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Why Do Marketing Organizations Select The Annuity Products They Promote To Agents?

Key Findings

The main reference points used by all MOs in deciding whether to promote a product are the override received, the salability of the product, and the existing relationship between the MO and carrier. These elements are combined to form decision-making rules of thumb for the different types of annuities offered and become the decision anchoring point for making new product decisions.

MOs are always looking for competitive advantage. They are trying to find annuities that will attract and retain agents.

The first comment made by 75% of the MOs had to do with the salability of the product.

All annuity decisions revolve around relationship, product salability and override, but the factors used vary by the different channels (bank, B/D, independent).

A strong carrier relationship will keep similar products from another carrier out. However, they will not block unique products offered by a new carrier.

The Relationship will get you in the door, but it is ultimately salability that keeps you there. If a carrier without a relationship offers a unique product or unique distribution they will get promoted.

Relationships ebb and flow and a new carrier can take advantage of ebb in an old relationship.

Newer MOs are less risk averse and more open to new products.

Although MOs admitted selecting products that did not sell because they misread the market, they also promoted products that they felt would not sell because of a good relationship with the carrier offering the bad product.

Even though a MO is able to obtain perfect knowledge about the details of annuities on the market, and those filed with regulators and in the market-entry process it appears few MOs actually do the necessary ongoing research. Almost all of the new annuities presented to the MO come from carrier promotion or are introduced by an agent asking the MO “why don’t you offer this?”

The carrier loses the relationship by going around the MO and marketing directly to the agent or consumer (but relationships can be resurrected).

The only real control the MO has is in deciding which distribution channel(s) to use and the amount of resources allocated to that channel.

I. Scope of Study

The research question asked by this study is "why do MOs select the annuity products they promote to agents?"

Initially I conducted three pilot interviews by telephone during the week of 20 August with presidents I know that operate national annuity marketing organizations (MOs) and began each interview with the same question, "how do you choose which annuity to promote". They all responded that they selected annuities with high revenue commission overrides or annuities paying the highest interest rates or with the potential for earning high interest rates that should be attractive to consumers. However, my experience in working as a consultant to this industry found multiple examples whereby MOs did not always select the annuity with the highest override and did not select the most salable annuity. A need for more research was indicated.

In September and October 2007 I traveled to the offices of twelve marketing organizations and interviewed the presidents of these organizations asking how they selected the fixed annuities they promoted to their agents. The goal of the study was to analyze why MOs select the annuity products they offer to agents. The qualitative method of in-depth field interview was employed. The use of in-depth interviews was considered appropriate due to the ultimate objective of obtaining rich data. The data collection framework utilized was a modification of one codified by Ian Alam to create a rigorous and systematic process for data collection [2005. "Fieldwork and data collection in qualitative marketing research." *Qualitative Market Research*. 8, 1: 97]

<u>1. Selecting firm participants</u>
Convenience sampling was utilized as MO firms were chosen based on my knowledge of the MO's standing in the industry, and the ability to schedule an interview (I was able to interview 12 of 14 firms I asked). It is my belief that the MOs interviewed are a representative sample of all independently owned MOs in the annuity arena. However, this sample may not be representative of the entire MO population because several of the larger MO firms are owned in whole or in part by carriers, but all of the firms selected for interviews were independently owned. The reason for selecting firms not owned by carriers was to attempt to avoid MOs whereby product promotion may have been strongly influenced or controlled by the carrier thus placing undue influence on decisions made by the MO. It would be interesting to conduct another study at a future date to determine whether the decisions of carrier owned MOs differ from the decisions of independent MOs.

Size and experience of the MOs ranged from one of the five largest MOs in the industry – based on revenues – and one MO with over 25 years experience, to an MO that began operations in May and has yet to turn a profit. Two of the firms have been in operation less than a year, two market primarily through financial institutions, and two have built a significant presence in the broker/dealer channel. Although almost all of the carriers made life, long-term-care, or other insurance products available to their agents only one firm derived more than 25% of revenues from non-annuity products. Field interviews were conducted at the MOs' home offices in and around Des Moines, Detroit, Indianapolis, Fort Lauderdale, Kansas City, Omaha, Philadelphia and San Diego.

