Tapping the $12 billion life insurance middle market opportunity

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Leaving money on the table is never wise. Especially when it numbers in the billions.

Yet, that is exactly what life insurers are doing by ignoring the untapped middle market.

Life insurance is one of the rare industries still to broadly enter the direct to consumer (D2C) market. Agents sell to clients as they have for decades, serving as the main driver of new business for insurance giants.

The agent-based model has typically focused on more affluent customers, focusing far less on the middle market. Carriers have found it difficult to get the economics right when they pursue less affluent segments. However, most of the recent U.S. population growth has been in the middle and low income segments, which remain underserved.

Today, only 44 percent of the middle market, which includes over 52 million U.S. households, owns life insurance.¹

Turning a blind eye to this market leaves a $12 trillion gap in protection for U.S. middle market consumers. Insurers who focus on this market stand to gain revenues of $12 billion and profits of half a billion dollars annually.²

The underserved middle market is hardly a secret within the industry but two factors have now tipped the scale. Changing consumer behavior and advances in digitization make a profitable middle market customer strategy possible.
Debunking the cannibalization myth

The key to tapping this $12 billion market is to sell directly to it, eschewing the traditional agent-based model for this customer segment.

Some insurers balk at the D2C approach, feeling it will cannibalize their agents' existing business, causing an exodus of some of their best revenue producers.

It will not.

Because traditional agency channel sales and customer segments have largely ignored the middle market, the D2C route simply facilitates new revenue generation versus eating into established agent streams.

Many of these middle-market consumers, particularly Digital Natives, prefer to interact on their own terms via online, call center or a combination of channels. Eighty-two percent list the ability to provide an online quote as an important factor in purchasing decision, while almost 90 percent list access to information and service via a mobile app as important. This demographic prefers swimming in digital waters. Properly communicated to agents, D2C opens up a direct revenue stream for carriers without infringing upon agents' primary markets.

Insurance companies, while noting the shift in
generational demographics, have been slow to act, but not solely due to cannibalization fears. The traditional triggers for life insurance (marriage, having children) are occurring later in life or not at all, and life insurance must compete with other bills such as student loan and credit card debt. Some insurers plan to move forward despite the challenges. The average life insurance executive expects 26 percent of sales to be concluded digitally from start to finish in three years’ time.4

To meet that goal, some insurers are teaming with formidable technology companies. Ping An is a prime example; it has partnered with Alibaba and a Chinese social media firm to create an online insurance company. Currently, 10 percent of Ping An’s clients use mobile services. It aims to increase this number to 70 percent in five years by launching more mobile apps.5 Approximately 46 percent of insurers are looking externally to drive similar digital innovation, working with start-ups and external partners, or have made doing so a priority.6

Digital D2C enables the self-service these types of cross-industry partnerships offer.

One in four life insurers expect sales concluded digitally from start to finish in three years’ time.
Digital enables a changing product mix for a changing consumer

As insurers enter the digital realm, they must redesign the product mix for an audience that may not fit their traditional client profile. Even traditional clients' expectations have changed, as they compare their retail or banking experiences to those within the insurance realm.

Fortunately for insurers, recent advances in digital technologies foster selling a simple, customized mix directly to consumers—allowing tailoring not only to varying segments, but to very individual needs.

Millennials comprise a key D2C segment. The newer insurance client is a young, middle-market consumer, digitally savvy and more than willing to buy insurance without a middleman, embracing the self-service approach. In addition, this is an educated consumer segment. Approximately 84 percent of the young middle market rate life insurance as extremely or very important, and are willing to spend more on it. Whether they make that spend depends upon how successfully insurers can become more interactive with this customer segment—as well as how successfully they can package simple products to show value.

More recently, insurers have begun to target clients in or near to retirement. While not traditional clientele, these consumers look at later-in-life insurance as a tool for leaving a legacy; many have significantly under-saved during their working career and want to be sure their families are secure after their death.
The changing consumer warrants a changed product. As consumers demand more engagement, insurance firms are beginning to turn toward “living services.” They are constantly learning more about customer needs, intents and preferences, so that they can flex and adapt to make their products more relevant, engaging and useful. Devices like Fitbit provide a window for insurers to gather customer data at a level previously not possible. This richer, real-time data allows them to tailor a policy that better fits a client’s needs based on lifestyle. John Hancock’s Vitality program\(^8\) compensates policyholders for a healthy lifestyle, incenting a win for the consumer with sound daily practices and a win for the agency in terms of profitability.

As the insurer gathers data on the client’s lifestyle and preferences, personalization increases. In an era where Starwood recognizes guests via a mobile device room key and Spotify recommends music based on past preferences, insurers are subjected to the same high standards of personalization by digital clients. Insurers see this reality; data and analytics is their top technology investment priority.\(^9\)

This personalization may help insurance brands get beyond grudge purchases by consumers. Policyholders typically ‘get it and forget it,’ only interacting with the provider infrequently, such as for address or beneficiary changes. Living services will offer huge benefits to the industry by allowing insurers to build enhanced and ongoing relationships with their customers, albeit in the digital realm. With this new ability to survey and track behavior across environments (and the devices that accompany them), the insurance industry has a huge opportunity to capitalize on the resulting data.\(^10\)
Digital turns economics on its head

Do not confuse D2C with simply a better channel for a targeted market. Rather, it allows for more rapid development of products built for specific lifestyles. This tailoring gives end consumers an array of choices applicable to their needs and situation.

