

# Insurance broker-dealer transformation: navigating a path forward

By Darren Tedesco

## Inside you'll learn:

- The technology hurdles that insurance broker-dealers must overcome to compete as providers of holistic wealth management advice
- Data's transformative effect in closing the relationship gap between insurance agents and their clients
- What to consider when optimizing technology choices for time, cost, and/or scope
- Three examples of how insurance agents might use Advisor360's platform to help clients



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Technology has democratized wealth management, making financial advice accessible to any household regardless of their investable assets or income amount. “Robo-advisors” offer automated investment solutions. Commission-free trading exists for some investment products. And the evolution of planning tools, investment research, and apps have reduced the need for financial advisors for the self-directed types.

The coronavirus pandemic has only accelerated technology adoption across most of the wealth management industry. Advisors of all stripes have found that connecting with clients over Zoom or other videoconferencing tools can complement traditional face-to-face meetings.

Throughout this technological transformation, insurers seem to have missed a step in how they communicate with clients about financial planning. While insurance may play an important role in wealth management as an estate planning strategy for high-net-worth individuals, for most households, insurance products are largely deemed as a necessary protection for safeguarding the future.

If the insurance industry is going to establish its rightful seat at the wealth management table, insurance broker-dealers need to make it easy for their agents to step into a financial advisory role. Agents need to be equipped to offer financial planning advice, products, and solutions that account for their clients’ entire financial lives. They must see clients through a lens that is wider than just home, auto, disability, life, or long-term care insurance.

**“It’s crunch time for insurance broker-dealers: thanks to technology, clients and agents have more options about where they do business than they did five years ago. The competitive landscape in wealth management is such that there’s no longer a debate about the need for better technology.”**

**– Gretchen Wilson, FinTech start-up consultant and former John Hancock and Fidelity executive**

Acknowledging that it is time to modernize the tech stack to remain competitive is the first step. Figuring out how to do so—whether through a custom-build, in-house solution, off-the-shelf apps and tools, or some combination of these—is the next hurdle confronting this industry.

Says insurance and FinTech executive Wilson, “Insurance broker-dealers have tried to solve their technology issues in-house for themselves for years and, for a variety of reasons, they haven’t been able to figure it out. They’ve been talking about data integration for at least two decades, but no one has invested the right resources in R&D to get it right.”

## Insurance broker-dealers fell behind in technology investments

Why have insurance broker-dealers fallen so far behind others in leveraging technology to improve the end user experience so that it ultimately drives more client assets into their firms?

Unlike other areas of wealth management that are becoming increasingly fee-based, the commission-based approach to the way insurance agents are compensated still dominates. This has impacted how insurance products are sold and the technology investments that broker-dealers have been willing to make to facilitate growth.

Part of the reason this approach still exists is that the sales cycle of insurance products takes longer to complete than other financial products. The paperwork and regulatory scrutiny are demanding, and it can take time to get the appropriate paper documents from various sources.

**“Product was driven from the insurance broker-dealer outward to customers. Now, the convergence of technologies is coming at a time when the barriers to entry for start-ups has never been lower and insurance agents are seeing opportunities to do things better, faster, and cheaper. Insurers need to innovate or they will perish.”**

**– Gretchen Wilson, FinTech start-up consultant and former John Hancock and Fidelity executive**

For most insurance broker-dealers, that means the race to innovate and upgrade is happening now. In a competitive marketplace, there is little room for failure, which make execution risk and cost overruns major concerns.

And though newer technologies allow companies to buy the various tools and applications needed, there are implementation and management concerns to contend with at the outset and after launch. Most insurance broker-dealers do not have IT staff bandwidth and business resources to build, manage, and support a data integration platform at scale over time.

As it has done with every industry it touches, technology is transforming the way the insurance industry will relate to its customers and meet their needs. Technology will continue to commoditize the product-centric approach to insurance until it is no longer a viable means for doing business. Insurance broker-dealers need to drive the cultural change necessary to move from a product-driven approach to one centered around customers and their needs.

Consider: Amazon forever changed the way consumers shop retail, and we text, talk, and video chat with one another over a variety of mobile devices. The advent of robo-advisors has lowered the fees charged to trade securities and has altered how some advisors charge for financial planning advice and investment management. And we are seeing the rise in insurtech start-ups offering a fully digital underwriting experience with immediate approval.

