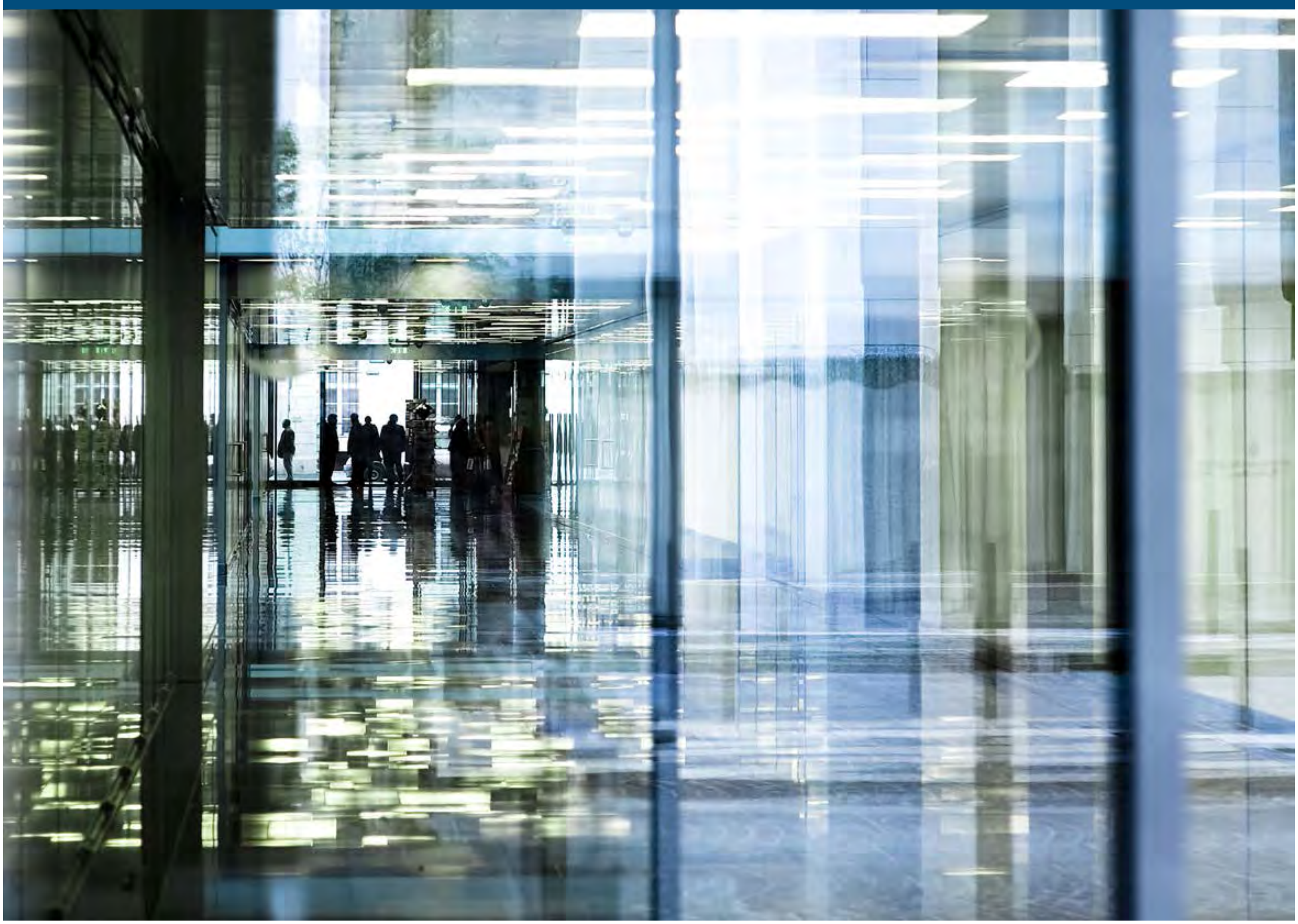
SOCIETY OF ACTUARIES

Middle-Market Life Insurance

Findings From Industry Thought Leaders



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SPONSOR Marketing and Distribution Section

AUTHORS Douglas J. Bennett, FSA
Stephen J. Camilli, FSA

Caveat and Disclaimer

Section 1: Executive Summary

The Marketing and Distribution Section (MaD) of the Society of Actuaries sponsored this report to collect and compile insights from thought leaders within the middle-income life insurance market. Over the last 10 years, a number of studies and ideas have been presented as viable strategies for serving the middle market, yet success has been limited. This report seeks to understand this lack of success and document the experiences of companies and distributors with significant working knowledge of the middle-income market.

1.1 Why is the Middle Market Important?

According to LIMRA, industrywide sales of individual life insurance are down 45% since the mid-1980s and 30% of American households in 2010 had no life insurance at all, up from 22% six years prior.[1] The move toward term life coverage chased agents relying on commission into products aimed at wealthier Americans. Insurance companies that went public in the 1990s and early 2000s shrank their ranks of in-house agents to save on costs, and farmed out sales to brokers and advisers who tend to focus on the affluent market place.

