Life Insurance in the Digital Age

Driving Growth and Capturing the Mid Market with End-To-End Digital Capabilities

A combination of demonstrated need for life insurance in underexplored markets and segments and the availability of new and sophisticated digital technologies is bringing carriers more opportunities to grow their businesses than ever before. Organizations that get digital transformation right will be in a position to meet existing and prospective customers’ expectations for tailored products and service, empower agents to earn consumer trust and confidence and put themselves in a position to meet regulatory, economic, and market uncertainties now and into the future.

The current overall market for life insurance is enormous, and many segments are both untapped and underserved. A 2017 LIMRA life insurance ownership study, Individual Life Insurance Ownership in Focus, revealed that more than 87 million U.S. households owned life insurance in 2016, an increase of more than five million policyholders since 2010. However, the ownership rate is stable, with the increase linked to population growth. Life insurance market penetration is holding steady at 70 percent.

It’s not that consumers don’t want life insurance. In fact, many recognize they need life insurance – or they need more insurance. According to 2016 LIMRA findings, approximately 50 million households – or about 40 percent – recognize they need more life insurance. However, according to LIMRA, 30 percent of households, or 37.5 million, remain uninsured.

The amount of coverage is also declining. LIMRA estimates that even though households do have life insurance policies, they are not adequately insured and lack the coverage they need. Nearly half of all U.S. households have a life insurance gap, which equates to about $12 trillion in life policy sales up for grabs by carriers that can successfully capture this business. This gap represents an enormous opportunity for insurers that understand customer needs for financial resources to fund their children’s education and become adequately covered for retirement, as well understand their concerns around mortality and taking care of loved ones after death as well as longevity and supporting them in their advanced years.

Consumers recognized the need for life insurance to address the income requirements of their loved ones and take care of final expenses. However, it’s always been difficult for consumers to figure out exactly what they need, how much insurance they require and how to understand and evaluate products in the marketplace that are appropriate for them.
Traditionally, life insurance has always been sold and never bought. Brokers, advisors and internal sales representatives have become very important and relevant. Initially, insurers had been focused on developing and offering customized products that were often very complex, and enabled their own distribution to sell to consumers. Most of the time, consumers didn’t really understand precisely what they were buying. They knew the policy fulfilled their needs, but they didn’t know the exact particulars. What’s worse, many times, even distributors didn’t fully understand the policies they sold.

While wealthy individuals can afford the larger policies, lower-income consumers who may live paycheck to paycheck and have a greater need to address their mortality and financial risk than wealthier consumers, can’t afford the same products. Because of the distributor compensation structure, it has always been in the distributors’ best interest to sell expensive policies to higher net worth clients, since pricier policies netted larger commissions for them, leaving the lower end and true middle market relatively untapped. The U.S. market space has also lacked a viable mid-market product with a viable distribution model that made it profitable to sell those simpler and low-end policies.

Reading the Middle and Millennial Markets

The insurance industry faces several challenges in reaching the largely untapped middle and Millennial markets. Says the Society of Actuaries report, Middle-Market Life Insurance: Findings from Industry Thought Leaders, this market lacks sufficient disposable income and is not well-educated about life insurance and financial planning. Life insurers that want to capture the substantial lower and middle market and the Millennials market need to design simplified but tailored products. Carriers must also simplify product purchasing, focusing on providing great digital engagement and a no-touch buying experience. And insurers need to simplify pricing. The goal is to empower consumers by enabling them to understand and manage their financial needs on their own, and empower distributors with the right tools to do their jobs. It’s also
essential for carriers to put in place a compensation structure that will motivate distributors to sell less expensive policies.

While there is a tremendous need for life insurance across all sectors, insurance sales have stalled, and for many reasons. According to the 2017 Insurance Barometer Study, from LIMRA and Life Happens based on an annual study that looks at customer attitudes and perceptions that focuses on life insurance, consumers have plenty of barriers to buying life insurance, including other financial priorities, they can’t afford it, they’ve already invested money in other financial products and they feel like they have enough coverage to meet their needs. Study participants also said they found it difficult to know how much insurance to buy, difficult to know what type of policy to buy and they worry about making the wrong decision. These individuals, in particular, can benefit from the help of agents and brokers, call center reps and carriers’ captive agent force.

