

Unlocking the next horizon of growth in the life insurance industry

The industry's growth has been flagging—but better serving mass-market and middle-market consumers could add \$10 billion in annual premiums.

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For the past decade, the life insurance and annuities industry has struggled to find growth. Insurers have increasingly focused on the needs of affluent individuals, who tend to be more profitable—but increasing competition from adjacent sectors has cut into even the most successful insurers’ market share. Further, insurers have been slower to integrate digital channels and need to resolve challenges of an aging workforce accustomed to traditional modes of selling. In their quest for growth, where should insurers, especially those with captive distribution, focus their efforts?

New McKinsey research reveals a large and underpenetrated consumer segment that could jump-start growth: the mass market (consumers with \$25,000 to \$100,000 in investible assets) and middle market (\$100,000 to \$250,000 in investible assets) segments. To date, conventional wisdom in the industry has held that these segments are not interested in protection and retirement products or would not generate sufficient profit to warrant the effort, given traditional distribution approaches. Nothing could be further from the truth. Our research found that mass-market and middle-market consumers are looking to purchase protection products—particularly at key life milestones (or “trigger events”) such as the birth of a child and the purchase of a home. Furthermore, while products sold to these consumers are less profitable, the segments feature higher growth than others, often with less competition.

To realize this potential, it will be critical for insurers to build their outreach capabilities, both with traditional advisers and remote capabilities, around trigger events. We found that financial-adviser outreach at the time of a trigger event is up to 14 times more likely to generate a sale than outreach outside of trigger events. Insurers must therefore reimagine how they engage, serve, and communicate with potential and current customers, with an emphasis on a digital-first strategy that can meet changing and rising consumer expectations—both in these segments and beyond. Consumer engagement is not just nice to have but a necessity that can yield significant profitability benefits; our research found that existing customers have a much higher probability of buying more products within 12 months of their initial purchase—but too many insurers are failing to follow through. Data and analytics capabilities can spur captive distribution to reach out to customers at the right time or empower third-party distribution to do so.

To make this transition, we recommend that carriers make big, bold capability investments in four areas:

- 1 Lead with advice and redefine the value proposition as “living” insurance, emphasizing the benefits of life insurance while the policyholder is alive.
- 2 Catalyze demand through targeted outreach during trigger events.
- 3 Embed the brand at the right time in the customer decision journey.
- 4 Create a dynamic and seamless consumer experience, including multichannel distribution and engagement that does not rely solely on a human adviser.

The future of the life insurance industry will depend on adaptation. While affluent individuals will remain the most important customer segment, the mass-market and middle-market segments are going to be crucial to realizing growth in the coming years—and our research found that they are ready and willing to participate. Insurers simply need to meet them at their preferred time and platform.

About the research

The 2017 McKinsey Life Consumer Research involved qualitative interviews and focus groups followed by an in-depth quantitative survey of 4,600 owners and non-owners of life and annuity products in the United States. The research, which assessed the brands and purchasing journeys of more than 40 carriers, explored several key areas, including creating customer segments based on relevant needs and behaviors, unmet financial and protection needs, the barriers and triggers for purchase, channel preferences, and the factors that influence purchasing decisions at each point in the consumer decision journey.

