

Term Life Sales Leadership How Important Is Price?

Executive Summary

As many insurers are currently reviewing the need for term repricing in light of PBR implementation during the next three years, they may need to consider price elasticity of consumer demand on term products. Term products are becoming more price competitive. Consumers are becoming increasingly informed, as more term products are selling online. Will term life insurers respond to increased consumer price sensitivity when repricing term products?

For many life insurance companies, term life price elasticity is not a major component in pricing strategy. Other factors — actuarial assumptions, profitability such as ROI/ROC target achievement and price competitiveness against peers in the targeted market segments — often drive the strategy.

Price elasticity of demand is a measure of the relationship between a change in the quantity demanded of a particular good and a change in its price — does increased demand drive the price down? Or does a price hike decrease consumer demand? Usually the amount of competition in the marketplace keeps prices more flexible — and lower.

The Insurer Perspective

Unlike industries where price elasticity is a key factor in the company's pricing strategy, insurers appear to pay less attention to the impact of their term life price changes on their sales. They may view term life products as relatively 'inelastic' like water, gasoline, prescription medicines, smartphones or other high-end electronic devices in which demand is not greatly impacted by price changes.

Many insurers may also view other factors such as distribution, branding, financial strength and other marketing strategies as playing bigger roles than pricing in term life sales. Accurately predicting the immediate to mid-term effect of any price hike or decrease of term products may not seem critical.

There are notable degrees of differences in price sensitivities among life insurers. In general, companies who participate in online/direct term sales market are much more price sensitive, as they need to compete against many other competitors.

Companies using brokerage as their core distribution force are also price sensitive. They are not, however, price-elasticity sensitive, because their main concern is to maintain or improve their price competitiveness against peers. Their focus is how to set the prices to beat their competitors while maintaining the overall returns within their targets.

Companies who mainly use their own captive agents to sell term products are less concerned about price competitiveness, but this does not necessarily mean they set their price considering the direct effect of their price changes to the sales growth. Often times their term life products are viewed as somewhat optional or supplemental products to their main focus products, such as whole life.



Hiroe Noonan, FLMI, MBA
Senior Strategic Business Analyst
HNoonan@scor.com

Editor

Pam Granzin
704.344.2725
pgranzin@scor.com

SCORGlobalLifeAmericas.com

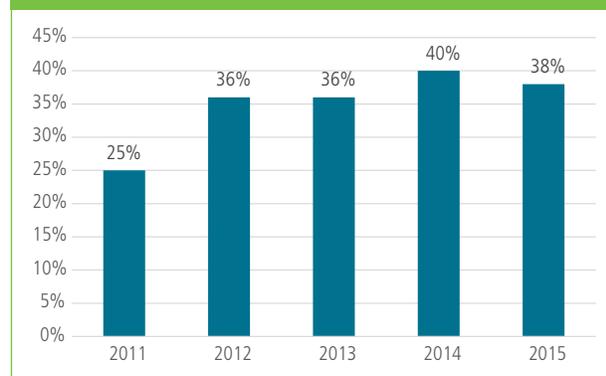
How Important Is Price? (cont.)

As a result, prices of term products are not set acutely attuned to the price sensitivity of consumer demand. But do these no- to low-elasticity sensitive pricing strategies have no risk?

The Consumer Viewpoint

Consumers are increasingly price sensitive in terms of shopping for term life insurance – LIMRA International's *2016 Insurance Barometer Study* shows that 38% of consumers say "best price" is the most or second-most important factor in deciding to buy term product in 2015, while only 25% ranked price this way in 2011 (Figure 1).

Figure 1 - "Best Price" as the 1st and 2nd Most Important Factors When Deciding to Buy



Source: LIMRA International

Other factors consumers view as important are "proper amount of coverage" and "understanding what they are buying" but not "my insurer's brand" or "relationship with my agent/broker/advisors." Among those factors, however, "best price" is the only factor to achieve significant growth in importance during the past five years.

What should insurers do to adjust to this consumer preference trend, especially in their pricing strategy? There is no data or single study that answers the question. But if you take a look at the correlation between companies with top term sales and their price change history during the past decade, the data suggest a possibility that life insurance companies' price change decisions may affect sales more than they anticipated, both in positive and negative ways.

When we compared the Top 10 term writers (by premium) over the past 10 years (2005 – 2015), only six companies in the Top 10 group in 2005 were able to stay in the group after 10 years. Within the Top 5 group, only one company could keep its top status.

When we look at the term competitiveness of these companies (using premium comparison analysis based on selected cells, such as 20-year, \$500,000 face, age 35 and best underwriting classes) during the past 10 years, all of them changed prices sometime during the decade. Some of them made drastic changes to their prices, either downward or upward, while others changed only modestly.

Meanwhile, some companies who were not in Top 10 in the term sales ranking have reduced their term price during the past year and have achieved a strong sales growth and a jump in market share and rankings.

Interestingly, not all top term writers are price leaders. Many tend to sit in the mid-top group or within a competitive price range. And some top term writers raised prices but maintained or even improved their market position.

More than Price...

When we take a closer look at why some companies could not maintain the top term ranking status during the past 10 years, price is not the only consideration. During the past decade, life insurance companies experienced numerous adverse situations - financial crisis, low interest rate environment, regulatory changes, consumer demographics and demand changes. Due to these factors, some companies experienced financial and branding difficulty that led to the decline in their sales.

Some companies also made strategic decisions to reduce competitiveness in their term life segment in order to improve profitability and reduce risks, therefore raising prices. But their strategic price increase decision could result in greater-than-anticipated reduction in term sales, negatively impacting the company's revenues. This could happen if companies are not correctly taking increasing consumers' price sensitivity into their assumptions.

...But Price has its Place

This examination of term price changes to term market sales leadership is based on limited data. But comparing the history of top term writers to price competitiveness during the past decade does suggest that term price changes can have drastic effects on insurers' sales growth as driven by consumer demand reaction, sometimes perhaps much more than insurers planned.

In the past decade, the term market has become more competitive. Online and other direct-to-consumer term sales have increased, and consumers are becoming increasingly informed, which could raise term's price elasticity of demand. With PBR implementation during the next three years, insurers will be reviewing their term pricing strategies. The price elasticity of consumer demand on term products may be worth considering as part of that review. ∞