The advent of these online-only insurance experiences and the rise in mobile apps that facilitate customer engagement show that the shift is already underway. According to EY, 80% of consumers are willing to forgo person-to-person engagement with insurance agents or brokers in favor of using digital and remote contact channels (i.e., web chat, email, mobile apps, video, and phone).<sup>1</sup>

<sup>1</sup> [“Seven technologies insurers must master for digital transformation,”](#)  
EY Americas,  
April 29, 2019

## Building a path forward

Unfortunately, the current technology ecosystems in place today at many insurance broker-dealers are not structured to facilitate the agent's transition from a product-centric to a customer relationship-centric approach. Disparate and disconnected platforms are the norm because legacy technology was not designed to integrate at the enterprise level.

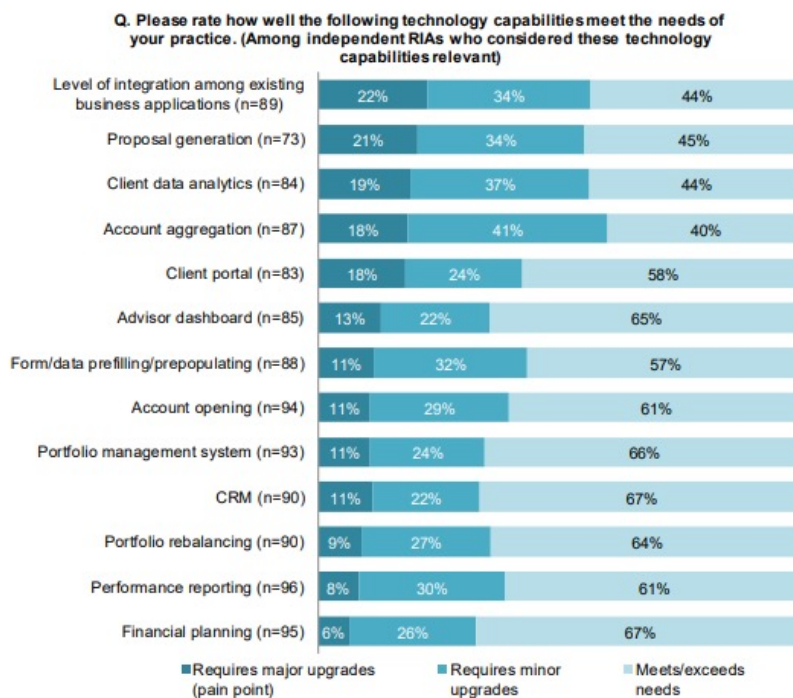
Compared to their peers at competitor companies, the insurance agent is at a disadvantage because she cannot easily see the big picture for her clients. There is no single view of each client's household profile showing investments, savings accounts, along with the insurance policies they own (or do not own), such as term and whole life policies, disability policies, annuities, long-term care, and policies that are pending but not in force while in underwriting.

The result: agents are using data that is often incomplete, outdated, or inaccurate.

Multiple legacy systems do not “talk” to each other, so insurance agents must toggle between several applications, tools, and platforms to gather information that can help them better do their jobs. This involves using multiple sign-ons to collect data that may or may not be correct or streamlined. The steps involved are complicated and time consuming.

Moreover, while agents may have plenty of detail on the products offered by their employer, they have few details on products sold by others. The details that do exist about non-proprietary offerings live in a separate technology platform. To make matters more complicated, clients' pending policies are often housed in a different platform.

## How well technologies meet advisor needs



Aite Novarica Group examined advisor technology pain points. They found that the level of integration among existing business applications did not meet the needs of the practice for more than 50% of advisors.

*Note.* Aite Group's survey of 400 U.S. financial advisors, April to June 2019.