In addition, according to a 2010 LIMRA study, 56% of households had no individual policy, a 50-year high.[2] The LIMRA study revealed a fundamental failure to communicate by the life insurance industry. A prime reason people did not have coverage is that no one asked them to buy life insurance. Even among those open to buying coverage, they say they have not received solicitations. Many indicated they will not shop on their own initiative. Exacerbating this situation is the fact that other industries have apparently succeeded in applying new technologies to distribute their goods and services and the life insurance industry has not. In a study by Deloitte, five key factors were identified as reasons for not buying: need, affordability, knowledge, trust and convenience.[3]

Middle market is a term that can have different definitions. For the purposes of this report, middle market refers to those individuals and families seeking first principles insurance, insurance used for economic security, not insurance used for estate planning. The most commonly defined household income range for the middle market is $35,000 to $125,000,[4] although experts interviewed for this analysis may individually target a subset of that range.

1.2 Methodology

MaD convened a project oversight group (POG) to lead the development of this report and to manage its genesis and conclusion.

The POG developed a number of broad questions to facilitate the process of collecting insights from industry thought leaders. The backgrounds of the interviewed thought leaders varied in terms of functional responsibilities and strategic differences of their organizations, and, therefore, we were not expecting to find consensus in the answers to the questions. As a result, the intention of this report is not to provide definitive answers but rather to be the catalyst to a conversation on this topic and document the range of opinions and experiences.

1.3 Overview of Findings

The POG, a group of individuals significantly involved in the individual life insurance middle market, formed a list of 17 thought leaders and experts in the area of marketing life insurance or similar products to the middle-income market. Interviews were then conducted with the experts to gather their insights.

The interviews were loosely structured with a written script but enough flexibility to pursue new ideas. This was a topic that inspired a great deal of passion and interest, and the script was often not needed.

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[1] LIMRA, "Ownership of Individual Life Insurance Falls to 50-Year Low, LIMRA Reports," news release, Aug. 30, 2010, http://www.limra.com/Posts/PR/News_Releases/Ownership_of_Individual_Life_Insurance_Falls_to_50-Year_Low,_LIMRA_Reports.aspx.
[2] Ibid.
[3] "Voice of the Life Insurance Consumer Surveys," Deloitte Research, June/July 2011.
[4] For reference purposes, according to 2014 U.S. Census Bureau data, 50% of U.S. households fall within this income range.

Specific questions asked to facilitate the discussions with the thought leaders were:

- Is the middle market really underserved or is it a lack of demand?
- What is working in specific subsegments (i.e., senior market and voluntary worksite)?
- Why hasn't there been success from approaches suggested by prior research (i.e., Internet and quicker underwriting)?
- What impediments have affected specific company strategies?
- Are there successful approaches from other industries that might transfer to life insurance?
- Are there ideas in the life insurance industry that have not already been documented by prior research?

1.3.1 Is the middle market underserved?

There is a strong consensus that, based on traditional methods of measuring consumers' need for life insurance, there is a significant gap in coverage and the industry has had little recent success in closing the gap. Opinions of the thought leaders diverged, however, with respect to traditional measures of need and industry-reported coverage gap amounts. Additionally, demand was discussed by several thought leaders, who pointed out the lack of demand is a major reason for the inability to make material progress in closing the gap in coverage needs. It was suggested that at the lower end of the middle-market income range, Social Security has reduced the perceived need for significant death protection. Others cited changing attitudes toward the risk of premature death, especially millennials who are thought to not realize the need for life insurance.

1.3.2 Are there specific segments of the middle market that are well served?

The two most commonly mentioned segments were the senior market and voluntary worksite. In both cases, the segments were defined more by the company's access to a particular distribution channel than the needs of the segments themselves. In the case of the senior market, a number of independent marketing organizations have created marketing programs for that market and used them to attract agents. In turn, they have negotiated sales contracts with companies that allow the agencies to be profitable in the lower face amount market. In voluntary worksite, agencies and brokers often have access to customers through employers, selling a variety of non-life insurance products. This allows them to sell life insurance as an add on, creating great expense efficiencies.

1.3.3 Why the lack of success from strategies suggested by prior research?

As a result of consumer buying experiences with other products and services, it has been suggested that the way to penetrate the middle market is through better use of technology. Specific commentary has been that companies should be able to (a) employ the Internet to allow customers to buy life insurance from any source they would like, even without using an agent, and (b) offer customers, as with other products, an easy buying process through a seamless underwriting and issue system.

Most of our experts agreed that the strategies suggested by prior research have not been successful; they provided a number of reasons. The most common of these is the concept that life insurance is "sold and not bought." Most examples of technology usage in the sales process have eliminated any sort of human contact needed to create a sense of urgency or "call to action." It was also pointed out that customers in this market generally do not understand the life insurance product and the industry has not been successful with general education. The best source for that education continues to be a sales representative.

Seamless or simplified new business processes have done little to improve sales in this market. Our experts believe even though the customer does not always understand the product, including expectations of cost, they do perceive there is a cost to simplifying the process and seem willing to invest more of their own time if it means they will pay less.

