Consumer Buying Behavior: What it Means to the Carrier

Life insurers are devoting resources to develop better ways of measuring and understanding consumer behavior. By doing so companies hope to refine their insights into which products best match buyers’ needs and what channels are most effective at reaching today’s buying public.

Glenn Cunningham, Executive Vice President, US Life Reinsurance, asks Dr. Mathew Greenwald, President and CEO of Greenwald & Associates, how the industry is improving its understanding of consumer behavior and delivering value to the market.

With 30 years of experience, Dr. Greenwald founded his public opinion and market research company in 1986. His clients include many leading financial services organizations including a number of life insurance companies. Prior to starting his business Dr. Greenwald worked for the American Council of Life Insurers. He has written many articles on the financial services industry, demographic changes, consumer attitudes and behavior. He is an inductee in the National Association of Variable Annuities (NAVA) Hall of Fame, has testified before the Senate Committee on Aging and served as a Congressionally appointed delegate to the 1998 and 2002 National Summits on Retirement Savings. He holds a PhD in sociology from Rutgers University.

Glenn Cunningham: Today’s life insurers are offering products that serve a wide range of consumer needs and do so at attractive prices. A huge number of consumers understand that they are underinsured yet despite this theoretical demand, life insurance sales have declined over the years. How do you account for this?

Mathew Greenwald: If you reduce the cost and enhance the design of a valuable product that answers a clear market need, in general your sales will grow. Yet we have not seen that sales trend in the life insurance industry despite its impressive product innovation. We know life insurers are doing well on the product and pricing side. I think we have to put more thought into what’s going on with distribution. In my opinion, that’s where the main disconnect lies.

In terms of affordability of coverage and product innovation, the life insurance industry has done extremely well. When I started in this business insurers offered whole life and annually renewable term. Since then insurers have rolled out better ways to help consumers get protection, accumulate cash values and acquire coverage for long-term care, disability income and other needs.

With respect to reaching potential buyers, the past few years have been disappointing. Many companies now make serving higher-income households their top priority. The producers in these channels are often financial advisors who focus on consumers with assets, which rules out most middle-income consumers. At the same time, the life insurance industry is no longer promoting awareness of the value of its service to the extent it once did. Giving more thought to re-engaging the middle market and reviving consumer education could be positive choices.
Today’s companies have the capacity to serve the public but they are missing millions of consumers at all income levels. In a recent study on the potential of the middle market, LIMRA estimated that almost half of US households have insufficient coverage. Most consumers are in the lower- and middle-income bands but (according to the survey) one in three higher-income households are underserved as well. Furthermore, the gap is probably bigger than LIMRA estimates.

**Reaching the Consumer**

**GC:** Traditional captive agent distribution did a good job reaching lower- and middle-income consumers. Do you see life insurers ever returning to that model?

**MG:** Despite their ability to reach a wide range of buyers, captive agencies are expensive and challenging to maintain. I am not optimistic about resurgence; most companies have essentially given up on this model.

Carriers looking to penetrate the higher-income segment now depend more on financial advisors from a variety of channels, many of whom (but not all) check off life insurance as one of the things they address. Advisors are mostly interested in addressing the investment advice component of retirement planning not the life insurance foundation.

Companies pursuing multi-line approaches run into a different kind of producer resistance. Property/casualty and auto agents are generally more comfortable selling coverage that the law requires people to buy; they are less interested in discussing a complex product that brings up images of death. Fewer and fewer people now have real opportunities to buy and those who do are often shown life insurance alongside other products.

**GC:** What are some other intrinsic impediments for reaching the middle market?

**MG:** We have already touched on the distribution cost issue. In addition, demand for insurance protection has softened over the years for two reasons.

One, we are no longer a society where the typical household has a single breadwinner with more than one child. Two-income homes are more the norm with lower likelihood of having children. The theoretical need for coverage is somewhat softer than it was in the past because there are fewer non-earning adults who would be financially devastated if the breadwinner died.

Two, a variety of financial products are now available. There has been product innovation on the investment side also. Whole life used to be more important as an accumulation product than mutual funds but now the reverse is true. Today many financial services are competing with life insurance for shares of consumers’ wallets. The need is there and people with dependents consistently rate life insurance as a high priority – but they have other financial priorities as well.

**Serving the Policyholder**

**GC:** Staying in touch with policyholders and updating coverage to serve their changing needs is a proven way to generate sales. Do companies sufficiently balance their efforts to serve both existing and new customers?

**MG:** Obviously, it is important to balance recruitment of new policyholders with deepening of existing relationships – both activities make financial sense. However, for various reasons consumers and carriers invest less effort in maintaining relationships.

Many consumers take a once-and-done approach to life insurance. People face a series of life events that increase their needs – marriage, children, job promotion, mortgage, etc. At whatever point they address their needs many do not review and update their coverage. For example, when a couple buys life insurance coverage on the birth of their first child, it does not cost much more to add coverage for a second child. Yet typically that update of coverage to meet increased needs is not done. Many advisors do not follow up with clients to review life insurance coverage even when there is clear evidence that it should be reviewed.

Consumers supply a wealth of health and other data to life insurance companies that carriers can use to enhance relationships and cross-sell. Yet often this information isn’t utilized at all. One key reason is the issue of who owns the client. In many cases the distributor does. So carriers do not feel they can approach the people they insure and raise the issue of additions to coverage or meeting other needs. In addition, many life insurance agents tend to make a distinction between clients and customers; the focus is on the top 20 percent of their book. One consequence is not keeping up with many relationships that could be profitable. Opportunities to improve relationships are in every channel and greater effort is justified in this regard.

**GC:** Baby Boomers are now reaching retirement age; a key risk on their minds is long-term care. How do you view recent efforts of the industry to address this need?

