WARNING: Why Annuity Agents Will Soon Be Extinct

I'm about to tell you a true story about an industry that went through the same changes that the annuity industry is going to face very soon. If you believe me, you could be well rewarded. On the other hand, if you don't believe me, then I will make it worth your time to change your mind and consider what is going on around you. You will be pleased to know that the players in this other industry who saw what I am about to explain coming, made billions. However, the majority sadly refused to believe it could happen to them and were left unemployed and looking for new occupations. Let me explain.

To help set the stage, my article that published on ProducersWeb in December titled "Warning: Why FMOs will be extinct soon" received over 9,199 total reads, and as you can imagine that translated to an immense amount of feedback and personal e-mails. What really shocked me was that 85% of the feedback was positive. And half of the overall feedback came from other FMOs' principals, wholesalers, and FMO/IMO personnel. Who would have guessed that they actually believe and supported much of what I wrote?

I've been told that the article also created uneasiness at some FMOs, in particular the groups who have continued to do the same thing for many years and will do anything within their power to avoid rocking the boat by embracing any kind of drastic change.

More interesting was that the article spawned some very intense conversations about other facets of the annuity industry that will undoubtedly be affected by the upcoming technological changes and consumer behavioral changes that I predicted in the article. In particular, how your average annuity agents/advisors will be impacted by changes in distribution and technological advances in our industry.

For the last 2 months, I have been conceptualizing and refining this article in my head. This past weekend, it all flowed out. As a fellow annuity salesman, wholesaler, educator, and FMO founder, I urge every single annuity agent/advisor/producer/FMO to read this. For those of you that know me personally, you know that I am passionately optimistic and I get no joy out of bad news. However, I do enjoy finding the silver lining in change and helping other people capitalize on it. This article serves as a stern warning for what I believe is to come, and I assure you this article will open many of your eyes to what could happen to your practice and your livelihood if you don't adapt. In fact, it could ruin my business if I don't personally adapt to the changes correctly.

Sadly, there will be many that dismiss this warning and continue down the path of saying, "It can't happen to me" like so many other industries, companies, and individuals that refuse to accept change. My friend, Stan the Annuity Man, refers to these late adapters as "typewriters". And at some point, all typewriters go extinct. So without further ado, here is my *Warning to All Annuity Agents in America*.

The true story begins with an industry we all know well. It is an industry that most would never associate with annuities or annuity distribution. However, the similarities are striking upon analysis. What industry am I referencing? If you guessed the airline industry, you would be correct.

As most of us learned in school, the first flight by the extraordinary Wright Brothers took place back in 1903. But it wasn't until the 1970s before commercial flights became a more common and economical way to travel. Prior to that, it was mostly used for traveling abroad, for large corporations, and for the wealthy.

Now before I continue with the story, I want to take one last break to identify the cast and characters as they relate to our beloved annuity industry. I am certain that it will help you tie the pieces together even quicker as I finish the story:

- Airline Carrier = Insurance Carrier
- Large Travel Agency = FMO/IMO
- Travel Agent = Annuity Agent
- Airline Traveler = Annuity Consumer
- Airline Ticket = Annuity

Now back to the story at hand. In 1978, Congress passed the Airline Deregulation Act which ushered in a wild amount of market competition. With the new carriers came new routes, new customers, and lower fares for everyone as the carriers strived to stay competitive. More people were able to afford to fly and the airline industry had tremendous growth.

In regards to distribution, the airlines sold their tickets through a vast distribution system of travel agents and travel agencies nationwide, and for years all parties made money. In almost all cases, the consumer was forced to go through a travel agent to book an airline ticket, and going direct to the carrier was not even an option until many years. As you can imagine, the bigger travel agencies made more money, as a result higher of commission levels and bonuses, than the smaller groups. Over time many side deals were cut including some carriers forming proprietary distribution deals with certain large travel agencies. Sound like a vaguely familiar distribution model so far?

