

Report

Trillion Dollar Baby

THE SALES POTENTIAL OF THE
UNDERINSURED LIFE MARKET



LIMRA[®]
International

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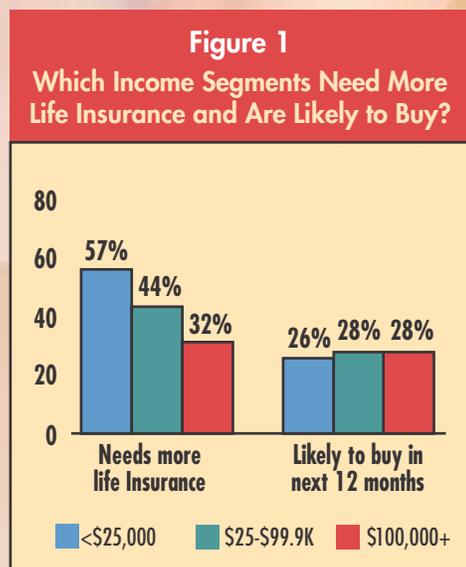
○ The Market Is Poised to Buy

In an era when many financial services companies are trying to grow their top line sales, you might wonder: Why are so many U.S. households, 48 million, saying they “don’t have enough life insurance”? Many of these consumers have good intentions and plan to rectify the situation — 29 million households say they are likely to buy life insurance in the next 12 months. But will they? History tells us most of them will not actively seek out life insurance coverage. Only 12 percent of all U.S. households actually buy life insurance in any given year, far fewer than the 27 percent of U.S. households who say they expect to purchase in the next 12 months.¹ What can you do to turn these potential buyers into your customers?

○ Target Households

Who are the 44 percent of households saying they need more life insurance? They are:

- ▶ Your current customers — 3 in 4 already have some insurance and are seeking additional coverage.
- ▶ First-time buyers — 1 in 4 currently have no life insurance coverage, and 74 percent of these potential first-time buyers do not have a personal life insurance agent, broker, or financial planner.
- ▶ Young and middle aged households — especially those with children.
- ▶ In all income segments — low, middle, and high. No matter what market your company targets, you will find both current clients and potential new customers within your markets who believe they need more coverage. Plans to buy life insurance in the next 12 months are the same regardless of income (Figure 1).



¹LIMRA's Opportunity to Buy in the U.S. Marketplace, 1998

○ Their Objections



Even though consumers indicate that they need more life insurance, they continue to procrastinate. Table 1 reveals some reasons people delay purchasing life insurance. These include:

- ▶ They believe that it is not affordable. Yet the cost of life insurance has never been lower. Those saying they need more insurance are young families with children – average age of household head is 39. If these families bought term insurance, it would cost only \$30 to \$40 a month to get the extra insurance they say they need. Some of these households may have been targeted for more expensive permanent insurance that they felt they couldn't afford, or they may not realize how little they would have to budget to get the extra protection they need.

- ▶ Buying insurance is a difficult process for many households. Half say it is difficult to decide how much to buy.
- ▶ They worry about making the wrong decision. Forty-three percent report they are afraid of making a mistake, so they put off the decision.
- ▶ Many admit procrastinating.
- ▶ Others are not being approached by the industry.

Table 1
Why households needing more life insurance have not bought more...

| | |
|-----|--|
| 74% | can't afford life insurance |
| 52% | difficult to decide how much insurance I need |
| 50% | have not gotten around to buying life insurance |
| 43% | worry about making the wrong decision |
| 40% | prefer to put my money in other financial products |
| 29% | no one has approached me about it |
| 20% | unpleasant to think about dying, so put off buying |

