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LIFE INSURERS' SECRET WEAPON: BEHAVIORAL ECONOMICS

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THE MIDDLE MARKET SEGMENT OF CUSTOMERS FOR LIFE INSURANCE IS UNDERSERVED.

This leaves a $12 trillion protection gap that represents 52 million households.[1] Closing the gap means leveraging a secret weapon—behavioral economics—using the study of human behavior to trigger the decision to purchase.

The middle market was once a sweet spot for life insurers. Insurance agents had conversations across the kitchen table, and were trained in what to say to convince people to buy. Agents were essentially using behavioral economics techniques. They provided examples of what a family could lose if the primary earner suddenly died. They also created the sense of urgency to buy and presented a nicely wrapped policy as a form of immediate gratification for a product that is rarely used—and that many people do not want to think about.

Insurers today have a complicated relationship with the middle market. They know that value is trapped there. Pursuing the middle market could mean up to $12 billion in revenues and half a billion dollars in profit annually.[2] Yet over the last 40 years, most traditional agents have migrated to the more affluent market where commissions are higher. And insurers have been slow to transform the distribution model used to reach this market.

To overcome barriers to selling to the middle market and grow new revenue, insurers must create the activation points—or buying triggers—that agents used to do across the kitchen table. Behavioral economics, coupled with digital technologies to drive engagement, can help. Insurers can tap into human psychology, emotions and social dynamics that drive how, why and when we make choices to transform customer experiences, protection products, price points and more.

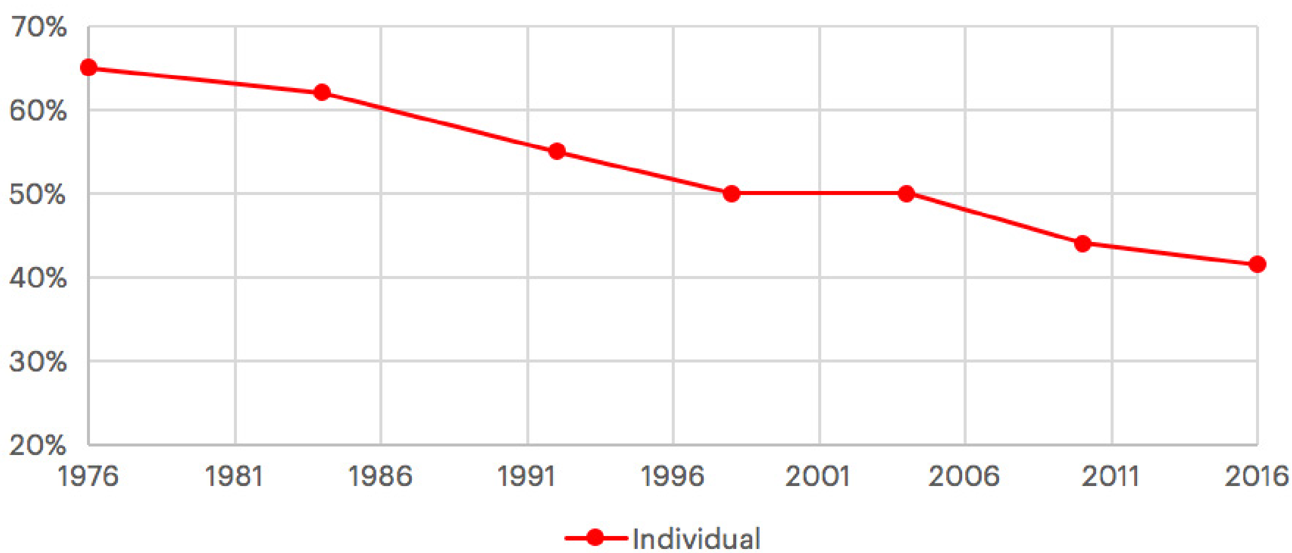
BEHAVIORAL ECONOMICS IS THE STUDY OF HOW EMOTIONAL, PSYCHOLOGICAL, SOCIAL AND COGNITIVE FACTORS INFLUENCE PEOPLE'S ECONOMIC DECISIONS—AND ITS APPLICATION TO CONSUMER MARKETING AND SALES.