2. Identify and contact the respondents

Over twenty years of contact with MOs led me to believe that the MO president was the individual that ultimately decided which annuities were selected, and so I contacted the president of each MO and asked each one whether they decided which products were stacked on their shelves. Each one said they were the ultimate decision-maker. I then asked if they would spare me up to an hour of their time to interview them on how they selected the annuities to offer.

3. Interview protocol and pilot study

The interview protocol consisted of details of the respondents (position, years of experience with an MO), interview schedule, and loosely structured interview questions. Results from the three pilot phone interviews are not included in this study because many of the phone interview questions were changed based upon responses from the pilot respondents.

4. Conduct interviews

Elite interviews were conducted. The term refers to interviewing business managers in a less structured format that encourages the respondent to reveal what they believe is relevant. The interviews began with a general introduction to make the respondents aware of the interview protocol followed by more general questions; confidentiality was assured.

Respondents were permitted to expand their answers and even segue to other areas if the overall direction appeared to be consistent with the goals of understanding how annuity products were selected. In an attempt to avoid the rigidity of an *a priori* framework questions at each interview were not always asked in the sequence specified by the interview protocol, but were instead asked at points that seemed to be indicated by the direction of the interview. All of the interviews were tape-recorded. The interviews lasted from twenty to sixty minutes.

Ten of the interviews were conducted at the respondents' office; two were done at restaurants near the respondents' office. Seven of the interviews were held in the afternoon; five in the morning, and it was sunny during ten of the twelve interviews. The location, time, or climate did not appear to have any impact on the responses.

5. Data triangulation

Triangulation of evidence means collecting data from multiple sources, projects, key informants, or research methodologies. This study used data from multiple key informants and multiple sources. Triangulation of data helps to overcome the problem of informant bias, and using multiple sources helps to achieve construct validity in a qualitative research.

6. Follow-up and integration

Due to time constraints follow-up interviews were not conducted with respondents. The taped interviews were reviewed and significant statements cited, grouped and analyzed. Notation and data segmenting was attempted based on whether the answer appeared to fall into one of several groups. The main decision-making categories were revenue override based, existing carrier relationship, product salability, and carrier financial strength. The findings were then integrated and conclusions drawn.

7. Validity
The interviews suffered from interviewer reactivity in that I have written extensively about various parts of the annuity industry and I believe the respondents had preconceptions about what I was searching for and generally tried to presume what the ultimate goal was behind my questions. To an undetermined extent I was, at times, getting the answers that the respondents thought I wanted to hear. I worked to overcome this by asking similar questions in different ways to see whether answers differed. My ultimate 'validity test' was to say after the formal questioning period concluded "Okay, the formal interview is over. Now, how do you really select the products you promote?" Generally, the 'post-interview' answers correlated with the other data, but in a couple of instances the data was sufficiently different that it was used to correct initial data perceptions.

As a validity check I was able to use my knowledge of the general industry, and of the respondent's situation, to see whether interview answers and actual behavior were related. As an example, one respondent said they only offered carriers with an A.M. Best financial rating of "A- or higher", but I was aware that the respondent had continued to offer products from a carrier whose rating had fallen below that mark, and could question the respondent about the discrepancy (the reason for the dissonance between rules and reality was the strong relationship between the respondent and carrier justified an exception).

Triangulation was utilized to ensure diversity of subjects. The dozen respondents were from different parts of the country, operated different size firms, included men and women, and at least some were in different distribution channels. By the conclusion of the ninth interview the data I was receiving was repeating itself and the data from the final three interviews did not bring up anything new, resulting in a belief that although there could be biases due to the way questions were asked or due to my personal beliefs in decision-making theories, that the data received from the respondent population was both rich and defendable.

II. Annuity Marketing Organizations

An annuity marketing organization (MO) acts as a wholesaler for the insurance company (carrier) by using its relationship with insurance agents (agents) to promote the insurance company's fixed annuity products (annuity). The insurance company creates an annuity to be purchased by consumers, the MO chooses to make the annuity available by marketing it to agents, and the agents decide whether or not to sell the annuity to their customers. If the agent sells the annuity a commission is earned that is split between the agent and the MO with the MO portion of the commission typically referred to as an override.
In the independent producer distribution channel the agent is the ultimate decision-maker as to whether an annuity is a success for the carrier and MO from a sales standpoint. The agent is typically a sole proprietor that is unrestricted in the number of relationships he or she may have with MOs and carriers. The fixed annuity carriers typically do not advertise or promote annuities directly to the consumer, nor are there reliable public resources available for the consumer to consult permitting the comparison of different annuity products, therefore, it has been my experience that the consumer is highly likely to buy the annuity suggested by the agent. Since the

agent is a "free agent" with an essentially unlimited store of annuities from which to select, the MO needs to convince the agent that the MO's annuity is the one to sell, and that means the MO needs to select the "right" annuities. MOs are constantly looking for a competitive advantage to both retain and attract agents.