1.3.4 Current impediments to implementing successful strategies

The sold-and-not-bought issue was a commonly cited impediment, along with lack of easily identified need by the consumer and lack of disposable income. The current cost of distribution, especially for agent-based sales channels, was widely considered a problem along with a company's limited ability to control the marketing efforts of independent sales channels. Some thought leaders suggested companies need to invest money and control the distribution or the process for targeting customers to improve costs and efficiency or probability of a sale. Some experts expressed concern with respect to product experience results from quicker underwriting procedures and the inability to meet cost expectations set by traditionally fully underwritten processes.

1.3.5 Strategies from other industries and new ideas

Borrowing successful strategies from other industries was not discussed in detail. However, experts did discuss that a sea change is needed at the company, industry and perhaps government level. Companies' use of technology needs to improve, but at the same time, a more holistic strategy needs to be applied. Prior research tended to suggest very narrow strategies—change distribution, implement simplified underwriting, add product features, segment the market, etc. Some of the experts stated that a successful strategy will require a multi-disciplined approach, as consumers have varying buying preferences. Experts discussed that the industry as a whole has a significant marketing and communication issue and a better way to educate consumers and define the need must be found. Additionally, experts advocated that the government should consider incentives to help the middle market close the coverage gap and simplify the requirements for a life insurance sale.

1.3.6 Contradictions

A thought-provoking, and perhaps somewhat surprising, finding of this analysis is the contradictory facets at work in the middle market and the contradictory views in key aspects of the approach to middle-market life insurance sales. These contradictions included:

- The consumer is in need of education and advice during life insurance shopping and buying process. However, research shows that many do not wish to talk to or do not trust agents.
- A significant needs-based gap in life insurance ownership has been documented. However, some experts state that the demand is not as prevalent as in the past due to lack of funds for consumers or consumers having more competing priorities for their money.
- The industry needs to streamline underwriting, perhaps through more non-medical approaches. However, research shows the consumer would go through more underwriting for a lower price.
- Company experts state that the traditional agent approach isn't viable for supporting a middle-market approach. However, field agent experts suggested a traditional agent approach is viable through infrastructure investments.
- The industry sees worksite marketing as a key to reaching the middle market. However, there may be limited shelf space for life products as the voluntary market is controlled by various distribution organizations. In addition, life sales compete with supplementary health sales. Similarly, distribution tie-ins with banks have been suggested as an efficient access point for the middle market. But this research has found a mismatch between the typical life insurance sales process and the more reactive process banks use to sell their products and services. Additionally, banks are trying to be push their customers toward automation to access their banking services, which will make it difficult to sell products that are sold and not bought.

1.3.7 Advancing the Dialogue

Our objective through the development of this report was to draw out questions like these to serve as a starting point to enriching discussion. The intention of this report is not to provide definitive answers but rather to be the catalyst to a conversation on this topic and document the range of opinions and experiences in this area.

Beyond documenting the answers to the POG's six questions, we compiled the individual comments from the interviews and organized them around nine major observations and conclusions. The observations and conclusions are supported by several specific experts' comments or their own conclusions.

Section 2: Acknowledgments

The MaD section would like to thank Doug Bennett for his role as head researcher and for his passion in bringing this project to fruition. Thanks go also to Stephen Camilli, from ACTEX Learning, for his participation in the authorship and helping to give form to this report. Thanks to the Project Oversight Group for their insightful and enriching comments and making this project possible. The POG was made up of the following participants:

Doug Bennett
Greg Brandner
Patricia Fay
Tom Kalmbach
Jill Klibanov
Tony Litterer
May Lee Low
Leonard Mangini
Tia Sawhney
Jason Schultz
Scott Sheefel
Adam Vanevenhoven

Finally, and most importantly, we would like to thank the experts and thought leaders who took time to share their experiences and wisdom. Their insights are quite valuable in enhancing understanding of the current state and potential future state of life insurance in the middle-income market. Thank you.

Section 3: Introduction

3.1 Survey Process

We sought to include the following types of companies in this study:

- Companies looking to enter or try new initiatives
- Those that have tried a middle-income strategy
- Property and casualty companies that have attempted to sell life to their middle-income casualty customers
- Reinsurance companies providing support to middle-income focused companies
- Companies driven by agents active in the middle-income market
- Middle-income agencies
- Worksite marketers
- Non-life insurance middle-income focused companies
    - Credit unions
    - Banks
    - Health insurers
    - Government (such as Social Security staff)

The following companies participated in this study:

- Atlantic Brokerage Partners, LLC
- CAST Management Consultants
- CNO Financial Group
- CUNA Mutual
- A direct marketing consultancy
- Eastbridge Consulting
- Fidelity Life Association
- Forethought
- MassMutual
- Munich Re
- Prudential
- Thrivent
- TIAA
- Unum
- Wilton Re

The POG put together a list of 17 thought leaders and experts in the area of marketing life insurance or similar products to the middle-income market. Interviews were conducted with the experts to gather their insights. These leaders' roles within their companies included:

- Two distribution managers
- Four chief marketing officers
- Two agent/brokers/agency managers
- Two insurance sales consultants
- One group and worksite consultant
- Three corporate/product actuaries
- One director of media
- Two reinsurance chief marketing officers

These surveys were conducted between Sept. 1, 2015, and April 30, 2016.