A case for pursuing the mass-market and middle-market consumers

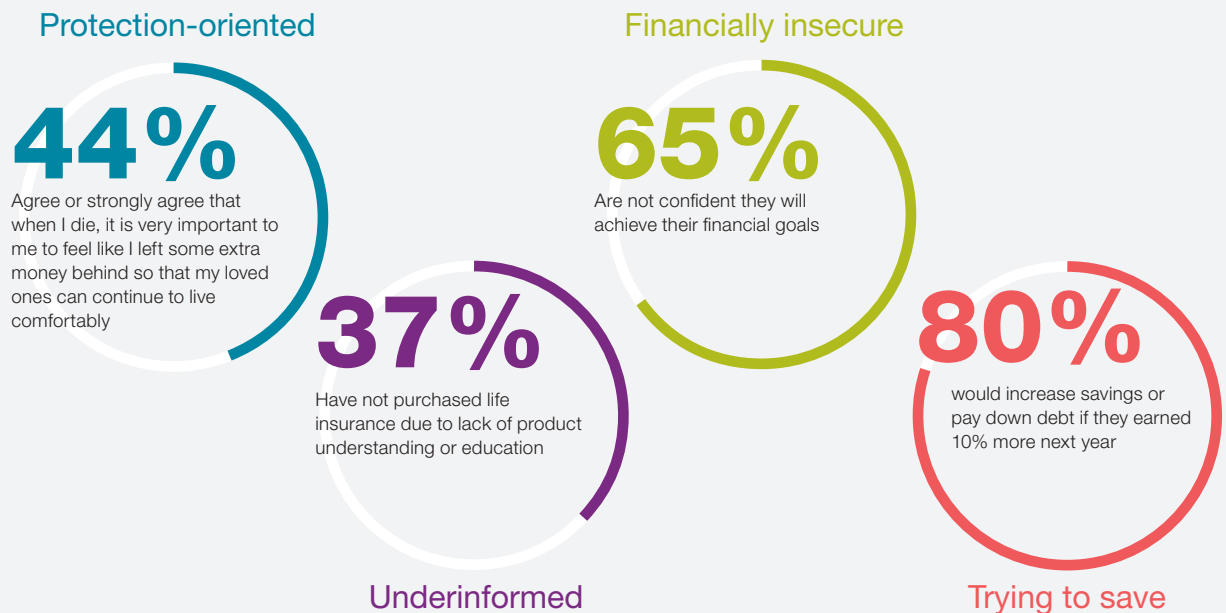
The life insurance industry—including both mortality and longevity products (individual life, group annuities, accident and health, and individual annuities)—has been growing slowly for more than a decade. The nominal compound annual growth rate (CAGR) from 2005 to 2015 was around 2 percent. Although returns rebounded slightly after the global financial recession of 2008–09, industry returns fell below the cost of equity in 2016. McKinsey research indicates that mass-market millennials (aged 18–34), mass-market Generation Xers (aged 35–54), and middle-market baby boomers (aged 55 and older) represent the next horizon of growth for the industry. Among the 68 million such households in the United States, 57 percent do not own individual life insurance.

Contrary to the industry’s conventional wisdom, mass-market and middle-market consumers are interested in products to protect their long-term financial security; in fact, consumers often consider prioritizing these outlays over near-term spending. These individuals are generally trying to save money, and two in three are financially insecure (Exhibit 1). In short—these consumers have serious long-term financial needs that protection products can help them meet.

Lessons for reaching mass-market and middle-market consumers

Unfortunately, life insurers are not currently well positioned to unlock this demand in the mass and middle markets. According to our research, just 52 percent of product owners believe their carrier is easy to do business with. In addition, a mere 42 percent feel their carrier’s agents care about helping them achieve their goals and treat them like a valued customer, not just a “policy number.” These results in part reflect the fact that the mass-market and middle-market segments have been largely overlooked by the life industry.

Exhibit 1 Mass-market and middle-market consumers have extensive financial needs



Source: McKinsey analysis

Indeed, these consumers have a narrow view of the value that life insurers can deliver across top financial priorities (Exhibit 2). Life insurance companies are the preferred provider for taking care of loved ones and covering expenses in the event of death (68 and 61 percent of respondents, respectively). However, most consumers rarely think of life insurers within the context of their holistic financial planning. In addition, the research indicates that mass-market and middle-market consumers often feel skeptical toward and distrust life insurance carriers and agents.