**“To deliver optimal outcomes, wealth data should not be siloed by application, account, or person. Yet most firms struggle with where to situate data as they integrate technology. The firms that have an integrated data layer across all wealth types are the firms that will leapfrog the competition.”**

**– Alois Pirker, Director of the Wealth Management Practice at Aite-Novarica Group**

To truly deliver great outcomes for clients, insurance agents need to work off a dashboard based on a technology platform that weaves together data from the spectrum of financial offerings, not just proprietary insurance products. This includes having easy, one-click access to data and information on things like:

- Insurance products: proprietary and non-proprietary offerings
- Securities: equity and fixed income such as stocks, bonds, MFs, ETFs, SMAs, etc.
- Annuities
- Various product wrappers: 401(k), 529, SEP, IRAs, etc.
- Real estate: primary residence and other assets
- Other illiquid assets
- Trust and estate documents, health care proxies, and more
- Liabilities

It is clear that the real digital transformation for insurers is going to take place in the back office, through technology that integrates their data. In the aftermath of the coronavirus pandemic, it seems that insurance broker-dealers are finally ready to do something about this longstanding and widening gap in innovation.

**A recent survey of insurance executives by the Deloitte Center for Financial Services<sup>2</sup> found that insurers’ top two priorities are tied to implementing new technology. Their chief concerns are to enhance efficiency and to improve customer experience.**

<sup>2</sup> “Deloitte Insights: Midyear 2021 US insurance outlook,” Deloitte Center for Financial Services, 2021

<sup>3</sup> [“What’s on the minds of Life Insurance Executives: Responding to the Moment, Looking to the Future,”](#) LIMRA and Boston Consulting Group, 2021.

A 2021 survey from LIMRA and Boston Consulting Group<sup>3</sup> found that 40 percent of C-level life insurance executives say technology is their company’s biggest internal challenge. In addition, the majority of executives surveyed report that digital automation and data science and analytics are the most critical technologies to their organization’s success over the next five years, followed by customer service technologies, legacy systems and modernization, and cybersecurity.

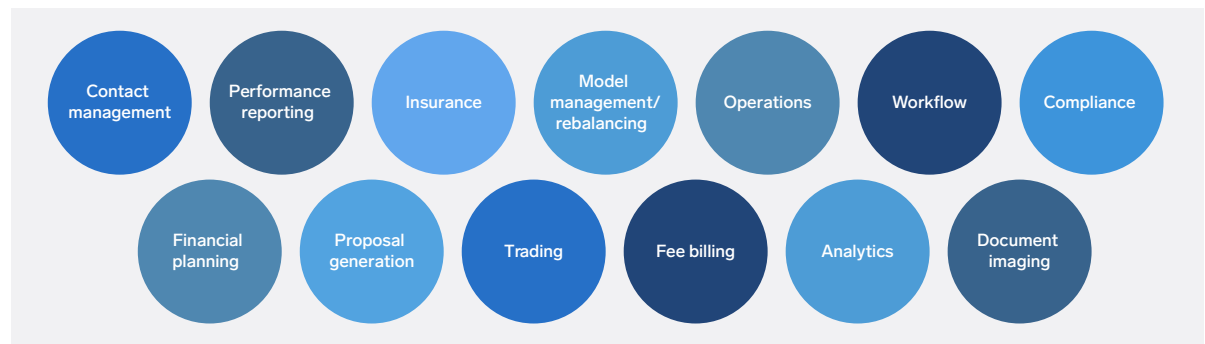
Investing wisely to address these systemic data challenges means going beyond the organization’s patchwork of mismatched systems and applications. Instead, firms must solve the underlying problem with their technology backbone.



To transform into customer-centric organizations with a unified approach to wealth management, insurance broker-dealers need a technology infrastructure that unifies applications, platforms, and capabilities. This means leaning on an enterprise Software as a Service (SaaS) platform that integrates data by aggregating, normalizing, and cleansing it to help automate workflow.

### Core applications needed

The most innovative technology combines all the core applications into one intuitive, easy-to-navigate platform:



From an efficiency and operational standpoint, the ability to share and access all this data across one platform reduces data entry and automates many manual tasks. An integrated platform avoids the paradox of choice when too many choices can paralyze decision-making.

Today's FinTech offers a proliferation of "point solutions," which can be a challenge for insurance executives attempting to figure out how to bridge the data gap successfully for their organizations.

