



Socioeconomic Trends and Implications for Product and Distribution

Annual Meeting of the Actuaries' Clubs of Hartford and Springfield
Monday, May 23, 2011





**Impact of
Environmental Change
on Products & Distribution**



“The *objective* is better understanding how current trends will influence, now and for the next five years, consumers' risk protection needs and their expectations regarding product delivery.”

1. Socioeconomic Trends
2. Industry Trends
3. Implication for Products & Distribution

An Agenda...

... For uncovering opportunities by exploring key trends and implications related to:

- The economy; secular and cyclical
- Demographics; obvious and not so obvious
- The industry; product and distribution

Now consider...

Fifty-eight million U.S. households believe they do not have enough life insurance.

Facts of Life and Annuity, LIMRA

Twenty-nine million Americans controlling \$881 billion of retirement assets reach retirement age over the next five years.

Money in Motion, LIMRA

More than 60% of personal bankruptcies in the United States in 2007 were caused by health-care costs associated with a major illness.

American Journal of Medicine, August 2009

Our challenge starts with ***The Great Recession.***

Why the phrase “Great Recession”?

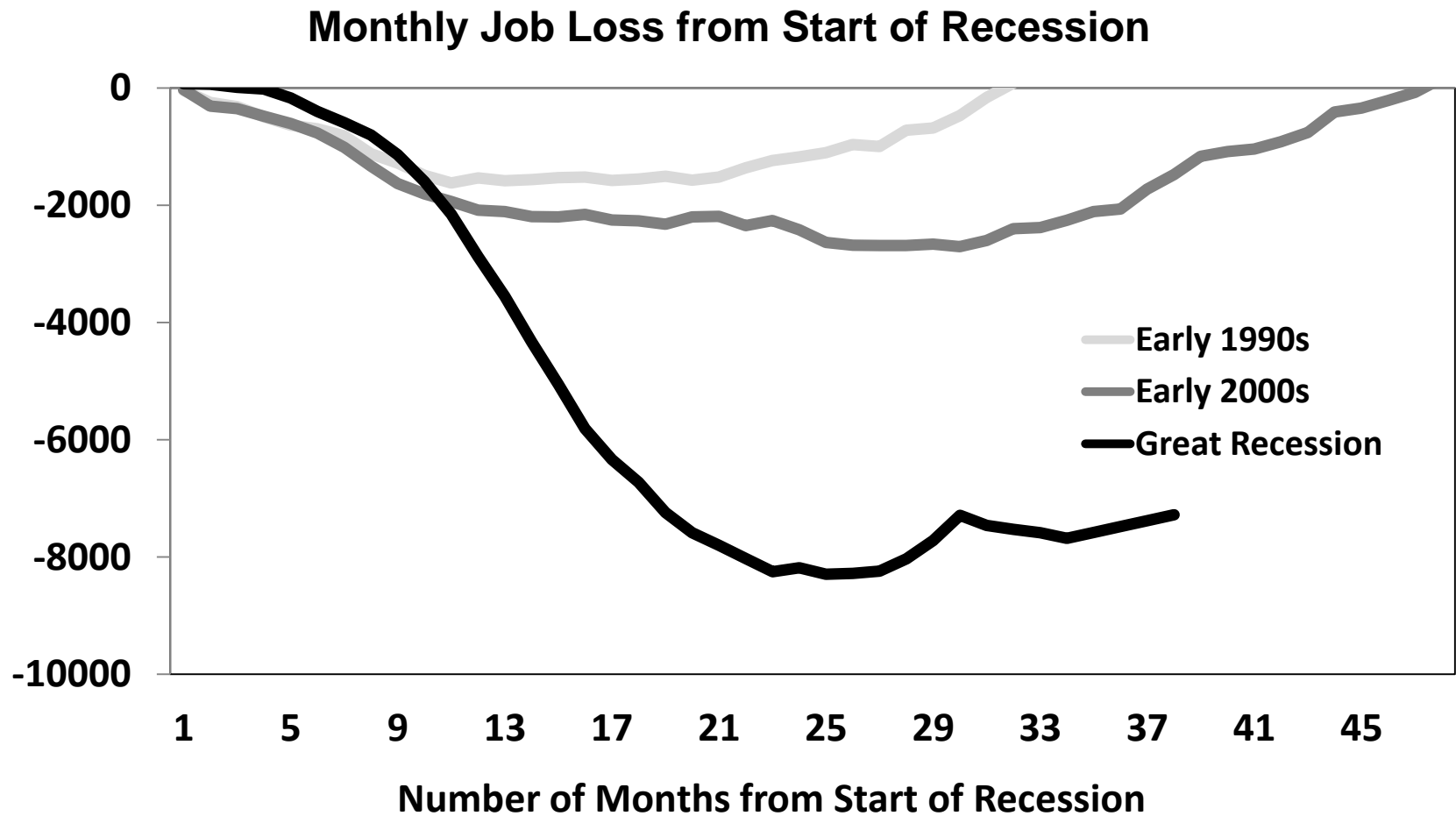
Thirteen Recessions Since The Great Depression



Source: National Bureau for Economic Research

One Key Unique Characteristic...