A changing consumer and the rise of digital technologies have created an economic model that varies from the agency model. We believe a D2C model can be profitable for many products attractive to middle market consumers. Figure 1 illustrates a simple economic analysis by contrasting the agent commission costs that are avoided in a D2C model, with the all-in customer acquisition costs of other industries that rely on D2C models.

Figure 1: Insurance commissions vs other industry typical customer acquisition costs (illustrative)

If life carriers can create D2C distribution at similar costs to telecom or credit card companies, these sales will be profitable. For short-term products, economics are more challenging and carriers would need to develop more streamlined, possibly online-only, distribution models.
Direct models such as those set up by MetLife and MassMutual show promise. Similar success stories are playing out in the Asian and European markets. Direct Line in the UK is achieving a double-digit improvement in digital ROI year-on-year. Japan’s Lifenet more than doubled its policies in-force from 2011 through 2015. Run as separate, stand-alone businesses, these operations are more nimble than any large parent company in pushing new products to market.

<table>
<thead>
<tr>
<th>Geography / Insurer</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>MetLife</td>
<td>Direct-to-consumer life insurance channel (online and call center) aimed at the underserved middle market. Targeted products for ‘Young Achievers' &amp; ‘Concerned Moms' and final expense products for ‘ages 45 &amp; older.’</td>
</tr>
<tr>
<td>MassMutual</td>
<td>Incubator approach to place multiple bets through Direct, targeting two niche segments – Final Expense products for Retirees and a start-up HavenLife for Millennials.</td>
</tr>
<tr>
<td>Direct Line</td>
<td>Simple products with quick-quote options, always-on content strategy and digital marketing such as Level term assurance, Mortgage decreasing term assurance &amp; Over 50s life insurance.</td>
</tr>
<tr>
<td>Generali</td>
<td>CosmosDirekt brand combining easy-to-handle and fast online services offering products such as Go-Pro, Ruby Critical Illness Plan, G-CR 100.</td>
</tr>
<tr>
<td>Discovery Vitality</td>
<td>Combines life insurance products and customizable benefits (premium discounts and PayBack) such as Severe Illness Benefit, Capital Disability Benefit, Income Continuation Benefit, Global Education Protector, etc.</td>
</tr>
<tr>
<td>Lifenet Insurance</td>
<td>Offer simple, cost-competitive products online with strong focus on customer services such as Term Life, Long Term Disability &amp; Whole-life Medical for Women.</td>
</tr>
</tbody>
</table>

**Sources**

DirectLine: https://www.directline.com/about-us
Generali: https://www.cosmosdirekt.de/lebensversicherung/
Vitality: https://www.discovery.co.za/portal/individual/discovery-life-home
Stand-alone businesses foster dedicated resources for innovation, allowing the startup to thrive without having to compete for scarce resources with the heritage business. It also shelters nimble start-ups from the slow legacy processes and red tape sometimes inherent in the established business.

The agility shown by a well-designed stand-alone entity stems in large part from cloud-based technologies. Those startups that run on advanced, cloud-enabled digital systems minimize the downtime and infrastructure required to plug into legacy policy management systems. This model allows quick testing of new propositions, eliminating the long development cycles and cultural issues inherent in many large firms. The test-and-learn approach encourages speedy innovation, allowing the insurer to change its stable of products in real time to better meet client needs.

“Stand-alone businesses allow the startup to thrive without having to compete for scarce resources with the heritage business.”
This market will not remain untapped for long. Speed is of the essence.

Insurers looking to tap the middle market should move quickly, as their competitors look to partner in ecosystems that span sales channels; these are, even in their nascency, changing the industry.

Among key first steps are:

1. **Micro-segment the Middle**

   Tap niche customer groups with targeted propositions. Young entrants to the job market respond to attractive propositions around easy monthly pay options, while retirees are ripe for final expense products. Digital analytics allows targeting as never before in the D2C insurance market.

2. **Keep targeted products simple**

   Rethink your product portfolio to gear towards simple, modular, guaranteed-issue products that are quick to issue and easily understood.
3. Mix your mediums

Navigate the digital-physical blur by combining different mediums over the breadth of the value chain, from selling to serving. Use the power of analytics to tailor your mix of call center, advertising, online offerings, self-service portals, digital tools and more. Mastering an integrated, multi-channel approach is essential to success.

4. Force agility with a stand-alone operation

By treating direct-to-consumer operations as a standalone channel, it can thrive because it does not have to compete with the heritage business for scarce resources. The legacy technology inherent in the established business will slow innovation and speed to market; remain separate from it and embrace digital. Whether through an in-house incubator model or an outsourced approach, it should be nimble enough to learn fast and react quick.

5. Drive persistency and greater customer engagement

Keeping customers on your books requires increased engagement in methods of their choosing. It is not enough to sell a policy and remind customers of annual premiums. Regular communication is key to maintaining the relationship.

Competition within the insurance industry, as well as from alternative products in the larger financial industry, is increasing. A limited consumer spend means smart insurers will look to untapped markets as part of a larger plan for growth.

The middle market awaits.
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Notes

   Accenture Analysis
2. Conning Life- Annuity Consumer Markets Annual 2015, Accenture analysis
5. FinanceAsia: “Ping An looks to build online connections”, January 5, 2016
7. Society of Actuaries: Middle Market Segmentation Program
11. Telecommunications acquisition costs exclude handset subsidies

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