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In Search Of The Industry's Holy Grail: Penetrating The Middle Market

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Introduction

Perhaps the biggest story in the life insurance industry over the past decade has been the growing underinsurance of the U.S. household population. Life insurance ownership is at an all-time low, and this problem is most acute in the middle market.

Theories abound as to why life insurance seems to have fallen out of favor with this segment of the market. One, of course, rests with the economy and the fact that many middle market households have fewer discretionary dollars available to purchase the product. Another is that consumers have more pressing financial challenges, such as debt reduction and/or saving for retirement. A third is that the consuming public has simply become indifferent toward life insurance, and would rather direct their discretionary spending to vacations and/or other consumer goods. Add to these some of the more traditionally cited reasons such as changing personal values, the increasing incidence of dual-wage-earning families, and the role of employer-sponsored group life insurance, and it is easy to make the case that this phenomenon is consumer driven.

However, others place the blame with the industry itself. A commonly heard lament is that this situation is directly a function of the decline in the number of agents selling life insurance, as many companies have exited the career agency distribution system over the last several decades. A related criticism of the industry is that it hasn't been successful in communicating to the middle market both the necessity of life insurance as well as its affordability. Some also point to the industry's compensation system, which makes it difficult to earn a living exclusively serving the middle market, and drives agents to the affluent and/or business markets. Finally, the industry has been criticized for being slow in offering new ways in which the public can access its products.

Yet, despite all the debate and attention focused on this issue, little progress has been made in improving this situation from when it first began to appear years ago. The challenge to better serve the life insurance needs of the middle market is as great as, if not greater than, it has ever been.

Existing Research on the Middle Market

While many theories have been put forth to explain the decline in life insurance ownership in the middle market, this subject has also been the focus of numerous research studies over the years. These studies have attempted to understand this market and offer suggestions as to how the industry can be more effective in serving its life insurance needs. This market is so large that even a small improvement in the industry's effectiveness in penetrating it can make a big difference.

Some of the existing research studies on the middle market have treated the market as an undifferentiated whole, defining the market according to a set of income parameters (e.g., $35,000 to $125,000), and surveying any household falling into this income level without concern for any other factors (e.g., age). Under this approach, it is difficult to glean marketing insights from the results, as mixing various types of middle market households together tends to wash out any unique differences that might characterize a specific segment of the market.

Moreover, the questionnaires used in such research approaches have to be very general in nature so as to be relevant to all segments of the market, and can't be expected to provide suggestions for detailed marketing prescriptions.

These types of studies might be perceived as "PR research" as opposed to true "market research." That is, their purpose is to generate publicity for the industry, and at best hopefully cause consumers to think about the adequacy of their life insurance coverage and/or motivate agents to call on this market. Supporting this perception is that many of these types of studies, typically commissioned by individual companies, often appear in September of every year, to coincide with Life Insurance Awareness Month.

However, there has been a growing recognition that there needs to be greater segmentation of the middle market if any progress is to be made in serving its life insurance needs. For example, one industry marketing executive recently stated: "[The industry] needs to take a more tailored approach to different groups within the middle market…." and "Advisors can't make the mistake of viewing the middle market as a monolithic block. One size doesn't fit all; you need a segmented approach."[1]

Increasingly, the middle market has been subject to greater segmentation research, but the majority of these approaches have been demographic and/or life-stage analysis using variables such as age, gender or presence of children. Such approaches have been very helpful in better

[1] Mark Hug. Closing the Middle-Market Life Insurance Gap. *LifeHealthPro,* Sept. 17, 2012.

targeting the relative need for life insurance coverage in various consumer segments; yet generally the results from these approaches do not describe differences in how these various consumers want to buy and/or the messages for life insurance that resonate with them.

Finally, in an attempt to understand the middle market's mentality relative to life insurance, many of these studies omit, or do not fully address, the role played by supplemental individual life insurance obtained at the workplace, either through traditional enrollers or simpler "check the box" marketing methods in which employees simply sign up for supplemental coverage during benefits enrollment time.

