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LINKS

THE INCREDIBLE, ILLUSIVE MIDDLE MARKET

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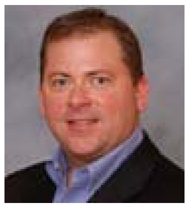

Much has been talked about the life insurance industry pursuing the middle market. There are many reasons for this pursuit including the fact that this market represents the largest, fastest growing market in the life insurance industry. LIMRA calls it the "Trillion Dollar Baby" in one of its studies referring to the incredible amount of premium that is available to us as an industry as we strive to serve middle America better. Another account suggests that there is $17 Billion in premium available if we simply fill the already perceived need. This means we don't have to sell anyone on the need for additional insurance, we simply have to provide the amount they say they need. This says nothing to proper financial planning that would most certainly reveal a larger need.

As an industry, we have known this for some time and yet we fail miserably in delivering our products to the middle market place. A look through the LIMRA's latest study on personal ownership of life insurance* reveals more than 50 negative serving and negative trending statements. Here are just a few:

1. Over the past 50 years, the proportion of U.S. adults with life insurance protection has declined to an all-time low.
2. The likelihood of being without life insurance protection has dramatically increased for every age group over the past six years.
3. Husbands ages 35 to 54 and 65 or older had double-digit declines in the proportion owning individual life insurance in the past six years.
4. Since 2004 the likelihood of husbands having any life insurance has declined across every income level–low, middle and affluent.
5. Only one-third of Americans are covered by individual life insurance–the lowest level in 50 years. This is not surprising, since the number of individual life insurance policies sold annually has been declining for more than 25 years.
6. Four in 10 U.S. adults have no life insurance coverage at all–the lowest level ever.

7. Only one-third of Americans are covered by individual life insurance–the lowest level in 50 years.
8. The proportion of insured adults who have both individual and group life insurance coverage has been declining sharply since 1998.
9. Men's average insurance coverage decreased by about $45,000 in the past six years.
10. Husbands earning $100,000 or more experienced the steepest decline in coverage over the past six years–a drop of an average $200,000.

*LIMRA's Study: Personal-Level Trends in U.S. Life Insurance Ownership, Cheryl D. Retzloff, LLIF, ACS, 2011

We can do better.

The primary challenge is cost of distribution. Not only has lead generation quintupled in price in the past decade, but this cost has much to do with the time it takes to get a traditionally underwritten product in force and in the hands of the consumer. Ask most Americans how long it takes to get a policy in force and they may say seven, 10 or 14 days. The sad fact is that it can, rather easily, be 10 times that.

We can do better, and I suggest we must. Red lights are flashing, alarms our sounding and we have an immediate need to address these issues as an industry.

Distribution has always come from face-to-face sales. New distribution comes primarily from the following channels;

1. Direct Marketing including Internet generated inquiries;
2. Worksite Marketing; and
3. What the industry used to call "Alternative Forms of Distribution." Not so "alternative" any more, people are buying life insurance from their financial advisors, Property and Casualty Agencies, Banks and Credit Unions and Affinity Groups.

All of these distribution channels have one thing in common: Speed is Critical.

For a number of reasons, speed increases placement ratio of policies applied for versus how many actually go in force. To say that "Speed is Everything" would be only a slight overstatement. It goes to customer satisfaction, repeat business, the public's impression of the life insurance industry, reducing buyer's remorse, and eliminating those that are just so frustrated with the process that they remove themselves from it.

For direct marketers, those representing the fastest growing of all these channels, the fall out can be as much as 70 percent. In fact 50 percent fall out is, by many standards, "hitting it out of the ballpark."

Can you imagine if Nordstrom's had to take back more than half of the sweaters they sell?! What if a restaurant had to do all the same work but only get paid for half?! This is a significant contributor to the cost of distribution. When distribution costs are too high, no one calls on middle America and we see numbers and trends like those outlined above.

Note the graph that illustrates the profound affect that speed has on placement ratio. As Zig Ziglar once said about money, speed isn't everything, but it's right up there with oxygen.

How do we make it faster? Ah, the $64 million question. Here are some thoughts:

First and foremost, we need to remove paper from the process. There are many things that dealing with paper does to the time frame of the life insuring process, and all of them are bad–inaccuracies, missing pieces, transporting costs, data entry ... and more.

Distributors need to embrace electronic ways of quoting and submitting business. Transactional life insurance platforms are emerging that need to be embraced as THE way that business is initiated in some channels. Inaccurate quoting causes a number of delays in the process so agents have something to do with it being accelerated. It all starts at the point of sale; we must be able to properly quote our prospective clients.

There are too many moving parts. Often an enroller or agent submits business to a GA who then orders a paramed exam from a third party. Medical records are ordered by a fourth entity and sometimes case management is controlled by a fifth party–all before we even talk about the various departments at an insurance company who have to touch a policy before it gets entered, approved, issued, mailed and administered.

This reality makes Channel Integration very important. "Straight Through Processing," an overused term, addresses this issue but until we have utopia, all channel partners need to work together to create as smooth a process as can possibly be designed electronically.

Distributors do well to work with paramed companies that are integrated with insurance companies in significant ways.

Or, we eliminate what is clearly the long pole in the tent when it comes to time in the process, the paramed exam and bodily fluids. Certainly we have tried to do this as an industry and now we need to try more. Technology advancements can make this more of a reality. Several carriers, including Farmers New World Life, Fidelity Life and Aviva, have made advancements in this effort. Database underwriting is advancing and we all hope that with the advancement in digitizing medical records, required by law in 2014, these advancements can continue. Up to $1 million of coverage, we must be able to deliver a competitively priced product without a paramed exam.

Actuaries can help by embracing automation and intelligent underwriting systems–at least up to $1 million of coverage so that we can adequately cover this middle market. To imply that $150,000 or $250,000 of life insurance is enough for a middle American family is malpractice. We need to take this to a million if we are to serve people better.

Finally, we want to deliver products electronically. Many are amazed to find out that in as much as 20- or 30-percent of the cases, we pay for the marketing and lead generation, we quote the people correctly, we get through the channels and get a policy issued as applied for, we review it for accuracy and send it out to the client only to have it not go in force. It's like driving down to the five yard line and punting. These extra days to issue, assemble and snail mail policies can be eliminated–not to mention the hard costs and trees that we can save as an industry. Electronic policy delivery is coming and the carriers that embrace this first will get more business because of it.

With a focus on speed and technology we have a bright future ahead. Direct marketing is growing in an otherwise declining industry, "Alternative Forms of Distribution" are now channels, worksite marketing is making a comeback and the Internet continues to grow as a marketplace for our products.

The products we deliver affect people's lives very significantly, at a time when they need it the most. Let's stand proud of what we do and strive to do it better.

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