III. Factors In Annuity Selection Decision-Making

The decisions made by the MOs are limited and not perfect, because they do not have perfect information about the consequences of these decisions. The decisions are still rationally made because the decisions are intended to add to the overall utility of the marketing organization.

Although a MO is able to obtain perfect knowledge about the details of annuities on the market, and those filed with regulators and in the market-entry process, it appears few MOs actually do the necessary ongoing research. Almost all of the new annuities presented to the MO come from carrier promotion or are introduced by an agent asking the MO "why don't you offer this?" However, even with perfect knowledge the MO cannot quantify the explicit gambling risk of selecting one product over another.

The MOs are engaged in making decisions under conditions of uncertainty. The MO can react to regulatory commandments, what a competitor does, or low interest rates, but the MO cannot control regulators, the Federal Reserve Board or the competitor across town. In addition, even when the MO is involved in designing the product to be distributed the ultimate compensation and salability are primarily determined by uncontrollable economic forces. The only real control the MO has is in deciding which distribution channel(s) to use and the amount of resources allocated to that channel.

MO Decision-Making Process

The decisions of MOs are based on multiple reference points. Using these reference points the MOs develop rules of thumb to help guide them in deciding whether or not to promote new products. If the new product is judged to be superior to existing products it is promoted. If a new product is judged to be the same or inferior to existing annuities on the shelf it usually is not promoted, although it may be added for defensive or relationship reasons.

The reference points are salability, relationship and override.

The main reference points used by all MOs in deciding whether to promote a product are the override received, the salability of the product, and the existing relationship between the MO and carrier. These elements are combined to form decision-making rules of thumb for the different types of annuities offered and become the decision anchoring point.

As an example, if the MO is already offering (relationship) an index-linked annuity with a penalty for early withdrawal period of 10 years that offers a competitive rate (salable) and pays the MO a 2½% override commission (override), this would become the benchmark for this type of annuity. If a new carrier with a 10-year index-linked annuity offered a 2½% override its anchoring point would fall below the benchmark and be rejected because of the lack of an existing relationship – one of the reference points - unless the annuity was perceived as more salable than the existing annuity offered. The anchoring point would then be adjusted to reflect the increased salability of the product, and if the adjusted anchor was perceived to be above the benchmark it would then be promoted.

What factors help a new annuity get shelf space and get promoted? Factors causing positive adjustments include a larger override, a weakening of the existing carrier relationship, whether the new product offers better salability by paying a premium bonus or higher rate, offering a higher agent commission, having a shorter surrender period, limiting the number of MOs offering the product, possessing higher financial ratings, or simply being framed as a better sales story to tell the consumer.

Although all MOs base their decisions using these three reference points there may be additional unique reference points at specific MOs. The additional reference point I heard most often was carrier financial strength.

For most MOs the perception of carrier financial strength is derived from the A.M. Best rating and is viewed as an adjustment point. In other words, a typical MO may want carriers with an A.M. Best rating of "A" but will accept a rating of "A-" or possibly even "B+" if the product salability or override is considerably better than current products with higher ratings. A typical MO may continue to promote a carrier that falls in rating if the relationship with the carrier is strong. However, there are MOs where adequate financial strength is not determined by ratings but by their perception of the survivability of the carrier. In both cases these were MO presidents that had been directly involved in the insolvency of a carrier and the deciding factor in every new product decision was whether the carrier might fail. For both of these presidents the greatest carrier relationship and all of the override in the world would not convince them to add on a carrier where they thought the carrier's survival was questionable.

Other product selection reference points include likelihood of the MO getting named in a lawsuit simply due to the carrier's name being published due to previous allegations – fearing guilt by association. Another is adding on additional carriers so that the MO is not too dependent on any one carrier – not having all the eggs in one basket.