Given all of the above, much of the past research on the middle market does not provide enough specific direction in how to be more efficient and effective in approaching and selling to this market. Instead, most of this research produced broad generalities in how to better penetrate this market. These suggestions include such concepts as:

- Better educating the public about the need for life insurance
- Better educating the public about the affordability of life insurance
- Motivating agents to spend time calling on middle market households
- Providing new ways in which the public can access the industry's products (e.g., online).

Clearly, all of these are laudable actions. But when it comes to marketing, they are best described as being necessary but not sufficient to achieve success in penetrating the middle market. For that, a deeper understanding of the life insurance attitudes, needs and buying behavior of this market is needed.

A New Approach to Understanding the Middle Market

It is against a backdrop of wanting to provide "actionable" research for the industry to help better serve the life insurance needs of the middle market that the Marketing & Distribution Section of the Society of Actuaries (SOA) commissioned WZ Research + Consulting, LLC to take a fresh look at this market by extending existing segmentation research. This research effort was also supported by the Product Development and Reinsurance Sections of the SOA, and the SOA Committee on Life Insurance Research.

The objectives of this project were to develop a new way of thinking about the middle market, to develop a new way of segmenting this market, and to develop actionable approaches that can be utilized to sell and service this market more efficiently and effectively. The approach was to focus on developing insight that would directly impact the types of products developed for the middle market consumers, their motivations for buying, the messages to which consumers respond, and the ways in which they would like to purchase.

After reviewing existing research on the middle market, the SOA Project Oversight Group (POG),[2] which provided oversight of this work, decided to utilize a two-stage segmentation approach in this effort. First, instead of viewing the middle market as an undifferentiated whole defined only by household income, a decision was made to divide the market into logical segments on an a priori basis, and conduct in-depth market segmentation analyses within each segment separately. Since young families is the segment that often comes to mind when one thinks about life insurance and the middle market, this was the segment chosen for further in-depth analysis in the first phase of this program of middle market research.

Second, instead of the traditional segmentation studies of this market conducted using factors such as demographics and life stage, the POG decided to base its segmentation on attitudes and buying behavior specific to the purchase of life insurance. Again, while demographic and life-stage segmentation approaches are useful in determining the life insurance needs of various middle market segments, this effort started with households that have dependents (and arguably a need for life insurance coverage). The primary focus was on understanding

[2] Members of the POG were:

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their life insurance attitudes and buying behavior. It was the POG's view that this approach would be the most fruitful in leading to specific suggestions on how to better penetrate the middle market.

Mathew Greenwald & Associates, Inc. was selected to conduct this segmentation analysis, and utilized the consumer panel maintained by Research Now for the fieldwork. The sample for the study comprised 1,000 primary financial decision makers in households where one of the heads was age 25 to 40, and, in keeping with a traditional middle market definition, all had household incomes between $35,000 and $125,000. All also reported having at least one dependent in the household, which could have been just a spouse. "Families" in this study were not limited to those with children, but were rather defined by the presence of a dependent.

Given this, it is not surprising that the majority of respondents in the study owned some individually purchased life insurance, and numerous instructions were included as to exclude those households who only owned employer-sponsored group life insurance. A small number of respondents were included who reported having no dependents, but had purchased individual life insurance. All respondents completed an 18-minute online survey, which was conducted between Aug. 6 and 13, 2012.

The market segmentation approach utilized was a standard (K-means) cluster analysis, which, in statistical terms, attempts to maximize variation between the identified segments and minimize variation within each segment. Market segmentation, in general, is often a "roll of the dice" in that the goal is to develop segments that are both statistically robust AND that make sense from a marketing point of view. Often neither or only one of these objectives is accomplished. In this study, both objectives were achieved.

The analysis resulted in three statistically strong types of middle market young families. There was also little difference among the three segments in terms of things such as income, education, employment status, health status, mortality expectations, attitudes toward life insurance agents, and perceptions of the adequacy of their life insurance coverage (all needed more). This is important because it shows that none of these segments were simply surrogates for some underlying demographic factor.

Three Segments of Middle Market Young Families

The entire results of the study are summarized in a 57-page report titled “Society of Actuaries Middle Market Life Insurance Segmentation Program (Phase 1: Young Families),” which can be found on the SOA website. The purpose of this white paper is not to rehash these results, but rather to suggest how these results might be utilized in companies’ marketing efforts aimed at middle market young families, and to discuss some general questions and issues raised by the research. However, a brief overview of these segments is necessary in order to set the stage for the discussion that follows.

