

CPAs and insurance professionals a profitable alliance

Life insurance professionals picture the accounting profession as it was a decade or two ago, they may be forfeiting an opportunity to build a mutually beneficial alliance. The world of the CPA, as well as that of the accounting firm, has changed, and there are new opportunities to work together in a productive relationship.

The opportunity now exists for insurance professionals to expand a broker's referral and/or prospecting base when working with CPAs. To understand what has happened in the world of accounting and what it means to life insurance brokers, here is a primer of the changes.

1. What has changed?

- ❖ In certain states, CPA can now be licensed to sell protection products.
- ❖ They can now be paid commissions if they have the proper licenses.
- ❖ By implication, the line between trusted independent advisor and recommending product solutions is blurred.

2. How can life insurance professionals work with CPA firms today?

- ❖ The CPA may refer business to life insurance brokers and seek their professional expertise for clients.
- ❖ The CPA split the compensation on life cases with a life insurance broker on an agreed-upon basis.
- ❖ If the firm is large enough, or wants to pursue life insurance business, it may establish a financial services department or set up a separate corporation with its own profile center.

Today, all of these options are available, taking into consideration state laws and how CPAs wish to structure their practice.

3. Rule 503

Rule 503 of the American Institute of CPAs' Code of Professional Conduct relates to commissions and referral fees requiring disclosure. It states, "A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates."

Simply put, the CPA is bound by full disclosure when dealing with a client and commissions or referral fees are received. Complete disclosure must be given to the client via a signed document, which is to be maintained in the client's file.

In making the disclosure, the accountant should issue a letter to the client that includes a statement such as this: "In connection with the AICPA Code of Professional Conduct's Rule No. 503, I hereby notify you that, should an insurance transaction be consummated, I will receive part of the commissions."

Transparency is of critical importance in building and sustaining professional relationships today. Full-disclosure enhances client trust and confidence and helps provide assurance that they are receiving objective, independent advice.

4. How can the life insurance professional be helpful to the CPA?

Brokers have much to offer the profession. Here are eight ways they can be helpful:

- ❖ They can provide helpful insight during policy reviews or during an audit of life insurance coverage. There is no substitute for knowledge, and a life insurance broker can identify factors that deserve attention.
- ❖ They can provide product knowledge. Much has changed in the life insurance industry over the past 20 or more years. We have gone, for example, from whole life to universal life to variable life to guaranteed level term, as well as guaranteed no-lapse universal life.

- ❖ They can provide expertise in medical underwriting. If a client has a particular ailment or health concern, years or experience in the industry can be invaluable in positioning a difficult or challenging underwriting case. Without this expertise, clients can pay higher-than-necessary rates, or even be denied coverage.
- ❖ They can help with the selection of the insurance company. Not all insurance companies underwrite a particular risk the same way. This is especially true in cardiac and cancer cases. Give the same set of medical records to eight different companies, and it is possible to receive three or four different offers. It is extremely helpful to know which companies treat certain risks more favorably than others.
- ❖ They offer understanding of the reinsurance marketplace. It isn't always wise to send out multiple applications, particularly on a large case. This can cause gridlock in the reinsurance marketplace. An experience life insurance professional knows how to navigate this difficult task to avoid gridlock.
- ❖ They can help with foreign travel. This can be difficult underwriting challenge because many clients travel the world today. Certain insurance companies provide more favorable underwriting offers and don't charge an extra premium. It takes a good working knowledge of life insurance carriers to know which are more liberal in their underwriting.
- ❖ The life insurance broker can suggest and provide solutions based on experience with similar clients and needs.
- ❖ They can offer tax-favored solutions. Many recommended solutions can provide tax leverage. For example, the proceeds of the life insurance death benefit would be payable to an irrevocable life insurance trust thereby providing tax leverage for the estate.

5. How does a strategic alliance work between a CPA and a life insurance professional?

First, the CPA and life insurance broker should clearly define their individual roles and responsibilities. A beneficial working relationship can be thwarted without having this process in place.

If the parties agree to split commissions on the business written, then an agreement is essential. In the same way, short – and long-term goals should be benchmarked, and the results reviewed at least one a quarter, and perhaps more often. These are ways to measure whether or not the alliance is adding value and revenues to the bottom line.

CPAs face constant pressures to retain clients and provide value-added benefits, while balancing the need to continue to grow revenues. A joint venture with a life insurance professional can be helpful in strengthening existing client relationships, as well as providing peace of mind for clients.

The alliance can also be powerful and profitable, particularly when both parties make it a top priority.