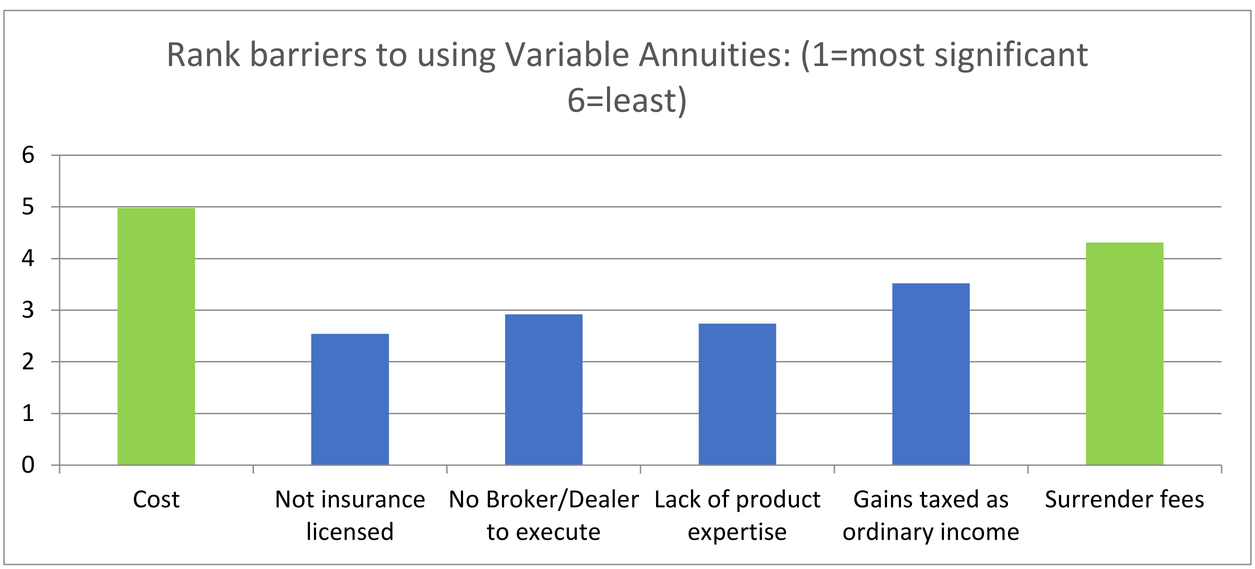
Another theme that plays into this finding is fee pressure. As a growing number of RIAs look to expand into insurance, commission-based products are all they know. In fact, one large RIA with whom we spoke said he was considering having his advisors obtain insurance licenses because it was an opportunity to meet clients' needs *and* generate revenue.

However, the world of insurance products is changing, with more fee-based products coming to market. Advisors who have reluctantly used commission-based products to meet their clients' insurance needs now have options.

