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Serving Up Life Insurance Products **to the Middle Market**

By Winston Hall

For the last few years, an increasing number of life insurers are targeting the middle market. Whether this is an evolutionary stage of life insurance in the United States remains to be seen. Advancements in nontraditional distribution systems are making the possibility of serving this market segment a reality. Regardless of the reasons for targeting the middle market, a life insurer that is developing and distributing life insurance products to the middle market must find ways to overcome the feature that life insurance is usually "sold" rather than "bought." This article will identify the middle market, discuss the attractiveness of the middle market to life insurers, list the characteristics of successful middle market life insurers, and describe two popular middle market life insurance products.

What is the Middle Market?

The statistical characteristics used to identify the middle market are ages 25 to 64 with annual incomes from $35,000 to $125,000. Out of 114 million households in the United States, the middle market is approximately 52 million households. According to survey statistics from LIMRA, 51 percent are not satisfied with their current financial situation and 80 percent feel that they do not currently save enough.[1] However, 82 percent believe that their financial situation will improve over the next five years primarily by reducing debt and/or spending.[2] While 70 percent of middle market households would like to speak with a financial advisor, only 10 percent plan to do so.[3] In addition, 26 percent do not know how to reach their financial goals.[4] These survey results reveal a vast untapped opportunity for middle market insurers. Even more encouraging to potential middle market life insurers are the middle market's views on life insurance. Although the segment assigns higher priority to paying down debt, buying a home, and saving emergency funds, 73 percent believe that life insurance is a necessity.[5] Currently, one-third of middle market households rely on group life to meet their needs and one-third recognize they are underinsured.[6] When faced with a life insurance purchase decision, the middle market consumer will buy what they can afford. Moreover, the middle market consumer gives the highest priority to being able to adjust price by changing coverage and benefits.[7] Although middle market consumers are mostly interested in face-to-face distribution for financial planning products, a majority are comfortable with non-face-to-face distribution for protection products.[8]

Attraction to the Middle Market

Life insurers not currently targeting the middle market have reasons to consider doing so. In fact, life insurance sales are proving to be a bridge to sales of other financial product offerings. For instance, life insurers find that a customer who purchases life insurance is much more likely to purchase additional financial products. In addition, according to LIMRA and consumer advocates, the middle market is underserved and underinsured. Conning Research and Consulting Inc.'s study *Penetrating the Middle Market: Clearing the Distribution Hurdle*, reports that households on average carry enough life insurance to cover 2.8 years of income replacement, while LIMRA recommends enough coverage to replace 7-10 years of income. Current estimates by Conning place the protection gap for all households at $11 trillion and $6.4 trillion for middle market households. Although the middle market represents 46 percent of all households, they represent 58 percent of the protection gap. Each middle market household requires an additional $125,000 in life insurance to close their protection gap. Thus, creating an estimated annual premium potential of $11.4 billion in total for the middle market.

For some insurance companies, middle market product development is also seen as an excellent capital deployment opportunity. Less customer scrutiny and simplified issue underwriting create increased margins, some of which are retained and not passed to the consumer in exchange for increased underwriting and persistency risk. Therefore, by retaining some of the increased margin and barring increased compensation to spur sales, the insurer can earn a higher return on investment. In

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FOOTNOTES

1. Retzloff, Cheryl D. "Is There Magic in the Middle Market." News Direct Jan. 2010, Issue No. 61.
2. ibid
3. ibid
4. ibid
5. ibid
6. ibid
7. ibid
8. ibid

addition, the increased use of Internet technology and nontraditional distribution systems are making it operationally affordable to serve this market. Market surveys show middle market consumers use the Internet to educate themselves on life insurance products. Although the Internet is currently a minimal source of sales it is helping to remove the fear barrier that prevents many middle market consumers from purchasing life insurance. In addition, the Internet is leading an increasing number of prospects to be contacted by an insurance professional. Middle market life insurers have launched interactive Web sites to educate middle market consumers and help them answer the following questions:

What is life insurance?
What obligations do you have?
What is the monetary value of those obligations?
What type of life insurance should you buy?
How much life insurance do you need?

Some insurers that currently serve the middle market are reporting up to half of current sales are a result of these direct distribution channels: mail, Internet, telephone and e-mail.[9] These insurers also report the middle market has massive growth potential. Segmentation of the demographic, proliferation of nontraditional distribution systems, expansion into new markets (banks and financial planning), and deeper penetration into existing markets are all potential sources of growth.[10]

> “Successful middle market life insurers should avoid being all things to all people by segmenting the market and selecting their target.”

Reduced Costs + Easy Sale = Key to Success

Profitable middle market life insurers must find ways to reduce the costs of placing new business and maintaining in-force business. For example, the expenses that are generated from selling 10, $100,000 simplified-issue term policies, may exceed the expenses from a single $1,000,000 fully-underwritten term policy. Also, distribution may be reluctant to spend a similar amount of time selling a policy with one-tenth the commission of the larger sale.

