BEST'S REVIEW
www.bestreview.com January 2013

Getting Together

Six key steps to take to form strategic alliances.

by Arnold Henkel and Victor Castellanos

Today, many in the insurance industry are collaborating across organizational boundaries. Insurance decision-makers now seek key resources from external partners to create and bring insurance products to market and then sell, service and drive them toward profitability.


Henkel Castellanos

Contributors: Arnold Henkel is senior vice president-strategic alliances, individual division for Ameritas Life Insurance Corp. He can be reached at ahenkel@ameritas.com. *Victor Castellanos is senior vice president and chief marketing officer for Insurance Administrative Solutions. He can be reached at* victor.castellanos@iasadmin.com

Strategic alliances have become increasingly important over the past two decades as insurance carriers have begun to specialize in specific product types. Another factor is that many carriers manufacture products for which they need distribution. One mutual insurer, for example, had a career distribution system that it changed from a fixed-cost model to a variable-cost model by converting its career agencies to an independent field marketing organization.

Carriers and reinsurers, which have the job of defining insurance risk and assuming it, often can benefit from the outside expertise for needed elements in the value chain such as marketing, administration and claims. Tapping strategic partners allows these companies to focus on a core competency.

Third-party service providers often can help risk-bearing companies write new business or take in blocks of business without adding the significant organizational resources required. Additionally, third-party service providers typically can leverage their cost structure and resources for greater economies of scale to add further value.

Key Points

- **The Trend:** Strategic alliances have become increasingly important over the past two decades as insurance carriers have begun to specialize in specific product types.
- **What Needs to Happen:** The strategic alliance creation process should be definable and repeatable.
- **Watch For:** Decision-makers to use six steps to conceive, create and sustain a strategic alliance.

Strategic alliances particularly are an active area for the life/health/benefits side of the insurance industry. Examples of other product lines are life, annuity, long-term care, critical illness, Medicare Supplement, final expense, accidental death and disability and voluntary work site benefits.

Strategic alliances include two or more unaffiliated companies working together to create revenue by bringing a product to market or sustaining an existing product through some type of change. Strategic alliances include: partnerships, product distribution agreements, private-label products, third-party administration agreements, joint ventures and other multiple-company efforts that generate revenue. Common alliances are distribution partnerships, outsourcing, co-sourcing arrangements, joint ventures and co-marketing agreements.

Strategic alliances include, for example:

- Traditional distribution alliances: A carrier offers an insurance product to an insurance broker and pays a commission for each sale, in a straightforward and well-known business model.
- Carrier-to-carrier alliances: One insurer provides a product in which it has a specialty to another insurance company.
- Specialty situations: One carrier or reinsurer assumes a block of business from another with a long-term risk-sharing arrangement.

Third-party administration is a common area for strategic alliances. TPA firms work with field marketing organizations, carriers and reinsurers to handle the end-to-end administration (marketing, underwriting, issue, service and claims) of insurance products.

Another type of alliance is where a carrier taps expertise in a product line in which it doesn't work; it can do so by aligning with another carrier or reinsurer to create a new product. The long-term value is that the first carrier can offer a product portfolio that meets multiple customer needs for its own distribution channels, but it has a shortcut in product development and underwriting expertise without the time and commitment involved in developing it in house.

In distribution, a common type of strategic alliance involves carriers and fraternal benefit societies. With captive distribution systems, fraternals provide products on an outsourced or alliance basis to their field force without investing time and resources to manufacture them.

Some big-name fraternal benefit societies use this strategy widely, aiming it to sustain their marketplace presence as consumer needs evolve.

Some companies, including Ameritas Life Insurance Corp., have developed a formal, documented process to use when considering a strategic alliance.

Strategic alliances include two or more unaffiliated companies working together to create revenue by bringing a product to market or sustaining an existing product through some type of change.

Some alliances develop through historical company-to-company relationships or by cross-pollination of opportunities by business development leaders within companies.

A number of companies have long used the forum provided by the trade association the Inter-Company Marketing Group, which was formed in 1983 solely to foster strategic alliances among insurance carriers, distributors, third-party administrators and other related companies.

How are alliances conceived, created and sustained? Here is an overview of six steps that some decision-makers in the industry use. (This is not an exhaustive list or representative of the industry.)

1. Lead Generation. Whether through networking, referral or direct contact, an insurance alliance decision-maker makes an initial contact and provides another decision-maker with an overview of what the organization specializes in.

In some organizations, these leads are actually tracked via a lead management or customer relationship management system.

2. Information Gathering and Initial Screening. The parties explore the basics of a potential strategic alliance through calls, email and in-person contact. Some organizations take the time to document the lead, and make an initial determination of whether the lead is worth developing further. Revenue opportunity, market viability and long-term strategy are some of the topics discussed.

If the lead is viable, the organization develops it as a trackable project at the end of stage two. At Ameritas, for example, an outcome of this second stage is an assessment form. In some cases, the organizations sign a confidentiality agreement to allow more freedom in sharing of information in exploring the alliance.

3. Lead Evaluation and Qualification. The organization creates a core group of representatives from various disciplines (legal, financial, product development, actuarial, and operations, to name several).

This third stage focuses on gathering detailed information regarding the opportunity, determining how the alliance might fit for the organization, and compiling an initial summary and recommendation about the alliance. The alliance opportunity is then presented for an initial approval by senior management. In some cases, the parties will sign a non-binding letter of intent at the end of this stage. The deliverables of this stage may include an evaluation form and a determination of whether to proceed further.

4) Opportunity Assessment and Team Creation. The organization creates a team (or expands the team formed in stage three) for developing the opportunity. The team creates a plan for a more formal evaluation of the strategic alliance opportunity. Analyzing the fit includes considering several issues related to the potential strategic alliance:

- The existing product line.
- Compensation and contracting practices for distribution channel(s).
- Legal issues.
- New business goals.
- Marketing and training resources.
- Sales materials.
- Financial forecasts and results.
- Risk and security.
- Other due-diligence concerns.

For this stage, as an example, Ameritas has developed a due diligence template, which allows for analyzing the opportunity according to pre-set criteria. At the conclusion of stage four, the alliance decision-maker summarizes all the work done to date along with an evaluation form and recommendation that is presented to a senior management review group.

5. Negotiation and Contract Creation. At this penultimate stage, the organization creates a team for negotiating and closing the strategic alliance transaction. The team carries out the negotiation and contract development in concert with the potential strategic alliance partner. Meanwhile, the organization internally develops and writes an implementation plan using an established template. The team presents the final negotiated deal to senior management, using the legal documents outlining the potential strategic alliance created in this stage. If the deal is mutually agreed upon, the parties then execute the strategic alliance agreement.

6. Implementation. While stages one through five certainly include important work, it is stage six that determines the success of the strategic alliance. To that end, the strategic alliance leader in the organization creates an internal implementation team, which carries out the implementation plan created in stage five to launch the strategic alliance.

After launch, it takes a lot of work to get producers and distributors who were not involved in the development to consider the new strategic alliance as a beneficial opportunity for their organization as well as their clients and prospects.

Various organizations may have different processes, and experience shows that some organizations that have repeat strategic alliance opportunities with the same partners can shortcut some of these steps.

One important aspect for some organizations is that the strategic alliance creation process be definable and repeatable. This leads to learning over time so that the organization develops and refines skills in creating strategic alliances, which can then become a core part of a company's business and help it create sustained and significant revenue over time. BR