Rising customer expectations. The growth of the advisory business. Intensifying competition for the most effective distribution partners. The maturation of digital tools and other technologies. Increased regulatory scrutiny.

These are among the powerful forces that are reshaping the financial services industry and the financial advisory marketplace. Traditional categories of insurance, investment and financial planning practices are converging. Because every part of the customer life cycle has felt the impact, long-held industry assumptions are being questioned and reframed to account for the evolution in:

• What financial advisors, insurance agents and other investment professionals sell and the types of customers they serve
• How they work and connect with clients and prospects
• Why they choose to partner with financial product manufacturers and distribution organizations.

The results of a recent LIMRA-EY survey of nearly 1,500 financial advisors, insurance, and investment professionals confirm the convergence of various advisory practice models.

Further, they clarify what advisors want from insurers and distribution partners as they seek to harness growth and stronger customer relationships: attractive products to offer clients, enhanced support, faster and superior service, and improved digital capabilities.

The changing nature of how advisors interact with clients may dramatically shift expectations regarding capabilities and in turn, offer new opportunities to carriers and distributors alike.
About the study

To explore the needs and attitudes of financial professionals, EY and LIMRA jointly conducted an online quantitative survey of approximately 1,500 financial advisors from seven common insurance, investment and advisory practice models. Respondents had a minimum of three years of sales experience in the industry and met minimum income thresholds for their practice models (see below). The questions focused on:

- Recent and future growth
- Drivers of productivity
- Technology usage
- Services and support they expect from their organizational partners

The survey findings can help insurance companies and other financial services organizations align their products and service models to engage with different types of advisors as traditional boundaries in the industry continue to blur.

**Minimum gross income thresholds**

<table>
<thead>
<tr>
<th>Practice Model</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple-line exclusive agents (MLEAs)</td>
<td>$50,000</td>
</tr>
<tr>
<td>Career agents</td>
<td>$50,000</td>
</tr>
<tr>
<td>Independent agents</td>
<td>$70,000</td>
</tr>
<tr>
<td>Bank financial advisors</td>
<td>$70,000</td>
</tr>
<tr>
<td>Independent broker-dealer advisors</td>
<td>$100,000</td>
</tr>
<tr>
<td>Registered investment advisors (RIAs)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Full-service broker-dealer advisors</td>
<td>$150,000</td>
</tr>
</tbody>
</table>
Key findings:

1. **Growth: advisors are growing and optimistic.**
   Thanks to significant practice growth during the last few years, advisors feel empowered and optimistic about their future prospects. It has also increased their expectations for service and support from insurers and other ecosystem partners.

2. **Convergence: convergence blurs traditional lines and intensifies competition.**
   The changing business mix (i.e., investment products, life insurance, annuities, advisory-related fees and other insurance products) means more types of practices now offer a broader range of products and services and compete more intensely for similar customers.

3. **Technology: digital is essential and growing exponentially.**
   All types of advisors are incorporating digital tools for marketing, prospecting, client communication and other tasks; the trend is certain to continue.

4. **Collaboration: teaming and practice support are integral for many advisors.**
   More advisory practices have turned to teaming and other practice support models to keep up with complex customer needs, extend multi-generational relationships, and consolidate insurance and investment portfolios.
5. **Adaptation: fiduciary rules are the new normal.**

Regulatory requirements on fiduciary standards are expected to drive up compliance costs and efforts, and impact the products that advisors sell, though some advisors see an upside. It is safe to say some advisory models are challenged by, but adapting to, the new expectations of regulators and consumers.

6. **Increased expectations: empowered advisors expect more.**

Advisor expectations for product innovation, and best-in-class service and support are rising. Speed to market with products that address market trends and targeted support that helps advisors grow their business are the keys for insurers and distributors to win over advisors and retain their business for the long term.

Along with these key findings and the supporting survey data, financial services executives hoping to understand and navigate the changing distribution landscape will want to consider the implications presented in this report.
1. Advisors are growing and optimistic.

All types of advisory businesses are growing; 8 of 10 survey respondents report significant gains in gross income the last few years. Income growth rates exceeded double-digits across all types of practice models over the two-year period (see Figure 1). While many advisors benefited from market gains that increased the value of their book of business and the volume of assets they manage, half of the survey respondents reported that the increase in their income was due to growth in the number of clients.

