January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

Share Print-Friendly Newsletter Search Back issues

IN THIS ISSUE

INCOMING CHAIRPERSON'S MESSAGE

by Andy Ferris

I look forward to the opportunity to serve you and our other members as the chair of Marketing and Distribution Section Council for 2010. We have an enthusiastic group of council members, friends of the section, and SOA staff working together to serve our members.

[Full article]

WORDS FROM THE EDITOR

by Maria Thomson

The Annual SOA Meeting marked the transition to a new Section Chair. The gavel has been transferred from Keith Dall to Andy Ferris.

[Full article]

CHARACTERISTICS OF SUCCESSFUL MIDDLE MARKET COMPANIES

by Ben Disylvester

Life insurance companies are nothing, if not "fast followers." Once a company shows success in a market segment, others follow quickly. There is nothing wrong with this approach to markets; it has enabled many companies to survive through the years.

[Full article]

AUTOMATED UNDERWRITING: A SURVEY OF LIFE INSURER EXPERIENCE

by Mike Batty

Life insurers looking to reach the elusive middle market must limit costs and deliver products efficiently. Generations X and Y will demand access to

LINKS

NewsDirect

Marketing & Distribution Section

Related Links

Contact Us

CONTACT

SECTION COUNCIL INFORMATION

insurance on their own schedule, and won't tolerate the slow, invasive underwriting process of yesterday.

[Full article]

AUTOMATING THE UNDERWRITING PROCESS

by Susie Cour-Palais

Time and again, industry surveys tell us that distributors of life insurance products place service alongside, or even above, price when making the decision about where to place business. Underwriting speed, the ease of case submission and sales support stand out as the most important factor ...

[Full article]

BANK INSURANCE MARKETING TO THE MIDDLE MARKET CONSUMER

by Carmen F. Effron

Forget what you hear about the banks' eminent demise, there are still over 8,100 banks doing business in the United States. To be fair, the top 10 have 50 percent of all the assets and the top 3 have 33 percent of the assets ...

[Full article]

AWARD WINNING PAPERS
VISIONS FOR THE FUTURE OF THE LIFE INSURANCE SECTOR

by Maria Thomson

The SOA held a paper contest to produce visions of the life insurance industry in 2020. Ten papers were published, but only four were award winners.

[Full article]

IS THERE MAGIC IN THE MIDDLE MARKET?

by Cheryl D. Retzloff

Even during this worldwide economic crisis, people continue to need to protect their families against premature death, disability, and health problems as well as save for their children's college education and their own retirement. Can a market with 52 million households who understand these needs help the industry grow sales? The answer is maybe . . . or maybe not.

[Full article]

475 North Martingale Road, Suite 600 Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

Share Print-Friendly Newsletter Search Back issues

IN THIS ISSUE

INCOMING CHAIRPERSON'S MESSAGE

By Andy Ferris

I look forward to the opportunity to serve you and our other members as the chair of Marketing and Distribution Section Council for 2010. We have an enthusiastic group of council members, friends of the section, and SOA staff working together to serve our members.

On behalf of the entire section membership, I wish to especially thank our three outgoing council members for their hard work and dedication in serving our section in key leadership roles. Keith Dall, our outgoing chair, has been an outstanding leader for our section for the past year. Nancy Manning, who steps down as a council member and as our newsletter editor, has been instrumental in redesigning and transforming our newsletter. Jim Wiseman has served the council in a variety of ways and most recently coordinated a MaD-sponsored session at the Life Spring Meeting. These people have volunteered their time and effort to deliver outstanding value to our members, and we cannot thank them enough!

For 2010, Mike Kaster will serve as our vice-chair and Jennifer Brady will again serve as Secretary/Treasurer, her second year in that role. We've also welcomed three newly elected section council members in Jim Harkensee, Jeff Johnson, and Rebecca Scotchie. Jim Glickman will serve as our Board Partner. Moving into their second year on the council are Steve Dobronyi, Chuck Ritzke, and Maria Thomson. Juliet Sandrowich, a former MaD Section chair and current friend of the council, has agreed to serve as our newsletter editor for 2010.

Our mission is to foster research and innovation in distribution methods for financial services products and in the inter–relationship of marketing strategies with product design, underwriting and operations. In support of this mission, we have a variety of initiatives underway including the following:

- We're planning a series of related sessions for the upcoming Life and Annuity Symposium scheduled for May 2010 in Tampa, Fla. and subsequent meetings.

LINKS

NewsDirect

Marketing & Distribution Section

Related Links

Contact Us

CONTACT

SECTION COUNCIL INFORMATION

- We're planning a series of webcasts on a variety of topics of interest to our members and those are scheduled to roll out in 2010.
- Our section has been the lead sponsor for the research project titled Underwriting Mortality Risk Utilizing Electronic Tools, and the results of the first phase of that project will be published shortly.
- We're currently developing and evaluating ideas for potential additional research projects, all aimed at delivering value to the members of the MaD section.
- We're considering performing a brief survey of our membership to elicit your thoughts on the best ways for our section to deliver value to you–the topics, the format, the frequency, and more.

In closing, I welcome and encourage our members to continue to contact me directly via e-mail or phone with any suggestions or ideas you may have for our section. Some of you have contacted me to offer excellent suggestions or volunteer for specific tasks, while others have inquired about participating more regularly as a friend of our section or potential future council member. We look forward to continued active involvement with our members throughout this year and into the future!

Andy Ferris is a Senior Manager in the Chicago office of Deloitte Consulting LLP. He can be reached at 312.486.1469 or anferris@deloitte.com.

January 2010, Issue No. 61

IN THIS ISSUE

WORDS FROM THE EDITOR

By Maria Thomson

I am the transition editor from Nancy Manning, who has edited this newsletter for many years, to Juliet Sandrowicz, who will be taking over after this edition.

The Annual SOA Meeting marked the transition to a new Section Chair. The gavel has been transferred from Keith Dall to Andy Ferris. Andy's remarks are included within. The Annual Meeting also marked the turnover of three Section Council seats–Andy's column names the newcomers. We have a very busy year planned, and the Council will be busy!

The MaD Section sponsored many good sessions at the Annual SOA Meeting. Most of the articles in this newsletter were submitted by panelists for the session entitled, "Trends and Successes in the Middle Market," moderated by Mike Kaster and the follow-up session entitled, "Trends and Developments in Rapid Assessment and Delivery (RAD)," moderated by me. The articles submitted by the panelists cover the same topics they covered in the meeting sessions.

I have also included excerpts from the four award winning papers submitted to the SOA in response to their call for "Visions for the Future of the Life Insurance Sector." These visions are pretty creative, if I say so myself (since I authored one of them), and I think you will find them interesting.