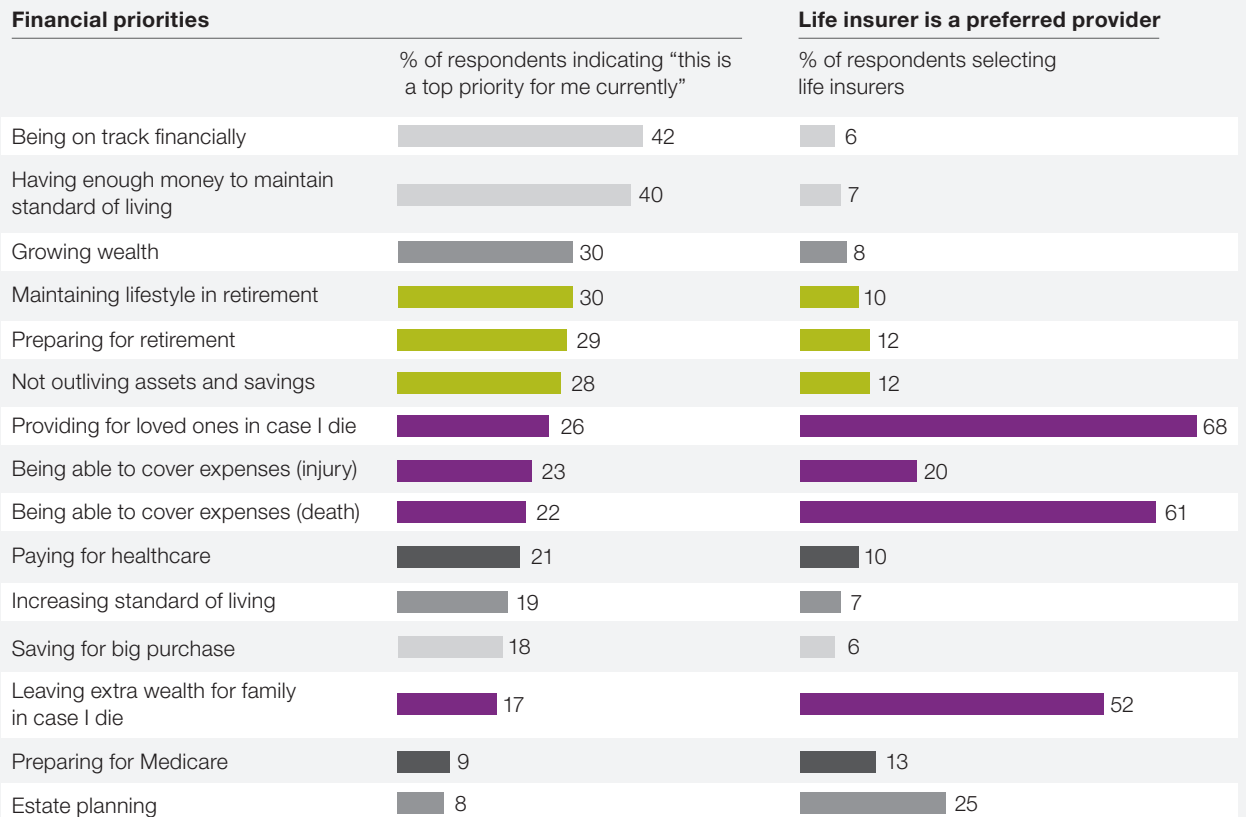
Beyond perception, our research revealed four insights about the changing life insurance landscape that represent lessons for engaging the mass-market and middle-market consumers:

- 1 Treating the mass and middle markets as a monolithic bloc is a mistake. Even within customer demographic segments, individual millennials, Generation Xers, and baby boomers are clearly different. Our research found that millennials are the largest demographic group today and will be the largest purchasers of life insurance over the next five years as they move through trigger events (such as marriage, children, and home purchase). Generation Xers are likely to begin buying tax-preferential whole life policies for the purpose of estate management; they are most interested in ensuring savings through life stages and major expenses, for example, sending kids to college. Meanwhile, many baby boomers are on the cusp of retirement and are looking for help in navigating the decumulation of their assets.

Exhibit 2

Life insurers are not perceived to be a preferred provider for middle-market and mass-market consumers' top financial priorities.

General finance Wealth accumulation Retirement Protection Healthcare



Source: McKinsey analysis

- Trigger events such as having a baby or taking on the support of an older relative can increase the demand for protection products two- to threefold. Insurers that time their outreach to customers around these important life triggers can increase product sales even more significantly, according to our research.
- Time invested in developing customer-agent relationships also builds trust and increases cross-selling and up-selling. For example, our research found that consumers who developed an estate plan with a financial adviser were more than three times as likely to purchase life insurance and nearly seven times as likely to buy longevity products.