... is the Size and Rate of Job Losses



Other Unique Characteristics

- Entered recession with historical low interest rates
- A panic not seen since the 1920's
- The speed of ...
 - ... Information
 - ... Transactions
- Decline in home prices
- Greater reliance on self-directed finance

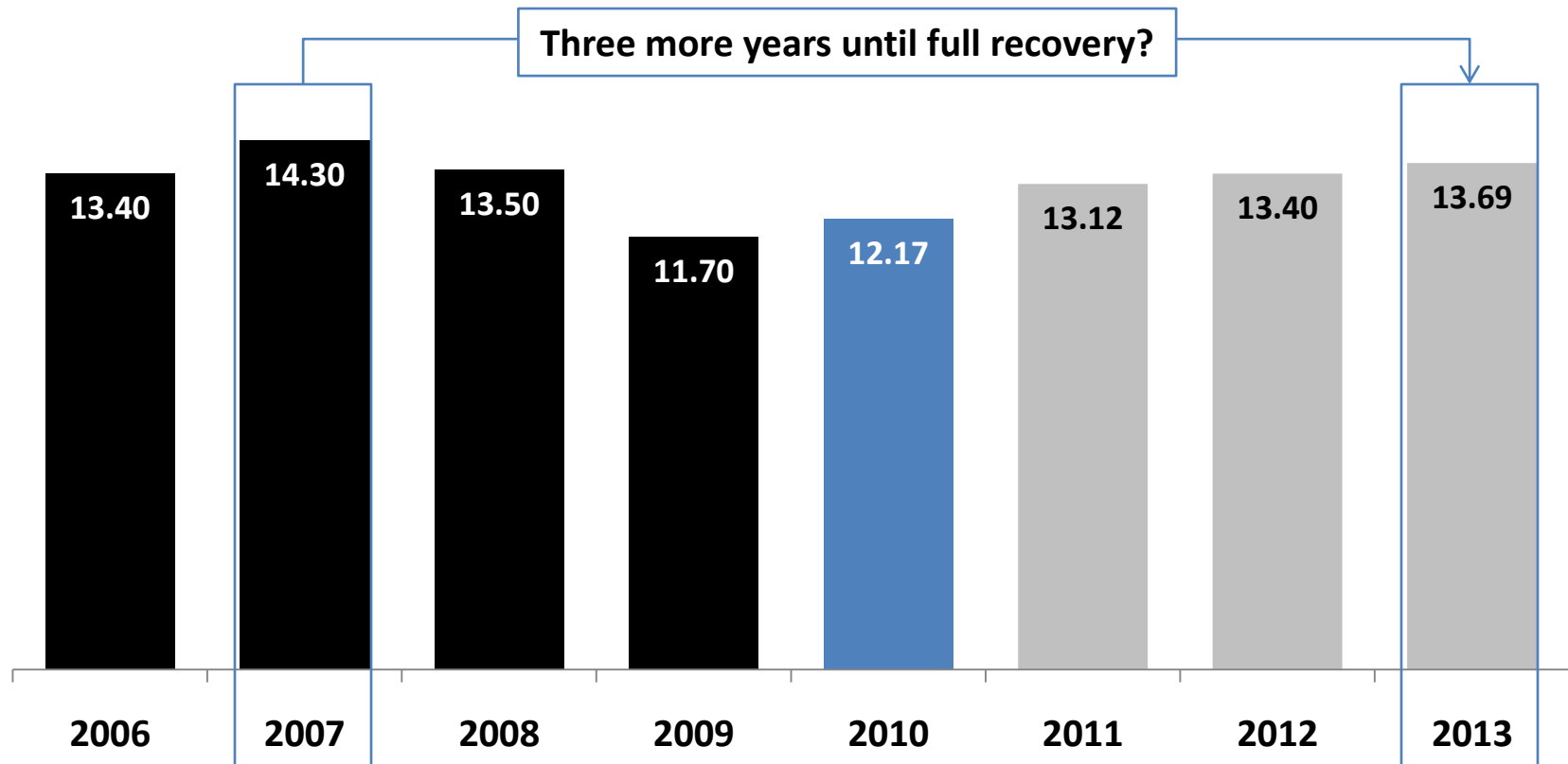
Other Similar Characteristics

- Unemployment rates at 10%
- Ten-year returns on equities negative
- A negative wealth effect
- Stagnant median household income