Successful middle market life insurers should avoid being all things to all people by segmenting the market and selecting their target. Otherwise, marketing to too many segments is expensive, operationally difficult, and makes it impossible for a company to set itself apart from competitors.[11] Furthermore, the insurer should exploit opportunities that are aligned with their strengths and goals and continuously monitor their targeted markets and their customers’ changing needs.

Unsurprisingly, middle market purchasers of life insurance report that their provider was easy to buy from and remains easy to access. Becoming easy to buy from is the result of making significant investment in infrastructure to support the business being sold. Best practices include “quick-issuance” systems that can process simplified issue policies in three to six days and usually provide the buyer with a temporary insurance certificate until processing is completed. Meanwhile, the policy sale should be quick and efficient taking no longer than the time it would take to setup a checking account or purchase a certificate of deposit from a bank.[12] Successful middle market life insurers are also excellent providers of customer service. Best practices include providing 24/7 on-line policy information portals and establishing retail customer service centers. For example, retail customer service centers are normally staffed by two to three persons and tend to be located in retail shopping centers with a significant amount of foot traffic. A retail customer service center can be less expensive than an agency or brokerage office and providers report increased penetration in states with or near customer service centers.[13]

FOOTNOTES

9 Panko, Ron. “Motivating the middle market: life insurers large and small have begun to crack the code on how to reach middle-income customers.” Best’s Review. Mar 1, 2008.
10 DiSylvester, Ben. “Characteristics of Successful Middle Market Companies.” New Direct. Jan. 2010, Issue No. 61.
11 ibid
12 Panko, Ron. “Motivating the middle market: life insurers large and small have begun to crack the code on how to reach middle-income customers.” Best’s Review. Mar 1, 2008.
13 ibid
14 ibid

Middle Market Product Characteristics

What makes up the perfect middle market life insurance product? Hopefully, this article has already given you a good idea. Middle market consumers are not as "insurance savvy" as the affluent consumer and rarely have third party assistance from financial planners, accountants or attorneys. Therefore, the product must be simple and transparent with regard to its benefits and triggers for those benefits. As discussed earlier, the product should be transaction-based to enable a quick sell. Simplified issue is almost a necessity unless sales volumes are extremely high. Coverage and benefits must be flexible without complicating the product. The middle market consumer is making a budget-based purchase and will want to dial-in coverage and adjust benefits to make it affordable. Features like supplemental coverage, levelized commissions and death benefit pay-out streams are some options that will help make coverage more affordable. A review of a middle market life insurance product should have the following characteristics:

- Simple and transparent,
- Transaction-based,
- Flexible benefits, and
- Affordable.

Sample Middle Market Products

The most prevalent middle market product is affordable 10, 20 or 30-year level term coverage with face amounts that range from $50,000 to $250,000. Coverage is guaranteed renewable up to attained age 75 and almost always guaranteed convertible without requiring medical. Many products surveyed by the author offer living benefits, such as accidental death benefit. The survey also shows that contacting bank or financial services company customers via mail, Internet, or through ads on their respective Web pages are usual direct distribution devices. Normally, underwriting is simplified issue, which results in term rates that are approximately 20 percent higher than fully-underwritten. Rates can be made more affordable by offering the option to have the death benefit paid in an income stream to the beneficiary to some specified attained age. Simple issue entails answering five to 12

questions. Questionnaire results are cross-referenced with an on-line fraud detection service, motor vehicle data and pharmaceutical-benefit aggregation data.[14] The customer is usually provided with a certificate of temporary coverage while the application is processed. Processing time ranges from three to six days. Usually, the provider offers multiple and flexible premium payment methods. First year premium can be made by credit card or electronic funds transfer. For customers contacted via banks or credit card companies, payments can be debited from their existing accounts. Recurring premiums can either be setup for automatic payment, billed or drafted.

Another popular product is no-lapse-guarantee (NLG) universal life. Many offer the ability to adjust premiums while maintaining the NLG by providing these options:

- No-compensation supplemental coverage,
- Adjustable premium payment period from ages 100 to 120, and
- Adjustable policy termination date.

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In addition, levelized commissions can be implemented to offset increased capital requirements and to make guaranteed coverage affordable. Long-term care (LTC) riders may be offered. LTC riders are more attractive to the consumer than stand-alone coverage because they are often cheaper, benefit payments are made directly to the policy owner, and the death benefit eliminates the "use it or lose it" feature. Understanding the NLG methodology has been notoriously complicated and all too often resulted in the policy owner losing the guarantee. To decrease the possibility of losing the guarantee, middle market products offer the following premium monitoring and policy administration processes:

- Backdating premiums,
- Advanced billing,
- Annual statement notifications of guarantee status, and
- Simple catch-up provisions.

Conclusion

With an $11.4 billion annual premium potential, the middle market is a virtually untapped source of new business for life insurers. Advancements in technology are making it affordable to reach out to these prospects en masse. However, tailoring and serving up middle market products is only half of the battle. In conclusion, it is the life insurance industry's responsibility to educate the middle market on the benefits of owning adequate life insurance coverage and to remove the mystique that life insurance is for wealthier people. ◻