3.2 Research Findings

We have summarized the findings of the survey in such a way as to provide high level conclusions gathered from the interviews as well as to detail the experts' comments, categorized into like concepts. Additionally, we have included ideas discussed by the POG after review of the conclusions. We hope the latter provides additional material for eliciting responses to this report.

- Section 4: List of top 10 conclusions and observations
- Section 5: Additional commentary from the POG
- Appendix: Detailed documentation of experts' comments

4.1 There is a Gap, But …

In our analysis, all participants agreed that, using traditional methods of measuring need (i.e., multiples of income or financial needs analysis), there is a gap in coverage for the middle market and the insurance industry does not seem to be closing it. However, some participants questioned the magnitude of this coverage gap and others focused on the likely inability to close this gap due to lack of demand.

For the lower middle market, it was noted that Social Security provides a significant amount of protection, thus lowering need for this segment. Additionally, some experts discussed calculating need to provide for a beneficiary for a certain period of time, rather than covering the projected lifetime income of the insured.

Experts provided several examples related to lack of demand. If a consumer believes they don't need life insurance, it is difficult to highlight the reality of the gap. Anecdotally speaking, there are few media reports or discussions of the plight of widows and orphans caused by primary breadwinners dying without life insurance. At the same time, millennials were described as having an attitude of invincibility. With regards to affordability, some potential customers do not have enough disposable income because it has been prioritized to other perceived necessities such as cell phone and cable bills. For other middle-market customers, there has not been a sufficient recovery in income since the 2008 financial crisis.

4.2 Sold and Not Bought

Some companies, driven by the theory that the middle market wants options outside of traditional agents, have offered several ways for customers to buy insurance. These options included face-to-face sales (driven by life insurance or as an ancillary to non-life insurance), worksite (kiosks or phone calls) sales, phone sales, direct mail and the Internet. This last option is often used by the consumer as a research tool prior to purchase. Irrespective of channel, most participants indicated their distribution method required a component to deal with customer hesitation to close the sale, summed up as life insurance is sold and not bought. Some form of human interaction was required to close the sale, especially the call-to-action component of the sales process. No participants claimed to have chosen a particular distribution channel because they had research which suggested their customers preferred that channel. We surmise this may represent a "throw mud against the wall" approach to see what sticks as well as the experts' understanding that customers have differing preferences in how to buy.

4.3 Market Doesn't Understand Life Insurance

Participants were unanimous in the belief that the middle-market consumer doesn't fully understand insurance in general, especially life insurance, product type differences or how to calculate their life insurance needs. Some saw this as an impediment to deploying distribution methods less reliant on a traditional agent. Others suggested a need for industry education, stating that a material change from the status quo is required. The inability of the middle market to determine their life insurance needs was brought up a number of times. A repeated solution was to structure the death benefit as income replacement to a specified retirement age, almost like "disability insurance for death." This structure has the benefit of automatically reducing coverage with a related reduction in cost as the insured approaches retirement age. This partially addresses the concern that some in the middle market have not fully recovered from the recession and so cannot afford adequate life insurance.

Historically, consumers have educated themselves at the worksite or through family and friends, and therefore some suggested tapping into millennials' peer-to-peer use of social media. However, no participant claimed achieving success yet through this strategy. Additionally, the sharing nature of social media appears to have made millennials more open than prior generations to sharing their personal information, potentially opening up an opportunity for more underwriting information.

Some participants stated price is not an important consideration in the sale due to the fact that the middle-market consumer does not typically shop around. However, other participants said that price will increase in importance if Internet aggregators gain more control of life insurance sales. In industry surveys, price appears to be important as a high percentage of consumers state they would go through more underwriting for a lower price.

Most interviewees agreed that simple is better for the typical middle-market customer who does not understand life insurance product differences. A few highlighted the difficulty of introducing combo life products (life insurance that includes a health coverage, such as disability insurance or long-term care) currently offered in the upper income markets as (a) being difficult to understand and (b) being costly. The accelerated benefit rider attached to a life insurance policy where the death benefit is accelerated for a long-term care or chronic illness event may be easier to understand for the middle-market consumer.

4.4 Company Needs to Own Distribution

An interesting finding was that many participants reached the conclusion that insurance companies need to own their distribution, although there is diversity of opinion between non-field and field agency participants. Almost all non-field participants believe the current economics of the life insurance business can't support the traditional agent in the middle market. Field participants, on the contrary, state that a significant investment by companies in supporting infrastructure is necessary to make the traditional agent viable. Some participants discussed the need for data-driven consumer segmentation for more efficient targeting—investing money for efficiency instead of paying more to distribution. In a simplified issue program, targeting a quality market that will have greater sales conversion rates is a key to better mortality and better pricing. Another untested, but interesting, area for exploration is how to control or "own" any type of independent agency distribution.