A SUPPLY-DEMAND **MISMATCH**

Life insurance companies' presence in the US middle market has declined over the past 40 years. Since the mid 1970s, individual ownership has decreased steadily from 65 percent to just 42 percent in 2016 (Figure 1).[3] Many consumers recognize that they are underinsured, with one in four with only group insurance thinking they need more life insurance.[4] Just over half of middle market consumers feel ill-prepared financially for the death of a loved one.[5]

FIGURE 1

Individual life insurance ownership is declining in the United States



Source: Conning, "2016: Life-Annuity Consumer Markets Annual Data."

There is clearly a supply-demand mismatch at work here. Middle market consumers have a need, but insurers are not there to fill it. Agents have migrated upmarket where commissions are more lucrative. And companies that do sell to the middle market do well, but struggle to hire agents. The work is hard, and those that are successful typically migrate upmarket.

This dynamic translates into potential financial hardship for people and missed growth opportunities for insurers. Accenture analysis suggests that life insurers could add nearly 8 percent growth to the overall market—nearly tripling the market's expected growth rate—by addressing the middle market protection gap.

Insurers know that they need economically viable supply-side models for this segment. And advances in digital technologies are already fueling direct-to-consumer models. In large part, however, insurers have yet to achieve expected growth and scale here. For example, MetLife partnered with Walmart to sell life insurance directly to consumers in stores. This gained little traction without triggers to engage consumers.[6]

LIFE INSURERS COULD ADD NEARLY 8 PERCENT GROWTH TO THE OVERALL MARKET—NEARLY TRIPLING THE MARKET'S EXPECTED GROWTH RATE—BY ADDRESSING THE MIDDLE MARKET PROTECTION GAP.

THE ABSENCE **OF TRIGGERS**

Agents have historically played a critical role in encouraging consumers to purchase life insurance. Yet today's agents have mostly abandoned the middle market. Agency economics and product characteristics disincentivize them from doing so. Our analysis shows that an agent can earn thousands of dollars a year in commissions on an average whole life policy sold to an affluent customer versus only hundreds of dollars in commissions on a term plan sold to a middle market client.[7] And the amount of time and effort required is roughly the same.

The absence of agents in this market results in a void of activation points during the sales process—which is why the existing direct models have not functioned well in this market. Without someone or something motivating a consumer to buy life insurance, it is too easy to put it off. Life insurance is not a must-have product like home or auto insurance, and purchasing it can be confusing and wrought with emotions. This is why life insurance must be "sold." Yet with the kitchen table conversation gone, who—or what—is doing the selling?

Even if agents pivoted to the middle market in droves, they would find that the middle market consumer is not that person who once sat at the kitchen table. These are digital consumers who expect personalized services that evolve as their needs change. In fact, 57 percent of people are willing to provide personal data in return for added benefits.[8] They live in a world where Netflix knows what they like to watch, Uber shares driver ratings, and Amazon delivers packages in two days.

Spoiled by these experiences, middle market consumers also want them from insurers in tailored product offerings, insurance product reviews and fact-based recommendations. But even with digital technologies at their fingertips, insurers are not interacting with consumers at the right time with the right products on their terms.

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BEHAVIORAL ECONOMICS **AT WORK**

Insurers can unleash the middle market by combining behavioral economics and digital channels. Behavioral economics creates new activation points. Digital channels, including online, mobile and call centers, make agents more efficient and create virtual touchpoints in the "moments that matter" when consumers are apt to purchase. All it takes is some creativity to determine how to apply these scientifically proven theories. Here are a few examples.

EVALUATION

Influencing how consumers evaluate products and services

Consumers are often quickly stymied by the complexity of life insurance. With behavioral economics, insurers can make the process more transparent. Consider the choice architecture theory, which says consumers are influenced by how options are shown to them. Instead of overwhelming consumers from the start with too many choices, insurers can anchor on term life insurance and then gradually up-sell or cross-sell options that have a savings or investment component.