○ Sales Potential

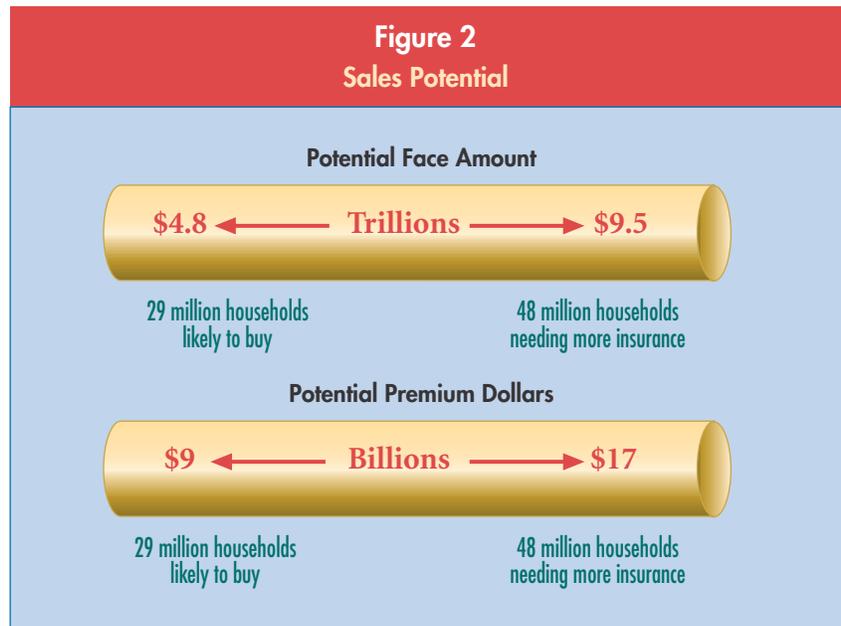
More than 2 in 10 U.S. households have no life insurance at all, and even among the households with coverage, 40 percent believe they need additional life insurance. How much do they think they need?

There is a wide gap between the amount of insurance that households currently own and the amount they feel they need for adequate protection if a primary wage earner were to die. The 44 percent of households who feel they do not have enough life insurance, on average, say they need enough insurance to replace 6.0 years of income, but currently own enough to replace only 2.8 years. This gap equals 3.2 years of household income, and they need to buy on average an additional \$200,000 of insurance to meet their goal.

For the 27 percent of households planning to buy life insurance in the next 12 months, the gap between what they have (3.7 years) and what they say they need (6.1 years) averages 2.4 years of household income. These households would need to buy \$163,000 of life insurance to close the gap.

Can You Penetrate This Market?

Coverage would increase by \$9.5 trillion and add an estimated \$17 billion of premium to industry coffers if the 48 million households bought the amount that they believe they need. Just capturing the 27 percent of households that are “most primed to buy life insurance,” those saying they are ready to buy in the next year, would increase total coverage by \$4.8 trillion dollars and increase industry



revenues by \$9 billion (Figure 2). Penetrating this market could substantially grow the estimated \$17 trillion of life insurance that was in force at the end of 2004.² Are you positioned with products and distribution systems to capitalize on the opportunity?

Additional Sales Opportunities

These consumers are interested in other financial products and services as well as life insurance, including:

- ▶ Reviewing retirement needs and developing a plan to manage income, assets, and expenses during retirement
- ▶ Setting up a plan to provide lifetime income after retirement
- ▶ Help setting up a will
- ▶ Developing a plan to provide financial help if a primary wage earner dies or becomes disabled



²Life Insurance Fact Book, American Council of Life Insurers, 2004.

Life insurance agents and brokers are most often chosen to assist with plans for protection vehicles such as life insurance, auto and homeowners insurance, disability income insurance, and long-term care insurance. Financial planners are the favorite to help with activities such as retirement planning, planning for a lifetime income, and estate planning. Bank professionals are a top choice for developing a plan to save for children's education (Table 2).

| Table 2 Additional Sales Opportunities | |
|--|---|
| Interest in Professional Help | Professionals Chosen Most Often |
| 37% Review retirement needs | ▶ Financial planner |
| 34% Develop plan to provide lifetime income after retirement | ▶ Financial planner |
| 34% Help set up will | ▶ Other professional, financial planner |
| 29% Develop plan to provide financial help if you or your spouse died | ▶ Financial planner, life insurance agent or broker |
| 27% Develop plan to provide financial help if you or your spouse became disabled | ▶ Financial planner, life insurance agent or broker |
| 23% Help with estate planning | ▶ Financial planner, other professional |
| 22% Develop plan to save for child's education | ▶ Financial planner, bank professional |
| 20% Develop plan to pay for long-term nursing care for you or your spouse | ▶ Life insurance agent or broker, financial planner |
| 15% Talk with you or your spouse about auto or homeowners insurance | ▶ Life insurance agent or broker |

The Challenge

Finding the households needing more life insurance is not the biggest challenge — there are, after all, 48 million of them. Many are middle income householders who need modest amounts of affordable insurance. Since they are young and cost is an issue, term insurance products may best fit their current budgets while offering them the most coverage. Households with term insurance have twice the insurance coverage as those with only permanent insurance (\$301,500 versus \$150,600).

Many underinsured consumers have difficulty deciding the type of policy and amount to buy. A simple level term product may appeal to this group. LIMRA's U.S. Individual Life Sales Survey found that term life insurance accounted for 43 percent of policies sold in 2004, and 20-year term was the most popular term product. Inexpensive, competitively priced term insurance that young families can afford dictates distribution methods that are cost efficient and do not involve multiple face-to-face interviews. The biggest challenge for the industry has been reaching this market in a cost efficient way.

