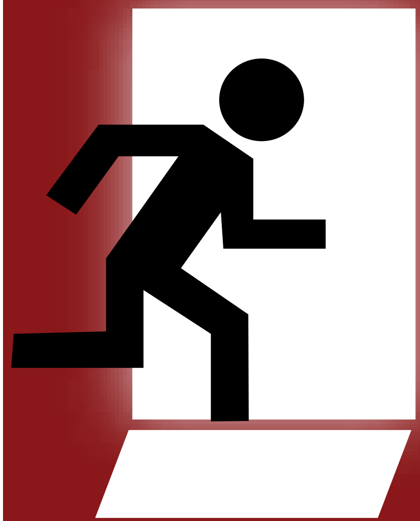

Exiting Gracefully

When leaving a product line, insurers should be considerate, credible and cautious.

by Jon Picoult

Today, nearly three years since the financial crisis began, many insurers are still running for the exits.

In January, Genworth Financial announced it was leaving the variable annuities business, taking a $12 million charge and laying off as many as 200 workers. One month later, Berkshire Life Insurance Company of America, a subsidiary of Guardian Life, said it would no longer sell long-term care products, although it would not cancel policies that were in good standing.

And Principal Financial said last September that it had begun a three-year transition out of its insured and self-insured medical lines.

Companies are continuing to retrench, scaling back their product footprint, seeking solace and security in what they believe to be their core offerings.

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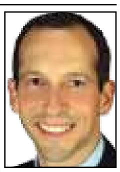

The language insurance carriers use to describe these actions often seems to be pulled from the same phrase book: "We need to focus on our core activities." "We need to better leverage our resources and our capital." "This business is not a strategic fit." "We need to refine our product offerings for long-term growth and profitability."

The problem for the industry is that all of these carefully manicured explanations translate into one thought for the consumer: "You're abandoning me."

While almost all exiting carriers declare their continuing commitment to existing policyholders, consumers can't help but be skeptical. And who can blame them? A carrier's exit from an insurance line cuts right to the heart of the insurer value proposition—that we're strong, stable and secure and we're going to be there when you need us.

Some would argue that discontinuation of a product or retreat from a market is just part of doing business. It happens all the time, from auto manufacturers to consumer packaged-goods firms. But for the insurance industry, the stakes are much higher.

Key Points

▶ **The Situation:** Insurers continue to depart from various life and health lines.

▶ **The Background:** Most of these withdrawals are due to companies returning to 'core' markets.

▶ **The Upshot:** The industry must be careful not to further alienate an already skeptical public.

Whereas the expected useful lifetime of most consumer products is measured in years, the commitment inherent with many insurance products is measured in decades. So when a technology manufacturer chooses to stop making a particular device, or when a beauty products company exits a fragrance market, the implications for the consumer dissipate in a pretty short time.

Not so in insurance. Consumers pay years of premiums in return for a promise from the carrier to protect their financial well-being (or their family's) far into the future. The trust implied by this covenant is fundamentally different than that associated with almost any other product.

Future Concerns

So, despite carrier assurances, should consumers be worried when they join the dubious ranks of "closed block" policyholders—those who own coverages that the insurer no longer sells?

Yes and no.

When it comes time to pay the claim or annuitize the contract or otherwise honor the insurance commitment, carriers are obligated to fulfill their part of the bargain.

But how they go about doing it—the speed with which they execute transactions, the knowledge of their front-line staff, the frequency of their communication, the overall quality of their service—is where consumers will start to notice a difference.

Let's face it: Carriers don't like to invest in nonstrategic, closed blocks of business. The economics of such investments can be hard to justify, especially when more "strategic" businesses are clamoring for attention.

Once cast out from the mainstream, closed block policies tend to die a slow death on an archaic, inflexible administrative platform, serviced by a small and shrinking handful of representatives who possess the highly specialized institutional knowledge required to answer even the simplest policyholder question.

It's hardly the recipe for a great brand experience.

The rash of recent market exits and the likelihood of more in the future is an issue not just for the exiting carriers but for the industry as a whole.

Consumer trust is already shaken by the recent economic crisis. The last thing the insurance industry needs is more assurances that aren't grounded in reality. If insurers reiterate their commitment to closed-block policyholders, only to then let their service levels deteriorate, that undermines the entire industry's brand promise. This is why taking care of these closed-block policyholders is in every carrier's best interest.

So how does an insurer exit a product line gracefully, tempering customer concerns that will likely be triggered by such a decision? Here are some tips for insurers and agents:

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Demonstrate urgency. Internally, an exit from a business may be old (albeit nonpublic) news, analyzed and discussed for months if not years. But once the decision goes public, it's a new and jarring development for policyholders. Reach out to them quickly with explanatory communications (in advance of the public announcement, if possible, but also immediately afterward). For some audiences, such as large institutional clients, personal phone calls and visits should complement written messages.

Be credible. Why should consumers believe that your company is truly committed to closed block policyholders, not just in terms of honoring contractual obligations but also in terms of maintaining service levels? Be sure your communications clearly illustrate why your firm still has "skin in the game" despite ceasing to write new business in a particular product line.

Stay in touch. Proactive communications are excellent for cultivating customer loyalty in almost any situation, and even more so with closed blocks. Periodically sharing relevant information with your closed-block policyholders is a great and often cost-effective way to demonstrate that your company continues to look out for them.

Document "tribal" knowledge. Poor knowledge management can adversely impact even the most strategic business, but the implications are especially pronounced for closed blocks. Carriers tend to wall off servicing for such policies, relying on the undocumented knowledge of a dwindling cadre of specialized resources. Memorialize closed-block service procedures with something more enduring than sticky notes and individual recollections.

Maintain the tech infrastructure. Defining a business as closed block should not be a license to cease all investment in it. When companies do that, the block's supporting infrastructure can atrophy, making it even more difficult for service staff to effectively support these policyholders. While it may be reasonable to curtail spending on a closed block, that shouldn't preclude investments that keep service platforms from ripping apart at the seams. Companies that invest wisely now could save themselves and their customers a lot of future frustration.

Given the long-term nature of the insurance value proposition, one would hope that carriers carefully analyze and price for a market's risks, well before they choose to enter it. When risk analyses prove faulty, the insurer may cut its losses by exiting the business, but the policyholder is left with troubling ambiguity and, in some cases, a dearth of attractive alternatives.

So before writing off closed blocks, insurers should remember that their brands, and the public's perception about the insurance industry, will be shaped in part by the impressions they leave on these affected policyholders. Abandon them at your own risk. BR

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