As a whole, survey respondents reported 22% growth in their client base over the two-year period. Other growth metrics, including assets under management (AUM) and life insurance in force, showed a similar trend in almost all cases.

---

**FIGURE 1: INCOME GROWTH RATE BY ADVISOR MODEL**

- Multiple-line exclusive agent: 12%
- Career agent: 15%
- Independent agent: 23%
- Full-service broker-dealer advisor: 22%
- Independent broker-dealer advisor: 19%
- Bank financial advisor: 16%
- Registered investment advisor: 25%
2. Convergence blurs traditional lines and intensifies competition.

Traditionally, practice models have been closely associated with certain product sets. Now all types of advisors offer a wider array of products and services with a variety of compensation models (see Figure 2). The blurring of the traditional lines amongst types of advisors can be seen in a few of the detailed survey results:

- Fee-based and advisory businesses are now integral to the practices of many investment-oriented professionals. For example, fee-based advisory services have steadily increased for full-service broker-dealer representatives and now accounts for nearly half of their total business mix.
- Life insurance was once the dominant product line for career and independent insurance professionals. Today, it accounts for less than half of their business. Other LIMRA research confirms that career insurance agents now receive less than half of first-year commissions from the sale of life insurance.
- Annuities, investments and other products now make up a larger percentage of the business mix for all types of insurance-oriented advisors.
- While the promise of life insurance has yet to fully materialize in investment-oriented channels, there is an increased appreciation of insurance solutions.

**FIGURE 2: ADVISOR BUSINESS MIX**

```
<table>
<thead>
<tr>
<th></th>
<th>Life insurance</th>
<th>Annuities</th>
<th>Other insurance products</th>
<th>Investment products</th>
<th>Advisory</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple-line exclusive agent</td>
<td>77%</td>
<td>4%</td>
<td>14%</td>
<td>30%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>Career agent</td>
<td>41%</td>
<td>21%</td>
<td>17%</td>
<td>32%</td>
<td>31%</td>
<td>28%</td>
</tr>
<tr>
<td>Independent agent</td>
<td>42%</td>
<td>15%</td>
<td>30%</td>
<td>48%</td>
<td>37%</td>
<td>24%</td>
</tr>
<tr>
<td>Full-service broker-dealer advisor</td>
<td>9%</td>
<td>32%</td>
<td>9%</td>
<td>37%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Independent broker-dealer advisor</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>31%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Bank financial advisor</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
<td>28%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Registered investment advisor</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>
```

*Other insurance products* include property and casualty and health (including disability insurance and long-term care).
Further evidence of the convergence can be seen in the similarity of value propositions and go-to-market strategies across practice models. The service offerings of insurance-oriented and investment-oriented practices are generally similar (see Figure 3).

**FIGURE 3: SERVICE OFFERINGS BY ADVISOR TYPE**

<table>
<thead>
<tr>
<th>Service Offerings</th>
<th>Insurance-focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement income planning</td>
<td>83%</td>
</tr>
<tr>
<td>Portfolio management</td>
<td>62%</td>
</tr>
<tr>
<td>Estates and trusts</td>
<td>28%</td>
</tr>
<tr>
<td>Health/Medicare planning</td>
<td>48%</td>
</tr>
<tr>
<td>Risk management including insurance</td>
<td>77%</td>
</tr>
<tr>
<td>Other</td>
<td>19%</td>
</tr>
</tbody>
</table>

97%  Investment-focused
Transactional vs. relationship approach: Advisors operating in insurance-oriented models rely more on client quantity, deriving less income per client than advisors operating in more investment-oriented models. If carriers are able to offer a broader range of products and support, advisors can deepen relationships with their clients, ultimately allowing for cross-selling opportunities and future solutions to fit clients’ changing needs (see Figure 4). As such, there is an opportunity to tailor support models to reflect differences in practice models and client mix. Capitalizing on this opportunity will require improved knowledge of advisors’ books and unique value propositions.

FIGURE 4: ADVISOR GROSS INCOME ATTRIBUTED TO EACH CLIENT

3. Digital is essential and growing exponentially.

Digital tools have become essential to all types of advisors and survey results indicate continued adoption. To a large degree, this is merely a reflection of consumer preference. Clients expect to interact with advisors in any media, anywhere, any time. Consequently, advisors have adopted digital communication methods for prospecting and ongoing client relations. Almost 8 in 10 advisors see digital solutions being most impactful for marketing, client acquisition and ongoing client engagement (see Figure 5).

