Life insurance distribution at a crossroads

Introducing the agent of the future

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Shifting demographics and technologies are requiring life insurers to rethink what products customers want, the channels through which the customers will purchase and the role of the insurance agent.

Executive summary

In the past, the number of “feet on the street” was a leading driver of success in life insurance sales. The conventional wisdom held that the more agents a company had, and the more meetings those agents could hold with potential customers, the more policies would be sold. Today, however, market realities and technology advancements have undercut this “brute force” sales strategy for life insurers. Roughly half of US agents are set to retire in the next few years, a trend that mirrors the broader retirement bubble within the general population. For the foreseeable future, there won’t be sufficient Gen X agents to replace the boomers, requiring the next generation of agents to be substantially more productive.

Within this pending wave of retirees, the middle market – consumers with annual household incomes of about $75,000 and accumulated financial assets of no more than $150,000 – has been largely underserved. On the one hand, this presents real opportunity for life insurers, as there are estimated to be tens of millions of these consumers, the majority of whom were born between 1950 and 1960. On the other hand, life insurers have never developed a viable or scalable model for offering the advice, life insurance and annuity products this cohort clearly needs. That’s largely due to a focus on higher-wealth segments, whose portfolios merited in-person attention from agents and advisors.

Beyond these demographic forces, consumers increasingly prefer to do business via digital channels and are more comfortable handling more routine insurance-related tasks on a self-service basis. While the cost reduction potential of digital channels is attractive to insurers, the impacts on agent relationships must be delicately managed. In fact, the buying of life insurance – as opposed to just the selling – is becoming common as digital-savvy consumers have access to more and better information. But that means insurers must also be prepared to make potentially significant investments to create the quality digital experiences today’s tech-savvy customers expect.

Given all these factors, the approach to life insurance distribution has fundamentally changed. That is why forward-looking insurers are working diligently to define new distribution models that will enable them to navigate the immediate-term challenges and seize the longer-term opportunities that are on the mid-term and long-term horizons.

This paper will provide a historical overview of the industry as a way to elucidate current market conditions. Further, it will outline the three primary areas where life insurers must drive change:

- Better insights into customer needs
- Simpler and stronger product portfolios
- Recalibrated agent relationships
A brief history of life insurance distribution

Life insurance once was the sleepy backwater of the consumer sector of the financial services industry. Many other subsectors — including investment advisory service and brokerage businesses — were considered sexier. Unglamorous though it was, life insurance was generally a steady and profitable business, and policies were sold through a widespread agent force. Thus, life insurance was widely adopted.

Today, however, insurance carriers are coming to terms with a 50-year downward slide in consumer adoption of life insurance. According to LIMRA, in 2014, only 44% of consumers owned policies, compared to 72% in 1960. Additionally, 85% of respondents to a 2013 LIMRA survey agreed that people need life insurance. A 2011 Genworth study found that 40% of life insurance policyholders don’t think they have enough life insurance. Clearly, there is latent demand. There is widespread consensus in the industry that many families are underinsured. Yet, flat sales are predicted for the near future and premiums remain fairly constant, despite the dramatic drop in consumer adoption.

To a large extent, the trend of fewer consumers paying the same premium dollars was caused by agents’ tendencies to focus on high-net-worth consumers. This was natural, perhaps inevitable; construct a distribution model based on human touch and paid on commission, and it will naturally seek consumers with larger wallets (because that’s where the money is), and more complex needs (because that is where human advice is valued and long-term relationships can be built). As could be expected, this development led to increased product complexity in a self-reinforcing cycle: complex life and annuity products designed for affluent buyers and not the larger numbers of mid-market consumers.

Another issue has been the distant relationship between insurers and their insureds.

Life insurance is a very low-touch product. Thus, insurers lack close and regular contact with consumers. By relying on agents to determine what customers wanted and meet their limited communications needs, insurance carriers lost sight of evolving market needs. Whether they used captive agents dedicated to selling a single company’s products or independent agents (who often put carriers in price competition on every sale), insurers allowed themselves to be kept at arm’s length from the people who bought their products.

Certain demographic trends are worth mentioning, too. Life insurance was originally developed to replace the loss of a single income earner. As people began delaying marriage and two-income families became more prevalent, the industry’s basic premise and value proposition were diluted. Similarly, increasing lifespans meant more people outlived their term life insurance policies, which made such products less attractive.