Any alternative to owning distribution typically uses traditional, generally independent, agents doing "more of the same." These often target niche markets or distribution channels such as final expense and worksite. Another option is to have access to a distribution channel selling non-life products and a brand (not necessarily the insurance company's own brand) that can be leveraged. In this last case, companies must be prepared to compete on commission, especially heaped commissions.

4.5 It is Expensive

Companies that highlighted experience deploying alternative distribution systems reported significant investment in capital (tens of millions of dollars) and time and effort. These experts noted that information technology systems are critical yet have a long implementation period. Finding a way to be able to test the market early in the process is key.

One company reported success marketing through a third-party bank but only after inserting an element of human interaction into the sales process. The banking consultant interviewed revealed a significant cultural mismatch between banking (strong focus on transactional volume and efficiency) and life insurance's sold-and-not-bought concept. The banking industry is moving away from personal contact and is closing branches.

Some reported life insurance middle-market sales success by piggybacking off the distribution of other products sold to the middle market such as employee benefits, retirement products and health insurance. However, this piggybacking was generally with owned or controlled distribution and not a third party, so some of the distribution economies reported may simply be the result of expense allocation. Worksite marketing was widely considered a viable middle-market distribution channel, but this market seems to already be controlled by various distribution organizations. It was suggested that the current strategy for new entrants has to involve "buying" shelf space, not unlike the industry experience when career agencies started to become "independent." Additionally, for worksite distribution organizations, life insurance is generally not the lead product.

4.7 Branding

Participants highlighted the need for company branding, especially when no agent is involved in the process. When no agent is involved, brand becomes very important to the consumer. Even one company that has traditionally used agents is moving toward requiring agents to adhere to the brand. Companies piggybacking off non-life distribution were essentially leveraging name recognition or brand.

4.8 It is Not a Problem With the Product

Although discussing issues in reaching the middle-market consumer, no participant suggested the need for a new or better product, except for a renewed emphasis on income replacement. Some interviewees who didn't talk about selling income replacement talked about figuring out how to *not* call it life insurance. They contend that the customer doesn't automatically link the concept of life insurance to their actual need. One participant singled out millennials as not wanting life insurance but potentially wanting a product to cover the needs associated with early death. These comments imply a significant industry marketing and communications problem.

4.9 Customers Aren't Willing to Pay for Streamlined Processes

Many prior research reports on the middle market pushed the need to streamline the new business process, reduce the intrusiveness of underwriting and strive for instant issue. While some agreed with this idea, many more disagreed, with the resulting price of a product under a streamlined underwriting approach causing the difference of opinion. Those who had experience or had studied the issue reported that consumers, especially millennials, were willing to go through underwriting if it meant a better deal but were not willing to pay more for a faster process. One company found millennials surprisingly open about providing personal information but were only willing to go through underwriting once. They did not want to have the company return for additional requirements. At the same time, automated or "black box" underwriting is expensive to implement as is the adverse mortality resulting from poorly implemented simple-issue underwriting. Some participants looked at simplified underwriting from an agent standpoint, as agents need a simpler process to make a sale. Based on these diverse viewpoints, it is important each company clarify their viewpoint on this for themselves as part of their middle-market strategy.

4.10 Sea Change

Based on our interviews, many experts believed that middle-market success is going to require a sea change—at the company and industry level. As part of this process, some participants advocated for government incentives to encourage the middle market to close the protection gap. Other participants highlighted the need for regulatory changes to agent licensing (allow product/market-specific sales license) requirements to allow for appropriate changes to distribution. It is clear underwriting methods need to change to meet customers' expectations while maintaining pricing integrity, while we also see that the industry has a significant marketing and communications issue when dealing with millennials. Part of this and other issues could be addressed by a new approach to consumer education.

As was expected, we did not reach definitive conclusions with this process or with this report. Nevertheless, it certainly sparked deeper conversation and thinking for everyone involved, and this is our hope for the readers. In the Appendix, we have provided an exhaustive list of comments from the experts interviewed for the reader to review.

Section 5: Additional Commentary from the POG

Draft versions of this report were shared with the POG, primarily to give them an opportunity to offer comments in their oversight role. Many times these review sessions ended with “what if?” or “how about this strategy?” discussions. The POG believed that sharing these discussions with the reader would be a good way to kick-start the conversation MaD is hoping this report creates.

Much of this discussion related to the five contradictions detailed in the executive summary section. The conversation usually started with the observer only looking at one side of the contradiction when suggesting a particular solution or strategy. What this research helps illustrate is the complexity of the contradictions and the need to develop holistic strategies to address them. These discussions are summarized below.

5.1 Education

“Couldn’t the industry or even individual companies create websites to educate the consumer about life insurance?” While some of the experts touched on this, none of them offered any suggestions as to what should be done differently than what is already being done. In fact, the agents pointed out they already provide education. It turns out the consumer does not seem interested in agent-driven education. It was discussed that the education and advice the consumer is most often looking for is limited to knowing how to buy the right amount. More relevant education is one strategy. Changing the nature of the product to make the right coverage amount more obvious to the average consumer and thus minimizing the need for education is another. Death benefits denominated in terms of monthly income to some set age were suggested as a way for consumers to more easily relate the product benefits to their primary need—income replacement.

