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Life insurance: **Bought not sold?**

by JJ Carroll

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Think back to the last major purchase you made, something you were really excited about. It was going to make a big difference in your life, and maybe you were a little bit nervous. This was a fair amount of money after all and a pretty big commitment. You spent a lot of time comparing your choices and talked to your neighbors and friends to compare what they bought. You also talked to the sales representative to get their knowledge and advice. Finally you selected the best choice. You read through the paperwork carefully, paused a moment with anticipation and then signed the paper or clicked "submit" on your screen. Okay, now be honest. Was that a life insurance policy you just bought?

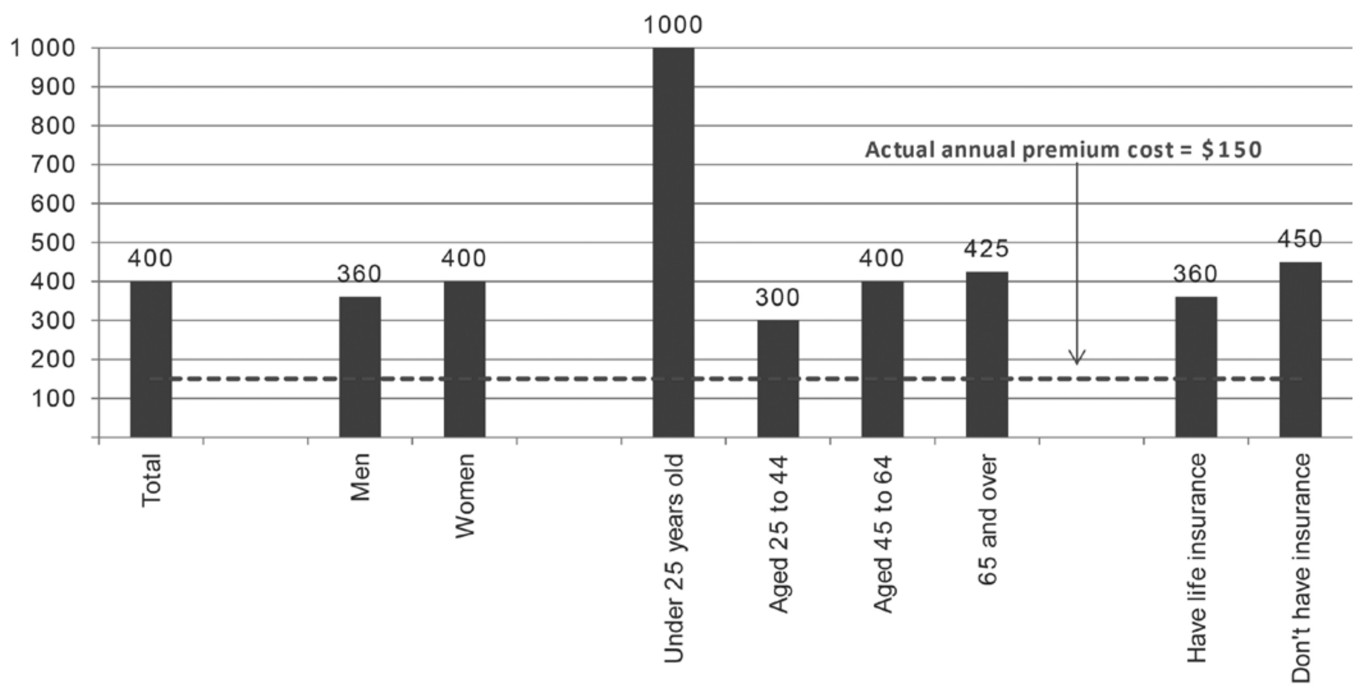
When we are very excited about a purchase and we know it will benefit us, we are willing to jump through all sorts of hoops to get what we want. This spring I drove three hours to a dealership, spent another three hours filling out paperwork and returned home after midnight with a brand-new car. And we call the life insurance purchase process onerous? Maybe with life insurance there's something wrong with the perceived value when compared to the perceived cost.