As mentioned above, the market segmentation analysis employed resulted in three distinct segments. These three segments were titled: “Opportunistic Buyers” (39 percent), “Planners”

(35 percent) and “Protectors” (26 percent). What follows is a brief description of each of these segments.

Opportunistic Buyers

- Do not have a strong belief in the need for life insurance
- Buy because an appealing offer was made to them
- Are price-sensitive buyers of life insurance
- Have less coverage than the other two segments
- Are the least likely to plan to buy life insurance in the near future
- Are the least likely to be planning for the future financially
- Are the least likely to seek the advice of an agent or advisor
- Are less likely to have children
- View saving for retirement as more important than buying life insurance
- Are most likely to view their employer-sponsored group life insurance as sufficient
- Often buy at their place of employment
- Nearly half of Opportunistic Buyers were motivated to buy because of a new job

Planners

- Express the most positive attitudes regarding the need for life insurance
- Are the most likely to appreciate the lifetime value of life insurance
- Are more likely to buy life insurance as a part of a financial plan
- Value the role of life insurance agents and advisors

- Are the least likely to view life insurance as serving a temporary purpose
- Are more likely to own permanent life insurance
- Are more likely to buy for general "peace of mind" or because it's the "right thing to do"
- Are somewhat more likely to be female

Protectors

- Express positive attitudes regarding the need for life insurance
- But believe life insurance only serves a temporary need
- To Protectors, life insurance is not part of a lifelong financial plan
- Are most likely to purchase life insurance based on specific needs
- Life insurance purchases are typically life-event driven (e.g., birth of a child, marriage, the purchase of a home)
- Are most likely to purchase term life insurance
- Are more likely to buy based on affordability as opposed to price alone
- Are somewhat more likely to be male

Putting This Market Segmentation Approach to Work in Individual Companies

The development of a segmentation approach for purposes of better understanding the life insurance attitudes and buying behavior of young middle market families is clearly not an end in and of itself. Rather the ultimate goal of market segmentation is to develop a system that can be used prospectively in differentiating groups of young families that can be approached in different ways, with different products, and utilizing different messaging. In short, the end goal is to create more effective and efficient marketing approaches instead of the “one-size-fits-all” approach that has been used too often in the life insurance industry’s marketing efforts.

Applying the questions upon which the market segmentation was developed, consumers can be categorized into various groups. These questions could be asked by an agent during an initial interview/fact finder, by a call center representative during an initial call, or answered directly by the consumer on a company’s website when requesting life insurance information. Using this information, companies can be more specific in their marketing efforts, directing targeted messaging and products to the most receptive segments of young families in the middle market. This information can also contribute to the development of tools and training for agents, and the development of marketing materials that speak more directly to a specific consumer’s mentality regarding life insurance.

Suggested Marketing Actions Based on this Segmentation Approach

What follows is a listing of marketing actions that companies might consider. It should be emphasized, however, that these are merely suggestive of possible actions based on the research. They are not meant to be prescriptions nor exhaustive in nature. Every company must decide what it can or can’t implement based on its target markets, product set, distribution system(s) and overall marketing strategy. These suggested marketing actions are organized according to our three market segments: 1) Opportunistic Buyers, 2) Planners and 3) Protectors.

1) Opportunistic Buyers

- Of all the segments, general education regarding the value and need for life insurance is best spent on the Opportunistic Buyers. It is wasted on Planners and Protectors, as they already recognize the value and need for life insurance, albeit for different reasons.
- Needs analysis is wasted on the Opportunistic Buyers. Instead, it is better to emphasize price and the fact that the product being offered represents a “good deal.”
- When dealing with Opportunistic Buyers, they should be encouraged to buy as much as they can at their workplace (similar in concept to encouraging an investor to maximize his/her employer’s 401(k) match first). These buyers are convinced that this is a good deal, and it is not worth the time trying to disavow them of this belief.
- Instead of competing with their purchasing at their place of work, look to sell them additional coverage by making them consider the fact that this coverage might not easily follow them if they change jobs—which is very likely in today’s day and age. At a minimum, the ability to continue paying for the policy via payroll deduction would disappear.
- Companies that employ workplace marketing should work to overcome the temptation to view such sales as ends in and of themselves. Rather, they should look at such sales as the start of a longer relationship, and seek opportunities to make additional sales to these buyers over time.
- Since many of these Opportunistic Buyers have yet to experience major life events, they might be on the verge of “morphing” into other segment buyers (e.g., on the birth of a child) as they experience major life events. At the risk of overgeneralizing, a Protector