Some POG members believe the urgency of life insurance needs has not yet been fully communicated to the market, and would like to see campaigns comparing the cost of life insurance to entertainment costs and other discretionary spending.

5.2 More Convenience

Making life insurance easier to buy or simplifying the underwriting process has been a common suggestion over the last few years as a way to improve sales results in the middle market. What most of the experts told us is that this is not necessarily effective. If the added convenience came with a trade-off, especially a perceived higher price, then the consumer was willing to give up the convenience. It seems that, by itself, instituting simplified underwriting with an increase in price to compensate for expected adverse mortality is not going to work long term.

One expert hypothesized that, especially among millennials, there might be an opportunity to go in the opposite direction—more underwriting. His company’s research found millennials very willing to share personal information over the telephone, which might let them more easily and cost effectively collect detailed health data. That same research found that millennials did not want to be asked for the same information twice. For distributors, we believe this means collecting necessary information once and reusing it for multiple quotes. Companies selling life and health products then need to figure out how to use one data collection process for multiple product applications. In a related comment, one POG member hypothesized a marketing organization or carrier contracting with CVS or Walgreens and collecting the data.

5.3 Viability of Agents

The experts generally agree, the middle-market life insurance segment does not value agents as much as other segments do. Agents wish the carriers would do more to support them and most carriers struggle to make the agent value proposition work in the middle market. Yet it seems to be the one distribution channel (we consider most successful worksite distribution to include the use of an agent or sales rep) that is working. And those companies described as following a strategy of essentially “more of the same” are primarily using an agent-based distribution channel. What the experts pointed out was that if you take the agent out of the process, your strategy has to account for all of the agent’s contribution to the sale, something most implementations of alternative distribution strategies have not done. An alternative distribution needs to account for marketing, education, stimulation of demand, customer needs analysis, the call to action and the close, all functions typically done today by an agent. Appropriate product positioning, branding and administrative process strategies can mitigate the difficulty in replacing these functions.

5.4 Difficulties in Distributing Through Worksite/Banks

Worksite distribution is often mentioned as a natural alternative to agents in the middle market. Prior MaD research has shown a significant percentage of middle-market life insurance owners purchased their policy at work. This research informed that various insurance marketing organizations have targeted employers as their customers with a range of products. By targeting employers, the marketing organizations have been able to control access to the ultimate buyer, the employee. Even if a carrier built its own worksite distribution, it would find itself in an environment very similar to today's traditional independent life distribution, working with intermediaries such as insurance marketing organizations or brokers.

Banks are another distribution channel that for some time have been thought to be a good fit for carriers trying to gain access to the middle market. While one of our experts described some success using bank distribution, in general, companies have not had much success selling term life insurance through banks. The experts pointed out a disconnect between the typical bank sales process, which is mostly reactive, and the process needed for a product that is sold not bought, which some might consider as "pushy." Using this channel is further complicated by banks' desire to minimize staff contact with the customer or their attempts to dissuade the customer from coming into the branch at all. Any strategy that employs bank distribution has to replace the various functions the agent provides, either directly or with appropriate product positioning, branding and administrative processes.

5.5 Concluding Comment

This report is intended to further the dialogue with respect to developing viable strategies for the middle market. Hopefully, the experts' insights illustrate the interactions of the various components of a strategy. Implementing a middle-market strategy is not as easy as simply launching simplified underwriting or replacing agents with web-based sales or instituting a social media effort. Multiple disciplines need to be involved to create a holistic strategy.

APPENDIX: Detailed Documentation of Experts' Comments

In this section, we have organized interviewee comments by theme for further information. These are small extractions from our conversations with the thought leaders and are listed anonymously. Please note that some observations fit into multiple categories and therefore may be duplicated.

Distribution Systems: Scattershot or slingshot?

- The industry must do a lot of data-driven customer segmentation.
- Such systems allow for more efficient targeting of prospects, and potentially better risks.
- The buyer/seller connection has evolved technologically, but the industry hasn't kept up.