IV. Results

First Comments
In response to the question "how do you choose which annuity to promote" the following represents the key issues included in the initial response:

Three MOs said the uniqueness of product defined whether the annuity was promoted. The MOs defined uniqueness as a product whose features did not overlap with an existing product, or presented the MO with a recruiting advantage because distribution of the product would be limited.

MO answers to the question "How do you choose which annuity to promote?"

"We sit down and I say 'Dad would you buy it?"

"I chose a product that I could sell to my father"

"I'm like a small grocery store and I can't compete with Kroger because they have more resources to bring the occasional shopper in as well as the regular shopper. So I look for something unique."

"It starts with carrier financials"

"Is it attractive for potential returns?"

"Is the product on B/Ds' approved lists? Does the product overlap with other products we offer?"

"One; is a new carrier entering the market that may have products that compliment what we are offering and they are truly new to the industry so that we have a recruiting advantage – those are few and far between. Or our producers calling saying 'have you seen x or y company's products' – as an example [a carrier] has a product approved in Utah and our Utah agents called and asked us to add it. Or a producer joins us and is used to selling carrier A and we don't have carrier A, we'll add it."

"I don't pick the product; the agent picks the suitable product. I try to establish relationships with carriers that have innovative products."

"It is usually for defensive reasons."

"We look at financials, solvency, liquidity, who owns them. Most companies today are European owned and we have to make sure there isn't too much interference in product pricing because that will affect the future. How are they pricing?"

Do we have a relationship with the company?"

Two MOs chose products that they thought told a believable consumer story.

Two MOs focused on carrier financials and foreign ownership, essentially asking if the carrier will be around in the future based both on financial staying power and by divining the intent of domestic carriers with foreign owners to remain committed to the U.S. market.

One MO said it was based on whether he had a personal relationship with the person bringing them the product, another said products were added as defensive measures to protect market-share, and another stated products were selected based upon the attractiveness of the potential return.

The two new MOs gave what I felt were 'theory' answers, essentially saying "here is how we *should* pick product", rather than "here is how we *do* pick product". The established MOs seemed to provide answers based on their own experience.

The first comment made by 75% of the MOs had to do with the salability of the product: Does it provide a unique competitive advantage, does it have a believable consumer story or good consumer value, or do I need the product to protect my current market share. Two MOs expressed concern about financial strength and ownership intent. One said choice was made on existing relationships with the person bringing the product.

Salability

The salability of the product was the main force mentioned by a majority of the MOs. What makes for a salable product? Different types of annuities have different parameters defining salability with multi-year rate guarantee annuities, as an example, requiring a much lower commission to be salable. In addition, three of the MOs interviewed market to financial institutions, broker/dealers and financial planners, and these channels have different views of what constitutes a salable annuity; however, even though the definition of what is salable changes these MOs still said salability was the most important aspect involved in whether the annuity was promoted in these channels.

Salability Quotes

"The carrier must support us with RATE for the first 6 months or first year – regardless of what the market does. And the carrier has to promise they won't do a bait and switch where they cut the renewal rate to the minimum the second year. It ruins their reputation and our reputation."

"I firmly believe what is promoted by the MO is what gets sold. And easier products get promoted more."

"We look at single tier companies that pay competitive commissions and something with a little twist to it."

A part of the salability factor is the degree of distribution channel exclusivity afforded the MO. All of the MOs preferred offering products that were only available through their MO, or a limited number of MOs, because participating in a limited offering this has been shown to attract agents. On the other side of the exclusivity spectrum almost all of the MOs said they have added products offered by other MOs as a defensive measure to retain agents.

<u>Override</u>

Even though the carriers I consult with say getting their product promoted is all about how much override is paid, I had to bring up the topic of overrides in half of the interviews because it was not mentioned by the MOs. All of the MOs acknowledged they needed to make money, but all stated that earning the maximum override was not their overriding concern. What I heard most often was that if the product was sufficiently salable that the revenue would take care of itself.

I had two carriers explain that commission bonus arrangements enabled them to earn similar total revenues if they hit agreed upon carrier sales goals without forcing them to market higher override products that they did not want to promote.