"It's no secret that the technology landscape in wealth management is highly fragmented and complex. And yet, most insurers who plan to transform legacy tech stacks don't want to be paralyzed by endless choices," notes Dennis Gallant, Strategic Advisor to the Aite-Novarica Group. "Having all they need in one platform, without more than they need, is where we see the industry heading."

While there is no single right answer to whether a company should build, buy, or integrate technology tools and applications to do better business, there are considerations to weigh in when charting a path forward.

### Deciding what to optimize when investing in technology

Mapping out the broker-dealer's business priorities helps in deciding what to prioritize when investing in technology at the enterprise level. Digital transformation is not an easy lift for anyone. Knowing what to optimize will drive the search for the right integrated solution and enable the insurer to get the most out of its technology spend. Since resources are limited, broker-dealers need to determine what's most important.

Every technology effort is bound by the triple constraints of time, cost, and scope, which is referred to as the planning fallacy<sup>4</sup>:

- *Time*—Is time on your side? Most likely no. Hofstadter's law<sup>5</sup> states that large projects take more time than anyone expects.

<sup>4</sup> Kahneman, Daniel and Tversky, Amos, Report: "Intuitive prediction: Biases and corrective procedures," 1977.

<sup>5</sup> Gödel, Escher, Bach: An Eternal Golden Braid. 20th anniversary ed., 1999, p. 152.

- **Cost**—In-depth and extensive projects mean greater costs. Additionally, most large projects come in over budget.
- **Scope**—The more involved the project, the longer it will take and the more it will cost. Scope creep, or piling onto a project once it has started, also impacts the project timetable and budget.

Time, cost, and scope are always competing with one another, so decisions need to be made about what to prioritize in technology investment. The generally accepted tradeoff is that you can get two of the three, but it's virtually impossible to have all three. For example, a relatively inexpensive technology upgrade may be deployed quickly, at the expense of having it check all the boxes when it comes to performance. Or a broker-dealer may invest in a state-of-the-art data platform that addresses every issue, roll it out in record time, and pay a premium to do so.

## An integrated data platform makes tough conversations easier

To take client relationships to the next level, insurance agents need technology that can help them have meaningful conversations about their clients' financial picture and long-term plan. "Technology is an enabler," says Wilson. "Technology allows you to solve customer needs better, cheaper, faster."

When agents can get a holistic view of a client's complete financial life, they can ask better questions and offer solutions that bring clients closer to achieving their long-term financial goals. Consider the following scenarios:

### Scenario #1: Inheritance windfall

The client calls to say that their father has passed away and, as the sole beneficiary, they have received a sizable inheritance. This type of call should prompt the agent to ask a series of questions to help their client walk through how to best allocate these funds.

For example, did the client inherit a taxable account, tax deferred account, or physical assets? Should the client pay down their debt, save more for retirement, or put the funds toward their children's education?

The Advisor360 household screen presents insurance agents with a holistic view of their client's current financial situation—from banking to liabilities to protection—so that they can counsel their clients on making the right decisions about the inheritance, based on their unique set of circumstances.

**Balances**

| Category                     | Item   | Value          |
|------------------------------|--|----------------|
| Total Net Worth              | Beginning Balance (01/01/2022)                   | \$1,270,131.82 |
|                              | Net Contributions/Withdrawals                    | \$260.00       |
|                              | Net Change                                       | \$30,807.54    |
|                              | Ending Balance (01/04/2022)                      | \$1,291,199.40 |
|                              | Total Additional Assets                          | \$1,170,308.06 |
| Total Additional Liabilities |  | -\$147,751.53  |
|                              |  |                |
| Accounts                     | Tomas Martinez IRA (0010975222)                  | \$48.89        |
|                              | Tomas Martinez Retirement Financial (0009987342) | \$45.56        |
| Total Retirement             |  | \$9.11         |
|                              |  | \$3,378.45     |
| Total Accounts               |  | \$9.11         |
|                              |  | \$3,378.45     |

**Recent Activity**

| Account    | Activity Type     | Amount |
|------------|-------------------|--------|
| 0010975222 | Interest Income   | 1.24   |
| 0010975222 | Reinvestment      | 1.24   |
| 0009987342 | Reinvestment      | -0.44  |
| 0189757773 | Buy               | -27.65 |
| 0009987342 | Dividend Received | 27.65  |

