

## Niche Life Insurance: One Answer For Being Successful In 2020

by Jay M. Jaffe

The good news about the future of the life insurance industry is that life insurance is a product that will always be needed. The bad news is that many, if not most, life insurance products already have or will become commodity products. Therefore, one of the key questions facing much of the life insurance industry in the year 2020 is how to survive in a commoditized market environment.

Companies that do well in a commoditized market tend to be very efficient operators or niche players. If a company elects to compete on price, then it must be a low cost manufacturer or it will not make money. However, in niche markets, price may not be the only or even the major factor driving a prospect's purchasing decision and being able to identify and connect with a particular niche market becomes of paramount importance.

While both the efficient operator and niche player approaches will work, they require different skills and attitudes in order to be successful. Efficient operators will probably be larger companies that can afford to invest in volume-related technology and are able to obtain volume-related price discounts from suppliers. The efficient operators will also use very specific operating targets and have the discipline to stick to their plans.

On the other hand, the niche players will be more market-oriented and will probably tend to be more creative. The niches don't have to be large to be profitable. In fact, the larger the commoditized companies grow, the more opportunities may be presented for the niche marketers because life insurance has traditionally been characterized as a product that is "sold rather than bought" and large companies tend to abandon markets.

The potential for achieving higher returns on investment would seem to be more likely for the niche players than the commoditizers because if they're successful, they won't be competing on price (or commission). So how does a company become a successful niche player?

And, is there any way to predict which niches will be the most attractive?

Any life insurance company that operates as a successful niche player in the year 2020 is likely to possess:

- Foresight,
- Focus,
- Discipline,
- Market intelligence,
- Innovation, and
- Luck.

Practically speaking, all of the niche player factors are interrelated. Moreover, the interrelationships between these elements are dynamic rather than stable.

Foresight means having vision to identify those niche markets that have a high potential for success both in terms of sales and profits. Weeding out the many interesting but unworkable or inappropriate concepts that are present in the marketplace is a talent in itself. To do this well requires both a view of the current and future market trends and a grasp of consumer attitudes.

Focus means having a clear picture of a company's future plans and directions. Particularly smaller companies cannot extend their companies' talents and resources beyond the company's ability to concentrate its efforts on what it can and needs to do best.

Discipline must be present and follow focus. Once a company becomes focused, it needs to make certain it has the discipline to keep working at its plan. The road to success is hardly smooth and will face many potholes and detours. The trick is to learn to readjust plans while at the same time not losing sight of the intended end goals before they have been thoroughly vetted.

Market intelligence is one way that a company increases its odds for making the right decisions. Knowing

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more about the market environment than the competition makes it easier to be confident that a company is on the right track, not only at the time of the original decision to pursue a concept but also while the concept is being implemented.

Innovation refers to making something happen. Simply having a new idea does not mean that the concept will work. Often people mistake innovation for invention. These are two related but different concepts. An inventor is a person with a new idea who usually doesn't devote the energy or have the ability to make the idea a commercial success. Putting an idea into an environment that works requires a different talent and this is referred to as innovation. Having innovation skills is extremely important for niche players because they will likely see many business opportunities in uncharted waters that require practical solutions in order to generate and sustain profitable operations.

No matter how much foresight, focus, discipline, market intelligence and innovation a company is fortunate to have, success usually includes some element of luck. Of course, a company can work to make its own luck by being the player that understands the total picture better than its competitors.

Even with all the basics in place, if a company wants to be a long-term niche player, it needs to start by recognizing that finding new niches is not a hit-or-miss process. Finding niche markets can be a programmed process if it becomes ingrained in a company's operating philosophy. Locating new markets is, in itself, a full-time job, and so the first step is to assign someone the responsibility of developing new niches.

The next basic element of operating as a successful niche marketer is to understand that a company that believes in a niche marketing philosophy doesn't have to have too many niches to be successful. On the other hand, having only one narrow niche could be precarious because markets emerge and disappear with great rapidity in today's economic climate. Understanding the balance between too

many and too few areas of activity is a critical step in building a niche company.

One of the best sources for identifying niches with the most potential is to create communication directly with the people who see the needs and wants of insurance markets. In other words, you need to keep open lines of communication with those individuals who have the ears of producers and prospects. These individuals tend to be a breed unto themselves although they often describe themselves as engaged in some form of insurance distribution.

The problem that many life insurance companies have is that they don't go out of their way to be attractive to these creative minds. It is not uncommon for life insurance companies to reject outside marketing input out of hand or fail to respond quickly to concept proposals. The result is that people with niche concepts tend to work closely with just a few life insurers that recognize how to efficiently evaluate new concepts. Ironically, if asked, almost all life insurers will tell you they want new markets but the simple fact is that they aren't prepared to react when approached.

So which niches will be active in terms of both volume and profitability in 2020? Here are some thoughts:

- Electronic marketing will eventually become much more targeted and sophisticated with discernable niches;
- Longevity products will gain acceptance and some life insurers will specialize in providing products and services to this growing and important need niche;
- Favorable lifestyle-based life insurance products will emerge as a niche among those people who want to be rewarded for living a healthier lifestyle;
- Niches will develop for special needs children and adults because traditional life products don't adequately address their particular circumstances;
- A group of products that are designed to perform in a low-interest-rate environment will become a niche; and

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- Markets abandoned by large insurers often offer potential for a more hands-on operational environment, particularly when they are not burdened with large layers of corporate overhead costs.

Undoubtedly, there will be several strategies successfully used by life insurance companies in the year 2020. Among these will be both broad market and niche life insurance players. But for many companies there will not be an option to be a broad market operation because they will lack the capacity (including capital) to play against the “big boys.” The alternative will be to become a niche

player. Companies may actually like this approach better once they understand how to operate as a niche marketer and taste the fruits of their labors.

For a life insurance company to be a successful niche player, it will not only have to follow the factors described in this paper but accept this approach to doing business. It might behoove many current life insurance organizations to take a glance at what the future might look like and consider moving to a niche strategy on a proactive basis rather than waiting until many of the more delectable avenues have closed.

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