Implication

Life Sales

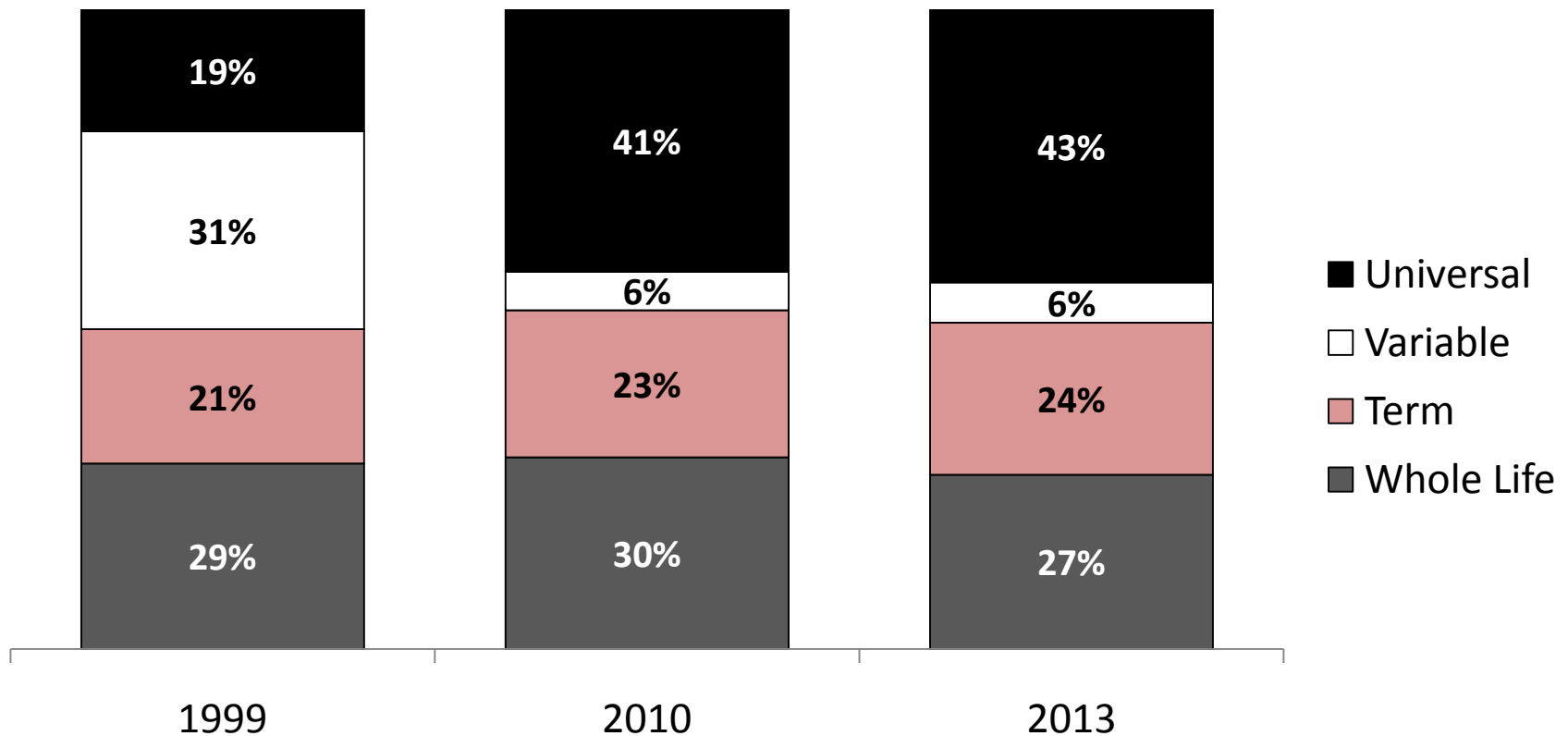
(Annualized New Premium \$billions)



