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Getting Back in Step With People?s Needs

Summary:

Here is a three-part plan for the life insurance industry that may solve a marketplace and social problem hiding in plain site.

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The origins of life insurance show up at least as long ago as the Middle Ages, when the notion of providing mutual aid emerged in organized structures. People came together via benefit societies for those in need and for the good of all. Similarly, modern-day carriers originated with mutual ownership ? a construct that prioritized maintaining an asset pool to cover claims at any time, including ones that might occur decades in the future. A lot has changed. The top 25 life insurance carriers, which control 72% of the marketInsurance Barometer Study: *One-third of American households would have an immediate problem paying basic living expenses if the primary breadwinner died. And an additional one-third has no idea what they would do should they find themselves in this situation.* ***See also:*** ***What?s Next for Life Insurance Industry?*** Ask people inside the sector the question, ?Why doesn?t everyone buy the coverage they need, and may even know they need?? Responses are variations on three themes: (1) potential buyers perceive the products as too expensive; (2) they don?t understand how insurance works and what its value is; and (3) they put it low on the priority list relative to other financial commitments. None of these explanations is flat out wrong. But settling for them risks derailing innovators from solving a problem that will continue to affect people in need and the rest of us, too. It is a problem worth solving. Insurtech has become a hot sector, but life insurance gets relatively limited focus from either startups or investors. Why? Experts offer a few theories: It is complex -- loss curves run for decades. Unlike auto and home insurance, there?s no requirement to own life insurance -- so there is no definite group of buyers. Asset growth in this economic and regulatory environment has become trickier. Capital requirements are tougher. And maybe founders and funders themselves don?t want to look death or the greatest personal catastrophe in the eye. While these reasons sound plausible, there is a way to think about how to uncover sources of value and solve a marketplace and social problem hiding in plain site. Here is a proposed three-part plan: **1. Reframe the problem.** Life insurance has historically addressed the problem, ?What if I die too soon?? The questions asked now about financial health sound more like, ?How can I be sure I?ll cover my monthly expenses given my earnings?? ?How will I ever retire?? And, ?What if I live too long?? Fears about dying too soon have been pushed down the priority list. In an era of longer life expectancy and lower inflation-adjusted income for many Americans, the new priorities are smart. Consider, therefore, how to solve these problems. Listen to people?s desire for products that pay the living, provide coverage for long-term care and medical expenses and are designed with far greater transparency than today?s living benefit products. (Try to read an annuity contract, and you will get the point.) **2. Understand what motivates people.** Loss aversion theory, first proven by Nobel Laureate Daniel Kahneman and colleague Amos Tversky, demonstrates that people prefer to avoid loss rather than pursue the opportunity to realize an equivalent gain. No surprise, then, that confronting one?s mortality is a topic to be avoided -- it is the ultimate loss. This is especially the case given that many see no upside to buying a life policy: ?When I win, I lose.? There will be traction for those innovators who can get to a nuanced definition of ?trigger events,? beyond the tired and obvious ones. Trigger moments are when people will be more likely to evaluate the loss/gain relationship in a new light. ***See also:*** ***8 Start-ups Aiming to Revive Life Insurance*** **3. Don't just play around the margins of what already exists.** Be open to the possibilities that: (1) Potential buyers who say your product is too expensive are trying to tell you that the price/value relationship is weak. (2) People don?t understand the value of many life insurance products because these products are too complex. (3) In a world, where people fear the consequences of living too long, a product that focuses on one?s death seems out of step. Test the receptivity for product concepts that include living benefits and allow people to make tradeoffs among features. On the critical path: (1) cracking the code to combine delivering value to the buyer and financial feasibility all the way through claims payment, (2) executing with minimal fine print and (3) creating products that can be distributed through a cost-effective, multi-channel platform that leans digital/call center, innovates on commission structures and defines a new agent archetype.

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