Agents: Let the conflicting views begin

- Agents can't make enough money in the middle market.
- Distribution expenses are inconsistent with low demand. (Editor's note: If companies are going to spend money to "generate" demand, agent compensation must be reduced.)
- Carriers have to take more risk investing in the market through marketing and sales support. (Field observation only.)
- Agents don't think in terms of whether customer is middle market or not but rather about the probability of a sale. (Field observation only.)
- Brokerage general agents (BGA) will take business from where they can get it. (Field observation only.)
- Carriers need to make processes and procedures simple for the agent. (Field observation only.)
- Price is important. (Editor's note: This may be more an agent than customer requirement; field observation only.)
- Making a market that doesn't already exist is tremendously difficult; expect the carrier to spend four years doing it. (Field observation only.)
- Agents want (1) product, (2) simplicity, (3) price and (4) compensation. (Field observation only.)
- Heaping of commissions is important. (Field observation only.)
- Channel conflict doesn't really exist.
- One company estimated going direct would cost $100 million.
- Creating an owned distribution channel created conflict with legacy distribution.
- One owned channel initially failed but eventually worked after sold-not-bought issue was recognized.
- The differences between the middle market and mass affluent-owned strategy need to be understood.
- For one company, branding was important, which led to the company "owning" all customers. Agents were considered business partners and had to be exclusive. Non-participatory agents were terminated, and participating agents ended up with a smaller niche. This strategy didn't start producing positive results for five to eight years but cost a lot of money.
- Channel conflict is not something to be worried about; legacy distribution is unlikely to succeed in the middle market anyway.
- Using employee benefits products and distribution as an entry point to the middle market appears to be successful.
- Lead with disability insurance/health.
- Field representative discussed a significant product portfolio (17 to 18 products), but not all offered in same account. The representative needs to have multiple products to talk about.
- Going forward, the industry can't focus so much on the agent.
- Licensing creates a problem in having enough agents.
- One firm identified 52 touch points with their middle-market retirement product owners, looking to introduce life insurance sales opportunities.
- To blend career agent/representative with direct approach, digitally enable contact with contract owner.
- Agents are playing a smaller and smaller role in distribution.
- Thought leaders recommended multiple distribution channels: direct, worksite, independent agent and career agent.

Alternative and Nonagent Distribution: Going mainstream for middle market?

- One firm is looking to build a company brand experience, primarily digital, for the customer.
- One firm found limited success with a quick issue product intended for the middle market.
- One company built a website focused on their middle-market retirement plan. Experience shows most middle-market retirees have not been approached and are underserved.
- Mortality experience for current “alternative” distribution systems is very bad.
- The tech savvy will buy over the phone or Internet but the sold-not-bought issue has to be considered.
- The middle market will use the Internet to research but don’t like having to agree to a quote.
- If Internet aggregators gain more control of life insurance sales, price will become more paramount.
- The buyer/seller connection has evolved; the industry hasn’t kept up.
- Research has found that typical buyers find the traditional purchase process is “odd” and doesn’t make sense and they drop out.
- Banks are moving to where the money is, which is generally not the middle market. Banks are finding they can’t charge for their core services at a level the middle market will pay. Because of their own products, they are moving upscale.
- Insurance is sold not bought and requires some type of human interaction.
- Research has shown millennials are researching online before talking to an agent as a way of validation, not purchase.
- Direct mail is not significant to the company and has been difficult to grow.
- To blend career agent/representative with direct approach, digitally enable contact with contract owner.
- Voluntary group/worksite product is growing; 41% of people surveyed are likely to own at least one product.
- In worksite distribution, enrollment conditions are key. Additionally, electronic enrollment has become a hot topic.
- There is a push to move away from one-on-one enrollment (worksite) by using technology to make the enrollment process more efficient.
- People prefer to purchase at work.
- Payroll is seen as a budgeting mechanism.
- In worksite distribution, distributors (worksite brokers or general agents) currently control the market so new entrants have to fight for shelf space.

Educational Strategy: New methods required

- The coverage gap is so large, it must be a money-purchase sale rather than needs based.
- Life insurance products and coverage needs are difficult to understand for the consumer.
- Firms are attempting to enhance education through company websites.

Products: KISS (keep it simple, stupid)

- Convenience is not an important factor, especially if it means higher cost.
- Don’t expect a quick decision on the consumer’s part; expect they need to educate themselves.
- Market segmentation for products is needed. (Field observation of opportunity: Historically, companies relied on the field to describe opportunities so industry needs to have another source for information.)
- Product opportunities include wrapping long-term care with life, hooking into retirement savings and meeting a combination of needs through one product.
- These products and systems are very expensive to develop.
- Income protection: commonly called a “Family income” policy is ideal for middle market.
- A middle-market primary need is income replacement and perhaps burial expense, which would be their only permanent product need.
- There’s no need to significantly redesign the product (term insurance). It’s the process that has to change; an improved customer experience is needed.
- Comparative price isn’t an issue; people don’t shop.

- Market life insurance can be an income replacement product, like a disability insurance benefit.
- Simplify product design, with no more than three choices.
- The agent has 28 products to choose from; that's too many.

Administration/IT: Better, faster, less … but expensive to get there?

- These products and systems are very expensive to develop.
- IT systems are critical yet take a long time to implement.
- One company estimates that going direct would cost $100 million.
- An organizational push needs to come from the CEO level to get buy in from resources.
- The company needs to be agile with strong technology services and an ability to prototype systems and conduct pilots.

Simplified Underwriting: Is it Worth It?