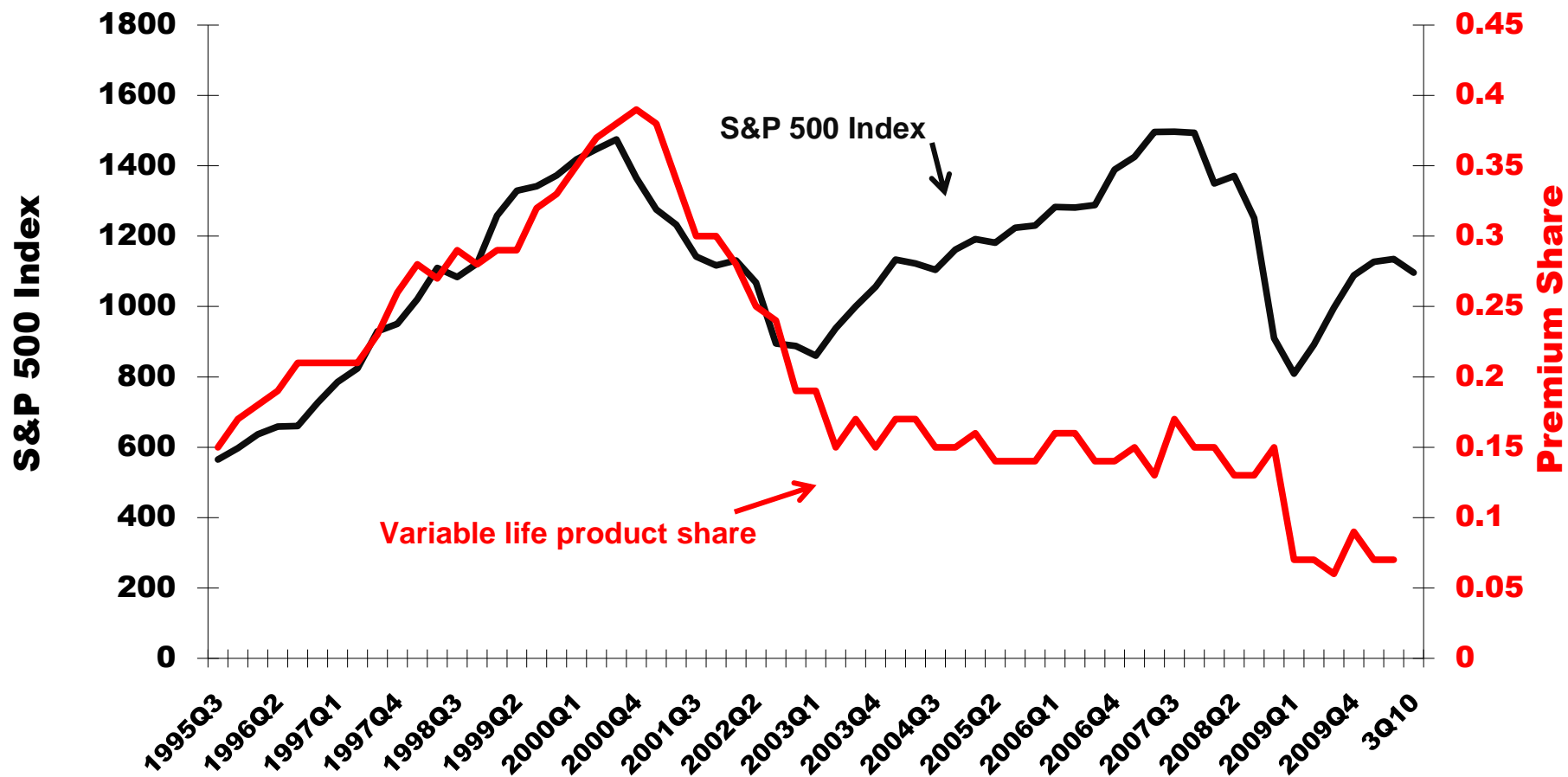
Implication (cont.)

