

Financial Planning

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Watching Over You

It's time for broker-dealers to supervise all sales of fixed insurance products by their reps. By David A. Macchia Sr.

WHEN THE NASD PUBLISHED ITS Notice to Members 05-50 last August issuing guidelines for the supervision of equity-indexed annuity (EIA) sales, it sent shivers through the financial services industry. Since then, the behavior of broker-dealers (B-Ds), insurance carriers, registered representatives and independent marketing organizations (IMOs) has changed dramatically, making it clear that the NASD has assumed de facto regulation of the EIA business.

This change has also sparked debate over whether it's time for B-Ds to supervise all fixed product sales, including whole and universal life and immediate and deferred fixed annuities. The answer in my judgment is an unqualified "yes." Concerns ranging from potential liability risks to recruiting threats from emerging competitors argue for a mandate to place all fixed insurance sales through the B-D.

Although B-Ds are in the early stages of establishing policies for EIA sales, they remain generally in a reactive mode. Many don't understand the scope of their responsibilities or the risks they face in potentially alienating large numbers of registered reps. Yet they are at the forefront of an unprecedented opportunity to expand, enhance revenue, add value for advisers and improve compliance and sales practices.

AVOIDING CLIENT CONFUSION

A core issue in this debate, and a critical reason it makes sense for the B-D to supervise both fixed and investment business, involves advisers' clients. That's because it's not possible to segment liabilities that emerge from clients' complaints. If clients purchase registered products and nonregis-

tered fixed products from an adviser, they don't know which entity supervises which product. More important, they don't care. They know only that their adviser sold them something and now they have a problem. In the clients' eyes, the B-D's liability and responsibility don't stop with the investment business.

Another concern is the structure of the contracts between registered reps and insurance carriers. Instituting a policy that EIA sales must be placed through the B-D carries the implication that all fixed annuity sales will come to the B-D. This is because B-D contracts with agents and carriers typically don't differentiate between EIAs and other fixed annuities. The result is that immediate and traditional fixed annuities may also be pulled into the B-D.

Many broker-dealers underestimate the amount of income reps earn from fixed annuity and life insurance sales outside the firm. When reps lose proprietary marketing programs and services that their current fixed product providers (often IMOs) offer, the B-D had better be ready to offer advisers programs to replace them, or run the risk of seeing reps lured away by firms prepared to offer that value. Advisers simply can't afford to lose the products and marketing services that help them build their fixed

product business and fully serve clients.

While I firmly believe that B-Ds should assume responsibility for supervising fixed product sales, they must do so in a way that allows them to:

- Provide a sustainable and competitive advantage.
- Improve compliance and sales practices for themselves and their reps.

If clients purchase registered products and nonregistered fixed products from an adviser, they don't know which entity supervises which product. And they don't care.

- Offer a fixed-business product center with back-office capability and results-driven marketing designed to grow total gross dealer concessions by as much as 50%.

- Improve net margins.
- Capitalize on sales opportunities such as retirement income distribution.
- Boost the rep's ability to up-sell and cross-sell.

Offering advisers an "approved product list" will never be enough. Making a commitment to provide the marketing

resources advisers want and expect is the linchpin in a strategy to limit liability, grow sales and expand recruiting. Has the time come for broker-dealers to supervise all fixed product sales? Unequivocally—if they also commit to infrastructure, marketing and compliance support that will meet the high demands of their advisers and clients. FP

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