LINKS

NewsDirect

Marketing & Distribution Section

Related Links

Contact Us

CONTACT

SECTION COUNCIL

INFORMATION

475 North Martingale Road, Suite 600 Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

CHARACTERISTICS OF SUCCESSFUL MIDDLE MARKET COMPANIES

By Ben DiSylvester

Life insurance companies are nothing, if not "fast followers." Once a company shows success in a market segment, others follow quickly. There is nothing wrong with this approach to markets; it has enabled many companies to survive through the years. However, it does mean creating a continuous environment of intense competition which, again, is not a bad thing. That is, as long as companies understand what it takes to be successful in a highly competitive environment. Further, as the change drivers in the life insurance industry continue to evolve–whether it be regulatory, demographic, buying habits, distribution methods, investment return, expenses, or mortality rates–companies must be on top of their game to not just survive but also thrive in this new environment.

To get insight into the thinking of industry executives, a recent survey asked what they saw as the sources of growth for their organization. Carving out the responses from companies squarely in the middle market segment, the most frequently mentioned responses included: 1) greater demographic segmentation, around age, ethnicity, and gender; 2) expanding distribution methods, including worksite, direct, career, and agency; 3) expanding into new markets, including bank insurance and financial planning; and 4) deeper penetration into existing markets, including retention efforts and acquisitions.

It is good that demographic segmentation was high on their list as the middle market is often defined as including the 41 million households with incomes ranging between $25,000 and $100,000 which is 43 percent of all households. In today's world of one-to-one marketing techniques, segmentation is never more important than in this middle market. The needs of someone in the $25,000 income range are significantly different than someone in the upper range of the income band.

Attempting to be all things to all people will certainly sustain some level of sales.

However, it is expensive, operationally difficult, and makes differentiation in the marketplace hard to achieve. So what is a company to do?

Based on numerous industry surveys, face-to-face discussions with hundreds of industry executives, and observations of those organizations who achieve high success year after year–as measured in sales, financial strength, and reputation–we have identified seven characteristics of success for mid-market companies. These are:

1. Leadership–Most companies have good leadership. However, how that leadership is focused is what makes the difference. In successful companies, everyone on the management team shares the same clear vision of where the company is headed and can articulate it to others. Further, the goals the company is striving to achieve–in terms of sales, customer satisfaction, persistency, and overall financial strength–are top of mind and guide their decision-making and allocation of time and resources. And in addition to having a clear vision and measurable goals, leaders in successful organizations stay close to the details; creating an environment of consistent behaviors, high performance and learning, and quickly addressing issues that could divert the organization from its mission.
2. Identify and Exploit Niche Marketing Opportunities–Identifying what niche the company will focus on should go beyond knowing which segment offers the biggest opportunity for growth. Whether the alternatives are product, demographic or distribution based, this decision must be made in the context of current strengths and weaknesses of the organization and evaluated in the context of the needs of an attractive niche. It is inherently more difficult to go into a new market due to a lack of knowledge, experience and resources than expand into a market you are already in, where years of knowledge and expertise are part of the DNA of the organization. Whether you are searching for a new niche or energizing the niche you are already in, successful companies develop an entrepreneurial mindset that finds ways to make something work versus a why it won't work mindset.
3. Have a Pulse on the Marketplace through Superior Customer Intelligence–Even successful markets change, due to changing customer priorities, new entrants into the marketplace, or innovation by a competitor. The biggest danger in this area is when people in the company know what the marketplace needs–without having had purposeful discussions with agents or listening to conversations the customer service staff is having with customers–before acting to address those needs. Further, when a company says they specialize in a certain niche, they are saying they know their customers better than anyone else will know them, and they have designed their products and trained their people in this knowledge so that agents and customers know they are dealing with professionals who understand them.

4. Make Targeted Investments in Technology–Excellent technology does not guarantee excellent service. Less–than–the–best technology does not doom your organization to poor service. Successful companies target their investments in technology based on what is really needed. This starts with understanding and defining the business requirements and only investing in those technologies containing features that will deliver on those business requirements. For example, agent portals are now virtually table stakes for technology, but this does not mean any agent portal will do. It must be a properly designed agent portal, based on the needs of your specific distribution system.
5. Service Excellence–You understand the products and the inner workings of your company fairly well. Underwriting, policy services, billing, premium remittances, and claims are all easily understood. However, to an individual who has never been inside an insurance company, it is all a mystery. Who do they talk to and when they finally get to the right individual, why does that person ask for information that they already should know about me? In this context, easy to do business with conjures up a whole new meaning. Successful companies in the middle market are easy to buy from and are easily accessible when the customer wants it. Whether it is self–service at midnight or through a representative during business hours, it is easy for the customer to access and update their information. One mid–market company that has done an especially good job at this is Unum Group. Appropriately, they call the process Simply Unum because they simplified things by designing products that meet their customers' needs and pricing them for high value. Unum successfully built a seamless process allowing their customers to purchase products, receive service where and when needed, and have their claims handled quickly.
6. Organizational Alignment–Successful companies are also sure that what they promise their customers will actually take place when those customers access the operations of the organization. They do this by making sure their structure is aligned with their strategy. For example, if a company distributes product through both an Independent Marketing Organization (IMO) and a career agency model, they understand that these two distribution models are much different in their needs and requirements. To account for these differences, they align their field support, underwriting, and service structure to ensure the IMO needs are met, rather than have both distributions systems go through the same channels. Successful companies also design their rewards based on the attainment of the organizational goals for product sales and service.
7. Nimble and Quick to Act–There are many companies who once dominated their niche but became so entrenched in the way they did things a resistance to change built up over time. Successful companies minimize the bureaucracy in their companies. When new ideas come up, they are researched, evaluated quantitatively, and decided upon. These companies have a culture of problem solving and finding solutions with

measured experimentation. Ideas don't linger but are addressed and resolved with appropriate timelines.

With companies looking for growth opportunities in today's economic environment, addressing these seven characteristics and evaluating where your company falls on a scale of one to five, with one being the best, is a good place to start. Rather than fall into the mind–set that things are bad and it is a tough market to sell to, identify the many companies that have actually increased sales in the past 24 months and determine what they have been doing to accomplish that. Break the down–cycle thinking by scheduling off–site sessions with your management team and take them through the typical strength, weaknesses opportunities and threats (SWOT) analysis as a first step in changing your culture to be successful in this potentially lucrative mid–market.

BEN DISYLVESTER, FLMI is Chairman of the Robert E. Nolan Company, a management consulting firm specializing in the insurance industry. He can be reached at www.renolan.com.