Life Sales

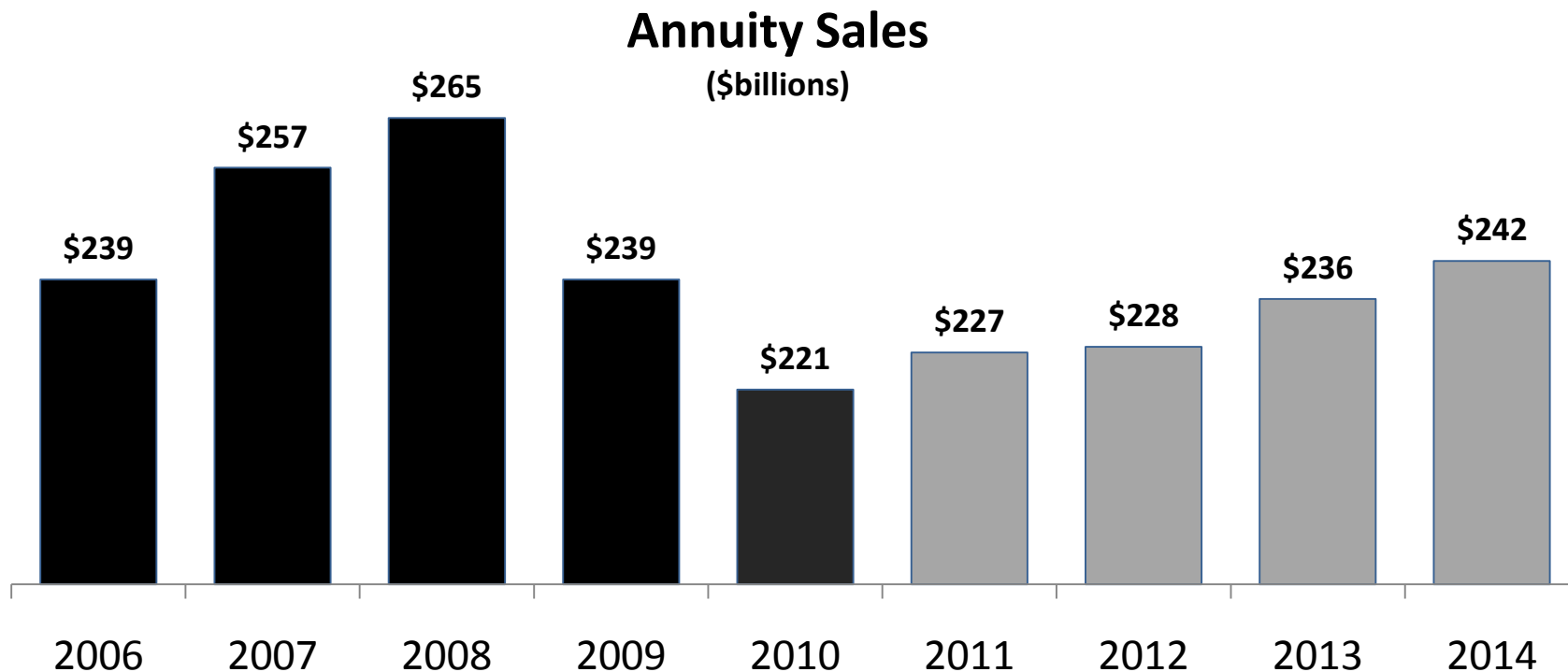
(% of New Premium by Product)



