Will your grandkids shop for annuities on Amazon?

By Editorial Staff *Thu, Dec 15, 2016*

'Should [Google, Amazon and Walmart] decide to make a large scale entrance into the insurance marketplace, this could further disrupt the current U.S. life insurance distribution model,' A.M. Best said in a release.

Amazon may not start delivering annuity contracts by aerial drone anytime soon, but the all-consuming online retailer, along with Walmart, Google and Apple, all represent big threats to slow-footed insurers in the near future, according to rating agency A.M. Best.

Indeed, U.S. life insurers must undergo a “rapid, strategic evolution” if they hope to remain profitable in the face of new types of competition, changing demographic and macroeconomic conditions, and new regulatory challenges, according to a new A.M. Best special report.

Affinity groups, retailers and online comparison platforms are already posing distribution competition to U.S. life insurers, said the report, entitled “Shifting Dynamics Could Lead to Distribution Channel Innovation.”

“Larger retail stores like Walmart offer automobile and health insurance products; however, other retail chains like Costco and affinity organizations such as AARP offer a more diversified suite of products that include life and other insurance lines.

“Another consideration is the presence of Amazon, Apple and Google, which have strong balance sheets with large databases of customer information, superior technological resources and a significant amount of excess capital.

“Should they decide to make a large scale entrance into the insurance marketplace, this could further disrupt the current U.S. life insurance distribution model, which historically has been slow to adapt and is hindered by inefficient legacy systems,” A.M. Best said in a release.

Finding new insurance agents is another challenge. According to a recent A.M. Best survey, the top three concerns in recruiting new agents for life/annuity insurers, according to an A.M. Best survey, include:

- Difficulty in attracting younger talent (32.3%)
- Recruits lack needed sales skills (24.2%)
- Recruits lack of knowledge of the insurance industry (21.0%)

- The current force is aging: 62.5% of producers age 50+; only 3.1% are under 35.

Broker/dealers accounted for the largest allocation of New Business Annualized Premium, at nearly 30% in 2015, A.M. Best has found. Some insurers had been acquiring independent broker/dealers in previous years as they searched for new distribution outlets, though many have since disposed of them due to the 2008 financial crisis.

That might not be the right culture match, however. “A.M. Best remains somewhat concerned about the financial consequences for insurers who continue to own and operate independent broker/dealers, and believes additional fines are possible as a result of the recent scandal related to the opening of fake unauthorized accounts at Wells Fargo. The U.S. Department of Labor’s fiduciary rule gives further reason for insurers to consider separating themselves from this distribution outlet,” the release said.

Parts of the insurance sales process may shift to the internet or be assumed by artificial intelligence, the release said, but “continued investment in people, process and technology, such as the potential integration of model validation with data analytics and predictive modeling, likely will lead to improved sales and underwriting results.”