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

Share

Print-Friendly Newsletter

Search Back issues

AUTOMATED UNDERWRITING: A SURVEY OF LIFE INSURER EXPERIENCE

By Mike Batty

Life insurers looking to reach the elusive middle market must limit costs and deliver products efficiently. Generations X and Y will demand access to insurance on their own schedule, and won't tolerate the slow, invasive underwriting process of yesterday. Or so the advocates of automated underwriting would tell you. In fact, for these and other reasons, many life insurance companies continuously seek to streamline the underwriting process while preserving its protective value. Automated underwriting systems are often touted as the solution. Although these systems have been around for some time, not much is known about the industry's experience with them. Are they actually being used? Is it a growing or fading trend? How successfully do they improve underwriting efficiency? To move beyond anecdotal evidence, the Society of Actuaries' Marketing and Distribution Section Council, the Product Development Section Council, and the Committee on Life Insurance Research engaged Deloitte Consulting to conduct a survey investigating these questions.

Automation is a word that is often used liberally so we should clarify what we mean by automated underwriting. The survey focused on technology solutions which are designed to process and interpret data traditionally viewed by underwriters, thus reducing the manpower and/or data necessary to underwrite a life insurance application. These systems stand in contrast to tools which collect information and present it to underwriters in an organized format, but stop short of interpreting the data.

The research team administered the survey of large North American life insurers in fall 2009. The goals were to begin to understand what role automated underwriting plays in the life insurance industry today, and determine the feasibility of studying the mortality experience it produces. The results of the survey are detailed in a report published by the SOA in December which can be accessed here. A few of the key findings are summarized below. First, life insurers have strong interest in improving the efficiency of underwriting,

LINKS

NewsDirect

Marketing & Distribution Section

Related Links

Contact Us

CONTACT

SECTION COUNCIL INFORMATION

specifically the time, cost and consistency. Second, they are intrigued by what automated underwriting systems have to offer. While the penetration of these systems is still relatively low (around a quarter of firms surveyed), another 50 percent are considering implementing a system, which points to the potential for significant growth. Third, life insurers who are using automated underwriting believe they are beneficial to their organizations. Despite some technical and other implementation and maintenance challenges, the systems do materially improve underwriting efficiency. Interestingly, even insurers who are less satisfied with their own system have not soured to the idea of automated underwriting. Given the chance to reconsider their pursuit of automated underwriting, they would choose a different system, rather than forgo the idea altogether. Finally, the research has lead to an ongoing follow-up study on the accuracy and mortality results of automated underwriting. To learn more look for the full report soon to be released on the SOA Web site, and an upcoming SOA webcast.

The survey studied all automated underwriting systems, but we should also mention Deloitte is an automated underwriting vendor that agrees with its potential. Predictive models have been underwriting game-changers in the P&C industry over the last two decades, but largely absent in life insurance. Building upon our data analytics experience in P&C and many other industries, we have developed models which are beginning to make life insurers rethink how they underwrite. Using only inexpensive underwriting requirements and non-traditional data, these models are able to replicate decisions made through a fully-underwritten process with impressive accuracy. These models are allowing our clients to issue many policies at competitive rates in hours rather than weeks, and without costly medical/paramedical requirements. We believe our own experience and the survey results show automated underwriting will be an increasingly important tool to enhance the relationship between insurers and their customers.

To view the full report, click here.

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

IN THIS ISSUE

AUTOMATING THE UNDERWRITING PROCESS

By Susie Cour-Palais

"It is very difficult to innovate in a sustainable way against your three closest peers on price, product and commission, but in terms of doing business, that is all about execution ... and that's an open race."

So said a panellist at a LOMA systems forum discussion on competition in life insurance ... in 2006.

Time and again, industry surveys tell us that distributors of life insurance products place service alongside, or even above, price when making the decision about where to place business. Underwriting speed, the ease of case submission and sales support stand out as the most important factors ... and it is clear that those companies that are using technology most effectively are the winners.

Over the past decade, in markets around the world, enlightened life insurers have directed a significant proportion of their technology budget towards automation of the new business acquisition process.

Breaking down barriers between front and back office

If we visualize what is happening now at companies automating the new business acquisition process, very simplistically we see three stages (See Diagram)

1. Collection of information as structured data via an electronic application form adapted for multiple distribution channels and access points.
2. Data flowing into new business/underwriting and an underwriting rules engine for risk triage (quickly identifying cases which can be immediately accepted as applied for; and for the balance identifying the next steps, be that further evidence requirements, routing to a call-centre for teleunderwriting, or to manual underwriting). At this stage, the more sophisticated underwriting engines can also do some risk assessment up

to various levels of substandard acceptance, without manual intervention.

3. Fulfilment of various functions in back office systems for further processing (e.g., evidence ordering, tracking and routing, correspondence generation, policy fulfilment).

There can be important differences between what companies are doing in terms of:

- the flexibility of the electronic data capture at the front end,
- the quality and scope of the rule-set in the underwriting engine,
- the transparency of the process to advisers–and possibly customers too,
- the extent to which an underwriter workbench or dashboard is available for case management,
- the connectivity to service providers and call-centers,
- the sophistication of their data capture and MI tools.

But perhaps the most significant difference is how far companies are willing to move traditionally back office underwriting functions to the front office–the extent to which they are breaking down the barriers between the external and internal world.

Exciting new business models are emerging, enabled by technologies not available five years ago such as:

- Flexible service-oriented architectures (SOA),
- Greater ability to create interfaces between applications,
- More portable and application compatible programming languages such as JAVA.

These technologies are all about eliminating data silos, improving accessibility to and manipulation of data, and improving transparency and communication. These aren't optional requirements, but central to a modern way of doing business.

What do we mean by underwriting engines?

There is a plethora of different so-called underwriting engines available, which have different functional specifications and are aimed at different parts of the new business acquisition process. Trying to assess whether a system is right for your company's specific needs can be a tortuous and bewildering process. Software companies promise systems which can do everything required and all but reproduce themselves. All too often terminology is hijacked and twisted by enthusiastic marketing literature.