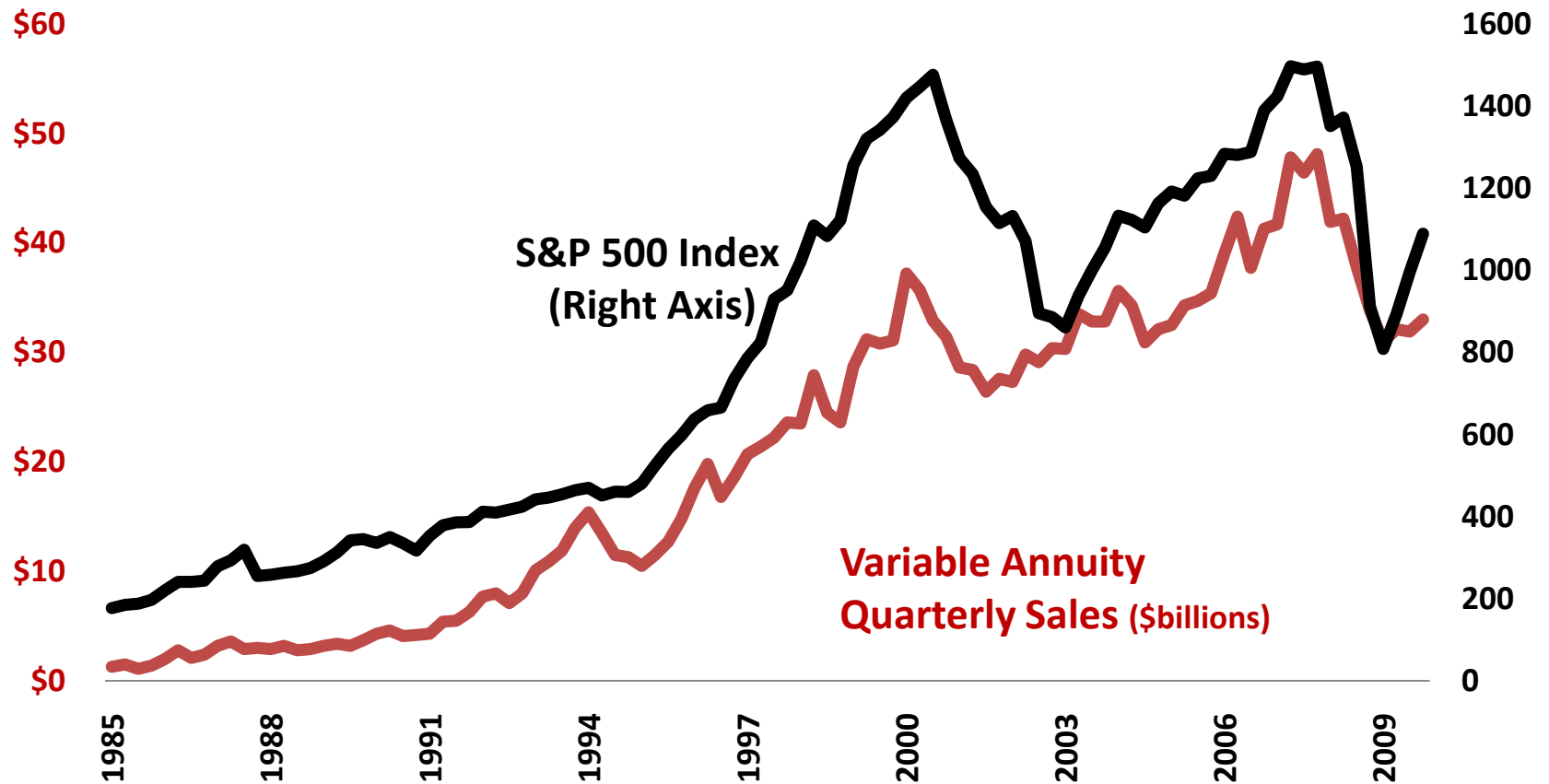
Implication (cont.)



Implication (cont.)



Implication (cont.)

