



## Designing for Contract Self-Servicing — How Much Regulatory Detail is ‘Enough’?

**Most owners** of life insurance contracts do not spend time delving into the intricacies of the contracts they purchased. This is especially true when the focus is on complex regulations that apply to cash-valued life insurance contracts. These regulations are difficult and boring concepts to most audiences. If you want proof of this, start rambling on at a party about the cash value corridor on a universal life contract that can increase the death benefit in specific scenarios or explain how 7-pay premiums are calculated and when under IRC Section 7702A. You will quickly find yourself standing alone.

Regulations that impact these product lines never were — and still are not — foremost in a buyer’s mind. Necessary regulatory calculations and rules are incorporated into sales illustrations and are behind-the-scenes concepts. The life insurance sales focus is never on the regulations themselves but on the purpose for which the product is being evaluated for purchase. Critical details about those regulations, however, reveal themselves when ongoing servicing of contracts occurs.

Today, as insurers move back-room functions to the front office and reveal contract values and service capabilities to customers through portals, the question of regulations must be addressed. You cannot service cash-valued life contracts without them. So, how much of the regulatory rules should be presented to the viewer? **The best answer is — just enough.**

### What is meant by ‘just enough’?

‘Just enough’ regulatory exposure can be readily accomplished using newer nimble technologies for contract self-servicing. The customer who signs into an insurer portal to accomplish a task should be alerted when the selected activity will have important or negative consequences that may cause a person to rethink a request. Sometimes the action attempted should be postponed or avoided permanently. Examples of these include:

- Alerting that a service event in the specific contract scenario will result in taxable event — *Please tell me this before this happens, not afterwards. No surprises please.*
- Triggering calculations that make a current-day service event cause retroactive taxation (yes, this can happen) — *What? How is this even possible? Maybe I will change my mind and not do this after all.*

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- Attempting to make what is thought to be a normal deposit that will cause the taxation order on a contract to be 100% reversed permanently, so future distributions are taxed on all earnings first at all times — *OK, I may or may want to proceed now, but at least I know about this for the future.*

By giving the customer very specific guidance, and only when needed, the person may or may not want to proceed with a financial transaction. The individual may want to be directed to speak with someone at the insurance call center to learn more, but only if desired. In any event, a portal experience should tap the owner on the shoulder when the person makes real-world requests, such as:

- Asking for a withdrawal quote from a UL contract, only to be warned that by completing the request, the action will result in \$X of taxable proceeds, with \$Y withheld for federal taxes and \$Z withheld for state taxes.
- Beginning a partial surrender, only to be told that if the event is committed, then the loan taken two years ago, and last year’s withdrawal as well, will both now be considered retrospectively taxable after the fact.
- Attempting to deposit \$Z, ZZZ and be told if this specific amount is deposited, the contract will forevermore treat future distributions as taxable all earnings first, but a lower alternative deposit of \$XXX will not cause this to happen.

In all these examples and many more, *a simple click option on the page should allow the person to be connected to someone who can explain the necessary details, but only if the owner wants to hear about it.* Maybe they will click on the option, maybe they won’t. Through the technology-guided experience alone, the warnings may be ‘just enough’.

Be sure when designing your portal solutions, don’t forget to include clear, simple and helpful alerts about regulatory information presented in a manner than an end-consumer can understand. Do this only when the person needs it and it makes immediate sense. Design your solutions so your customers never have to say, “Why didn’t someone warn me about this? I wish someone had told me in advance.”

**Visit: [HamiltonSmithassociates.com](http://HamiltonSmithassociates.com) or contact:  
Dan Smith, President  
email: [Dan.Smith@hamiltonsmithassociates.com](mailto:Dan.Smith@hamiltonsmithassociates.com)**