**MG:** Long-term care is already beyond the financial ability of most people to deal with unless they purchase insurance, whether care is at home or in a nursing
facility. Previous generations of seniors often had the benefit of care by children, but Boomers have fewer kids than their parents had and a record proportion of them have none at all. Further, it is a very important value of Boomers not to be a burden on their children. In addition, Boomers as a consumer bloc place a high premium on comfort and quality of care. Boomers that need care will want it provided at the home or in a high quality facility. Medicaid – the last resort for many seniors – is in danger of being overwhelmed; the number of enrollees will double in this decade alone.

Long-term care insurance is expensive. Carriers have come up with a number of product innovations such as combination life insurance/long-term care products that address this cost issue. It is important for advisors to raise the issue of insuring against the risk of needing long-term care and for life insurance companies to train advisors on the most effective ways to position the product solutions.

**Improving the Transaction**

**GC:** We have talked about Baby Boomers. Are you seeing significant generational shifts in buying behavior elsewhere?

**MG:** We are already seeing changes in the way producers communicate with clients and prospects. More of today’s phone calls will be tomorrow’s emails or texts. There will probably be more meetings through tele-conference applications like Skype. In addition, there may be some increase in buying directly and online but there is evidence that younger generations still want to buy life insurance from an individual whom they can look in the eye. By and large, I believe that advisors are going to see more continuation than change in their relationships with consumers.

**GC:** Do you see technology improving consumers’ understanding of the value of life insurance coverage?

**MG:** While technology makes it easier for consumers to conduct background research of companies and products, consumers generally do not heavily research or shop for life insurance. They meet with one advisor and consider only the products (or often one product) that the advisor recommends. I think that is going to continue. Not every buyer – or company – will take immediate advantage of what’s available from new technologies. Change will happen but I think it is going to be incremental.

**GC:** Life insurers are exploring nontraditional distribution channels such as worksite direct sales and online. What is your opinion of how successful these approaches will be with consumers?

**MG:** The worksite channel is a useful and cost-efficient way to reach more consumers, meet needs and sell products. Online and direct selling will continue and become more effective. Again, most people still want face-to-face interaction.

**GC:** In our experience, carriers can obtain high quality information when a trained interviewer asks the sensitive medical questions over the phone. Behaviorally speaking, why is this process more effective at obtaining medical information?

**MG:** Applicants know they must provide health information to qualify for life insurance. One reason why they are more comfortable doing it over the phone is that people by and large don’t like being confronted visually with the stigma that comes with some types of health information. They fear being judged. Behavioral concerns apply to some producers as well – many investment advisors and property/casualty agents just aren’t as comfortable discussing medical history as a veteran life insurance agent is. Moreover, reducing discomfort for both consumers and producers can help boost sales.

Some agents strongly prefer control over the Part II questions as a way to serve their policyholders better. They value collecting this information as a way of building the relationship with their clients. However, there are some risks in that as well. I once conducted a study for a life company to assess the impact of its letting producers determine the smoker/nonsmoker status of consumers. We found that some agents were telling applicants “If you answer any of the following questions ‘YES’ then your premiums will be much higher.” The impact was significant. This situation would not have arisen had teleinterviewing been used. I think we will be seeing more use of this increasingly effective underwriting tool going forward.

**GC:** The traditional life insurance buying experience can take 40 to 60 days depending on the size of the case. How much do you think that affects consumers’ perceptions of the insurance industry?

**MG:** Quicker is generally desirable to consumers. In a variety of situations, especially sales of lower face amount policies, both the consumer and producer want to know quickly that the application is accepted and the coverage is in place. We are currently conducting a multi-sponsor study on simplified issue underwriting so
we know high interest in delivering greater speed and convenience exists. Carriers are also looking at pharmaceutical databases and other means to assess applicants’ health automatically and alternative lab tests (like saliva instead of blood and urine testing) which could help speed up larger face amount sales as well.

Educating the Public

**GC: You mentioned that the life insurance industry has not done as much consumer education as it has in the past. What has changed?**

**MG:** Life insurance is a vitally important way to help many families survive the loss of a loved one. That is the heart of the story – the challenge is making that message fresh and relevant to today's buyers.

I was at the American Council of Life Insurers at a time when the organization ran advertisements encouraging consumers to consider the need for life insurance. The ACLI has since stopped doing that. I can remember specific companies' advertisements focusing on the importance of life insurance. I do not see much of that anymore either.

Most of today's marketing is about brand building and strategic messaging – especially in retirement planning. The sums involved are vast: about $3 billion in marketing in 2010. Obviously, this type of advertising is important; it gets the attention of knowledgeable consumers. Nevertheless, the story of life insurance is not being told through this advertising. I think that has contributed to a failure to maximize sales and to too many people having inadequate coverage. On a per company basis, it would not cost that much for the life insurance industry to make a greater effort to tell the life insurance story and I hope such an effort will be strongly considered.

Building the Future

**GC: Where do you think the industry is headed over the next five or 10 years?**

**MG:** I think we will see more focus on older age sales for many years. Life insurance could serve a variety of needs as a method of assuring that people’s accumulation for retirement reaches their goals. The need for long-term care insurance is vast and only going to grow. I think long-term care/life insurance combination products will continue to develop. Finally, delivering products to the middle market will of course continue to be an issue. In general, I expect product innovation to continue.

Some activity in terms of distribution innovation is taking place but there could be much more. I am sure life insurers will bring product and distribution innovation together – for example, selling low-face term life through multi-line channels and other highly segmented strategies. Offering affordable add-ons could be an effective way to scale up coverage to meet changing needs. In addition, keeping the transaction simple, affordable and comfortable might overcome the historical challenges of cross-selling through banks and property/casualty channels.