discussion focusing on specific needs to be covered might be more appropriate at this point for males. For females, a Planner discussion emphasizing the lifelong need for life insurance and/or general “peace of mind” may be more appropriate.

- In working with companies’ human resources (HR) departments, it might be possible to identify Opportunistic Buyers on the verge of morphing into one of the other segments.
- In developing leads for agents, leave the Opportunistic Buyers off the list.

Based on these findings, for example, a company selling supplemental individual life insurance at the workplace would be advised to take steps to build a deeper relationship with its buyers. This could include providing them with periodic information about life insurance and other financial matters (with the approval of the sponsoring employer), reinforcing the wisdom of their workplace purchase, and providing them with a call center representative to discuss their needs. Attempts should also be made to identify major life events, which may cause them to “morph” into a Protector, thus opening up additional sales opportunities. The key here is in thinking about these workplace buyers as the customer (an individual life insurance model), not the employer who is sponsoring the benefit (a group life insurance model).

2) Planners

- Don’t emphasize the purchase of life insurance in response to major life events
- Do emphasize needs analysis and the role of life insurance over the course of one’s lifetime

- Discuss the value and role of life insurance within the context of the consumer's total financial picture
- Emphasize the emotional side of the sale—i.e., that it's "the right thing to do" and/or that life insurance provides "peace of mind"
- For young Planner families unable to afford anything other than term life insurance, discuss a program of planned term conversions as their incomes and assets increase over time
- Reinvigorate product ideas that have fallen out of popularity in recent years—e.g., graded premium life and guaranteed future insurability options
- Given no additional information about a female prospect, assume she is a Planner

Agents working in a Planner household should avoid the temptation to launch into a discussion of major life events in an attempt to close the sale as quickly as possible. While responding to the Planner's desire for a broader discussion about the lifetime value of life insurance may take longer, it is likely to result in a stronger agent-client relationship that has staying power over time. A special challenge, requiring the agent's sensitivity, is when the husband in a married couple is a Protector and his wife in a Planner. The key here would be to meet the Protector's need for temporary protection within the context of a lifetime life insurance plan which provides "peace of mind." As mentioned above, the concepts of a planned term conversion program and a graded premium product could clearly play a role here.

3) Protectors

- Don't discuss needs analyses and the value of life insurance over one's lifetime
- Do emphasize the value of life insurance in providing income protection when the subject is triggered by major life events
- Be vigilant for future life events, beyond the usually mentioned ones of marriage, purchase of a home, or birth of a child, that may trigger interest in additional life insurance (e.g., a divorce, job change, death of a parent)
- Discuss with them the reality that many in their 50s and 60s today have term life insurance that is expiring before their need for it has passed.
- Consider new product designs that fit this segment—e.g., "term to age X" with an option to renew for X number of additional years on a guaranteed issue basis
- Discuss term conversion as an option for the future
- Given no additional information about a male prospect, assume that he is a Protector

A company utilizing direct response marketing methods could identify Protectors via questions on their website, and the answers to these questions would direct them to a special "landing page" that speaks specifically to the needs of this segment. (Other pages would be developed for the Opportunistic Buyers and Planners.) When the Protector client calls the company for information, the call center rep's screen would read "Protector," and the rep would get a specific script for this segment. (A similar process would be followed for the other two segments.) This addresses one of the biggest concerns of call center reps, which is that of finding the “hook” for the client within the first 15 seconds of the conversation. The script for this client would emphasize major life events, and would stay away from a needs analysis and/or any discussion of the lifetime value of life insurance.