**Asset Allocation**

| Asset Category      | Value |
|---------------------|-------|
| World Allocation    | 21.67 |
| 50% - 70% Equity    | 19.57 |
| Large Cap Value     | 11.03 |
| Multi-Sector Bond   | 7.04  |
| Large Cap Bond      | 5.08  |
| World Large Stock   | 5.07  |
| Int'l/Em. Core Bond | 4.12  |
| Foreign L/C Growth  | 3.48  |
| Mid-Cap Value       | 3.30  |
| Small Cap Blend     | 3.34  |
| Target Date         | 2.97  |
| Remaining           | 13.94 |

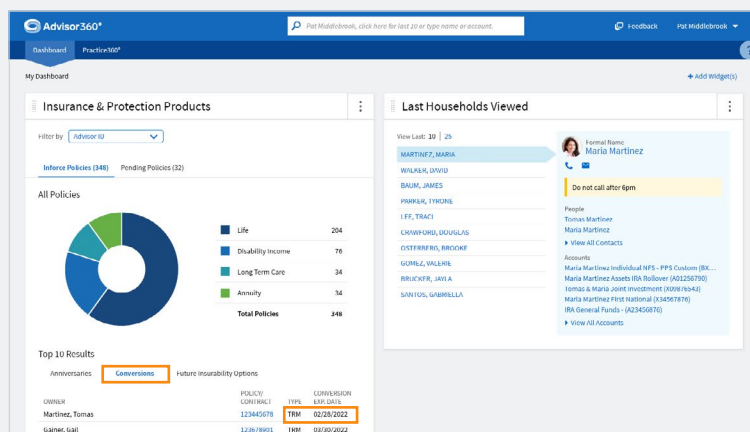
**Top 10 Holdings**

| Symbol | Description              | Value     | Pct (%) |
|--------|--------------------------|-----------|---------|
| NFSLX  | NFSL Growth Fund C1      | 40,181.07 | 18.21   |
| JULRX  | Jahar Hancock Funds...   | 34,526.90 | 15.94   |
| FNDX   | Fidelity Large-Cap Fund  | 17,124.90 | 7.78    |
| AMFAX  | American Assets Int'l... | 16,590.96 | 7.52    |
| AMFAX  | American Funds           | 15,346.06 | 6.95    |
| SPNHC  | Bank Deposit Sweep...    | 10,243.17 | 4.64    |
| NFSLX  | NFSL Mid-Cap Value F...  | 10,239.93 | 4.64    |
| FLOOF  | Fidelity Large-Cap F...  | 9,042.31  | 4.10    |
| FSPGX  | Fidelity Large-Cap Gr... | 9,030.21  | 4.09    |
| TEDGX  | Techstone Mid            | 9,002.86  | 4.08    |



## Scenario #2: Cancer survivor

The insurance agent knows that their client is a breast cancer survivor. Before her term life insurance expires, should she convert her term insurance to whole life? Frankly, she'll likely be in a higher risk class or uninsurable as a cancer survivor if she does not convert to permanent life insurance before the term conversion option on her existing policy expires.



On our practice dashboard, we provide a view of your book of business and populate 10 policies with upcoming conversion dates with easy access to that client's household and a complete list of all upcoming conversion dates.

Alert Details

|                                |                    |            |
|--------------------------------|--------------------|------------|
| Conversion Expiration Date     | Advisor ID XXX3456 | 01/02/2022 |
| Conversion Expiration Reminder | 90 days            |            |

The following prices have an expiring conversion

| Household Name | Insured        | Face Amount (\$) | Policy Name           | Policy Number | Conversion Date |
|----------------|----------------|------------------|-----------------------|---------------|-----------------|
| Martinez       | Tomas Martinez | 850,00.00        | Middlebrook Term Life | 0987654       | 01/01/2022      |

For Term Conversion Processing questions please email [Conversion Questions](#) or call 800.555.1000 x21100 and include the policy number.  
For all other products, contact the product's company.