- 4 The decision on where to purchase mortality and longevity products hinges significantly on whether a carrier is included in the initial consideration set (ICS). The ICS is the group of companies that prospective customers evaluate in advance of a purchase. Consumers tend to consider an average of just 1.7 carriers in the ICS for life insurance, compared with 3.8 automobile manufacturers and 3.2 auto insurance carriers. Those carriers have a huge advantage; in 60 percent of life insurance purchases, consumers choose to buy a product from a brand in the ICS—a rate double that in most industries.

For many consumers, purchasing life insurance products is a long, painful, and time-consuming process. Respondents noted that they are often intimidated by the challenge of researching, comparing, and purchasing a policy in an environment that lacks transparency and clear information. And once they do select a carrier, providing all of the necessary details can be onerous. Thus, opportunities exist for insurers to entice and lessen the burden for these customers.

Four strategies to spur growth

The challenge for life insurers is to tailor outreach to specific consumer segments, better prepare to help consumers respond to life's milestone events, ensure that their company is part of the ICS, and facilitate the process for evaluating and purchasing insurance. On all counts, insurers, as an industry, have work to do. To capture the next horizon of growth for the industry, insurers should pursue four interlocking strategies.

Lead with advice and redefine the life value proposition as “living” insurance

For mass-market and middle-market customers, protection in case of death or injury is not on the list of top concerns. Instead, their main priorities are achieving good financial health (for example, maintaining their standard of living or paying off debt) and planning for retirement (that is, ensuring they don't outlive their savings). To appeal more broadly to consumers and embed themselves at the center of clients' financial lives, life insurance carriers need to redefine their value proposition around a holistic set of financial solutions focused on ongoing “living” benefits.

This shift will require changing the sales conversation to address the client's overall financial goals and situation, redeploying product strategies focused on the longevity market, and tailoring products to individuals' financial context. In mortality, for example, carriers could offer a student loan rider to pay off debt first, reward healthy life choices by adjusting premiums, offer budget tools that help reduce expenses, and divert a portion of savings to increase coverage levels over time.

Catalyze demand through targeted outreach during trigger events

The research clearly demonstrates that engagement at the time of life trigger events is critical for both mass-market and middle-market consumers—and financial advisers are essential to boosting purchasing rates. Activities led by a financial adviser, such as devising a financial plan or performing a financial checkup, can increase the likelihood of sales to nonowners of longevity products by 1.7 to 2.4 times. Together, combining triggers with targeted outreach and engagement with a financial adviser increases the likelihood of purchase significantly. The birth or adoption of a child combined with agent interaction can increase likelihood of purchase by 14 times over a baseline scenario. The second-most likely trigger event is the need to start supporting an adult relative financially, which combined with agent interaction increases purchasing likelihood by 10 times (Exhibit 3).

Exhibit 3 Adviser engagement at the right time exponentially increases purchasing likelihood

■ Life event only

■ Life event and engagement

Recent life purchasers and the power of life events combined with financial planning

Life event (past 12 months)	+	Engagement with carrier/agent	=	Differences in likelihood to have made a purchase
I had or adopted a child		Developed or refined a financial plan with an adviser		<div> <div>3x</div> <div>14x</div> </div>
I finished paying off a debt		Developed or refined an estate plan with an adviser		<div> <div>2x</div> <div>8x</div> </div>
I started supporting an adult relative financially		Developed or refined a financial plan with an adviser		<div> <div>3x</div> <div>10x</div> </div>
I got married or started living with a partner		Received a letter/email from a life insurance company		<div> <div>3x</div> <div>7x</div> </div>
I moved my primary residence		Attended a financial planning workshop in person		<div> <div>2x</div> <div>7x</div> </div>
I or my spouse started a new job		Watched a financial planning workshop online		<div> <div>2x</div> <div>5x</div> </div>

Source: McKinsey analysis

Carriers should invest in data management and predictive analytics to enable distinctive microtargeting and identify the highest-potential consumers on the verge of life milestones. The following tactics demonstrate how these tools can provide greater visibility into consumers:

- 1 Use advanced analytics to build microsegments of consumers with the highest propensity to purchase, drawing on data from carriers' existing customer bases, external data, and market research.
- 2 Identify the highest-value prospective customers in a region (by zip code or work location) and tailor campaigns for that particular segment.
- 3 Create targeted campaigns with microsegment value propositions across traditional channels (for example, phone, mail, and email) and digital (such as targeted mobile ads) to build brand awareness and further direct high-value leads to agents.