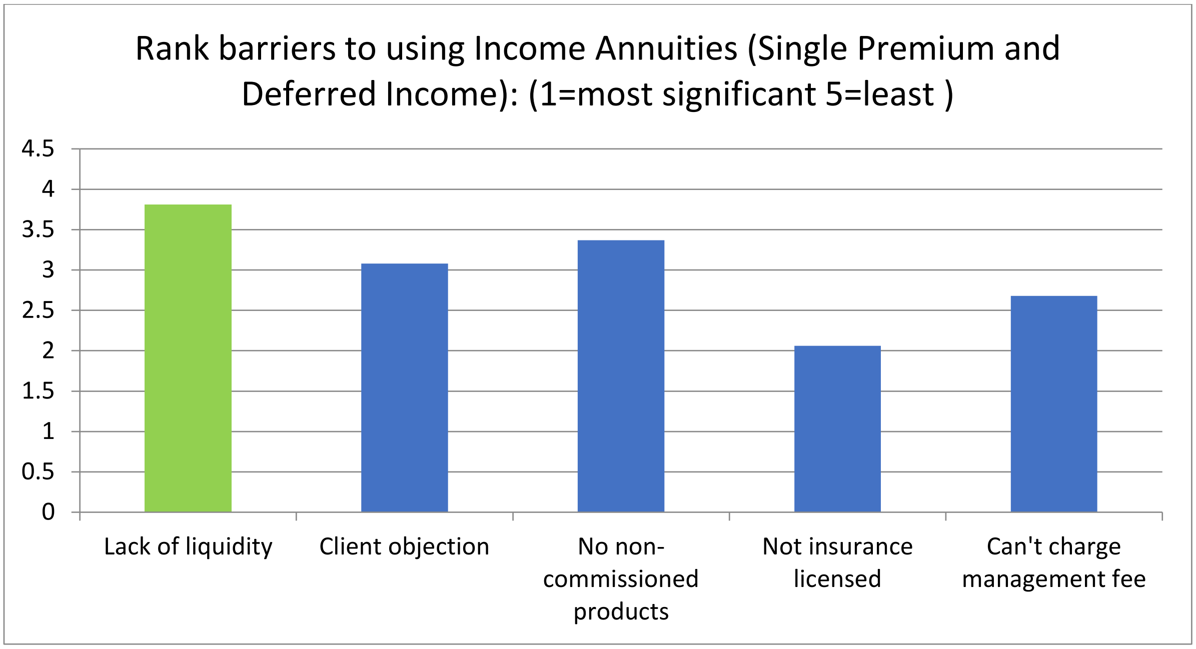


Echoing the lack of fee-based insurance products, our survey found cost and poor match of products to business models the two most significant barriers to using Permanent Live products.

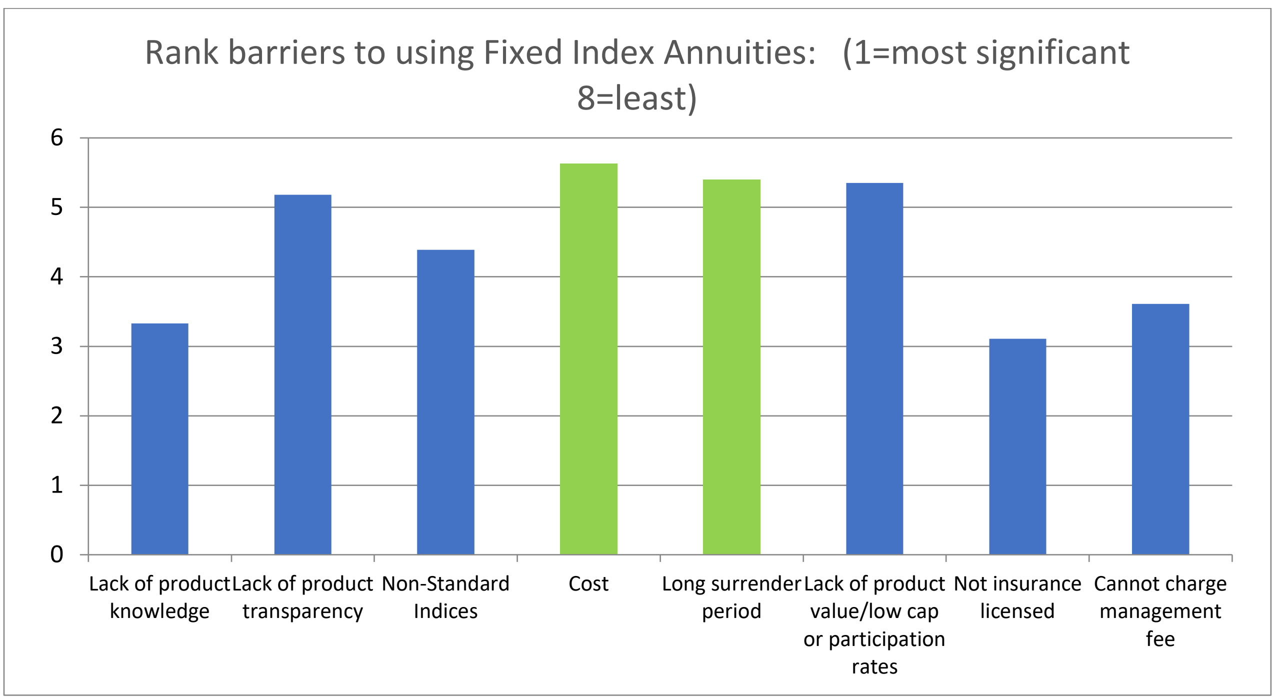
As far as barriers to using variable annuities, cost and surrender fees were the most significant.



Poor liquidity and the lack of non-commissioned products were the biggest obstacles to using income annuities.



There were multiple significant impediments to using fixed index annuities.



V. Conclusion

There is no question that insurance, a market historically driven by sales commissions, represents a thorny challenge for fee-only investment advisors. But the disconnect between what RIAs acknowledge is an important client deliverable and what they are, in fact, delivering, also presents a significant opportunity for advisors looking to tap into the $4 trillion annuity market and $12 trillion life insurance market that was previously out of reach.

From fixed-, variable-, and income-annuities to whole-, term-, and permanent-life policies, today's insurance market offers a broader array of low-cost, no-commission options than ever before—products that are compliant, simple to understand and easy to roll into a fee-only advisory relationship. Firms like DPL Financial Partners are ushering in a new generation of insurance products help advisors better serve their clients, differentiate their service offerings and ultimately grow their practices.

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