General Observations and Questions Raised by the Research

Finally, in addition to the insight provided by this segmentation analysis, this research also raised some more general observations and issues relating to the industry’s marketing efforts. These are discussed below:

1) The Role of Workplace Access to Life Insurance

   As mentioned earlier, previous research studies tend to focus on buying through agents, and overlook or minimize the role that workplace access and purchasing of life insurance plays in the public’s ownership of life insurance, especially among young families. However, this research suggests that, whether it is through a traditional enroller approach or “check the box” marketing, workplace access for purchasing life insurance plays a major role. Specifically, when asked how they had made their most recent purchase of individual life insurance, 39 percent of the survey respondents indicated that it was at their place of work. This was the same as those indicating that they had purchased from an insurance agent. Moreover, when asked about how they might purchase life insurance in the future, nearly one-third (31 percent) responded “at work.” This was the same percentage who said that their next life insurance purchase would likely be from an insurance agent.

2) Has Workplace Marketing Been Good or Bad for the Industry?

Opportunistic buyers, many of whom have purchased at their place of employment, have the lowest average ownership of all the segments. Yet they are the least likely to report that they plan to buy life insurance in the future. While they recognize that their coverage is insufficient, as do about half of the survey respondents, they are the least motivated to do anything about it.

One wonders whether supplemental coverage purchased at the workplace gives these young families a false sense of security regarding the adequacy of their life insurance coverage. And with a younger generation that frequently changes jobs, a significant percentage of this business sold to younger buyers is likely to lapse, once the ease of payroll deduction disappears.

On the one hand, it can be viewed that life insurance sold at the workplace cannibalizes or short stops the opportunity to analyze the life insurance needs of these young families and get them started on an adequate program of life insurance. On the other hand, given the aging of the agent population, many of these young families are likely not being called upon by agents to analyze their needs. Thus, it can also be argued that the opportunity to buy some amount of life insurance coverage at their place of employment is better than having no opportunity at all.

This is really a moot issue, though, because the more important question is how companies can capitalize on the attitudes and buying preferences of this market segment to provide them with the appropriate amount of coverage that they need. This will be discussed in greater detail in the following section.

3) Has the Industry Created the Protector Segment?

Most of those close to the life insurance business would likely agree that there is value in having life insurance across the entirety of one's life. Getting consumers to understand this and to channel dollars into a program of permanent life insurance, however, is another challenge. Thus, it is not surprising that many of the industry's marketing activities are geared to specific temporary needs surrounding major life events such as marriage, the purchase of a home, or the birth of a child.

One has to wonder whether the Protector segment, which is very clear and distinctive in its life insurance attitudes and buying behavior, is predisposed to this mindset. Or, was this mindset molded by our industry's marketing efforts? Of course, it is not just the industry's marketing efforts that may have contributed to the creation of this Protector segment. In recent decades, since the Federal Trade Commission (FTC) report in 1979 that blasted the value of permanent life insurance, there have been numerous financial “experts” advising the public to only buy term life insurance or to “buy term and invest the difference.”

This is not to suggest, of course, that the industry shouldn’t make efforts to convince consumers to buy life insurance on the occurrence of major life events that create the need for life insurance coverage. This is especially true for young families who have the need for significant amounts of coverage, but don’t have the resources to buy permanent life insurance. So, in a sense, this question as to whether the industry has created the Protector segment is also a moot question.

The criticism for the industry, however, comes from viewing the purchase of life insurance triggered by one or more major life events as an end in and of itself, and not communicating the need for life insurance throughout one’s lifetime, and/or doing a better job in helping young families transition from temporary life insurance coverage to more permanent life insurance coverage.

Our marketplace today is replete with individuals in their 50s and early 60s who “bought term to invest the difference.” Many of these individuals, of course, either did not invest the difference, or saw their investments decline significantly with the Great Recession. These individuals need to continue working, relying on their incomes for their continued financial security, and are rightfully looking to protect this income with life insurance. However, the term life insurance that they purchased 20 or 30 years ago when they were a young family is now expiring before their need for it expires. Their situations may also be exacerbated by disappearing employer-sponsored group life insurance if they recently suffered a job loss, and/or had to take a lower paying job which leads to a lower group life insurance benefit.

4) Is Simplified Issue a Requirement for Success in This Market?