September is Life Insurance Awareness Month (LIAM), coordinated by the nonprofit LIFE Foundation to educate Americans about the benefits of life insurance. It's a perfect time to talk about what we as an industry can do to tackle the life insurance protection gap. Life insurers need to better understand customer perceptions, behaviors and needs in order to balance the life insurance cost-benefit equation.

What is the protection gap?

The mortality protection gap is the difference between the resources needed and the resources available to maintain dependents' living standards after the death of a breadwinner or caretaker.

In 2010, the global protection gap was USD 79 trillion dollars. The U.S. gap was USD 20 trillion, and the gap in Canada was USD 1 trillion. For the United States, the gap increased by almost 10 percent between 2001 and 2010, from 18 trillion to 20 trillion, or 135% of 2010 U.S. GDP. The average household in the United States had an estimated protection gap of $378,000.[1] While awareness of underinsurance has improved from thirty-nine percent in 1998 to fifty percent in 2010, only



two-thirds of U.S. households would be able to cover a few months of daily living expenses if the primary earner died. And only one in ten households purchased additional life insurance each year.[2]

Life insurance is available at a relatively low cost, the United States being one of the cheapest places in the world to purchase this valuable protection. If life insurance really is available at a low cost, then why do consumers cite budget as one of the main obstacles to buying life insurance? Based on a study from LIMRA3, consumers drastically overestimate the cost of life insurance. Clearly there's a perception issue that needs to be overcome.

While insurers have been focused on lowering the cost of insurance, perhaps it's the perceived cost of insurance that needs to be addressed.

Another aspect of the equation is the complexity of products. Nearly half of underinsured households say it is difficult to know what type of insurance to buy, and forty-four percent report having difficulty deciding how much coverage they need. When a family buys a new car, it's pretty obvious what attributes are important to fulfill their needs. Do they need room in the back seat for kids? Do they need plenty of room in the trunk for hauling all the kids' stuff on vacation? With life insurance, it's not as clear. One way of reducing the perceived cost of insurance, thereby increasing sales, would be to simplify product design and modify the way the product fits the customers' needs.

If customers don't understand the value proposition for life insurance, the perceived benefit may actually be lower than the actual benefit. A lack of understanding of pooling and risk sharing combined with a general biased belief that bad things are more likely to happen to others will nudge customers in the direction of doing nothing. Having dedicated my career to an industry that I see offering security and peace of mind, it's disheartening to think customers view our products as a necessary evil.

Swiss Re is working with innovation agency Maddock Douglas to better understand the needs of consumers.

Consumers have listed these words in an online discussion to describe the process of buying insurance: nervous, ambiguous, tedious, personal, gauntlet, involved, consuming, frustrating, intimidated, tension, anxious, enigmatic, confused, patience, anxiety-ridden.

There has to be a better way.
Can we increase the benefit of our products by improving transparency and simplicity? What if customers can more readily see the value of products and compare prices with confidence? And what if customers can develop long-term relationships with insurers built on trust and engagement? Then doesn't this become a product that we want to buy?

Last year I was in a room of life insurance executives who are passionate about our industry. They were asked how many people owned life insurance, and only half of the room stood up. So, why do people who fully understand the benefit of insurance still fail to buy insurance?

The answers in that room mirrored those that are cited in customer surveys, including competing priorities and a cumbersome process. Behavioral economics theories

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will tell us that procrastination and myopia play a heavy role in customer decisions to do nothing. Framing is an equally important theory of behavioral economics that suggests peoples' decisions are influenced by the way in which the choices are presented.

As we further explore how life insurance customers think and behave, we can address their needs more effectively. Using data and predictive analytics we can better identify groups to target. By embracing technology and approaching customers with the right distribution channels based on preference, we can make life insurance more accessible. We can speak the customers' language. We can understand that they are not all created equal, and tailor products to meet individual needs. In short, we can leverage data, research and technology to become very consumer centric.

Getting closer to the customer, can we lower the perceived cost, and raise the perceived benefit of life insurance to a point where customers get excited? Will this not then be a product to buy, not sell? ◻

END NOTES

1 Swiss Re, The Mortality Protection Gap in the US, August 2012
2 LIMRA, Household Trends in US Life Insurance Ownership, 2010
3 LIMRA, Insurance Barometer Study, 2012