But all that began to change in the 1990s, which would end up turning into a horrid domino effect for many travel agents and agencies. After airlines had been squeezed of profits while watching most of their distribution system continue to make the same commissions in spite of the carriers' shrinking margins, the airlines began to look for ways to cut out the "middle man".

So early in the 90s, carriers nationwide lowered commissions to travel agencies and agents in an attempt to increase their own profits. Of course the travel agents and travel agencies were furious. They strongly believed that the airlines would be out of business without them and that they deserved every penny and more. Many left the business. Some focused on other travel products besides airlines, such as cruises and hotels, even though that was the bread and butter for almost all travel agencies in the country because of upfront and rich commissions. The rest just dealt with it, continued working and hoped it wouldn't get worse.

Note: For decades, travel agents and travel agencies were paid a percentage of what they sold for the airline. It was usually an upfront commission and the travel agent could tell the client with a straight face that their commission wasn't coming out of the client's pocket. Simply that the airline paid the commission out of the airline's pocket. Almost identical to the fixed and fixed indexed annuity commission structure that has existed for many years.

What is also interesting is that 1990 marked the beginning of a slow decline in the number of new travel agents entering the business. Travel agencies were finding it tough to recruit young professionals and college students into the business, and many critics and travel writers started to wonder who would fill the shoes of the older travel agents as the retired or left the industry. By 1995, many more travel agents were leaving the business and the lack of competitive salaries and guarantees resulted in very few new people entering the travel agency field. Any of this sound familiar yet?

And then, in 1997 "IT" came out of nowhere and hit the already feeble travel agency model like a ton of bricks. The travel agents and agencies had seen it coming but did little to avoid it. They had heard about it for the last few years, but they all said it wouldn't affect their business. How could it? The airlines needed them more than they needed the airlines. And this "IT" thing called ***the Internet*** was just a fad…or so they wanted to believe.

Looking back now, it seems almost humorous that they couldn't see this coming. But just like Radio Shack and Borders books didn't see Amazon coming, just like Blockbuster didn't see Netflix coming, just like local newspapers never saw digital print or The Huffington Post coming, just like the music record industry refused to believe that Apple could sell songs digitally for $.99 and cut them out, just like Kodak never thought people would want to use their convenient camera phones over a bulky camera, and just like most of us didn't believe the housing bubble was coming…until it was too late. But of course afterwards, bubbles and "typewriters" always seems so obvious to all.

In a related story from LifeHealthPro titled "Direct annuity sales are coming. Are you ready?", Stan the Annuity Man describes a similar situation where a former VP of Dean Witter was scoffing at the business model of Charles Schwab and Scottrade many years ago. This VP firmly believed that those models would never affect big names like Dean Witter and that it simply "Can't happen". Of course, not so funny now as wire-houses like Dean Witter and Merrill Lynch have literally imploded by not adapting, while the low cost "cut out the middle man" models like Schwab are reporting exceptional profits and growth.

Stan goes on to say, "The reason that both of these business models continue to be wildly successful is because they provide low-cost, transparent and simple solutions that are customer friendly. It's really that simple, and a definite snapshot of our annuity future."

So let's circle back and tie in what the internet did to this already fragile airline distribution system. By the late 1990s, much of the general public had access to the internet (do you remember your first AOL or Hotmail email account like I do back in 1996), and many of the main airlines saw this as their chance to finally cut out the travel agents and agencies. By selling direct, the airlines could eliminate the commissions paid to travel agents and agencies, lower prices for consumers, and increase their profits. It was a win for the airlines and consumers.

The following 5 – 7 years was a rough time for many travel agents and agencies as most were forced to focus on selling other less profitable travel items like cruises or other destination trips. Many agents and agencies left the business completely, and the industry experienced a very harsh disintermediation. (P.S. – if you hear this term used by a carrier, then pack up your bags. In economics, disintermediation is the removal of intermediaries in a distribution/supply chain, or "cutting out of the middleman". Instead of going through traditional distribution channels with distributors, wholesalers, brokers, or agents, companies may now deal with every customer directly…usually via the Internet).