FIGURE 5: PRACTICE AREAS WHERE DIGITAL TOOLS WOULD HELP MOST
Advisors are supplementing in-person and phone meetings with the full range of digital communication channels for both marketing and client servicing. Webinars, advisor websites, mobile communications and social selling strategies are all well established. Half of survey respondents plan to increase their use of texting, virtual meetings and social media for prospecting and client engagement (see Figure 6).

In 2012, just 13% of advisors used social media to prospect for new clients. Today, 43% do. The implications of this shift are profound. As advisors rely increasingly on new communication modes, the carrier and distribution partner service models that support them must evolve as well.

The results present interesting patterns relative to social media usage by practice model and advisor demographics:

- Insurance-focused practices are more apt to incorporate text, virtual meetings and social strategies into their practices, compared with investment-focused advisors.
- Advisors affiliated with banks and other institutions with more robust compliance standards are less apt to use social media. However, as platforms evolve to meet these legal and compliance standards, growth in digital and social engagement is likely to accelerate for these advisors.

**FIGURE 6: PLANS FOR FUTURE CLIENT ENGAGEMENT STRATEGIES**

<table>
<thead>
<tr>
<th>Channel</th>
<th>More</th>
<th>Same</th>
<th>Less</th>
<th>Will not use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social networks</td>
<td>49%</td>
<td>21%</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Virtual meetings</td>
<td>55%</td>
<td>16%</td>
<td>4%</td>
<td>25%</td>
</tr>
<tr>
<td>Text/IM</td>
<td>50%</td>
<td>24%</td>
<td>5%</td>
<td>22%</td>
</tr>
<tr>
<td>Email</td>
<td>47%</td>
<td>49%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>In person</td>
<td>34%</td>
<td>56%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Phone</td>
<td>34%</td>
<td>63%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Mail</td>
<td>10%</td>
<td>48%</td>
<td>36%</td>
<td>7%</td>
</tr>
</tbody>
</table>
While all advisors report social media as a growing source of new business, its impact is most pronounced among younger advisors. This cohort expects 20% of new clients to be sourced through social media in the near term (see Figure 7).

Advisors expect to be served via digital channels, just as their customers do. Many advisors are less than satisfied with current digital tools whether from insurers or their distribution firms, with many reporting that these tools are out of date, are of poor quality or lack certain capabilities they desire (see Figure 8). Given the increasing importance of digital interactions, it is important to understand which areas of an insurance organization’s digital support are not satisfactory and the impact on advisors most important to its distribution strategy. Insurers face an important strategic investment decision in determining whether to provide digital solutions directly to advisors or develop a plug-and-play capability with partners across the ecosystem.

**Figure 7:** Percent of clients sourced through social media by advisor tenure

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Today</th>
<th>1 year</th>
<th>3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-9 years</td>
<td>8%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>10-24 years</td>
<td>5%</td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td>25 years or more</td>
<td>4%</td>
<td>7%</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Figure 8:** Satisfaction with digital tools

- Retirement planning: 76%
- Selling/onboarding new clients: 68%
- Customer relationship management: 72%
- Generating client reports and communications: 72%
- Servicing existing clients: 80%
Advisor “tiers” and the need for segmentation

Life insurers and annuity providers will need a differentiated distribution strategy that takes into account distinct advisor profiles if they are to engage those segments best positioned to help companies achieve their growth objectives. Business mix may be equally important in identifying the most desirable advisors. For instance, the following tiers of advisors, each of which represent untapped opportunity to grow life and annuity sales, can serve as a basis for insurers’ segmentation strategies:

- High-potential advisors: advisors with low relative life and annuity production but high relative AUM.
- Production leaders: advisors with high relative life and annuity production compared to their peers.
- Fast movers: advisors with high relative percentage increases in life and annuity production.