The industry has long known it is not reaching the underinsured (many whom are middle-market households), and companies have expanded their distribution systems to include more cost-effective methods such as worksite, direct sales, call centers, and the Internet to help capture this underserved marketplace. But despite all the distribution expansions over the past couple of decades, millions of potential households are still not being reached. Why not?

● Reaching Those Who Want To Buy

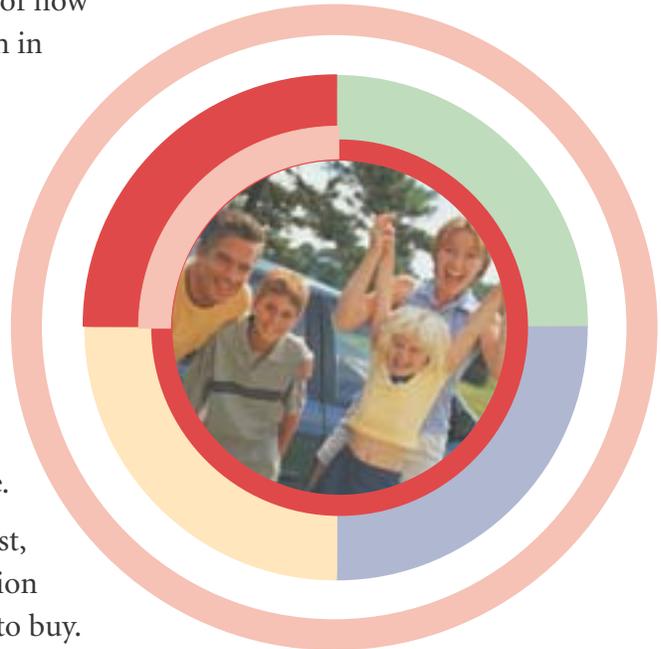
The industry still has not solved the puzzle of how best to reach underinsured households both in a cost-efficient manner and in a way that enables consumers to feel comfortable making what they see as a very important and complex financial decision. Non-face-to-face distribution methods have failed to attract and reach many of the underinsured households.

LIMRA consumer research has told us over the years what consumers need in order to feel comfortable when buying life insurance.

- ▶ They want to buy from someone they trust, who will provide them with the information they need to decide what and how much to buy.
- ▶ They don't want to be rushed and may need more than one contact to make such an important decision.

These preferences indicate the need for a “personal touch” if consumers are to react favorably when approached — an element that more cost-efficient distribution methods may not include.

LIMRA's research also finds that referrals are an important way to generate trust. Higher buying rates are found when a prospect meets with someone who has been referred by a friend or relative rather than with a total stranger. Almost 3 in 4 consumers who met with a sales representative through referrals from friends or relatives bought life insurance compared with 6 in 10 of those meeting with a total stranger.³ Consumers are very open to providing referrals — almost 9 in 10 recent buyers of life insurance said they would provide a referral to the company or agent they bought from — but many are never asked.



³LIMRA's *U.S. Buyers and Nonbuyers of Life Insurance*, 2003.

○ Hints For Sales Representatives

Sales representatives should continue to:

- ▶ Call on current customers who have not purchased a policy lately; they may need more insurance. Annual reviews can help ensure that customer needs are being explored. Companies may want to implement an automated client management/lead management program to facilitate the process.
- ▶ Do a complete needs analysis to identify customers' needs and identify how much they can afford.
- ▶ Have a method in place for a follow-up contact.
- ▶ Always ask for referrals; satisfied customers are happy to help.



The 48 million U.S. household that recognize they need more life insurance and the 29 million households that are primed to buy offer huge sales opportunities for the life insurance industry. Are you ready to take on the challenge?

○ About The Study

This information is from LIMRA's U.S. Life Insurance Ownership Study, which tracks how well insured Americans are. Over 2,000 financial decision makers were interviewed via phone/mail or the Internet from October 2004 to January 2005. The results are weighted to represent all U.S. households.

Call...
LIMRA*first*
customer.service@limra.com
1-800-23LIMRA

Research • Assessment & Development • Consulting • Compliance

Project Director: Cheryl Retzloff, Senior Scientist, Markets Research, cretzloff@limra.com

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HARTFORD TORONTO LONDON MELBOURNE SHANGHAI

300 Day Hill Road, Windsor, CT 06095-4761, U.S.A. • P.O. Box 208, Hartford, CT 06141-0208, U.S.A.
Phone: 860-688-3358 • Fax: 860-298-9555 • Web: www.limra.com