At my company, SelectX, we have worked for many years with software companies and reinsurers who develop intelligent underwriting engines. When we review underwriting engines, these are the areas on which we focus:

- Electronic front-end:
    - for application data capture and validation,
    - configurable for multiple distribution channels.
- Business and underwriting rules design and maintenance module:
    - rules and dictionary authoring tools for business users,
    - knowledge base maintenance tools for business users,
    - test harness to enable quick testing of rule changes.
- Vendor connectivity:
    - support for requirements ordering, status tracking and routing,
    - laboratory interfaces,
    - Medical information bureau (MIB), Motor vehicle record and pharmacy treatment (Rx) interfaces [In North America only].
- Teleunderwriting support:
    - Teleunderwriting is increasingly important for all types of life underwriting. Leading systems have support functionality pre-built into their systems (e.g., scripting tools, call scheduling/routing tools, call recording storage and retrieval tools) or they have interfaces developed in such a way that systems can be integrated with external teleunderwriting operations.
- Management information and data analysis tools:
    - Possibly the most important development area in underwriting engines. The best systems have sophisticated data analysis tools which go far beyond canned standard reports.
- Underwriter workbench:
    - Some systems have underwriter workbench modules which allow for a single view of assessment information, workflow integration, requirements management, case storage and retrieval and automated correspondence.
- Web services
- Multiple language and currency capabilities
- Configurable security settings

Turning to the core engine within these underwriting systems, where the underwriting intelligence sits–in the last decade we have seen markets outside

North America (particularly the United Kingdom, South Africa and Australia/New Zealand) leading the world in developing the sophistication of rules logic.

The best engines have underwriting rules not just for life business, but for disability income, waiver of premium, total and permanent disability and critical illness.

And many don't stop at simple risk triage identifying only the standard rates/issued as applied for cases; but can go much further using dynamic drill-down rules logic which enables processing of a substandard business up to Table 4 (100 percent extramortality) and beyond.

So the latest generation of engines are not limited to simplified issue business and small face amounts, but are mainstream underwriting tools regarded as essential for the modern, competitive life company.

An important development in the latest generation of engines is the transfer of control to the business. Rules authoring and maintenance tools are designed for the business user not the IT expert, and data analysis and reporting too can be carried out without the need to go cap in hand to the IT department. Which brings us neatly on to underwriting data.

The importance of underwriting data

Underpinning much of what we want to do with technology is the data that flows from it. But are we using this effectively–indeed do we even recognize its value?

We are operating in a different business environment from five or 10 years ago. The financial downturn, the greater rigour of audits and rating agencies, the need to justify what we're doing–all rely on data being available and in a format that can be used for reporting.

One of the greatest benefits of electronic underwriting and straight through processing is that from the moment that information becomes data in an electronic river flowing through the organization, we have data in a structured format that can be manipulated. The leading software companies developing engines have recognized this and spent most of their development effort of the last few years creating data analysis modules which sit within their underwriting systems.

The result is that the game has changed for some companies, giving them a level of information they only dreamed of 10 or 15 years ago–this goes far beyond underwriting operations information. The data being spat out by some of these engines gives pricing actuaries and marketers timely insights into the characteristics of the customer base and the risks being taken on, allowing pricing and product features to be refined real time, not, as has historically been the case, years later or never.

Strategic use of technology

The availability of data is leading to a shift in how technology is used by underwriting departments. At outset, the focus is always on underwriting speed, ease of case submission and sales support, but over time greater emphasis is placed on how to realize the strategic business benefits of technology. Companies are starting to consider how they can mine the business benefits of the data being collected and how they can harness the flexibility of new technology architecture to develop new customer and distributor propositions.

See Diagram

A global view

At SelectX we are frequently asked why the deployment of underwriting engines in North America has lagged behind other developed insurance markets such as the United Kingdom and Australia. The reasons are complex but are largely down to regulatory constraints; more complex pricing and underwriting models which require more medical information; and a focus on sales to high net worth individuals (and correspondingly high face amount policies) rather than to the mid-market. The table below summarizes some of the issues.

See Table

However, we predict that almost every major life carrier in North America will implement an underwriting engine in the next five years, spurred on by sweeping changes in the insurance environment:

- The financial turmoil of the past two years has led to even more fierce competition for business and a desire to exploit the under-served mid-market.
- Availability of underwriting data in electronic format which can replace some or all of the traditional risk information in risk assessment. In particular, pharmacy profile (Rx) data and MIB and motor vehicle record information available in electronic format which can be utilized by an engine without manual intervention.
- Growth of teleunderwriting as a mainstream method of gathering risk-related information. Information collected over the phone is ideal for entering directly into an engine for initial risk triage.
- Greater regulatory and reinsurer demands for data.
- A wave of zealousness about exposing bad risks before they go on the books.
- A renewed focus on improving mortality and morbidity experience

through consistency and pricing based on data.

Susie Cour-Palais is the co-founder and director of SelectX Ltd (www.selectx.co.uk), a UK based underwriting consultancy, with a global client base. Susie may be reached at susie@selectx.co.uk.

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

IN THIS ISSUE

BANK INSURANCE MARKETING TO THE MIDDLE MARKET CONSUMER

By Carmen F. Effron

Forget what you hear about the banks' eminent demise, there are still over 8,100 banks doing business in the United States. To be fair, the top 10 have 50 percent of all the assets and the top three have 33 percent of the assets; however all of the banks regardless of size are dealing with the middle market consumer every day. Are the largest banks in the country distributing insurance to the middle market; the answer is yes.

From the banks' perspective the middle market consumer can be anyone where annual household (HH) income is above $35,000 and up to $150,000. LIMRA uses HH annual income from $35,000 to $99,999 and ages 25 to 64 as the middle market and estimates 41 million U.S. HH fall into this category. President Obama's definition concentrates on defining the highest level of annual income for the middle market as $250,000. In a recent nationalpayrollweek.com survey of close to 40,000 adults, 57 percent said that this top income level is too high and should be lower, while 32 percent of the people surveyed agreed with the Obama standard. Obviously, there is no set classification of the middle market consumer, so for this article we will use the LIMRA definition of middle market.

LIMRA indicates that one in four middle market HHs do not have any life insurance, however 72 percent believe it is a necessity and 32 percent of those that have coverage, believe that they do not have enough. The traditional agent finds this middle market consumer difficult to access cost effectively; however for the banks it is a group of people and a market they interact with daily. The banks are continuing to increase their life insurance sales but today they represent only 3 to 5 percent of the industry's total life insurance production. The question is why do the banks not have a larger penetration of the middle market life insurance sales in this country?

But perhaps the most significant difference is how far companies are willing to move traditionally back office underwriting functions to the front office–the extent to which they are breaking down the barriers between the external and internal world.

The answer to this question is multi-layered and somewhat dependent on each bank's philosophy towards the sale of life insurance, the organizational structure of the bank and the affect of both internal and external influences. Depending on the size of the bank, there may be five to 60 subsidiary companies, each targeting a different segment of the bank market; e.g., credit card, mortgage, commercial loans, etc. Theoretically each one of these subsidiaries could sell insurance to their clients. Realistically however, there are some very large impediments that need to be overcome.

Given our definition, the middle market client resides in the retail and small business segments of the bank as well as in the workplace of the commercial clients. For an example, let's assume that an insurer wants to sell a life insurance product to the retail customers of the bank. In order to accomplish the goal of having the insurance product in front of that consumer when they are ready to purchase, the insurer must deal with six different groups of people in the bank that own or manage that client's experience with the institution.