Developing strategies that incorporate “attribute-based” segmentation allows for fresh thinking in product design, distribution operating models, sales incentives and technology. Such attributes include:

- Generational mix of client base
- Advisor sentiment toward digital tools
- Product knowledge
- Sales processes
- Support networks and teaming models
- Age
- Years in business
- Business mix

A stronger focus on identifying and targeting high-value segments represents both a shift in thinking and a significant opportunity for carriers and distribution firms.
4. **Teaming and practice support are integral for many advisors.**

Advisors face new challenges as their practices grow and their offerings evolve. To meet the complex needs of a growing client base and support a broader range of products and services, advisors enter into formal or informal arrangements with practice support professionals, such as product specialists, legal and tax professionals and wholesalers (see Figure 9). The goal is to provide comprehensive advice, increase sales capacity and drive growth. Survey data also shows that adding one staff person for every three to four advisors in a firm allows those advisors to maximize their client-focused time.

More than 40% of survey respondents also report that they are part of a formal teaming arrangement with fellow sales professionals within or outside of their agency or firm. While there are various degrees of teaming, it is apparent that leveraged practice models - working through specialists or with fellow advisors - are becoming more common and will demand new and varied organizational support to meet different needs.

**FIGURE 9: USE OF PRACTICE SUPPORT PROFESSIONALS**

<table>
<thead>
<tr>
<th>Professional Type</th>
<th>Occasional Use</th>
<th>Regular Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal &amp; tax professionals</td>
<td>61%</td>
<td>26%</td>
</tr>
<tr>
<td>Product specialists</td>
<td>62%</td>
<td>24%</td>
</tr>
<tr>
<td>Company internal wholesalers</td>
<td>52%</td>
<td>29%</td>
</tr>
<tr>
<td>Company external wholesalers</td>
<td>52%</td>
<td>27%</td>
</tr>
<tr>
<td>Market specialists</td>
<td>60%</td>
<td>11%</td>
</tr>
</tbody>
</table>
5. Fiduciary rules are the new normal.

The survey results clarify advisors’ views of the impact of rising fiduciary standards, with varying impacts by type of practice model (see Figure 10).

- A full 86% of advisors expect to operate within an increased compliance infrastructure; RIAs already are, or view themselves as fiduciaries.
- On a positive note, 74% of advisors see an opportunity to offer more customized planning.
- Half of advisors plan to reduce the number of less-affluent clients they serve; a similar number are considering a reduction in their total number of clients. This is especially true of investment-oriented professionals. About three-quarters of bank advisors (76%) and full-service broker-dealer advisors (74%) see this as a somewhat or very likely outcome.
- Seven in 10 advisors expect a squeeze on their profit margins.

Fiduciary standard regulations are also causing advisors to review their overall product mix, specifically their use of index funds and annuities, including fee-based annuities. For example:

- 35% of investment-oriented professionals foresee greater use of low-cost or indexed funds.
- 33% of bank advisors indicate they will sell fewer annuities overall. Full-service broker-dealer representatives (28%) and independent broker-dealers (24%) expect to do the same.
- 40% of independent insurance agents and 30% of career insurance agents say they will sell more life insurance.
- 25% of full-service broker-dealer advisors and 20% of bank advisors will increase their use of fee-based annuities.

Fluctuations in annuity sales – along with advisors’ needs to demonstrate transparency and that they are acting in the consumer’s best interest when recommending products – will require product manufacturers to become more agile in their product design and support models.
FIGURE 10: IMPACT OF FIDUCIARY REGULATIONS BY ADVISOR TYPE

Reduction in total number of clients served

Reduction of less-affluent clients in firm or practice

Increased compliance infrastructure

Thinner profit margin

More customized financial or retirement planning

Change how rollovers from employer plans are dealt with
6. Empowered advisors expect more.

The survey results help clarify what advisors value and suggest how insurers can engage with the right practice models to support their own growth strategies. Though advisors typically write business with three to five carriers, they place almost 60% of their insurance sales with their top life and annuity carrier. Thus, it is critical that life insurers and annuity providers stay near the top of advisor rankings.

For annuities, all types of advisors evaluate carriers based on product strength and associated fees. While product and fees are critical, carriers cannot ignore advisor and customer experience as they look to add new types of advisors. While not specifically addressed in the survey, consumers’ best interest and fee transparency have become important factors as a result of regulatory changes (see Figure 11).
There is more variation when it comes to evaluating life insurance options. Advisors place business based on underwriting efficiency, customer service and product selection or quality, depending on the practice model. Name recognition features strongly with full-service broker-dealers and bank financial advisors (see Figure 12).