By segmenting product options into ascending bronze, silver, gold and platinum categories, insurers can leverage decoy pricing, using low-value bronze or high-value platinum prices to guide customers to the desired middle-range cost options. By providing information via recommendation engines about what people with similar customer profiles have purchased, insurers activate herd behavior, which is people's propensity to follow the wisdom of the crowd.

PROBABILITY

Emphasizing the probability of positive or negative outcomes

Insurers can use behavioral economics to frame why life insurance is important in the context of a customer's health history. This might mean using data around the probability of a person dying in the next five years to create a motivating reason to purchase. Or, data might affirm the probability of protecting a family's future income with a certain policy type. With a customer's attention, insurers can continue to personalize the experience by gamifying the process with targeted questions and answers. By contextualizing the magnitude of the loss that a family could suffer without appropriate life insurance coverage, insurers bring the behavior economics theory of loss aversion into play. This is that the pain of losing something is a more powerful motivator than the prospect of gaining something new. StickK users are motivated to meet their personal goals by the prospect of losing money that they have pledged toward achieving it.[9]

IMMEDIATE GRATIFICATION

Delivering rewards at the commitment to purchase

Middle market consumers do not have a lot of disposable income and tend to want to see something tangible for the purchases they make. But when they send insurers their check, they get nothing in return. Behavioral economics introduces faster gratification. After all, the present bias theory reveals that people value short-term benefits over long-term assurances. Insurers can offer rewards like rebates or personal fitness trackers within weeks of issuing a new policy. Or they could allow customers to pay a premium for the initial years of coverage at once in exchange for a discount. In both scenarios, customers believe they are being rewarded for committing to purchase and feel more positive and engaged.

AETNA PROVIDED APPLE WATCHES TO SOME EMPLOYERS AND CUSTOMERS DURING OPEN ENROLLMENT AS PART OF A WELLNESS FOCUS. NOT ONLY DID THE COMPANY COVER A PORTION OF THE COST, IT OFFERED PAYROLL DEDUCTIONS TO MAKE IT EASIER FOR PEOPLE TO PAY THE REMAINDER.[10]

A SEAT AT **THE TABLE**

With 35 percent of insurers today planning to use human behavior extensively to guide the development of new customer experiences, the groundswell around behavioral economics has begun.[11] Insurers can apply these fundamentals to get started:

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EXPERIMENT WITH GUSTO

Behavioral economics is not a magic bullet. To understand where and how to use the theories for the greatest impact, insurers will need to be creative in developing innovative approaches. An agile approach to testing and improving ideas based on market response is ideal.

PUT EGGS IN MANY BASKETS

The agents of the past used different strategies to get customers to buy based on customers' specific situations. Similarly, insurers today will need to use multiple behavioral economics theories to influence buying decisions. One-size-fits-all does not apply.

BE THERE FOR CUSTOMERS MORE OFTEN

Insurers need a new sales and marketing operating model that enables the right combination of digital, direct and more remote agents to provide advice, guidance and activation points. This is essential to increase the frequency of meaningful interactions during the buying process.

Those kitchen table insurance agents did not have the benefit of behavioral research behind them all those years ago, but they were using behavioral economics techniques nonetheless. Insurers that do this well today can close the gap between supply and demand in the middle market to unleash new growth.

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NOTES

[1] Accenture, "Monetizing the Middle: Tapping $12 Billion in the Life Insurance Middle Market," The middle market is defined as households with annual incomes between $21,000 and $106,000.

[2] Ibid.

[3] Conning, "2016: Life-Annuity Consumer Markets Annual Data."

[4] Life Happens and LIMRA, "2016 Insurance Barometer Study."

[5] LIMRA, "Less than Half of Middle-Market Consumers Own Individual Life Insurance Creating a Gap in Protection," September 2, 2014.

[6] Leslie Scism, "Struggling Life-Insurance Companies Look to Middle-Class for Revival," July 24, 2014.

[7] Accenture Strategy analysis of online life insurance policy quotes.

[8] Accenture 2016 Global Financial Services Consumer Survey.

[9] https://www.stickk.com.

[10] Aetna, "Aetna to Transform Members' Consumer Health Experience Using iPhone, iPad and Apple Watch," September 26, 2016.

[11] Accenture, "Accenture Technology Vision for Insurance 2017."

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