This means that the insurer needs to get agreement and buy in from a number of different people and committees. For illustration purposes, the insurer would first have to pass the compliance and due diligence requirement of the bank's risk committee. Once that is accomplished, then the insurer's product and marketing strategy has to pass muster with the bank's regional managers, marketing directors, training division, district sales manager and then the internal wholesaler. Oh, and let's not forget the person that is actually touching the client and making the sale, usually a Financial Consultant (FC) or Licensed Platform Banker (LPB). Insurance is only a small part of what the FC and LPB are responsible for selling, so the incentive to sell life insurance within the bank is not dissimilar to what motivates sales in the broader market. While each of the people in the chain plays a role, there are a few of them that must also be compensated for the sale. Incentives are a VERY BIG part of a banker's life, so the WHAM (What Here Applies to Me) Theory is one extremely important element to consider when garnering agreement within a bank to sell life insurance and should not be overlooked or discounted.

A life insurance application and sales process that takes into consideration the transactional way a Financial Consultant currently sells and what they need, means the product has a much better chance of being sold and generating sufficient volumes to make the carrier's investment worthwhile. As an insurer working in the bank market, process is equally as important as the product, people, price and promotion.

There are also a number of external influences that should be taken into consideration and will determine how the bank and insurer are selling their respective and joint products to the middle market; psychographic trends in the target market (values and motivations), technology advances, health care advances and the influence of the Internet for sales of insurance.

Over the next decade there are estimates that close to $12 Trillion will go from a relatively technologically confident generation to an extremely savvy technological generation. This is going to have an impact on how the banks sell to the younger generation as well as how the bank will distribute insurance. Everyone is aware of Twitter, Face Book, and MySpace but how many insurance marketers are aware of "Four Square"? This is planned serendipity where your 20 favorite friends can find out where you are at any given time and be given a map and directions that lead them to you. All social media needs to be understood and utilized appropriately to engage this younger technologically self-assured middle market consumer.

Health care knowledge is doubling every eight years with new methodologies, new treatments, and new pharmaceuticals. The insurance industry continues to find ways to utilize this knowledge both for pricing and for underwriting which means that new specialized software for analysis is being developed as well as specialized underwriting teams. The era of Rapid Assessment and Deployment, (RAD) and the ability to use reflective questions with a consumer to fully underwrite them at the point-of-sale and hand them a policy before they leave the bank is technological available, although it is not widely utilized.

The World Insurance Report 2008 Consumer Survey showed that the Internet is a force for selling life insurance and one out of 10 customers say they use the Internet to purchase life insurance and one out of three will use it to purchase in three years. Customers say they are extremely price sensitive and consider price when purchasing insurance.

The coalescing of the trends and influences discussed above; psychographic changes, underwriting software improvements, technology innovation and the Internet means that the middle market consumer is going to be better informed of their options. The bank then has a number of choices to make when selling insurance to the middle market consumer. In some instances, a convenient process with a higher price makes sense, however not in all cases. The well informed middle market consumer may demand a fully underwritten approach, where both a competitive price and convenience are offered.

The banks want to appear to be the trusted advisor to both their wealthy and middle market clients. To accomplish this many banks are adding a financial planning process to the FC's job description. Therefore, having the potential for fully underwritten life insurance available for sale in the bank for the middle market consumer will need to be an alternative.

The use of automated and specialized underwriting programs, available now via most reinsurers, presents a true opportunity to sell quickly, efficiently and economically to the bank's discerning middle market consumer and it would solve a problem that bankers' have articulated about selling recurring premium and fully underwritten products.

A 2008 study I completed which concurrently examines bank and insurer views and is therefore a reflection of both of their opinions, called, Bridging the Cultural Divide between Banks and Insurers, (BTCD) showed that 52 percent of all banks are planning to increase their life insurance distribution programs. However, the study points to a few barriers to fully underwritten life insurance being sold by the banks.

In the BTCD 2008 study, bankers ranked three processes as the number one problem with selling fully underwritten life insurance; different applications for multiple carriers; the length of time to complete Parts 1 and 2 of the application and the lack of feedback and underwriting outcome knowledge of the case in a timely manner.

These issues were corroborated when I conducted a "Voice of the Customer" research project with banks in 2007 and 2008. They clearly expressed that the "lack of feedback from the underwriting process is a major frustration" and it "can adversely effect my relationship with the client, so I will not take the chance."

The bankers felt that as fully underwritten insurance is good for their clients, they would embrace it if the problems enumerated above are solved. We have the technology to do so. Instead at present, what is being sold is simplified term, SPUL, SPWL, simplified Disability Income and simplified Critical Illness. The client may not get the best deal on price, but they get convenience and the FC and LPB know immediately whether the client is going to get coverage.

Today most insurers in the bank differentiate themselves by the time it takes for the FC and LPB to complete an application, or they might tout their pricing and have the sales message revolve around competitive pricing. To my knowledge there is no insurer in the U.S. bank market using their instant underwriting decision for fully underwritten business as their central sales message. This is an opportunity that is ripe for the picking. The banks are ready, the technology exists, and the middle market clients are willing to purchase from the bank. The only ingredient missing is the insurers' willingness to make fully underwritten and issued life insurance policies at the point-of-sale a reality.

Carmen F. Effron is president of C F Effron Company LLC. He can be contacted at Carmen@cfeffroncompany.com.

475 North Martingale Road, Suite 600 Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT

IN THIS ISSUE

AWARD WINNING PAPERS VISIONS FOR THE FUTURE OF THE LIFE INSURANCE SECTOR

By Maria Thomson

The SOA held a paper writing contest to produce visions of the life insurance industry in 2020. Ten papers were published this webpage, but only four were award winners (I authored one of them). Below are excerpts from each of these award winning papers to whet your appetite. Exercising editor's privilege, I have placed the excerpt for my paper first. Sharon Giffen is also a member of our section and is on the Smaller Insurance Company Section Council.

Industry Will Experience Zippy Growth Through Zip Processing

by Maria N. Thomson

In order to address processing time and cost challenges, most companies are taking advantage of technology. The most high-tech and promising solution is e-applications with expert underwriting built in. Electronic underwriting often takes advantage of e-databases such as MIB, MVR and Rx history to supplement the screening questions.

I shall call my vision of the successful company of 2020 ZIP Insurance. ZIP Insurance employs straight through processing (STP) tools to underwrite and issue policies at the point-of- sale, utilizing e-tools as described above. ZIP Insurance will not use underwriters for underwriting new business, but rather for establishing underwriting rules and updating them by analyzing data on e-application responses and keeping current on pertinent industry studies and developments.