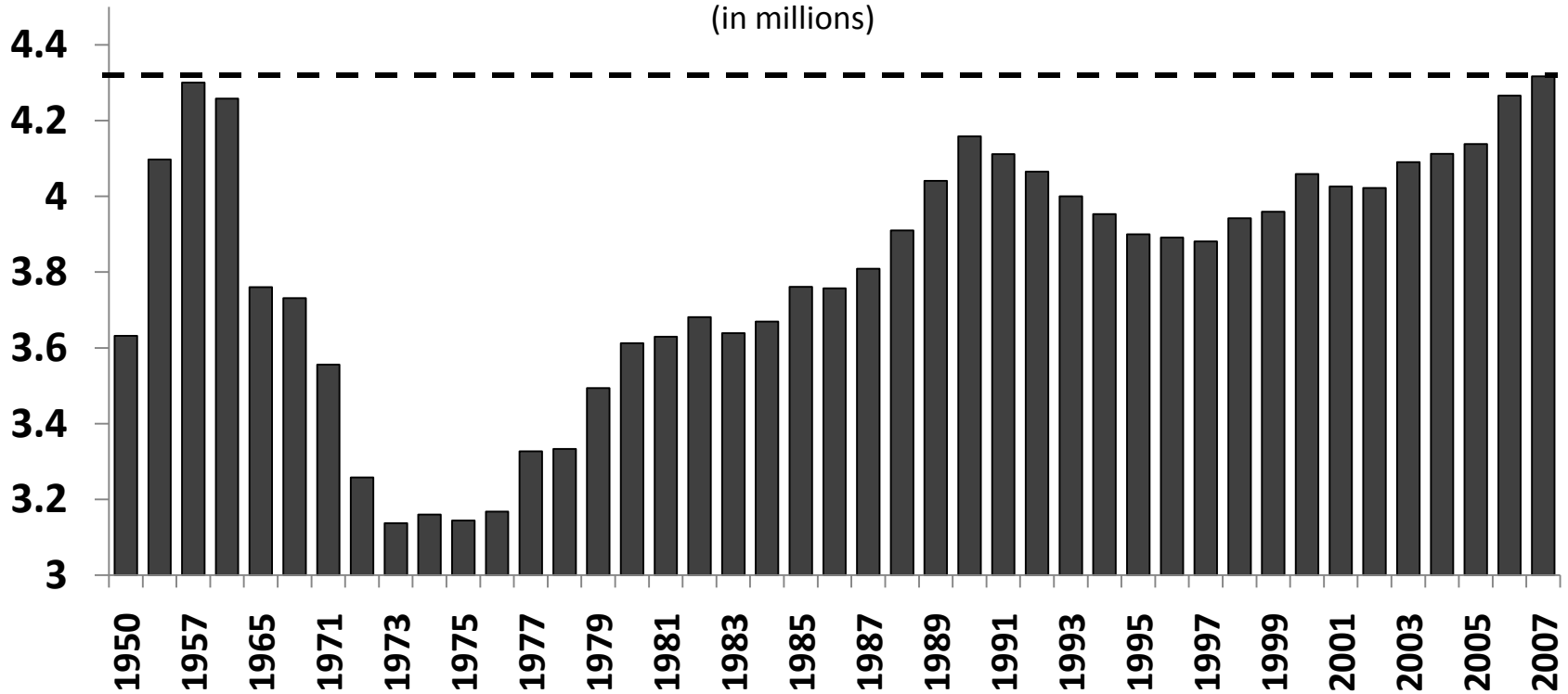


Questions or Comments?

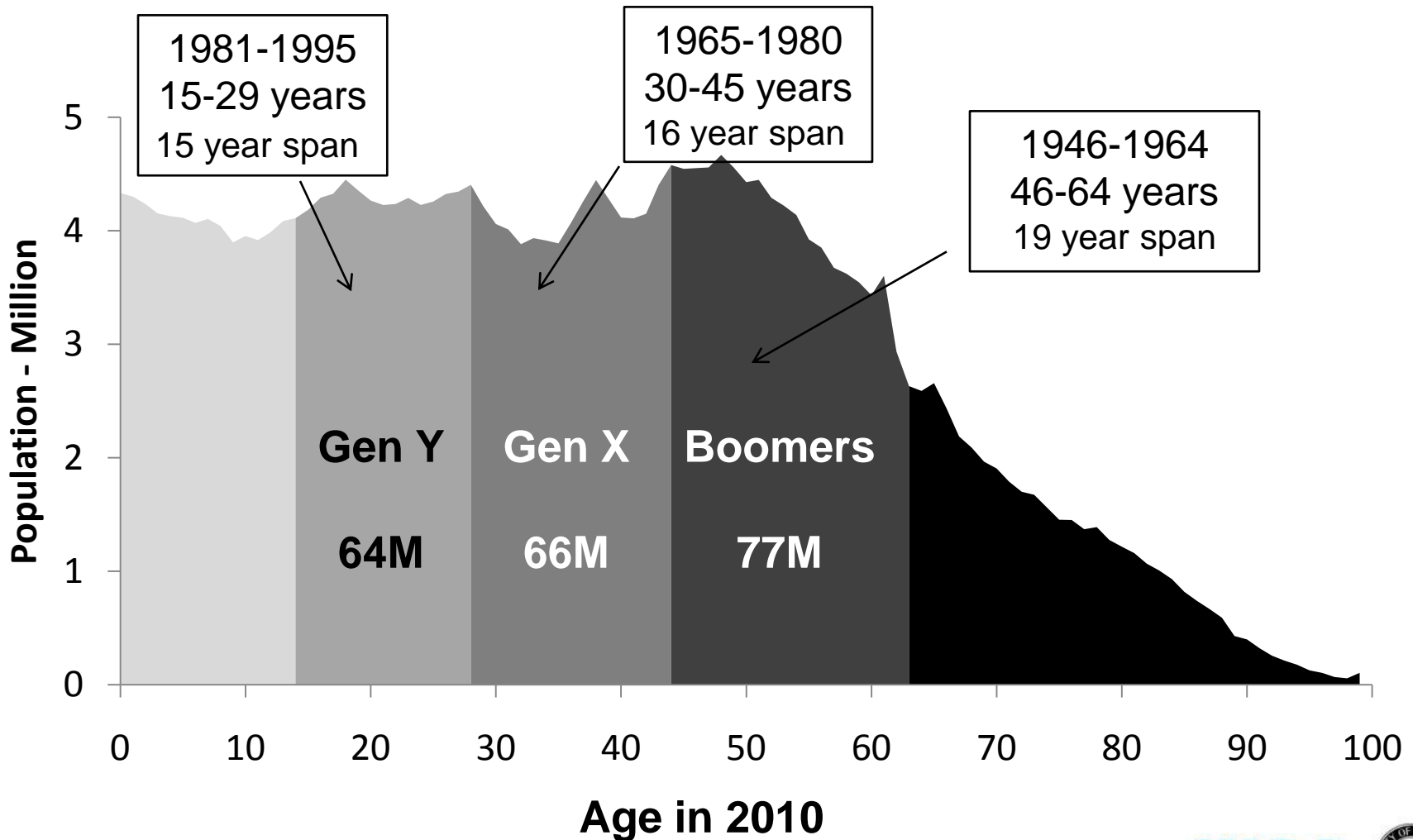
Aging Population or Not?