I did not take the responses to mean that most MOs are unconcerned about the percentage of the override they received, but rather that the level of overrides offered by carriers was sufficiently similar that the MOs felt they could earn similar override percentages on similar products from competing carriers. Essentially, if the MO is earning a 3% override on existing products they are unconcerned about what they will earn on the new product, as long as the new product pays at least 3%. Although it was not mentioned by the MOs, it has been my experience that a new carrier in the market enhances the possibility of their promotion by a MO if an override above the MO’s reference point is offered.

Override Quotes

“I don’t need the maximum product override because I can get the higher overall payout by building sales in other products – but that doesn’t mean I’ll work for 50 bp like [a carrier] wants me to do.”

“I can’t pay 25 bps 50 bps more because ultimately you’re going to lose.”

“We try hard to recommend the right product for the client need. We don’t search for the highest override.”

“Does the carrier have the systems in place to service the business without problems, is there enough spread (MO override). So, service, override, and probably the historical information – we would already know if a company had a pattern of offering great initial rates and then reducing caps or rates on renewal.”

“It’s important as part of metrics because we have an expensive shop. If a carrier tried to take this internally they wouldn’t get the same value as paying as an override. You’re looking at a 2% to 3 ¼% override.”

The weighting of the face-to-face interview answers on overrides contrasted somewhat with the three phone interviews, in which to the question "how do you choose which annuity to promote" the first or second response from the phone respondents was the amount of commission override received. I believe the difference is that the respondents did not want to tell me to my face that making a lot of money is why they are in business.

Relationships

All MOs said carrier relationships were important. The key result obtained was that a strong carrier relationship will keep similar products from another carrier out. However, they will not block unique products offered by a new carrier.

Relationships – Importance

"A good relationship with the carrier is imperative."

"It's expensive to do a dozen national ads, thousand of mailers, and we need a partnership with a carrier."

"What if a different company came out with a product with a higher override and better product. Unless it was dramatically better I wouldn't promote it. My relationship with the carrier is very important."

"At higher levels – president – the relationship matters, at the wholesaler level not as much."

"From the carrier it's about how are you going to help me grow my relationship. [A carrier] got us a deal with DHL so our packages go out of here at $4. I need a partner so if I need a pricing exception on a rate change they will give it, and you get that by building relationships with the carrier."

"We've been with [a carrier] since the beginning 20 years ago"

"It matters a lot. We don't get traction with carriers that don't stay in touch, or stay in touch and don't provide value – the ones that come and spend a lot of time giving us their 'why our company's great' report but don't provide the value of helping us sell more."

"Relationship was more important historically then it is today because the person you work with today may not be there in a year. Foreign masters mean people won't stay in place too long."

'I forgave [a carrier] and finally signed a contract when they hired a new marketing vice president from another firm with whom I had a long-term relationship with"

"We try to stay with the carriers that brought us to the dance."

The carrier keeps the relationship by adding actual value, as opposed to simply showing up and being visible. One MO mentioned their carrier got them lower overnight mail rates, another spoke of how their main carrier was generous on co-paying for recruiting mailing, and another said their main carriers worked with them to map out joint quarterly marketing plans. However, the largest MO commented, “Relationship was more important historically then it is today because the person you work with today may not be there in a year. Foreign masters mean people won’t stay in place too long.”

Relationships – How The Carrier Can Lose One

“It’s tough to compete against carrier owned MOs because they have unlimited resources. The way it works is you get a top contract with a carrier and someday your production falters and the carrier says we need to cut your comp and place you under a carrier-owned MO, and they then work with your agents directly. A few people have taken a page out of that book.”

“I look at [a carrier] who could switch their business model to agent direct. I look at carriers that are fine now, but could switch to their company owned agencies and develop low load and fee based products. I look at do they give out the contract to any Tom, Dick or Harry or do they hold contractholder feet to the fire because I don’t want to be out-recruited by someone that doesn’t work for it.”

“[A carrier] is taking a huge annuity block and marketing direct to consumers and going around the agents – that doesn’t tell me there is great integrity there.”

“We stayed away from [a carrier] because they had gone around us and solicited our agents, but now that their ownership has changed we are considering them.”

“We had one carrier that said ‘quit calling us so we can process the business’. And we took that literally and quit calling and quit writing. You find out who you can go into a foxhole with not when times are good, it’s when you need them.”

“We shifted $500 million away from [carrier] because they weren’t listening to us.”