ZIP's approach to business makes the sales process very transactional, thus lending itself well to the customer service representative (CSR) sales environments it has chosen for its distribution. ZIP Insurance software walks the agent through the sale, screening questions, payment and policy delivery. While the agent is taking the applicant through the drill-down underwriting questions (personal history interview or PHI), the software will automatically poll the e-databases it is programmed to access. The PHI, in combination with the e-data, will provide the software with the information needed to render an underwriting decision. If the sale is made, a credit card or electronic funds transfer payment can be accepted, and the policy will be printed or e-mailed, as the customer prefers.

The application and underwriting data is transmitted electronically to ZIP Insurance, and a new policy record is automatically set up in the policy administration system.

Thus, all manual new business functions are eliminated in headquarters. ZIP will also have the data populate a new business database to track responses to application questions in order to spot problem areas.

Maria N. Thomson, FSA, MAAA, is Board Director at RAD Insurance Holdings, Inc. in Brimfield, Mass.

Risk Management for the Individual: The Key To Life Insurer Success In 2020 And Beyond

by Ken Beckman

[The key to success] is a single product that will allow individuals and families to identify and manage the risks encountered over a lifetime. Three primary risks to financial security are mortality, morbidity and investment loss. Insurers need to become personal risk managers for their customers.

An interactive system, using the latest technology, will be used to obtain demographic, financial, health and other information. The system will then use this information to explain to applicants the implications of the primary risks they face, both at present and in the future. Next, customers will be provided with a menu of several possible insurance policies to choose from, with each policy offering protection from all the primary risks, but differing in cost and the amount of coverage provided. All the policies on the menu would be optimized, based on the applicant's risk tolerance and other variables, so that regardless of the policy selected it will provide the best possible coverage at the lowest possible cost. To achieve optimal protection, the coverages contained in each policy would be expressed in flexible terms. For example, the amount of life insurance would vary over time (possibly reaching zero coverage at some point) and correlate with specific factors such as income, family status, other assets and tax considerations.

Even after the policy is issued, the risk management system will allow the insured to view updated illustrations as circumstances and risk tolerances change. The system would continuously monitor changes in the family's risk exposure and notify the insured of coverage adjustments that might be needed.

Ken Beckman, ASA, MAAA, CFA, is Associate Actuary at New Era Life Insurance Company in Omaha, Neb.

Adjustable Biological-Age Pricing For the Global Market
by Chiu-Cheng Chang

Today we have medical devices (scans, scanners, tools, equipment, etc.) that also utilize about 20 inputs (variables, indexes, measurements, etc.) to calculate human biological ages. These devices are noninvasive and simple to use. Moreover, many studies conducted by the manufacturers of these devices confirm that the calculation results are very much consistent with today's common knowledge regarding, for example, healthy lifestyle. In other words, we can predict, based on those 20 variables, whether one's biological age will be more or less one's chronological age before we actually measure it. A human being's true biological age should be measurable or at least closely estimated, and every human being should have two (most likely) distinct ages–a chronological and a biological age.

The traditional approach to pricing life insurance products on a single fixed age over the entire policy duration is clearly outdated. Policyholders could change from being a smoker to a nonsmoker; from being obese to overweight; from being married to divorced to remarried to divorced to becoming single; or any of all the possible mathematical combinations of the above and beyond. Clearly the traditional approach is not suitable to today's highly dynamic and rapidly changing global lifestyle since it is considered piecemeal, unsystematic, static, short-term, local, regional, less scientific, too cumbersome and non-global.

Pricing life insurance products according to one's biological age (supplemented by well-established but simple underwriting tools if necessary at the very beginning of 2020) is simple, systematic, dynamic, more scientific and global. It is nothing but a simplified and unified approach to traditional risk classifications.

The adoption and popularization of the biological-age idea will have profound effects on the whole world. I will cite a few in the following:

1. We need a new definition of normal retirement age.
2. We need to redesign pension plans.
3. We need to redesign annuity products.
4. Since upward mobility is part of human nature, we will witness a healthier world with higher and longer human productivity contributing to the global good.

Chiu-Cheng Chang, Ph.D., FSA, FCIA, FAIRC, FSII, CLU, ChFC, MAAA, is Chair Professor in Risk Management at Asia University in Taichung, Taiwan.

"Sustain": An Industry Speech About Success As A Niche Player In 2020 by Sharon Giffen

Sustain sells life insurance to support our members' families in times of great need; in turn, the tax-free profits we generate are dedicated to furthering our mission of enhancing America's desire and ability to lead lives that will sustain our planet. Re-greening of the earth is a goal we can all relate to today; Sustain sponsors activities, programs and education to engage member families to change their daily lives. Living a "greener" life has become increasingly popular since the turn of the century; people are willing to volunteer and to pay more for goods and services that support sustainable living.

In the last 10 years, virtually every facet of our business has changed–distribution and administrative operations and, importantly, how we assess and manage risks to better use our capital. In 2010, we committed to truly align every activity to our mission. Our market demographic is the Internet generation who transact their personal business and social lives online, and who want to contribute to sustaining our earth for future generations. This is the middle-income market–ordinary people with straightforward insurance needs. With a low average face amount and premium and a limited product line including term and whole life insurance, we had to become a low-cost provider to survive.

Armed with that vision, we retooled our new business and administrative processes to automate everything possible. In 2011, we introduced electronic applications–the application is completed online during the sales call. We used tele-underwriting during the application process along with electronic underwriting tools. With that, we achieved about 50 percent of issues requiring no further intervention. In 2013, we introduced artificial intelligence (AI) into the process, reducing to 5 percent the applications that cannot be processed automatically. For those cases, the judgment of a skilled underwriter is needed; we buy that expertise from a service provider on a variable cost basis. From 2015, we eliminated the need for a sales intermediary–applicants can complete forms themselves and now 75 percent of applications are submitted directly. With real-time processes, once the application is complete and pre-authorized deductions from their bank account are set, clear cases are issued electronically. Formal contracting is complete upon receipt of their biometric signature using the retinal scan software that has become standard for online identification. Compliance monitoring is easy; AI won't misbehave, and electronic records are complete. Misrepresentation is reduced, as AI is persistent to ensure consistency of electronic health data and answers to questions. Post-issue service is almost exclusively self-service, online in real time–but there are exception cases. In addition, we have legacy business, administered on an old system, requiring some service staff. We built some automation to front the old system, and will let it run off there.

Sharon Giffen, FSA, FCIA, MAAA, is Senior Vice President and Chief Financial Officer at Foresters in Toronto, Canada.

