Unrightable Wrongs?

Even Cervantes might discourage the brave from challenging the insurance industry. But no matter how hopeless it seems, some are willing.

Mary Rowland

NEW YORK'S ATTORney general, Eliot Spitzer, made the front pages again in October, when he began charging some of the biggest insurers and brokers in the world with cheating their corporate customers. Spitzer complained that Marsh & McLennan, the world's largest broker, rigged bids and paid kickbacks to insurers for routing business their way. Spitzer made clear that this opening volley was just the beginning. "Our investigation is reaching into many corners of the insurance industry to determine how corrupt its business practices are," Spitzer told the *Wall Street Journal,* adding that his investigators plan to examine whether life and health insurers are also engaged in bid rigging.

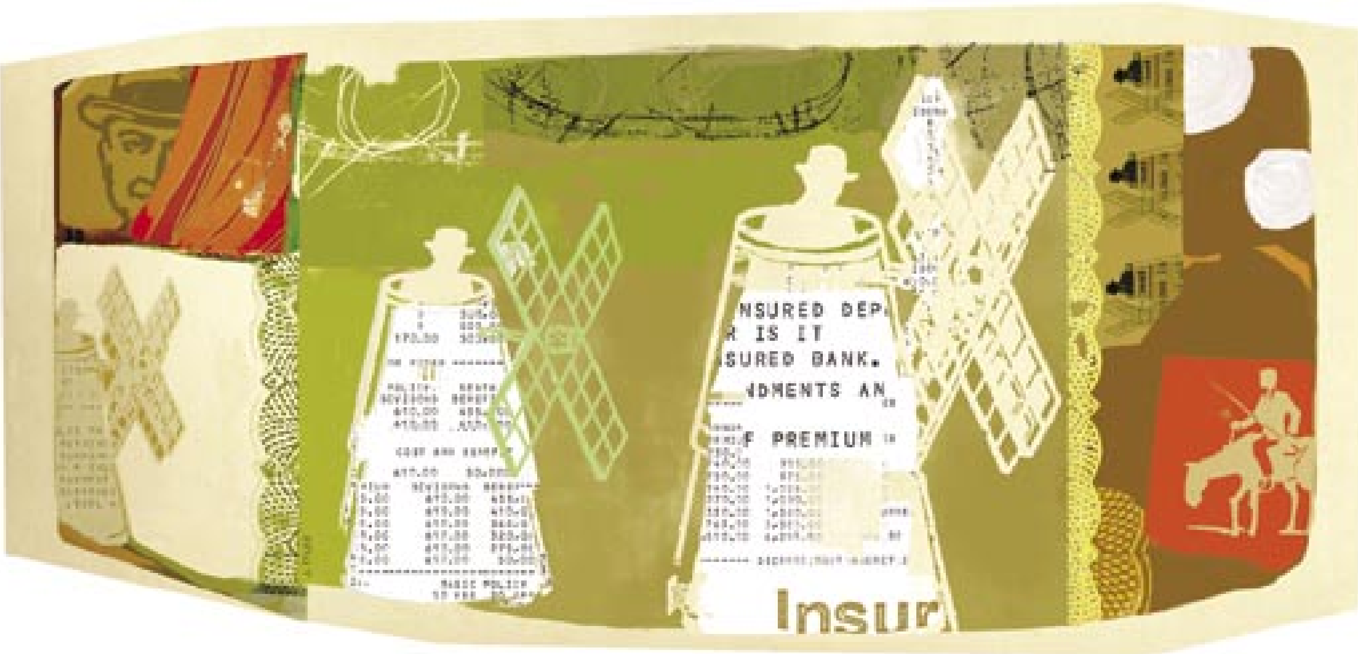
I'll certainly be among those who won't be the least bit surprised if it turns out that the insurance industry is mired in sleaze. Top to bottom. Stem to stern. I hope Spitzer talks with Brian Fechtel, a Northwestern Mutual Life Insurance agent in Port Chester, N.Y. He's been in the insurance industry for 17 years and holds both an economics degree from Georgetown University and the chartered financial analyst, or CFA, designation. It's not all that easy to find a smart, credentialed insurance professional who works for the company considered the gold standard in insurance circles and is willing to question sales tactics. This marketplace encourages insurance agents to rip off their customers, says Fechtel. "An agent can look you in the face and tell you it's the best product for you when he knows it isn't."

This is not breaking news. Last winter, I wrote a column for BLOOMBERG WEALTH MANAGER about the lack of disclosure in the insurance industry and spoke with Fechtel (see "Buyer Beware," February). "The root of the problem is the lack of information about policies," he told me then.