It wasn't long ago that simplified issue approaches to the underwriting of life insurance were the province of companies who were primarily writing small face amount policies in specialty markets (e.g., final expense life insurance for seniors). With the revolution that has occurred in recent years in life insurance underwriting, simplified issue has migrated into the mainstream of the life insurance business for both larger face amount policies and for basic household protection life insurance. Is this a fad or a trend that is here to stay?

Based on this research, the answer would seem to be the latter. While only about half of the survey respondents indicated that they are aware of simplified approaches to the underwriting of life insurance, nearly three-quarters (72 percent) expressed interest in buying life insurance on a simplified issue basis when it was described to them. Both awareness of, and interest in, simplified issue were greatest among the Protectors.

Interest in simplified issue among young families is not surprising given that other research has shown that consumers are largely attracted to the ease and convenience that it provides in the purchase process. This should be attractive to busy young families. Also, unlike older consumers, young people today are generally healthier and don't see doctors as often as older individuals or might not even have a personal physician. Thus, the interest in simplified issue is not driven by the desire to hide a medical condition, but simply to avoid the hassle of going to a doctor.

However, it should be recognized that 68 percent of these young family respondents said that they would not be willing to pay more to buy a policy that did not involve the need for a medical exam. Twenty-three percent indicated that they would pay 5 percent more, and only 7 percent said that they would be willing to pay from 10 to 14 percent more. There were no significant differences across the three segments in this regard. As with many consumers in the general market today, these price-conscious young families would rather "give blood than money" if they knew, everything else being equal, that simplified issue was more expensive than a fully underwritten product. Given that simplified issue seems to be here to stay for buyers in this segment of the market, companies need to manage the issue of offering both simplified issue and fully underwritten policies at the same face amount.

5) Is Online Purchasing the Key to Penetrating the Young Family Market?

One of the suggestions of some research and thinking regarding the young family market is that young consumers want to acquire their life insurance online without human intervention, and for some in the industry, online purchasing of life insurance is the key to solving the underinsurance challenge in young middle market family households.

It is certainly true that young middle market family households look to online sources for acquiring information about life insurance. When asked specifically where they would go to get information regarding life insurance products and costs, 68 percent indicated “online.” This was significantly higher than the next highest rated source, which was “a life insurance agent” at 53 percent. However, when it comes to their last life insurance purchase, only 4 percent said that they acquired their coverage “online without working with an agent.” Moreover, when asked how they might purchase life insurance the next time they needed it, only one in 10 (13 percent) indicated that they would likely buy it “online.”

Even among the Opportunistic Buyers who are the most price-conscious of the segments and value ease of purchase, only 2 percent had purchased their last individual policy online, and only 12 percent indicated that they would purchase online the next time they went to purchase life insurance. Yet this segment was the highest (72 percent) in reporting that they would most likely use online sources to seek information about life insurance products and costs.

This is understandable because only 16 percent of our sample (which, recall, had already purchased individual life insurance) reported that they are “very knowledgeable” when it comes to the product. One out of five (21 percent) indicate that they are either “not too knowledgeable” or “not at all knowledgeable” regarding life insurance. Thus, in young middle market family households, there is still a desire for some human intervention when it comes to the actual purchase of life insurance.

Yet there is a trust problem when it comes to dealing with traditional insurance agents and financial advisors. When asked about the major reasons why consumers choose not to buy from insurance agents and financial advisors, the primary reason given was that agents and advisors “look out for their own interest” (43 percent). Other top reasons were that consumers “don’t want someone calling on them” (36 percent) and that consumers are intimidated by the process (34 percent). Finally, one-third (31 percent) indicated that agents and advisors “make too much commission.”

This is not to say that online buying methodologies won’t emerge to the point where they can replace human interaction in terms of educating and advising buyers regarding life insurance. However, this does not yet appear to be the case. For the time being, the best of both worlds would seem to reside in marketing methodologies that combine an online component for purposes of education and information with an easy and low-pressure means of asking questions and completing the sale (e.g., an inbound call center staffed with noncommissioned sales representatives). Of course, this approach might not be optimal for the Planner segment that may desire human interaction every step of the way, such that they would receive from an insurance agent or financial advisor.