

INSURANCE SALES 101

MAY 2008

I have to admit that I am pretty hard on insurance agents.

I often compare them to the infamous "**Needle-Nose Ned Ryerson**" from the film *Groundhog Day*; and with good reason. Of the countless stories of investment fraud that crosses my desk each and every week, the overwhelming majority of them are perpetrated by dishonest insurance agents. (We post links to these stories on our website). These salesmen often disguise themselves with dubious designations such as Certified Senior Advisor CSA or Retirement Wealth Expert RWE. (Go read my article *Deception University* to learn more). The sad reality is the New Jersey shore based **Official Bikini Inspector** (OBI) tag carries more gravitas. These insurance agents are usually hawking financial products such as equity-indexed annuities (EIA's) (**never under any circumstances purchase this**), or variable life insurance or annuity products (alright to purchase in limited circumstances and low fee structure.) I had my first run-in with the insurance industry when I was still in college, when I applied and received an internship at Equitable Life.

Boy was I thrilled to get this internship! Six whole credits, plus an opportunity to learn about the financial world; no tests, and only a paper to appease my advisor...sweet! I immediately dipped into my tip money and headed off to Marshall's Discount Outlet to scour the racks for a couple of suits to wear on the job, with some subsidization from the always generous **Bank of My Aunt Virginia**, I was ready to go.

The internship started off fine, as far as internships go. Internships for the part are unpaid slave-labor mostly used to pad a resume. They often involve painfully boring busy work such as filing and organizing. Mine was no exception. However tedious, I always reported to work on time, and worked my tail off. On one miserable Syracuse winter morning (they are all pretty miserable) I was called into the conference room where my bosses proceeded to thank me and tell me what a fantastic job I was doing; and because of all my hard work they agreed to let me start studying for my licensing exams. In my mind, I hit the jackpot, how great would it would look on my resume to be licensed right out of college.

It wasn't to be.

After buttering me up and stroking my ego for about thirty minutes, my mentors proceeded to pitch me on the extraordinary benefits of purchasing a variable life insurance policy for myself. Being the naïve college kid (the same type that believes that Barrack Obama can defy economic gravity) I was intrigued by the riches that would come my way for just \$75 a month. (\$75 was a considerable sum of money for a student waiting tables and bartending.) I was so sold on the idea that I agreed to give the names and numbers of my relatives to so they could buy into this "**can't miss**" opportunity.

I left the office with all the paperwork and shiny-happy brochures and went to my paying job at the restaurant on campus. I was in the office ironing my shirt (I hope my wife doesn't read this and realizes that I can iron.) getting ready for my shift when my boss walked in. I had a great deal of respect for my employer who ran several very successful businesses in the Syracuse area who always had great insight on the world. I decided to tell him what I was doing at the internship, and this great investment I was getting into. In hindsight, I was probably looking for his approval or trying to impress him with my business acumen.

Well...I didn't get it.

My employer asked what I needed life insurance for...I had no dependents. He asked me about the fees involved. He asked me if I could afford it, and what would the penalties be if I missed payments. I couldn't answer any of those questions, and my ego-stroking mentors didn't address them.

I started to feel pretty stupid.

When I returned to my internship the next week, I was met with a warm welcome from my mentors and the inevitable question...

"Hey Chris...Did you bring that paperwork in?"

"Uh...I have a couple of questions."

I recently received an email regarding the recruitment and training program from a national insurance chain with an office in my neighborhood.

I was contacted by someone from AP Financial via email after they found my resume online. The email was from the executive director of the Orlando branch. It said they were very busy and would love to interview me but the only time they had available was Tuesday at 10am. I responded and told them I'd be there. When I showed up on Tuesday it was like an open house. There were approximately 30 other people in the office who had received the same exact email. They sat us down for an information session and then broke off into individual interviews.

I don't want to drag on about this, but I should've known from the start they were not trustworthy when they even lied about the very first interview. I interviewed, then was invited back for a second interview, and was eventually offered the job. They require that you pay for your own licensing with the promise that you will be reimbursed after you're with the company for a certain length of time.

What's very unsettling is that while you are getting your licenses, they require that you set several appointments with potential clients from your natural market (family and friends) and your mentor, who is an experienced advisor in the company. When I was hired there were about 5 advisors/mentors for the 30 new recruits. The first appointment, however, is just you and your mentor. At this appointment your mentor sells you a variable life insurance policy. Then at every other appointment you set, your mentor tries to sell each of your family members and friends a VUL. Keep in mind, you're doing this while you are getting licensed, and since you're not licensed you don't get a penny of the commission. Your mentor gets it all. A VUL is a very expensive policy that is next to impossible to back out of for many years. It is a great investment tool, but not for everyone. The so called advisors at AP Financial recommend VULs to everyone they see, seemingly regardless of suitability.

The apparent goal is to hire about 30 people each month, require those 30 people to set several appointments, and sell VULs to approximately 210 people (30x7). Now as I said earlier, there were about 5 mentors that means each mentor just picked up 42 potential new clients. Most people don't make it through the training. By the end of my first month there, there were roughly 5 recruits left from the 30 I started with. Some drop out because they discover it's a scam, others decide the industry just isn't for them, and many don't make it through training because they don't pass their licensing exams. But how could they pass their licensing exams when instead of studying, their too busy bringing in clients to just hand over to their mentor? The advisors at the company don't care though, because they've already made huge commissions off of your family and friends, who are now locked into VULs that they can't get out of unless they want to pay huge penalties.

I realized the scam when I noticed 30 brand new faces at the beginning of the second month I was there. I'm not sure if the 'advisors' there even prospect or try and get any of their own clients. They could easily make a six figure income just by 'hiring' another batch of 30 people each month, then having those 30 people bring their family and friends into the office, and selling them VULs. I was suckered in by AP Financial because of their promises of vast wealth and rapid advancement. Now I see the reason they advance so rapidly. Instead of making any cold calls, they just hire 30 people, prey on the friends and family of those 30 (anyone in sales knows a warm lead is almost a guaranteed close, whereas a cold call is anything but) and then really don't care if any of those 30 actually make it through the training, get licensed and become advisors. Your mentor already has a ton of new clients and all of the commissions.

To make a long story short, I never did buy that insurance policy; I never did get the books promised me for my licensing; I did spend the rest of my internship cold-calling numbers from the Syracuse phone book. At the time, I felt like I was in hell, in retrospect the experience was invaluable.

Insurance products need to be explained, and tailor made by a fiduciary who must place the clients interest above their own, not a salesman. We recommend getting an intense review of your insurance, existing insurance portfolio and a second opinion on any current products being sold from a Certified Financial Planner as soon as possible.