475 North Martingale Road, Suite 600 Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org

Actuaries
Risk is Opportunity.®

January 2010, Issue No. 61

SOCIETY OF ACTUARIES Marketing and Distribution Section

NewsDIRECT

IN THIS ISSUE

IS THERE MAGIC IN THE MIDDLE MARKET?

By Cheryl D. Retzloff

Even during this worldwide economic crisis, people continue to need to protect their families against premature death, disability, and health problems as well as save for their children's college education and their own retirement. Can a market with 52 million households who understand these needs help the industry grow sales? The answer is maybe ... or maybe not.

Middle–market consumers have many other expenses competing for their dollars and companies need to understand the competition for this market's limited financial resources along with the choices households make for immediate pleasures–a family vacation, opportunities for children to play sports or a musical instrument, purchasing a new car or the latest electronic device.

This article, adapted from LIMRA's new Is There Magic in the Middle Market?–Maybe, Maybe Not research study (see side box), focuses on U.S. consumers' financial goals and priorities, what keeps them from achieving these goals, the amount of money available to spend, and the trade–offs made when there is not enough money for everything they desire. This information can help companies to better understand if their products and services will be among the winners when middle–market households decide where to spend their limited financial resources.

Their Financial Security Goals

Middle–market households want it all. Their financial goals include having:

- Enough money for a comfortable retirement
- Adequate hospital/medical coverage
- Adequate resources to replace income if a primary wage earner can't work
- Adequate life insurance coverage

- Adequate savings for their children's education costs

They may want it all, but they are not accomplishing their desired goals. Few households have achieved four of the six protection and accumulation goals they indicate are important (Figure 1).

Few middle–market consumers feel they have adequate coverage or resources to replace lost income or to pay for long–term nursing care needs. They also don't believe they are on track to having adequate retirement savings or saving for their children's educational needs. The two goals they have been most successful achieving–adequate medical and life insurance coverage–are generally related to workplace benefits. One third of middle–market consumers rely on group coverage from work as their only life insurance coverage. Why haven't middle–market households achieved their financial security goals?

Their Priorities

While middle–market households desire protection and accumulation products, those who have not yet achieved these goals have other priorities for their discretionary dollars.

Dollars spent on financial security products compete for any money left after first paying bills for everyday living expenses and then spending on those unique "extras" that are important to middle–market households. It is especially challenging for middle–market parents to know how to divide available dollars between activities that are important to family life and enjoyment today, while still meeting financial security needs for protection products and savings for the future.

When selling in this market, it is essential that companies and producers understand what is most important to middle–market prospects and what is competing for the dollars you may ask them to spend on your products.

So, how did six industry–related protection and accumulation goals stack up against the overall financial needs of middle–market households?

Unfortunately, the answer is not very well. The middle market may say their goal is to have adequate insurance protection, but buying that protection is not a top financial priority for them.

Respondents chose their top–three financial priorities from the goals they had not yet achieved from an original list of 20 possible goals. These are the six goals that got the most top–three votes from the goals each household had not yet accomplished:

1. Having enough money to start a family
2. Saving enough money for a comfortable retirement

3. Paying off credit card debt
4. Buying a home
5. Having enough money to meet monthly living expenses
6. Having adequate savings for an emergency

The only financial security goal among the middle market's top unmet priorities is saving enough money for retirement (Figure 2). Financial security goals remain unfulfilled because middle–market consumers spend their money on other life expenses that have higher priority.

Why did life insurance fare so poorly?

Only 7 percent of those for whom adequate life insurance is an unmet goal consider it a top priority. Since 3 in 4 households already have some life insurance, buying additional coverage may drop in overall financial priority since there is some insurance coverage already in place if something happens. But it may not be enough coverage.

Companies may want to communicate how their products can help middle–market households achieve their top priorities, such as paying off credit card debt which may become extremely difficult if someone in the household dies. Show how life insurance can help to ensure the debt is paid off in that situation.

What priorities are more important than life insurance?

The top priorities of households that have not achieved their goal to have adequate life insurance are to:

- Have enough money to start a family
- Be able to cover monthly living expenses
- Pay off credit card debt
- Save enough money for a comfortable retirement
- Buy a home
- Have emergency savings

Their top goals are not all that different from the top priorities of other middle–market households, including those who feel they already have adequate life insurance coverage. Other financial priorities just beat out purchasing the life insurance these households still say they need.

Little Spent on Life Insurance

Many middle–market households have not accomplished their goal to have adequate life insurance coverage despite believing life insurance to be an important necessity. In reality, middle–market households are not well protected against premature death, and spend very little of their total income on life insurance.

Belief in Life Insurance

They do think life insurance is an important goal. When asked if they consider life insurance to be a "necessity that you cannot do without or an extra that you could do without," 73 percent of middle–market consumers and 83 percent of parents say life insurance is "a necessity." Yet, 31 percent of all middle market households and 37 percent with dependent children admit they currently don't have enough life insurance.

Current Ownership

More than half of middle–market households have no individual life insurance coverage. Households with individual life insurance are more likely to have term coverage than permanent coverage (Figure 3).

Amount Spent

Middle–market households don't spend a lot of their budget on life insurance, averaging only $766 and a median of $500 annually for all individual policies and any group life insurance where they pay all or some of the premium. This equals only 1 percent of their household income. Producers can use the middle markets' strong belief in life insurance and their realization that they are underinsured to help them establish life insurance as a top financial security priority.

Competition for Limited Financial Resources

Given the competition for middle market consumers' limited financial resources, LIMRA wanted to gain a better understanding as to how they allocate dollars to one priority or another. In the study, respondents were given a hypothetical $1,000 budget to spend on accumulation and protection products. When making their selections, respondents were asked to answer as if they currently owned no protection products and had no savings accumulated in order to remove any influence from already having insurance coverage or savings.

The exercise was structured in a way to make sure that respondents did not have enough money to fund everything offered, which is the reality for many middle market households. It forced them to make trade–offs, and choose what was most important to them given their current family situation, and each household did spend their money in different ways. The exercise was done on the Internet with a calculator always visible to show what had been spent and what was left of their $1,000 budget. So how did they spend a specific budget across accumulation and protection products?

Almost all households allocated some of their $1,000 financial budget to savings, mirroring middle–market consumers' selection of saving enough for a comfortable retirement as one of their top–three financial priorities.

But, the median amount put into a retirement account was only the $150 minimum that the exercise designated was needed if they wanted to participate in a retirement savings plan, while $70 was the median amount deposited into a savings account that had no minimum deposit requirement (Figure 4).

Medical/health insurance was purchased by 9 in 10 middle–market households despite having to spend the largest proportion of their limited budget for coverage.

One in four households chose to spend the extra $50 for the more expensive no–deductible policy, possibly trying to minimize their out–of–pocket medical expenses.