The carrier loses the relationship by going around the MO and marketing directly to the agent or consumer. More than half of the respondents cited instances where they had backed away from promoting a carrier, or refused to promote the carrier in the first place, because the MO felt the carrier broke this trust. Specific examples given were when carriers offered the identical product being marketed by the MO through another distribution channel and gave the other distribution channel either a higher rate or higher commission. Two MOs spoke of carriers going around the original selling agent and marketing directly to the consumer. Two MOs spoke of the problem of competing directly against carrier-owned MO that had greater resources to out-market their MO. And one MO spoke of the perfidy of a carrier telling him he had an exclusive contract while at the same time the carrier was “giving out the contract to any Tom, Dick or Harry”. Interestingly, a different carrier was named in every instance.

However, when I asked whether the MO had ever gone back to a carrier that they felt had treated them poorly every established MO said they had. As an example, two MOs said a change in ownership meant they would give a multinational insurance company a chance to rebuild their trust. All seemed to echo the response of one MO that said "I may feel 'never again' but I'm not going to tell a carrier that because we may need them someday."

MOs are reluctant to end a carrier relationship. In response to my question "When do you decide to end a relationship?" seven of the MOs said the carrier essentially ends the relationship by making the products uncompetitive. One MO did say "When there's lack of integrity, when there's distribution conflicts, when things degrade from a pricing or financial standpoint we may end the relationship."

Relationship – Ending

"Generally relationships end on their own – we'll try to recruit a series of agents and create a nucleus, and at some point the carrier closes the rate spigot and the agent quits selling. The carrier really decides when the relationship ends. I don't think we've ever said we're not going to do any more business with you, but the applications wind down."

"You can't ever end a relationship because you can't service your block of business."

"I don't know for sure when it's over. Often the carrier will tell everyone it is over."

"When there's lack of integrity, when there's distribution conflicts, when things degrade from a pricing or financial standpoint we may end the relationship."

"We'll start with a carrier but then the products don't sell, and rather than get beat up for not hitting sales targets with the carrier we will suggest we part company now, because maybe we can work together in the future when things change, and if you leave as friends we can come back later in a favorable light."

Dissonant Decisions

The MOs did take on products that did not fit their model. Products were occasionally added due to the personal relationship between the MO and the carrier, even though the MO had doubts about their salability. Three MOs admitted to adding products that violated their decision model and did not sell, because they said they misunderstood the desires of their agents. Finally, MOs admitted adding products purely for defensive reasons.

A Quantitative Query

I closed each interview with "If you had to divide up 100% between salability, override and relationship in the aspects of picking the products you promote how would split up the pie – which is most important factor in selecting product to promote?" Most the MOs gave at least partial responses.

	Salability	*Override*	*Relationship*
MO1	75%	15%	10%
MO2	50%	20%	30%
MO3	75%	12 ½%	12 ½%
MO4	90%		
MO5	75%		
MO6	50%-60%		
MO7	50%		

The new MOs were inclined to give equal weighting to all three variables. One MOs said it was carrier finances and another said it was carrier service that was most important.