Digital technologies also disrupted the industry. E-commerce, smartphone adoption, the convergence of digital commerce on mobile devices, ubiquitous and cheap wireless data access, a wave of innovation in the form of apps, the use of data and analytics (including on social media streams) to increase the relevance of product offerings — all of these forces offer potentially transformative value to the life insurance industry. But, as a whole, the industry has not seized those opportunities. Most carriers remain in a reactive mode in trying to figure out how to leverage these technologies to engage with consumers in new ways and modernize the distribution models.

For instance, despite the proliferation of channels, insurers have still not effectively helped consumers to understand how much life insurance people like themselves have — a top-of-mind issue for many potential buyers.

The truth is digital channels are no longer strictly the domains of younger generations. The arrival of the tablet has large proportions of middle-aged consumers using digital channels to conduct many types of transactions. On a related note, the popularity of major e-commerce sites means today’s consumers expect high-quality digital experiences from every company with which they interact.
In other words, the expectations of insurance buyers are now shaped by a wide range of companies. Zappos’ lightning fast delivery of shoes now determines expected resolution time for an insurance customer service request. Apple’s quality of design now makes insurance correspondence seem obsolete in terms of delivery (“why do I get a letter when you can text me?”) and content (“I don’t understand this letter and I don’t know what you want me to do”). The bottom line is that life insurers simply must catch up in offering better digital experiences.

With a clear need for closer relationships with customers — many of whom feel informed and empowered enough to initiate and even complete life insurance purchases — life carriers are scrambling to reconnect with consumers and deliver the new types of products, services and experiences they expect. At the same time, they are reckoning with disruption of long-standing distribution models. The questions speak to the heart of the insurance enterprise:

• Who will own the customer relationships and be responsible for keeping up with their needs over time?

• What is the role of different channels to serve different market segments?

• What will be the fundamental role of agents and how will they be incentivized and compensated?

To find the right answers moving forward and grow their business profitably, life insurers must recalibrate their overemphasis on high-end consumers and find a way to capture the latent demand in the industry. Specifically, that means serving the needs of middle-class consumers who lack sufficient life insurance. At the same time, they must strive for digital transformation even as they deal with the significant turnover in their agent ranks. It is a great deal of change to manage simultaneously, but life insurers have little choice but to make hard and different choices in moving forward.
The way forward: three main courses of action

There are three major areas to address

- Target customers
- Distribution channels
- Appropriate products

Understanding what consumers want

Traditionally, the industry would have started with products. But today’s markets require starting with consumers. EY’s 2014 Global Consumer Insurance Survey of 24,000 people provides useful insights. The results show the following:

- Life and annuity consumers have limited trust in the life insurance industry: 69% of consumers indicated they trust their insurance provider. Only the pharmaceutical industry is less trusted, and banking, online shopping sites and supermarkets beat insurance hands-down.

- They highly value customer service, in addition to cost and product, within their insurance relationships.

- These consumers want more contact with their agent/carerrier: 54% of US life customers don’t recall a meaningful contact in the past 18 months, and 46% say they expect and desire more, and more relevant, communications.

- Life and annuity consumers are ready and willing to use digital and telephone channels, rather than face-to-face channels exclusively: 70% of consumers are willing to communicate with their agent or carrier through digital or other remote connections, such as the telephone or video conference.

The implications are clear: the distribution model of the future should be designed for omni-channel and self-service access to information as consumers are ready for closer relationships based on more frequent interactions.

Industry research, including studies from LIMRA, confirms that insurers are not very well informed about life insurance. For instance, they perceive costs of coverage to be higher than they actually are. That signals an educational opportunity for the industry; by informing consumers about the value of life insurance, they lay the groundwork for future sales. An industry consortium could be formed to develop and execute something along the lines of the dairy industry’s highly successful “Got Milk?” campaign (“Got protection for your lifestyle?”). Such an effort seems particularly well suited to the middle market.
Developing products customers might buy

Aside from customer education about the value of life insurance, product portfolios need fixing. The emphasis on the high-net-worth customer segments has led to increased product complexity, particularly for annuities. In that space, complex tax considerations now essentially trump income generation. The result is that many people — especially relatively low-information, middle-market consumers — simply do not understand the point of many products.

To attract more middle-market buyers, carriers need to demonstrate real understanding of customer needs and design products that directly address those needs. That means simplifying current offerings. Not only will simplification and streamlining make it easier for customers to understand what they are buying, it also makes the products more suitable to be sold via the phone or digital channels. That is, easily understood products can — and should — be easier to buy.

