AROUND THE GLOBE

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Revisiting the Laws of Evolution

No, I'm not about to take you through a debate about the work of Charles Darwin. But I am going to weigh in on the nature of change in our industry and a particular framework we use to think about that.

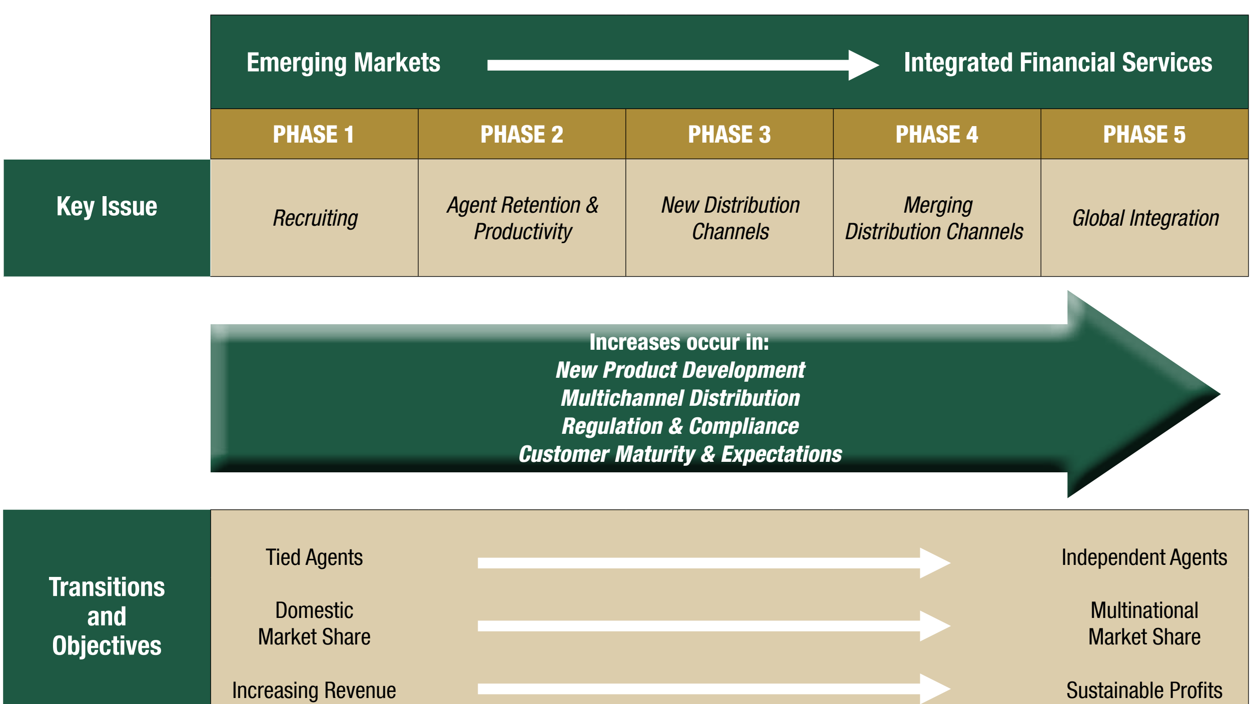
My interest in this subject came about after revisiting the work of my predecessors. LIMRA has had a solid international research program for several decades, and I have found value in understanding the change of focus in this area over time. Initial efforts during the early era were directed heavily toward benchmarking, with increasing interest in best practice and discovery research as the function grew. Developments closer to my arrival even included some proprietary studies for specific members.

One prior project that particularly struck me was from 2008. Labeled the "Market Maturity Model," it was a well-designed, innovative approach to help our international members project future trends in their markets. To summarize, the model separated the industry into four different pillars: distribution, products, regulation, and marketing. For each, it laid out a general set of four phases, running from emerging to mature. The basic idea was to allow members in a given region to determine where they were on the phase scale, which in turn helped them see what the future would hold as they moved toward more evolved phases. Figure 1 shows a simplified version of how the model was presented.

Interestingly, what I quickly found once I started talking to our international members about the model

Figure 1

A Sample Market Maturity Model



Source: LIMRA (2014)

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was how often we had to qualify it. While the structure implied specificity (a company could discretely place itself on a particular phase of evolution), in practice it usually wasn't that straightforward. For example, a company could see itself in a phase three regulatory environment, while still in phase one in distribution and marketing.

This led me to rethink the structure of the model — or as I stated at the beginning, the basic laws of evolution. Were the assumptions about the phases and/or "pillars" of our industry made six years ago still accurate? The answers I found were both affirmative and negative; they led to the following assessment of what still works in the original prototype and what we really need to update.

The distribution pillar — which starts with tied/career forces and then broadens into independent and multichannel — is still generally accurate. What has changed is the pace at which new channels are added (which is faster than in the past), as well as the fact that technology (a new pillar I propose adding) is having an increasingly disruptive impact on face-to-face personal distribution. That is, technology is allowing more direct forms of advisory selling to be created, which takes them beyond just the mass market.

In the area of products, the original version of our model implied that as markets matured, there was an inevitable move toward product diversification and complexity. Another assumption was that products evolve to place more risk in the hands of consumers. Here, I disagree somewhat with the former but accept the latter. Product simplification (at least in terms of the value proposition presented to consumers) is a general macro trend — one from which financial guarantees are not going to escape.

Regulation is the pillar that must be reworked most significantly. The original model suggests that the trend to expect over time is for regulations to become more stringent. However, the actual element around regulation impacting members in all regions is the fact that regulators are becoming more networked that ever before, which is leading to their general practices becoming more globally *uniform*. That is why elements such as capital policy and rules around proper advisory and sales practices already cut across most markets, irrespective of what phase of maturity they are in.

Finally, the original marketing pillar focuses on the evolution from relationship-based to needs-based selling. It is missing an assessment of the growth in overall consumer empowerment brought about by my proposed fifth pillar — technology, which is perhaps the greatest "leveler" across the market maturity phases. Consider that an agent in Canada who is communicating with prospects via a tablet may not be that far removed from a villager in sub-Saharan Africa who is purchasing a microinsurance policy via the sole cell phone in town, which the local chieftain has lent him.

This is just a high-level preview of how we are modifying the Market Maturity Model; watch for a fully updated version coming later this year!

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