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Reducing the Risk

by Stephanie Simmons

An inventive opportunity allows insurance producers to maximize on their current book of business and build for the future, despite uncertain economic times

Indianapolis – No matter what your political leanings, the upcoming election season promises significant changes for America – and the real potential that taxes will increase substantially, especially for higher income earners.

For those in the financial services sector, already facing the challenges of a hard-hit economy and the spin-offs of the subprime mortgage crisis and record fuel prices, the outlook is bleak, to say the least.

But what if producers were able to better prepare for those future uncertainties by capitalizing on the future dividends of commissions from their existing policies? Converting those fixed assets might allow them to better reduce the risk by reinvesting the money into more secure financial tools or servicing existing business debt.

James Wallace, founder of Indianapolis-based TWG Capital, pioneered a program that allows insurance producers to receive cash payments in exchange for the long-term management of their existing policyholders' accounts.

Client relationships remain unchanged and the policies unaffected; producers are, at the same time, given a whole new revenue stream, based on fair market value, which they can use to either reinforce their already flourishing businesses, or as cash to invest in less risk-averse products. Carriers support the effort as it, ultimately, has led to more business for both the carriers and the producers.

"We've seen even the most successful agents out there embrace this idea, as it allows them to avoid part of that serious future tax bite," Wallace says. "They can steer clear of risk by getting ahead of the curve and investing in the future."

Wallace, a former Long Term Care Insurance sales producer himself, makes a compelling case: simply holding onto existing clients and hoping for the best with that commission stream is a losing proposition, especially in rocky economic times.

When you combine the standard tax rate (28 percent) and annual inflation (5 percent) with account servicing costs (10 percent) and a client lapse rate of 12 percent, your book of business could be losing as much as 55 percent per year.

"If you could get immediate money for even your oldest block of business, think of how much more first-year commission you could generate by investing that money in new leads," he adds. "Successful agents take that money and reinvest it into their business."

Experts agree that with tumultuous economic issues on the horizon, investing in lower-risk financial options (or making careful efforts to bolster one's business) may be an important and necessary step.

Industry insiders agree that with the recent chaotic tumbles in the stock market, investing in lower-risk financial options – or making careful efforts to recession-proof one's business – may be an important and necessary step.

"The fallout of troubles facing even industry giants such as AIG demonstrates that no one is immune to this economy," says Barbara Herman, an executive recruiter with Chester, N.J.-based Diamond Consultants. "A significant number of advisors face huge difficulties because their own net worth is invested in a major, single company like AIG, and now they're worse off than their own clients. This would be a perfect time for anyone pursuing the independent route to access some of their own liquidity to shore up their investments."

To that end, thousands of advisors across the nation have already taken advantage of low-cost capital offered by TWG Capital. Funds received need not necessarily go to client development, as well. If money is needed to service business debt, this can also be an important strategy to hedge against future costs.

The cash can also be earmarked for your own long-term investment in recession-proof products such as CDs or even some of the annuities you've offered your own clients over the years. Others choose to use the money for lifestyle purposes and a few have opted to use it as an opportunity to leave the business entirely and pursue other goals - the choice is up to you.

The nearly 10-year-long involvement that TWG Capital has with the industry and its relationships with over 100 carriers also means that cash for purchased commission streams, as well as loans for group health and P&C policies, are available through a much easier process than negotiating the world of private banks.

And a transaction does not mean the end of your already thriving business- with a better-financed and secure practice, you will be able to continue to cross-sell to your existing customers, adding new policy protection and maintaining those relationships. The arrangement is completely transparent, except to the agent and the carrier; your long-term clients will continue to look to you as their trusted advisor.

For agent Paul Hunter, working with TWG Capital has turned out to be a great boost for his business.

"I had a four-year-old block of business that brought in about $5,000 per year," Hunter says. "TWG Capital purchased the business so I could reinvest in leads. So far, these leads have generated $55,000 in commissions – plus, since I have the capital to continue purchasing leads, I successfully expanded into additional products. Over the past three years, I have sold four blocks of business to TWG Capital. I now have a thriving agency with more than 20 agents selling a suite of products. And my increased production has allowed me to improve my contract, obtaining even better commissions."

Wallace says TWG Capital financial services can act as agents' own form of economic stimulus package, a critical force for the trying times ahead.

"Things will only become more challenging as the baby boomer generation begins to retire and the costs involved in their care cause inflation to skyrocket and taxes to increase," he says. "This is a solid opportunity to avoid that future tax bite and prepare for the upcoming shift."