One way to demonstrate such customer insight is to develop strong “protection” brands that directly map to the real-world needs of potential customers. For instance, the industry should deploy its actuarial prowess to clearly define and quantify the major risks and challenges middle-market families face. These include loss of income, large out-of-pocket health care expenses, and the need for college savings and retirement savings.

For each category, carriers should develop tools that assess financial preparedness based on real data submitted by customers or prospects. Predictive analytics (“your type of family typically requires ...”) and social data (“families like yours report doing Y”) can be used to produce outputs in the form of guidance for individuals and families. These calculations ought to include financial affordability scenarios, rather than suggestions for “maxing out” on purchasing protection. Further, this financial preparedness analysis should be logically connected to a number of product packages that satisfy a range of different customer scenarios (such as, “married, two incomes, kids” vs. “divorced, one child”) and are mapped to other financial and demographic factors.

Financial preparedness tools obviously work well in digital channels, but they should be available to agents and call center representatives, too, along with any relevant product packages. Information submitted or analysis generated should be embedded in the carrier’s profile on the family or other customer record. This will allow for consistent advice and provides a structured and compliant road map for cross-selling.

**One final comment:** While the life insurance industry does not have to provide products to address all of a family’s potential risks, it should use financial preparedness as a context in which to sell the products it does offer.
Introducing the agent of the future

Given the pending retirement wave of life insurance agents, it seems clear that there will be fewer agents overall and too small a number to serve the mid-market customer base on an individual, face-to-face basis. Thus, higher agent productivity is required to increase penetration. One way to boost productivity is to ensure agents focus on the right product package for each customer. Analytics can help match the right product to the right consumer. For example, agents can use data obtained from social media to feed analytics to inform the development of products to meet customer preferences, thereby empowering the agent and making him or her more productive.

Another approach is to provide better support tools. For example, prioritizing agents’ customer books and prospect lists for targeting and cross-sales is essential. The prioritization plan should define exactly whom to target and which products to offer them. Next-best-product approaches from the banking and retail brokerage sectors are now making their way into the life insurance business. Recommendation engines from online shopping sites may not be far behind.

Further, we envision an agent who has been trained to connect with customers via digital and social channels. Using Facebook, LinkedIn and other platforms, agents can present value-adding content and develop their own personal brands. They can identify potential client referrals by understanding their clients’ social networks. They can offer to conduct financial preparedness analysis or “demo” various products by co-browsing or via a tablet. They are aware of contact with the contact center, browsing behavior and service transactions through a single, digital customer profile. There is some reason for optimism here, as tomorrow’s agents will be comfortable conducting these relationship-building tasks online. After all, they not only are engaging millennials and digital natives, they are millennials themselves.

Contact centers in the insurance industry have real room for improvement and upgrades should be considered in light of their impact on overall distribution models. Many insurers stopped investing in their contact centers during the recent recession. This means many don’t yet have functionality that is common for banks and communications firms. Voice recognition, warm transfers (including the customer data, making it unnecessary to repeatedly ask for customer account or policy numbers), intelligent routing systems – these features are important components because they help insurers improve their service-to-sales conversions and identify “orphan” customers (those without an active advisor or current agent relationship).

Lastly, compensation models for agents will necessarily change as their role is refined and recalibrated. Carriers that take on more of the sales and servicing processes and that provide qualified leads with specific product recommendations, will naturally expect to pay different commission rates with performance incentives. Similar adjustments are likely for the ratio between up-front payments and ongoing “tails.”

A final observation: The culture of the life industry must change if it is to return to a growth trajectory. Historically, carriers have ceded “ownership” of client relationships to agents. This “arm’s-length” orientation toward customers is part of the reason the industry finds itself at a crossroads. To some agents, customers receiving a phone call from a contact center or taking care of an address change online or via an app may feel like an encroachment on their turf.

However, by servicing the customer the way they want to be serviced and by continuously providing intelligence about existing customers and new prospects to the agent, agent satisfaction can rise alongside with policyholder satisfaction.
There is broad consensus that the life insurance industry must undergo rapid, strategic evolution based on demographic and macroeconomic conditions. The structure of basic customer relationships, the core value propositions of products and the role of agents within broader and diversified distribution models are all ripe for change. In other words, the industry is redefining who its customers are, what it sells to those people, and how it sells, services and distributes those products. That is a lot of change for any industry to undertake. But if the next era in the history of the life insurance sector is to be a profitable one, such change is necessary and must be undertaken immediately.

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