> BY MARY ROWLAND

Where The Oceans Of Knowledge Meet

Some are trying to make it easier for fiduciaries to navigate the waters of fair pricing.

It's time to change my tack. Today I'm going to argue that what the insurance industry needs is not more honest people but an objective evaluation service to keep more people honest. It took me a while to get here. And I arrived because readers squawked at all my earlier arguments.

When I write a column suggesting that the insurance industry needs a better distribution system, I get a pile of letters (e-mails) suggesting that what I don't know about insurance would fill all the oceans of the world. Or my editor gets letters suggesting that he might throw me in one of those oceans and hire a new and improved insurance writer.

When I write that many fee-only planners simply refuse to get involved in life insurance because they consider commissions too slimy, I get letters from advisors telling me that their colleagues who are afraid of insurance are either ignorant or cowardly or both and I shouldn't let them off the hook for that.

Recently I heard from Edward Dee Hinds, a CLU and CFP in Paso Robles, Calif., who wrote to say that he would be happy one day to see life insurance distributed by fee-only planners, something I've been arguing for a long time. But until then, he makes a couple of practical interim suggestions: leveling out the cost of commissions rather than paying them up front in the first policy year. And requiring those advisors who don't want to learn about insurance to call themselves "investment advisors" rather than "financial advisors." By refusing to learn about insurance, these planners show "a lack of true concern for the client and for the advisor's fiduciary responsibilities," he says.

When I write a column criticizing the cost of insurance delivery, an agent writes this to me: "Have you ever tried to sell an insurance policy? It's not easy." True. But the commission paid should not be compensation for stuffing a bad policy down someone's throat. It should be for finding the best policy available for that client. I don't think we should give up on understanding life insurance, and I don't think we should give clients' money to the agents who insist they deserve it because selling insurance is a nearly impossible job and should be well paid.

OK. So now that everyone agrees with me—more or less—I'm going to argue that what we need is an objective rating system that allows even someone who doesn't know how to tear apart a policy to compare life insurance. And that also allows an advisor to fulfill his fiduciary responsibility to clients.

Let's face it. The insurance industry is secretive. Insurers don't like people to know how they hide their fees by, for example, making it possible to raise mortality expenses without telling the policyholder. This fall I had lunch with an agent who is being forced out of his company, one of the biggest insurers in the country, because the insurer doesn't like the fact that he talks to reporters and tells them "the truth" about company products. Of course we all know wonderful people who sell insurance. But we don't know many people who evaluate policies in a way the common man can understand.

Photograph by Krista Casey

I'm not here to give a sales pitch for Barry Flagg and his company, The Insurance Advisor, which is equipped to evaluate and compare policies from different companies and demonstrate which is best for a particular person. Remember, what I don't know about insurance would fill all the oceans of the world. I can't evaluate The Insurance Advisor. I can't say that it fulfills the fiduciary duties of an advisor.

Still, what I've heard about it intrigues me. Flagg claims that The Insurance Advisor is to insurance products what Morningstar is to mutual funds. Unlike other insurance services that simply provide safety ratings for companies, TIA compares two—or more—policies (either load or no-load), shows the cost of various elements of each policy and publishes ratings and research on the product.

Flagg built the system himself out of what he says was his frustration with the lack of objective ratings for insurance products. "No one would sell a mutual fund based on a 30-year projection," he says. "The insurance vehicle is no different from any other instrument you use."

The premium can be broken down into investment and expenses so that the client can see which policy is better for him and why. A subscription to The Insurance Advisor allows a user regular access to the system for $99.95 per month. A research report costs a subscriber $125. A nonsubscriber can get an individual research report for $500. Flagg got a patent on his product in 2002. The only revenues TIA collects are those paid by subscribers to the service. The research report includes a star rating like Morningstar's. These stars rate not the overall policy but rather how good a match it is for a person of a particular age and gender and health condition.

Even Glenn Daily, a fee-only insurance consultant in New York, one of the people I trust most in the industry and a very tough critic, does not have much negative to say about The Insurance Advisor. Daily looked at a sample report and says, "I can admire the work that went into setting up the report, because I know how much time I had to spend doing the formatting for my life settlement service." And, Daily adds, "I certainly don't put [Flagg] in the same category as the other goofballs who pop up from time to time with a new way of viewing life insurance." For Glenn, that's pretty high praise.

Carolyn Lloyd-Cohen, who has her own financial advisory firm, Carolyn Lloyd-Cohen LLC in Clifton, N.J., says she uses The Insurance Advisor to fulfill fiduciary responsibility when comparing two products from two different companies or when deciding whether a client should replace a policy. Recently, a large international bank hired her to tell them whether a client should replace a variable policy. "If you're a good salesperson, you could always talk someone into replacing," she says. But Lloyd-Cohen wants to make sure her advice is objective and that she's doing the right thing for the client. In this case, she was able to tell the bank that its client had the best policy she could get.

"Barry has done a really good job of putting together a program to help you understand who is taking the risk," Lloyd-Cohen says. If she were a trustee on a life insurance policy and she checked the policy with The Insurance Advisorp every three years, she says, "I would feel I was doing my fiduciary duty."

So how did Flagg get involved in evaluating insurance? He says part of it has to do with how much he admired his father, David C. Flagg, who graduated from Yale University in three years and was "putting the words 'financial' and 'planning' together in the late '60s." When the younger Flagg was in college, he thought about doing what his father did. His father told him that the whole financial planning system was set up backwards. The way it worked, Flagg's father said, was that you sold products and then you developed the knowledge you needed to sell them. "If you want to join as a professional, develop the technical excellence first," Dad advised. He also told his son that "the investment and insurance worlds are going to come together. So learn about insurance."

Flagg earned his CFP designation when he was 19 years old and spent three years interning at his father's firm, Deferred Benefit Corporation in the Springfield/Millburn area of New Jersey, while he finished college. He then set out to add insurance expertise to his resume. Flagg worked as a case designer and eventually sold insurance for a number of insurance companies. In the mid-1990s, he began to collect data for what would become The Insurance Advisor. He says he started to put the company together in 1999 because "I thought that no $3 trillion market could go without ratings forever." Flagg says he overspent on technology early on. "I pride myself in being a contrarian but I got caught up in the euphoria of the dot.com bubble."

It strikes me that Flagg may have had another problem as well: His father was a visionary who saw the insurance and investment worlds coming together and who believed that one needed technical expertise to survive in the new financial world. Did he see the insurance world becoming rational? Did he envision insurance agents looking for objective ratings?

I wonder if he would be surprised today to see the great divide between those who sell insurance as a fiduciary for clients and those who shovel it out the door like they are working in a stable. Keith Singer, a CFP and lawyer in Boca Raton, Fla., writes that if insurers could eliminate the cost of distribution and still operate with equal or greater profitability, "I'm sure they would." But the problem for consumers would be that they would have to pay for insurance planning advice on their own, Singer says.

Singer put his finger on the problem. Everyone who buys insurance pays for advice on which policy to buy. Some get unbiased advice. Many get no advice at all.

No doubt Singer is providing prudent advice to his clients. If clients got to choose an insurance advisor separate from the policy, things would look different. Flagg's father was right. Investments and insurance are coming together. Now we need the objective evaluation system to show us which product is best for each client.

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