- Nonmedical underwriting is required.
- Internet sales are fraught with fraud and anti-selection.
- Mortality experience for current "alternative" distribution systems is very bad.
- Simplified issue has been the way companies seem to have gone in this market, with a focus on streamlining underwriting.
- Some experts don't believe traditional SI (four to eight tables) is going to get it done; what is needed is to get close to full underwriting but do it in a streamlined fashion.
- One firm uses tele-interviews and automated underwriting.
- The underwriting process has to account for/accommodate the type of distribution, for example, agent-driven anti-selection or real-time requirements of online applications.
- Some leaders envision a market for life insurance similar to the Amazon model and think they will eventually get to a fully automated, fully underwritten equivalent process model.
- While streamlined underwriting sounds good, one company has found once people decide to buy, they don't mind intrusive processes, especially if it reduces price.
- However, individuals only want to be underwritten once; they don't like the company to keep coming back and asking more questions or imposing additional requirements. They prefer to be offered multiple products but underwritten only once.

Quicker Throughput: What is taking so long?

- Carriers need to make processes and procedures simple for the agent. (Field observation only.)
- Any underwriting delay can cause 20% increase in decline at close. (Field observation only.)
- There's no need to significantly redesign the product (term insurance). It's the process that has to change; an improved customer experience is needed.
- The customer's attention span is very short; a speedy sales process needs to be facilitated, possibly by cutting out some underwriting.

Customer Attitude: Attitude is everything

- Price is important (this may be more an agent requirement rather than customer).
- Price matters with Internet marketing.
- Branding was important, which lead to one company "owning" all customers.
- One company's research has found that typical buyers find the traditional purchase process is "odd" and doesn't make sense and they drop out.
- Comparative price isn't an issue; people don't shop.
- Millennials are willing to give up data on themselves over the phone (underwriting info) if they get something in return.
- Millennials don't have any patience for answering the same question twice ("underwrite me once and figure out how to share it between carriers") or for what appears to be an inefficient process.
- The customer's attention span is very short; a speedy sales process needs to be facilitated, possibly by cutting out some underwriting.

- Millennials, an important part of the middle market, don't like what the industry is selling.
- People prefer to purchase at work.
- Payroll is seen as a budgeting mechanism.
- Convenience is not an important factor, especially if it means higher cost.
- Don't expect a quick decision on the consumer's part; expect they need to educate themselves.
- Buyer behavior needs to be better understood.
- The typical consumer coverage gap is so large it can cause purchase paralysis; the sales process becomes a money-purchase sale rather than needs based.
- The buyer/seller connection has evolved; the industry hasn't kept up.

The Age-Old Question: Is life insurance sold or bought?

- Middle-market consumers don't recognize need.
- One firm's limited success with a quick issue product for the middle market hasn't made it a demand purchase.
- Research also confirms that for the middle market, life insurance is an emotional purchase.
- Insurance is sold not bought and requires some type of human interaction.
- As life insurance is sold not bought, companies have made products too complex for the middle market.

Competition: A zero sum game?

- One expert is not convinced the industry will see the opportunity.
- The industry is very slow to change or innovate.
- The company needs to be agile, with strong technology resources and the ability to prototype systems and processes.
- The industry hasn't served the middle market very well.
- Some leaders envision a market for life insurance similar to the Amazon model and think they will eventually get to a fully automated, fully underwritten equivalent process model.

Banks/Mutual Funds: Belt and suspenders not risk

- One bank stands out as having built a sales culture consistent with typical life insurance distribution efforts, but it is generally seen as an exception in retail banking; there are limits to the opportunity to easily distribute through banks.
- Typical bank wants to meet customers' transactional needs.
- Banks aren't good at selling risk products.
- Banks are organized to react to the market, not create the market.
- The number of branch offices is declining.
- Banks and their channels like transparency and simplicity and want to be able to have straight-through processing.
- Banks are moving to where the money is, which is generally not the middle market. Banks are finding they can't charge for their core services at a level the middle market will pay. Because of their own products, they are moving upscale.

General Economic Outlook: It's the economy!

- The middle market hasn't recovered from the financial crisis.
- The consumer is allocating less disposable income toward life insurance and more toward consumer products like cell phone, cable bill, etc.

Societal Forces: Visible hand or invisible hand

- Government incentives would be helpful.
- For the industry to be successful with the middle market, there needs to be a fundamental shift. It must reinvent itself.
- Life insurance ownership is flat or down.

- There is a huge gap between rule-of-thumb life insurance need versus life insurance actually owned.

Industry Factors: No company is an island

- The middle market doesn't understand life insurance.
- Success is going to require a sea change.
- The demand estimated in recently published research is inflated.
- Is there as big a need as "advertised"? The Social Security death benefit for the lower middle income takes care of significant portion of stated need.
- Disability insurance is the bigger problem in the middle market; a combo type product might work.
- Current policy language is not consumer friendly.
- There is concern about middle-market limited financial resources, and potential substitution effect, or long-term care and Medicare products. (Editor's note: I took this to mean health insurance in general since Medicare Advantage is generally older age.)
- Millennials, an important part of the middle market, don't like what the industry is selling.
- The insurance gap is believed to be widening.
- Increased regulation is a worry.
- The traditional agent has abandoned the middle market.
- In worksite distribution, distributors (worksite brokers or general agents) currently control the market.
- Demographics are changing.