So what exactly did the Internet enable the airline carriers to do?

Keep in mind, at the time, most consumers and travel agents had believed that it was somewhat complicated to buy an airline ticket. There was no central comparison website (or hundreds of websites as we have today), and for many years the only way to book a flight without a travel agent was to call each airline directly to quote prices. But since the travel agents' commissions weren't directly affecting the cost of your flight, why not just have the agent make the calls and/or use the GDS (Global Distribution System - where agents could see and compare flights) on your behalf.

It doesn't take a rocket scientist to figure out that if the Internet could give everyday consumers the ability to access the same data as travel agents, they could start doing the shopping themselves. The airlines simplified the process and turned their websites into easy to use booking modules where you could book your next flight without talking to anyone. It seems so simple today, but this was truly a breakthrough in air travel at the time. It became especially tough for travel agents to compete when the airlines starting offering discounts if you booked directly through their website. Do you recall many of the airlines offering up to 10,000 free Skymiles just for purchasing your flight online in the early days of online booking?

Now can you guess what happened to travel agents and agencies?

Although the majority of travel agents went out of business, some of the smartest ones either created or teamed up with existing travel agencies and went digital themselves. So there really is a silver lining at the end as I alluded in the very beginning of this story.

These digital travel trailblazers could see that they were getting cut out by the Internet, so why not take advantage of it themselves. They realized that with a website powerful enough to attract consumers, you can divert some of the consumers from going direct to the carrier. Especially if you can offer flight comparisons and other value added services like air/hotel/rental car bundles and travel packages that the airlines' direct websites didn't currently have.

Can you guess the name of these travel agencies that are making billions today? If you guessed names like Travelocity, Orbitz, Expedia, Voyages, Priceline, and Hotwire (just to name a few) then you are correct. They are known today as digital travel agencies. Today, they control approximately 50% of the airline ticket sales. The remainder is all direct to the carriers' websites. So there is still a battle for distribution among the digital agencies and the airlines who obviously want it all to go direct if possible.

So what happened to the “brick and mortar” travel agencies and agents? To be honest, most of them are no longer in airline ticket (aka annuity) distribution. The excess overhead in conjunction with competing against slimmer margins used by the digital agencies resulted in a collapse of the business model.

However, some of the smarter ones found new niches like exotic travel spots that a cookie cutter company like Travelocity just doesn’t have the bandwidth to specialize in. For example, let me show you what popped up when I did a Google search for a travel agent in my area of Atlanta. Here is their “About Us” page.

“*Explorations* is a boutique luxury travel company in Atlanta, where we’ve been spoiling our clients for 25 years. With personalized service, worldwide connections and a dedicated team of expert travel advisors, Explorations offers exactly what discerning travelers need to take the trip of a lifetime. Whether you are looking for us to plan your destination wedding or plan your trip into space, Explorations can be the first stop on your itinerary. Our goal is to exceed expectations and offer you access to a world beyond your imagination. Contact Explorations today to plan your next adventure”.

Now that is pretty exciting. In fact, I was thoroughly impressed with this company and their site. I am not sure how many people (if any) ever take them up on a trip into space, but I do commend them for finding a niche and staying in business that way. From the looks of their site, they are doing just fine. And as I mentioned, it is all about adaptation. The ones who refused to adapt and specialize are gone. Just like old typewriters collecting dust and cobwebs.

So enough about airlines, you want to know exactly how this affects our annuity and life insurance industry, right?

Hopefully you have picked up on some familiar similarities, but for those of you that didn’t catch them all, here is the summary of why I believe the next decade will prove to be the extinction of today’s Annuity Salesperson (and FMO) as we know them today.