Plenty of people agree: Glenn Daily, a New York fee-only insurance consultant; Peter Katt, a fee-only insurance consultant in Mattawan, Mich.; and Joseph M. Belth, editor of the *Insurance Forum,* who taught insurance at Indiana University for 31 years. These three have grown cynical about the possibility of change. They've fought misinformation for so long that the struggle is starting to wear them down. But Fechtel is still swinging. In fact, he researched and wrote a lengthy article on how a consumer can get around the misinformation provided by agents and insurers and make an informed decision about an insurance policy. He calls it "Cows More Likely to Jump Over Moon Than Consumers to Buy Life Insurers' Best Cash-Value Policies." The tantalizing subtitle is "A Solution to This Problem." (See LifeInsuranceSage.com.)

That Fechtel—and Spitzer—are unlikely to give up the fight is good news. The bad news is that Fechtel's solution shows just how arcane this industry is, because the answer

Illustrations by Jo Tyler



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lies in comparing interest-adjusted indexes of different products from the same company to see which is lowest, an exercise that the official industry buyer's information warns against. I buy Fechtel's reasoning. But I don't think it will find its way to consumers.

Fechtel concedes that's true. Agents who have pledged to abide by the golden rule, he says, do not even show prospective customers the policy that is best for them. That's because what's good for the consumer is bad for the agent. The industry opposes full disclosure because it's convinced it would put agents out of business. "The argument against good disclosure is that you're not going to exist as an agent, because you won't make enough money," says Fechtel.

That's a danger that makes the status quo pretty hard to budge. When I write about insurance, Bloomberg Wealth Manager gets angry letters and e-mail from insurance agents who suggest that perhaps if I tried selling an insurance policy, I would realize what hard work it is and stop picking on agents for raking in 100 percent of the first year's premium as a commission. The problem is simple enough to explain: Agents get more money when consumers get a rotten deal. Bad disclosure is good for agents. Insurance policies are absurdly complex because the simple truth is bad for business. And business is not that great to begin with. "The average agent barely sells one policy a week," Fechtel says. "There are probably 40 hours of manpower invested in selling a product."

Fechtel has approached some of the companies in the financial-services business known for their integrity and competitive prices. They're household names. He's offered to build a great no-load policy for them. No deal. They don't want to touch life insurance. It smells. It would taint the firm's reputation. "The No. 1 reason people don't look at life insurance is that they're afraid of making a fricking mistake," says Fechtel. "If I buy term, I'm renting. If I buy cash value, I'm getting ripped off." Exactly.

So how does this market sustain itself? I buy a policy, and my agent asks me for referrals. I give him the names of some friends, and he calls them up and says, "Hey, Mary said you might need some insurance." And if my friend respects my judgment, he says: "Okay, bring it on." So he buys a policy. And the agent pockets the first year's premium. Stories about the high-commission insurance inappropriately sold to soldiers in Iraq add an extra level of coercion to the basic formula, because military commanders recommended the products. So you buy based on trust. Someone looks you in the eye and says, "This is the best product for you"—even though he knows it isn't.

So how did a guy as high-minded as Fechtel get in with this crowd? Back in 1987, he was at loose ends about a career choice, and a friend recommended insurance sales. He didn't score well on the LIMRA tests that measure the personalities of successful agents. But hey, agents are hard to find. Fechtel stuck with it—partly because he saw the irrationalities in the marketplace as an opportunity for someone who understands math and economics. He knows sales illustrations don't mean anything. What the policy actually costs and how it performs aren't decided until long after the sale. "People are buying a product that's priced after they purchase it." Instead he visits the College of Insurance's library in Manhattan and downloads data to do his own analysis of companies and products. That's fortunate for his clients but not so fortunate for him. "I'm still making cold calls," he says.

Those on the outside looking into this mess—which I hope will soon include Spitzer—would certainly agree it's time the insurance distribution system was changed. It's time for disclosure. "This is an opportunity to put the industry under the spotlight," Fechtel says. "Anyone with authority and a little bit of integrity can implement a solution."

It's not likely to be that easy. The insurance industry is engaged in "the same kind of cartel-like behavior carried out by organized crime," Spitzer told the *Wall Street Journal.* That's disheartening for people like Fechtel, who believe that if only they continue to tell the truth, consumers will eventually get full disclosure and be able to make good insurance-buying decisions.

"Do you think I'm crazy to believe this?" Fechtel asked me. I had to laugh. Yes. I do think he's crazy—or at least naive. But he sees things from an economist's perspective of how markets work. "The fact that people don't understand the cost of what they buy strikes me as a profound inadequacy of the marketplace," he says. But the insurance marketplace has little to do with economics. It's about how to gain an advantage—and not necessarily for the consumer.

But bravo to the Don Quixotes. With windmills this large, we'll need more of them for this quest—no matter how futile it seems.

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