Notes LIMRA research, insurers must strive to align with consumer buying preferences if they’re going to capture more business. Consumers consider six factors very important as they buy life insurance: the policy must be easy to understand, they’d like to be able to chat with a person and to pick insurance from suggested categories, they want to buy from a carrier that’s well-known, and they want a faster sign-up process.

The agent channel is – and will always be – critically important to life insurance sales. According to 2017 LIMRA research, about two-thirds of U.S. households buy all their individual life policies in person from insurance agents, brokers, or other financial advisors. LIMRA research found that they will be more likely to buy life insurance if the agent, broker or financial advisor meets several conditions. They need to trust the sales representative, the rep should come highly recommended and can gauge customer needs, meet in person and that life insurance is presented holistically, as part of a larger and more comprehensive financial plan.

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### Buying Influences

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Trust sales representative</td>
<td>60%</td>
</tr>
<tr>
<td>Sales rep recommended to me</td>
<td>50%</td>
</tr>
<tr>
<td>Sales rep reviews/analyzes needs</td>
<td>40%</td>
</tr>
<tr>
<td>Meet face-to-face</td>
<td>30%</td>
</tr>
<tr>
<td>Presented as part of financial plan</td>
<td>20%</td>
</tr>
<tr>
<td>Can buy at place of work</td>
<td>10%</td>
</tr>
<tr>
<td>Whole process done on Internet</td>
<td>9%</td>
</tr>
<tr>
<td>Mail offer</td>
<td>8%</td>
</tr>
<tr>
<td>Rep wants me to buy at first meeting</td>
<td>7%</td>
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1 + 1 = 3

Complementing Agent Channel with Digital Capabilities

Source: LIMRA Research and Analysis, 2017-2018
It’s essential for life insurance organizations to find ways to improve agent efficiency, leading to a better customer experience and greater sales. While the proportion of individuals buying life insurance through alternative methods increased by more than 25 percent from 2010 to 2016, a large portion of buyers will always likely remain more comfortable buying coverage face-to-face, even with digital and self-service options available.

**The Promise of Digital**

Although some speak of digital as a channel, it’s more of a transformation in the way life insurers do business. Digital is revolutionizing the way life insurers do business, from initial applications, underwriting, claims and more. Done right, digital has the potential to benefit consumers, distributors and carriers. Digital enables end-to-end improvements to products, processes and servicing while enabling dramatic improvements to distribution with appropriate compensation, better policy servicing, sales practices and overall customer experience. Some specific benefits and efficiencies include:

- Offers operational efficiencies. Digitally-enabled straight through processing (STP) minimizes manual intervention, boosts operational efficiency and potentially reduces the number of people needed to administer policies.

- Presents unprecedented opportunities to reach new markets more efficiently and more successfully.

- Ensures a better understanding of customers. Combined with leveraging big data with sophisticated analytics, digital can help carriers better understand the needs of current and prospective customers, and helps insurers come up with specific product features that are most relevant for their market space.

- Provides self-service capabilities. Digital gives insurers the means to offer self-service sales and servicing to current and prospective customers who prefer to buy and monitor their policies on their own, via computer or smart phone.

- Meets consumer buying experience expectations. Digital can facilitate an easy and pleasant buying experience, enabling seamless underwriting and rapid approvals. It has the opportunity to disrupt or augment traditional underwriting models with better data- and analytics-based models.

- Digital further enhances current mortality models by influencing consumer “Life Styles” and integrating “Healthcare” data as well as needs with mortality models. That level of
sophistication further enables better customized products and simplified bundling of benefits for consumers.

- Optimizes product development. Digital technology is becoming the great enabler, helping insurers create and launch products more price-effectively, improving how the insurance industry operates its internal mechanics of manufacturing, selling and servicing life insurance products. Digital technologies – big data, analytics, mobility, AI, robotics and more – all enable a new and improved way of manufacturing and customizing products, simplifying product development and in some cases, also simplifying product distribution, while optimizing the price points.

- Contributes to an overall omnichannel strategy. Although digital is not all about direct-to-consumer benefits, from a distribution perspective, insurers must continue to think about digital as part of the overall omnichannel strategy.

- Improves agent efficiency. Digital helps advisors and brokers, internal sales forces and call center reps become better distributors. Carriers will always need to provide high-touch distribution to capture and service policies for those who prefer a more personal buying and servicing experience. Digital capabilities can better inform an insurer’s captive advisors, outside brokers and call center personnel about complex products and benefit bundling. Digital boosts distributor efficiency by providing tools to help them better understand the needs of their clients, offering better products more customized to their customers’ specific needs and giving them better ways of servicing these policyholders.