Similarity #1: Compared to 10 years ago, many Insurance Carriers are making approximately 40-50% less ROI on annuities. Executives at some of our favorite annuity carriers are currently talking about the fact that FMOs still make the same commissions as they did 10 years ago, even though agents have experienced commission reductions, the carriers have experienced significantly reduced profits, and the consumers have experienced steadily decreasing guarantees and benefits. Just like the airlines, they will not let this continue indefinitely.

They will find a way to either cut commissions or cut distribution in some shape or form. The most likely solution is to use a direct-to-consumer model. If given the chance, any VP of Sales or CEO of any carrier that you or I do business with would cut out commissions to distribution if he or she were confident that sales would remain close to the same. Would you blame them?

Similarity #2: Very similar to the travel agencies, the insurance agent base is shrinking drastically while simultaneously the industry is having trouble replacing and recruiting young blood. So even if you don’t agree with me that carriers want to cut you out, I think we can agree that a steadily shrinking sales force is cause for alarm for many carriers. Carriers must take into account this dwindling distribution model when planning for future expansion. Offering their products directly to consumers seems like a simple solution.

Similarity #3: FMOs and agents feel that the carriers need them more than they need the carriers. I am certain that this could be argued a few different ways. But the truth of the matter is, today the carriers really do need agents and FMOs. It is the reason they haven't all secretly met together and cut us all out in one big swoop. Not only are all of the carriers with established distribution nervous to be the first one to go direct and let consumers buy right off of their website (even though they have the technology ready to do it), they all fear that their business would suffer drastically in the short term from an irate distribution force.

The airlines let the distribution model make literally billions in commissions while many of the carriers lost money each year, and they continued to let it happen because they were scared of what would happen if they cut out the middleman. But it only takes one event to topple the first domino and begin the domino effect that we saw with travel agents. And when it did begin, it seemed as if the direct-to-consumer model swallowed them up before many of them knew what happened.

Similarity #4: Carriers are finding ways to cut us out today. As an agent, FMO, or wholesaler, you might not want to acknowledge it, but it is happening. Have you ever heard of Aetna before? Although not a carrier that has traditionally been in our annuity and life distribution space, they landed a deal to start distributing their annuities through Costco. Pretty brilliant really. They cut out all of the commissioned agents and the commissioned FMOs and go direct to a group like Costco that has a tribe of millions of loyal followers. I will assume you know that thousands of people buy their wedding rings, book vacations (and airline tickets ironically), and even buy their home and auto insurance through Costco. And of course, there is a minimal distribution cost to Costco to add it to their long list of products, thus they can work on really low margins as they always have. To think any agent, agency, or FMO can compete with this is crazy. So keep a close eye on this and other developments like it. I can assure you that all of the insurance carriers are.

Signs to look for: The first things to look for are the simplified products, which in turn, lead to simplified ways for consumers to buy direct. Let me ask you, what has been the hottest feature on the fixed indexed annuities over the last 5 years? Income riders, right? The good news for the agents selling them was that many of them were somewhat complicated for consumers to understand. The two different buckets (accumulation and income) confused many people. Thus, consumers always needed a specialist to explain all of the features and moving parts. Good news for agents and FMOs!

Well, have you seen the latest *longevity deferred income annuities* that look exactly like pensions? Even some of the new FIAs have these easy to understand income features where you simply look down a chart and you can see precisely what you will be contractually guaranteed in income based on how long you defer. No more 2 buckets. If a carrier makes the purchasing process easy, painless, and the products simple to understand, don't you think a consumer can figure this out by themselves? More importantly, do you think some carriers are already doing small test cases in a direct model with these kinds of products? You better believe they are.

Many of the carriers have enormous brand equity, they certainly have the technology ready to take on direct sales, and you will see many more of them begin to test this in the very near future. Some of them might try the "proprietary distribution" where they pick a few FMOs to distribute the product but also have a direct to consumer line as well. The FMO and interested agents can either deal with it or they give the proprietary distribution spot to someone else.