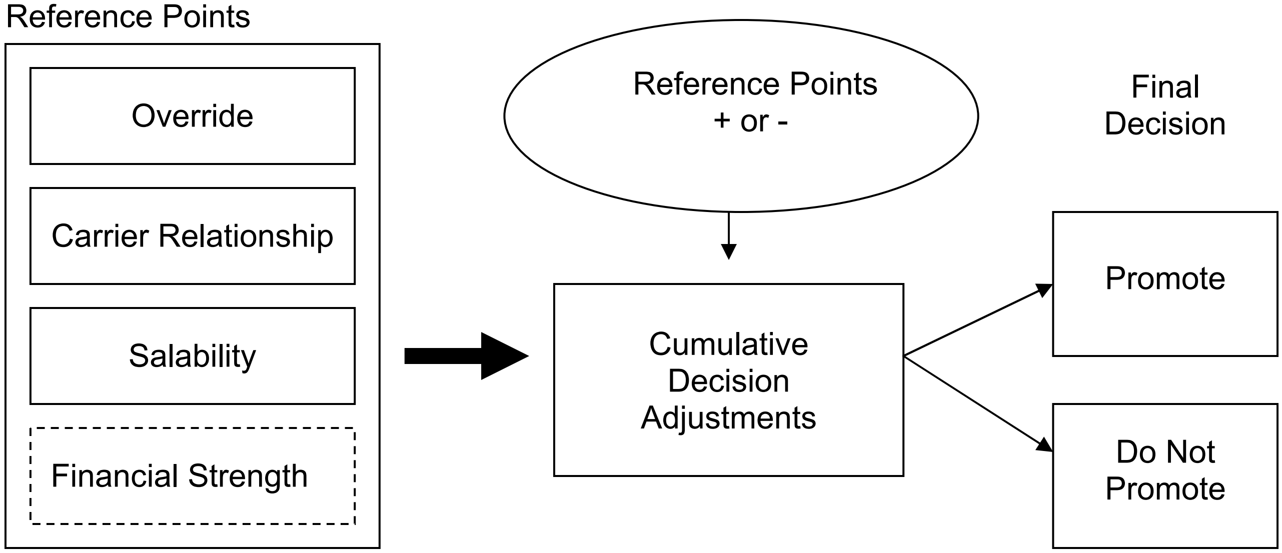
V. Conclusions

All MOs use salability, override and relationship with the carrier as reference points in deciding whether or not to add a new product. Above average financial strength of the carrier is very important to some MOs and forms a reference point for a minority, but "acceptable" financial strength is sufficient for most MOs and is considered an element of the salability of the product.

The salability is the most important reference point and would encompass concerns of yield competitiveness, agent commission, product features, a believable sales story, and to a lesser extent the ease of processing business with the carrier or MO (however, higher overrides often compensate for poor carrier service). A very important aspect of salability is the uniqueness of the product, meaning whether the number of MOs selling the product is limited and may help the MO in recruiting agents. However, even if the MO is offered distribution exclusivity, a strong override, and has an excellent relationship with the carrier, a product with poor salability prospects will usually not be promoted unless the MO misinterprets a bad product as a good product.

The override was said to be as important as the carrier relationship. The MOs assume a new carrier will offer an override as competitive as an existing carrier. If the comparable new product has a lower override the carrier needs to convince the MO that increased sales will offset the cut. A higher override will often get a marginal new product approved, but it will not get a poor product approved. However, a strong relationship may get a poor (questionable salability) product approved.

Although some of the MOs downplayed the importance of carrier relationship, all of them referenced the long-term relationships they each had with one carrier or another. The key results obtained were that a strong carrier relationship will keep similar products from another carrier out and will often persuade the MO to offer a new product from an established carrier that the MO feel will not sell.



Essentially, the MOs look at their existing relationships, product salability and overrides and use these as a basis of comparison. They mentally compute pluses and minuses of the new product to see whether they will offer it – higher cap: plus, lower street commission: minus, do not have a relationship with carrier: minus, MO override is 25 bps higher: plus – and if the mental pluses outweigh the minuses the product is added.

There are shortcuts to this pattern. If the MO feels they need the product to protect market share – for defensive reasons – they will add the product even if it falls short. For some MOs financial strength trumps all other factors. A strong existing carrier relationship may keep a new carrier's superior product from being approved, or a good sales story may result in a bad product making the grade, but if the MO will only approve carriers with "A" ratings or higher a strong relationship, good product story or even high override will not get the product on the approved list.

Pluses and minuses are weighed differently by different MOs. A strong renewal history is more important for some, knowing they have the top carrier contract will get products promoted in some MOs even if the override and salability is not stellar, or access to the carrier president may count more to a few MOs than an quarter point of compensation. The only way to know which MO buttons are the most important is to ask questions and watch.

INTERVIEW PROTOCOL QUESTIONS

Why do MOs choose the products they do?

What is your decision process?

What product features enter into your decision?

Is their evidence of status quo bias?

Why did you select this product (go through list of recent MO products) to promote?

Why not that one?

How do you decide which products to promote?

How much does a personal relationship with wholesaler or carrier matter?

When do you decide to end a relationship?

Have you ever said “never again” and gone back to the carrier? Why?

What was your biggest success? Why?

Which one flopped the worse? Why?

If you had to allocate ten points between override, relationship, and ease of selling product, how would you split it up?

What was the best product choice you ever made to promote?

Beside your company, what other MO appears to do a good job of picking products?