But, given their limited budget, the money might have been better used elsewhere. For example, the extra $50 could have been used to increase their contributions to retirement savings, a top financial priority, which they are behind schedule accomplishing. In reality, 16 percent of middle–market households have no retirement savings at all and the 71 percent of households with defined contribution plans (401k, 403b, 457) have only modest amounts in their accounts–a mean of $62,900 and a median of $30,000.

Dental coverage has been a popular voluntary benefit in recent years, and two thirds of middle–market consumers selected the coverage, while only 55 percent chose vision coverage even though it was the least expensive option in the exercise, costing only $5.00. Consumers, through experience, may realize that vision plans pay limited amounts for eye care services.

This exercise helps illustrate the importance of life insurance to middle–market consumers. When starting with no insurance coverage at all, 72 percent chose to use some of their financial security budget to buy life insurance. Households buying life insurance selected from three coverage options: 30 percent selected the least expensive option and bought coverage equal to one times income, 24 percent chose coverage of two times income, and 18 percent chose the maximum coverage of three times income. In comparison, only half the households used their budget to purchase disability income insurance even though every household would lose significant income if a primary wage earner was unable to work.

Most middle–market households decided to forego long–term nursing care insurance when their allocated budget could not cover everything. This is probably because many are young–average age 42–and LTC coverage was fairly pricey at $100. Twenty–nine percent of the oldest households, ages 55 to

64, decided to use a share of their $1,000 budget to purchase long–term care coverage. According to LIMRA's U.S. Individual and U.S. Group Long–Term Care Insurance Studies, the average purchase–age for long–term care insurance buyers is 57 for individual products and age 47 for group purchasers.

Challenges Exist...

Middle–market consumers may understand how important it is to protect their families against premature death, disability, and health problems, and save for their own retirement, but they procrastinate in accomplishing these goals. What's stopping them from achieving their financial security goals?

Low Priority of Financial Security Goals

Middle–market households that have not reached their goals to have adequate insurance protection and to accumulate adequate retirement savings and children's education funds opt to spend their money elsewhere. They may not be proactive about putting available dollars toward financial security products without the industry intervening to help them plan what to buy, how much to buy, and when to buy.

Being Non–Savers

A non–saving mentality keeps some middle market households from achieving goals of saving enough for their children's education and their own retirement. Saving regularly is not a way of life for more than half the middle market–26 percent don't save at all, 32 percent save only whatever is left after paying bills and buying items they want, and only 42 percent set aside specific amounts to save for specific financial goals such as retirement, education, vacations, or major purchases.

Being Debt Burdened

The need to pay down high debt delays some middle–market households from pursuing their financial security goals. Half of middle–market households say their debt payments limit their ability to fund their financial goals, and 27 percent believe it to be the #1 reason they haven't yet obtained their financial goals. Sixty percent of middle–market households carry a balance on their credit cards from month to month, and 42 percent of young households, ages 25 to 34, are paying off student loans. Middle–market households' non–mortgage debt averages $21,200 with a median of $12,500.

Current Economy

The current financial climate will exacerbate the challenges the middle market faces in having enough discretionary dollars to fund all financial goals.

The housing collapse and financial industry bailouts were not yet on the horizon at the beginning of 2008 when the middle–market consumers were surveyed, yet they already had high debt, low savings, and were behind schedule in accomplishing their top financial goals. The uncertain economy can be leveraged by producers to show consumers how important it is to protect against risks such as lost income and illustrate how important it is to get their finances in order now.

Opportunities Exist as Well

The magic of the middle market as future customers is not only their large numbers, but that they understand the importance of financial security products. They have long–term goals to obtain adequate protection against death, disability, health care costs, and they want to save for retirement and education for their children.

But, they are way behind on achieving these goals–providing companies and producers with the opportunity to reach out to middle–market households to help them obtain their financial security goals. It is important to understand the types of financial risks the middle market is most concerned about and why they desire to speak with financial professionals so appropriate products and services can be used as door openers.

Need Your Help to Identify Financial Goals

It is difficult to plan and know what products to buy when you are uncertain about your financial needs. Forty–four percent of all middle–market households and 54 percent of those between ages 55 to 64 and 51 percent of women admit they are "uncertain about their own financial needs."

Middle–market households believe they need to protect against loss due to death, disability, illness, and accident while also accumulating funds for retirement or education; but 26 percent say they don't know how to reach their financial goals and this is where companies and producers can step in and help.

Desire Information About Financial Products

Seventy–two percent of middle–market consumers want to speak with a professional about at least one financial product or service. They most want to talk with a financial professional about:

- A lifetime income plan (41%)
- A retirement savings plan (40%)
- Setting up a will (35%)
- A debt reduction plan (29%)
- Investment advice and product information (28%)

- A plan to protect income if a wage earner becomes disabled (24%)

Parents want professional advice about a child's education savings plan (28%). Single parents are the most likely to want information on life insurance products (18%). And almost half (48%) of middle–market households think it is important to get a life insurance check–up every year or two.

Many Consumers Prefer to Buy Without Meeting Face–to–Face

It has been a huge challenge for the industry to reach middle–market households through profitable distribution methods. While the majority wants to meet face–to–face, today many middle–market consumers are not just willing but prefer to buy financial products without a face–to–face meeting, presenting the industry with opportunities to reach middle–market households through more cost–effective means. More than half of middle–market consumers want to purchase auto insurance through either the Internet or direct by mail or phone (Figure 5). If they were in the market for life insurance or long–term care insurance, more than 4 in 10 consumers say they would prefer to buy without meeting face–to–face with a financial professional. Buying insurance on the Internet is especially popular with consumers under age 35 while purchasing through the mail or phone is most popular with consumers ages 55 to 64. Consumers still prefer to meet face–to–face with a professional for complex planning activities–8 in 10 when doing estate planning and 7 in 10 when developing a retirement income plan.

Innovation Equals Magic

Can middle–market customers provide those "magical sales numbers" to produce extraordinary results for your company? Despite the size of this market, it will not be easy. Companies are competing for limited discretionary dollars that the market prefers to spend elsewhere–particularly on items with more immediate gratification. But, the opportunity for the industry lies in the fact that the middle market realizes they need your products. People care about their families and want to provide for them if something should happen. It is that love for their families that motivates them to purchase. Companies that find innovative ways to communicate with middle–market households about how to reach their financial security goals can reap the benefits of the magical numbers of this market segment.

Cheryl D. Retzloff, LLIF, ACS, is Senior Research Director, Markets Research, for LIMRA. She can be reached at cretzloff@limra.com.

475 North Martingale Road, Suite 600 Schaumburg, Illinois 60173
Phone: 847.706.3500 Fax: 847.706.3599 www.soa.org