Some will simply skip the current distribution completely when they launch their next new product, but keep the old products in the current distribution model. But mark my word, just like the airlines, the carriers will start testing and finding ways to use the Internet and simplified products to create revenue from direct sales, and we really can't blame them nor can we stop them. If I were CEO of an insurance carrier this would be my main priority. The first carrier to figure it out could be like a Southwest Airlines and become the most profitable insurance carrier out there by a landslide.

Here is what we all must remember closely. No matter if your role in this industry is carrier, FMO, agency, agent, or just educator, at the end of the day we all work for the consumer…the end user. And if new technology like the internet, or new distribution partners like Costco or Walmart (by the way, MetLife is testing out selling "Life Insurance in a Box" direct to consumers through Walmart stores) greatly benefit the consumer, it will be impossible for you to win. If new products and distribution benefit the consumer in terms of higher contractual guarantees and policy features, how can we justify the old distribution and its compensation model? We would all like to think that since this current distribution system of agents and FMOs brought many of these carriers "to the dance" that they won't leave us out to dry, but at the end of the day this is business and not a high school dance.

Now before you start sending me hate mail, make sure to read the remainder of this article. You might be surprised to find out that there is some extremely positive news for some of you.

In summary, the annuity and life insurance distribution model will see some truly significant changes over the next decade. Will it be as severe as the airline industry where 50% of the FMO's sales are taken away from both the FMOs and independent agents almost overnight? Only time will tell. But my analysis predicts that a huge chunk of annuity sales will be direct-to-consumer by the end of this decade. And if you think the carriers aren't already discussing, planning, and building the technology and infrastructure for this already, then you are gravely mistaken because it is happening as I write this.

I will leave you with the most exciting news of this entire letter. With change comes immense opportunity. Some of you reading this will be the new founders of companies like Travelocity, Expedia, and Priceline that will control billions. And did you know that many of these travel comparison sites were founded not by big travel agencies, but individual travel agents who had the foresight to capitalize on the changes. Also, these changes ushered in an entire new industry of companies that compared digital travel agencies. Have you ever heard of Kayak or TripAdvisor? Those two companies never sell a single airline ticket or travel package, yet do extremely well. And then you have groups like the company that I came across in Atlanta who will specialize in niche markets of travel.

For smart advisors out there that take advantage of technology, it could be catering to doctors, nurses, teachers, or accountants. It could be that you become the leader in disability or critical illness or some other related insurance product like many of the travel agents did by flocking to the cruise lines. Or you could be the largest premium financing agency focusing on the wealthiest business owners in the country. One of the biggest opportunities I see for today's annuity agents is to become your own RIA where you could now gather all assets, charge fees for financial advice, and still write annuities while creating a residual (and perpetual) income stream. In fact, one of the fastest growing RIAs in the country is run by an incredibly sharp 33 year old advisor who does all of his business remotely. Meaning, he is what we call a Digital Commando, working from home in his shorts while creating over 100 consumer leads per month from the internet and capturing millions per month of assets and annuities. Mostly without seeing his clients face to face. This is happening around you already.

The sky is the limit! And in the next 7-10 years, we will see much of this unfold whether we like it or not. The big question we will have to ask ourselves is do we want to be a Travelocity or a Typewriter?

P.S. – Please leave comments as I really would like candid feedback on this. And don't hesitate to reach out to me personally at joe@retirethinktank.com as I will openly discuss what I am doing to take advantage of the upcoming trends I see coming. I also enjoy helping other people and companies as well because I know there will be more than enough to go around for the early adopters. Best of luck and embrace the exciting changes.

P.P.S. – If you want to learn how to attract new prospects to you from the ever-growing online community, then be sure to visit www.AdvisorInternetMarketing.com on a frequent basis because I'll be publishing new online marketing tips and tricks every week to help you grow your digital footprint.