**Technology Enables Transformation**

While digital represents a potential sea change in business-as-usual, the biggest change is within the technology. Despite its myriad potential benefits, digital transformation is not so easy. Existing legacy technology severely constrains carriers as they move to transform digitally. Carriers can’t just add in new functionality to their systems and expect their organizations to reap significant benefits from digital – and have the necessary agility and flexibility to move forward in an increasingly digital world.

While digital encompasses the front office, mid and back office, many carriers have focused their digital efforts and budgets solely on the very visible, customer-facing front office, new business and underwriting without addressing their middle and back ends. This approach has been problematic, for many reasons. It does not allow organizations to scale or to find efficiencies, for instance.
Insurers continually struggle with supporting and tweaking their current business model to support digital capabilities. Refreshing the current admin platform is overwhelming and time-consuming as well as costly, since these projects typically involve complex transformations that typically result in both timeline and cost over-runs. Many insurance organizations view digital capabilities as mere add-ons to their current legacy systems, or they look at adding digital as a greenfield project. Instead, digital is an entirely new mindset. Carriers need to adopt digital, internalize it and make it mainstream. If organizations consider digital as something they’re going to do on the side as the next new thing, they will never be digital organizations.

Because insurers are focusing on digital front ends, they just do a process handoff to an existing legacy platform. However, it’s like trying to fit a square peg in a round hole: the processes don’t fit if insurers don’t actually reengineer and reimagine the processes end-to-end.

**Two Models**

In approaching digital transformation, insurers typically adopt one of two models. Both models have some advantages, but ultimately don’t provide carriers with long-term benefits — or ensure they’re prepared for future growth and market changes.

The first is an innovation model, where startups and newly-formed insurer spin-off companies create very simplified digital processes for very simple products that don’t require real administrative platform capabilities but instead rely on a simplified capability model like just a rate table. This type of model provides great enterprise learning but may not work in the long term. It works well if an insurer is offering a very limited assortment of very simple products. Problems arise because of regulatory considerations and evolving needs of consumers or markets. Insurers will face limitations as their products evolve and become more complex since they have no true administrative platform capabilities to handle the increasing complexity. In addition, scale issues abound, as the experience looks great but they don’t have the advanced capabilities that need to work in various scenarios or to sell a wider assortment of products. So essentially, they become severely constrained if they want to grow or diversify their businesses.

The second approach is very popular in the industry and involves insurers leaving their legacy system in place and wrapping the old system with a digital front end. This is a very easy approach, but more of a short-term fix than a long-term solution. These solutions do not last long. Insurers inevitably run into scale issues. Processes tend to break down and stop working well. Customer and agent experience suffers as it becomes fractured, and sales fall off. Then, the carrier winds up in the unfortunate position of having to develop another solution.
Digital Direct Life: A Foundation for Growth and Success

SE2’s model is unique. With its Digital Direct Life platform, SE2 digitizes end-to-end, offers scale and provides an architecture and foundational platform that meets insurers’ needs today and that can take insurers’ digital capabilities into the future.

SE2’s Digital Direct Life Platform—One Common Chassis

With Digital Direct Life, SE2 has created and enabled a truly digital architecture, first digitizing and digitally-enabling its back-end platforms and capabilities and then focusing on the digital front-end. Not just a policy administration platform, SE2’s Digital Direct Life gives carriers a way to digitize all processes holistically, allowing insurers to launch life products quickly end-to-end, from product marketing to selling, policy issuance and servicing to paying claims. SE2 Digital Direct Life’s unique and comprehensive architecture enables carriers’ individual business models, whether high-touch, low-touch or no-touch. Digital Direct Life can help insurers sell complex products with full underwriting and full servicing, or offer end-to-end, no-touch digital sales – or anything in between. All models work on the same chassis and the same technology capability and platform.

Digital Direct Life leverages the SE2 Aurum platform. Its consumer interface is simple to use and offers an exceptional user experience. It integrates with the SE2 policy administration and underwriting systems to support simple or complex insurance products. Digital Direct Life is cost-effective and enables insurers to get products to market quickly and effectively.

Learn more about Digital Direct Life at https://se2.com/digitaldirectlife/, or call 800-749-3940 for more information.