Embed the brand at the right time in the consumer decision journey

Carriers need to ensure they are included in the ICS for mass-market and middle-market consumers—which means they must prioritize digital marketing channels that can reach consumers where they consume information, thereby elevating their market profile and building their brand.

Understanding the most effective channels to boost awareness and ICS inclusion is the first step. Traditional advertising, such as print, radio, and television ads, is responsible for 15 percent of ICS inclusion. Meanwhile, the internet accounts for 29 percent. Agent interaction is still important but costly (24 percent of ICS inclusion but almost twice as expensive as the cost of digital advertising for carriers). Since our research found that many customers find online chat and videos to be nearly as helpful as in-person meetings with financial advisers, carriers should create and offer virtual education tools to support consumer engagement at a low cost.

Create a dynamic and seamless consumer experience, including multichannel distribution and engagement that does not rely on a human adviser

Carriers have an opportunity to both delight consumers and generate superior economics through a multichannel engagement model that reduces reliance on in-person agent interactions by harnessing remote and digital capabilities to provide similarly consultative solutions. Our research found that two-thirds of consumers want to be able to chart journeys across in-person, online, and virtual modes of interaction. Consumers are increasingly comfortable gathering information from online and remote sources: more respondents prefer remote and online sources (36 and 35 percent, respectively) compared with in-person advice (29 percent). The experience also needs to be tailored to different consumer types within the mass-market and middle-market segments. (See sidebar, “Key variations in the middle market

for life insurance products.”) These consumers look fundamentally different from traditional, affluent customers in their starting knowledge around the industry, carriers and products, financial situation and needs, barriers, and preferences around shopping experience.

Key variations in the mass market for life insurance products

The mass and middle markets are far from homogeneous. Our research identified several distinct subsegments for which life insurance providers will need to build customized products. These subsegments are roughly equal in size but require vastly different approaches due to personal preferences, knowledge of the products, and comfort with risk.

For example, some mass-market consumers are more focused on their present career and lifestyle. They like technology and trying new products, and they may be open to getting financial advice but they don't think they can afford an adviser. As such, these individuals would be open to considering more technology-enabled channels such as a robo adviser. Meanwhile, another set of mass-market consumers are very concerned about their long-term financial security, and so they rely on an adviser for guidance. These customers tend to place heavy emphasis on their personality fit with the adviser, and they are willing to hand over all their information so that the adviser can provide the most informed advice based on a full view of their financial situation. A third customer set is comfortable with complex, risky products—but they like to confirm their thinking with an expert adviser. These customers seek advisers who are available on nights and weekends to weigh in on time-sensitive questions.

These consumer profiles also help shed light on other differences within the mass and middle markets, including coverage needs, willingness to pay, and likelihood to purchase protection products in the near future. The good news? Most segments demonstrate a high interest in purchasing products—confirming the opportunity for life insurers who recognize the differences in their target segments and build the products and capabilities to win these customers over.

Carriers that delight consumers throughout the purchasing process and offer best-in-class service before, during, and after the sale could dramatically improve client experience and opportunities to deepen penetration with clients. Making the transition from a predominantly in-person, agency-based distribution system to a portfolio of models, including digital direct and call center–based remote advisers, will require carriers to change the way they operate in several important areas. Carriers often focus on the needs of advisers when building new capabilities, but in the future they will need to adopt a more consumer-centric mind-set and reorient their strategies and processes accordingly. Improving customer experience and engagement can also drive cross-sell and up-sell opportunities. Existing customers are 2.5 times more likely to buy additional products within 12 months of their initial purchase and twice as likely to return to the same carrier.



Growth has been a long-standing challenge for life insurers, and changing customer preferences—namely toward a multichannel, digital-enabled experience—have proved to be obstacles. However, these changing behaviors represent an opportunity to rethink distribution in ways that meet the needs of consumers and address the economic challenges associated with traditional agent-based distribution. Carriers that succeed will be well positioned to capture tremendous growth, improve profitability, and provide comprehensive solutions to consumers, many of whom are underserved today. ■

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