At the practice level, we send an alert 90 days prior to a term expiration.

| Term Life Insurance   |  |  |  |  |  |
|---|--|--|--|--|--|
| <b>BASICS</b><br>1234567<br>Tomas's 25th Term JIC<br>25 Year Term Guaranteed<br>Middlebrook Insurance Co<br><br>Policy Status: ACTIVE   |  | <b>PARTIES</b><br>Owner: Tomas Martinez<br>Insured: Maria Martinez<br>Tomas Martinez<br>Maria Martinez<br><br>Primary Beneficiary: T   |  | <b>VALUE</b><br>Initial Face Amount: \$500,000.00<br>Net Death Benefit: \$300,000.00<br><br>As of 01/01/2022   |  |
| <b>PREMIUM</b><br>Rated Premium: \$425.00<br>Payment Frequency: Quarterly<br>Payment Method: Direct Bill<br>Paid to Date: 01/01/2022  |  | <b>CONVERTABILITY</b><br>Convertibility Status: NOT CONVERTIBLE<br>Convertibility Exp. Date: 01/15/2040<br>Maturity Date: 01/15/2040   |  | <b>Hide Details</b>  |  |
| <b>Policy Information</b><br>Policy Number: 123456789<br>Face Amount: \$500,000.00<br>Policy Status: Active<br>Ins. Status: Non-qualified<br>Reg Name: Pat Middlebrook<br>Issued By: Middlebrook Insurance Co |  | <b>Important Dates</b><br>Issue Date: 11/01/2021<br>Initial Download Date: 11/01/2021<br>Effective Date: 11/01/2021<br>Maturity Date: 11/01/2040<br>Value as of Date: 11/01/2021<br>Convertibility Expiration Date: 11/01/2021 |  | <b>Billing</b><br>Rated Premium: \$425.00<br>Annualized Premium: \$2,900.00<br>Premium Frequency: Quarterly<br>Premium Method: Direct Bill<br>Paid to Date: 01/01/2022 |  |

At the household level, we highlight the conversion date as a top fact on each applicable policy.

Advisor360° recognizes the importance of staying on top of dates and deadlines. The Insurance capabilities in the Advisor360° practice-level portal will show the agent the next 10 policies that have an upcoming term conversion, revealing which policy might need to be addressed. In this example, the agent can set a practice-level alert in the client's household dashboard for 90 days prior to the term policy's expiration so that the client has time to exercise the conversion option if they desire.

The ability to easily see what should be dealt with now may help the client avoid a new policy through underwriting or a doctor visit. Advisors can also see the list of disability and insurance policies that have something they may want to address.

### **Scenario #3: Ready for retirement**

Clients approaching retirement are largely shifting out of the accumulation phase of investing and into decumulation. As their agent, it's important to understand their entire wealth picture in order to recommend appropriate income generation and budgeting strategies.

In one view, the Advisor360° household dashboard gives the agent a complete picture of how things look so they can plan for the years to come. For example, if the client has been heavily weighted toward equities, are fixed-income securities more appropriate now? Is the client due a pension, and at what age should she begin taking social security? Would it make sense to take accumulated cash value on any life insurance policies if there is a cash shortage? What role can an annuity play in generating regular income? Does she have a pension?

## **To solve for the data disconnect, the time to upgrade and integrate is now**

The time for insurance broker-dealers to get on board with digital transformation is now, because it is happening with or without industry buy-in.

As the result of a convergence of industry and economic drivers, insurers find themselves at a technological crossroads. They need to enable informed agent-client communications that result in true and total wealth management. This means embracing enterprise-level technology that enables their agents to get a complete picture of their clients' household wealth, an integrated data picture of their investment and insurance holdings, as well as other assets and liabilities.

Aging clients are in the decumulation phase of wealth planning and need the appropriate guidance and tools for income generation and wealth transfer. Tech-savvy younger generations already expect a seamless, integrated service experience from their agents, and these demands will only increase.

Until insurance broker-dealers take an integrated and solutions-based approach to how their agents and clients work and communicate with one another, they will be late to the starting gate and last to finish.

Advisor360° is a Software as a Service provider that builds and delivers integrated technology for wealth management firms. The company's proprietary Unified Data Fabric™ synthesizes complex and disparate data streams into one platform for a highly sophisticated wealth planning solution. Today, 3 million households representing \$1 trillion in assets benefit from the integrated Advisor360° experience.

To learn more, visit [advisor360.com](https://advisor360.com)