Advisors reported that poor customer experience and poor advisor support are the leading causes when advisors drop a carrier. Beyond the high-level value proposition, insurers must look carefully at what prompts advisors to add products or remove them from their shelves. In some cases, manufacturers are selected by broker-dealers, marketing firms or advice platforms and even at the advisor team level. Nearly one-third, or 30%, of advisors added a life or annuity carrier to their product set over the past two years, while 20% dropped one. There continues to be opportunity to gain - or lose - shelf space.

The implication is clear: strong product features and competitive costs, faster and easier underwriting and strong advisor and customer experience get products on advisors’ shelves initially; ongoing service and support keep them there.

It’s worth noting that some variation in priority exists in different practice models and for different segments of advisors. For example, high-growth advisors focus on retirement planning, faster underwriting and competitive costs and fees when considering adding a carrier to their mix. Again, insurers must decide which types of advisors to prioritize and then focus on delivering against their specific needs.

![FIGURE 12: LIFE INSURANCE TOP CARRIER PLACEMENT CRITERIA](image-url)
Implications

The survey results offer many rich insights to insurers seeking to navigate the distribution landscape.

- After a period of growth, advisors are feeling optimistic about the future. And they are well positioned to command service excellence and value-added support. As such, carriers and distribution firms must understand the type of support advisors in different practice models want and tailor their offerings and capabilities to those segments they value most. Firms that fall short risk advisor defection to competitors with superior and differentiated value propositions.

- The competition to engage insurance and investment professionals reflects the increasingly fierce competition for end clients, especially pre-retirees. More types of advisors representing more types of financial institutions are targeting the same markets and seeking increased share of wallet through a broader mix of products and services. Insurers must recognize that their ability to help their distribution partners win in the market will determine their own competitive success.

- Regulatory uncertainty puts a premium on “product agility.” As advisors adjust their product mix to demonstrate transparency and a commitment to consumers’ best interests, carriers must design and deliver new products more quickly and efficiently and support them more nimbly and responsively.

- For advisors, holistic advice is more important than product-led sales for driving productivity. Increased advisory and service-based skills are important to driving practice efficiency.

- Carriers and distribution firms must fortify current distribution arrangements where they are strong and develop new capabilities in areas and channels where they are lacking. A differentiated and dynamic approach aligned to specific practice models and advisor segments is necessary to reach and engage high-value and high-potential advisors. It really is all about growth; insurers that can help advisors continue the growth trend of the last few years will enhance their own ability to grow.

- While product, compensation and fees remain critical to advisors, service and support models (including digital toolsets) are increasingly important. Further, they represent an opportunity for carriers and other financial services firms to differentiate in an increasingly commoditized environment. Organizations must commit to a strategy that extends their value proposition beyond product offerings and solidifies relationships with the highest value advisors.
Harnessing opportunities: Key questions to ask

As insurance carriers and distribution firms evaluate value propositions to advisors and consumers, they must ask themselves:

- What are the signature products, services and other marketing and training support we can offer to advisors to signal interest in their growth aspirations and add to our competitive advantage?
- How can we best align our products, services and internal processes, including digital capabilities, to support advisors in the practice models most important to our market ambitions?
- Which investments in talent, technology and managerial capability are necessary to be more adaptive to new platforms and business models adopted by advisory firms?

Bottom line: The industry is at an inflection point competitively

Changes in regulations, technology advancements and the expectation for richer, more personalized customer experiences are causing advisors and the organizations they represent to step back and re-evaluate their fundamental value propositions.

In many ways, carriers must determine if their go-to-market strategies are ready for the future. What worked in the past may no longer be viable as advisors adapt and evolve their practices to reflect market and regulatory realities. Carriers will align with the right practice models to meet their own growth objectives and determine what it will take to be successful in other channels. Product design and cost structure will remain critically important, but as convergence leads to relative parity across offerings, product and service quality for both advisors and consumers are increasingly important differentiators.
Established in 1916, LIMRA is a research and professional development not-for-profit trade association for the financial services industry. More than 600 insurance and financial services organizations around the world rely on LIMRA’s research and educational solutions to help them make bottom-line decisions with greater confidence. Companies look to LIMRA for its unique ability to help them understand their customers, markets, distribution channels and competitors and leverage that knowledge to develop realistic business solutions.


About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2018 EYGM Limited and LL Global Inc.
All Rights Reserved.

1803-2646868 BDFSO
EYG no. 03780-1816bl
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com