U.S. Births by Year

(in millions)



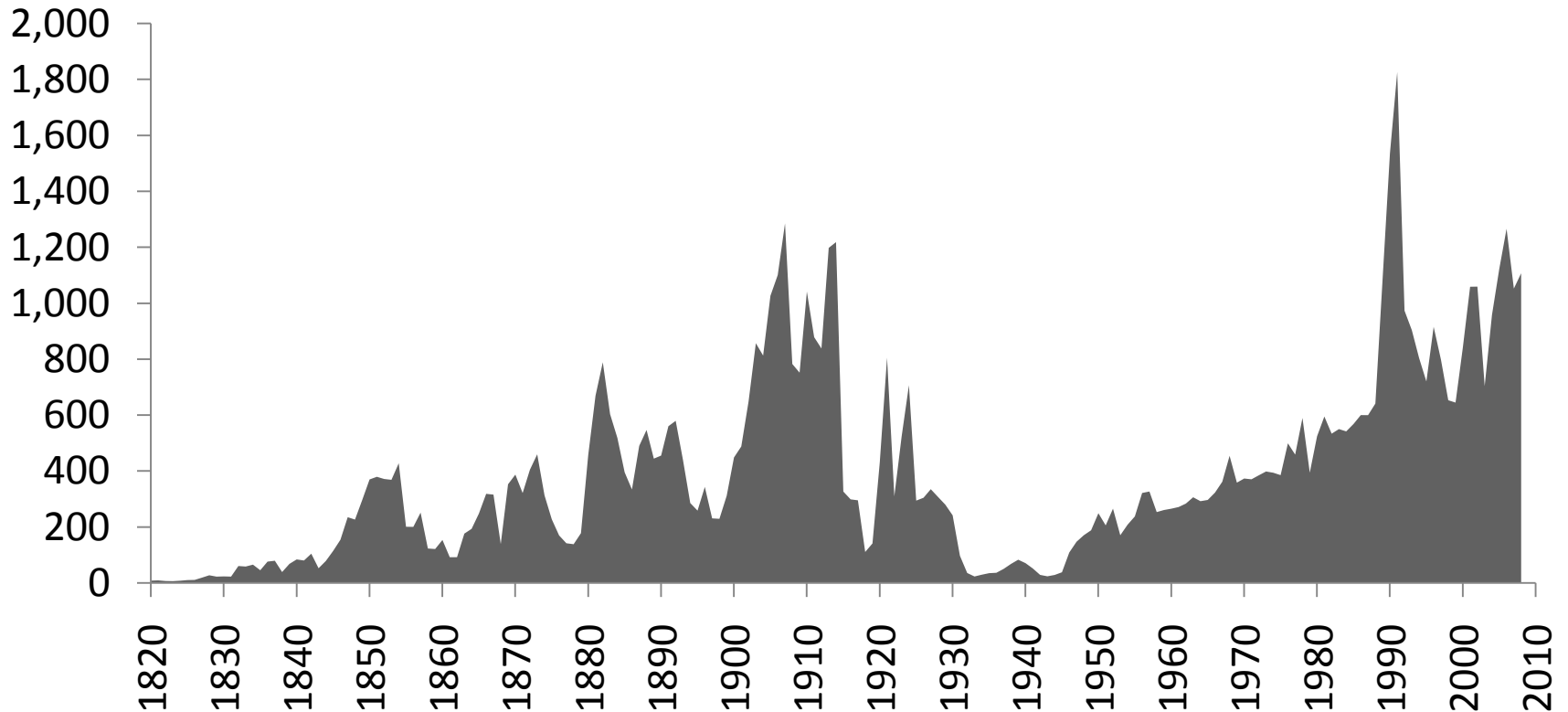
A Diversity of Markets



Source: U.S. Census Bureau

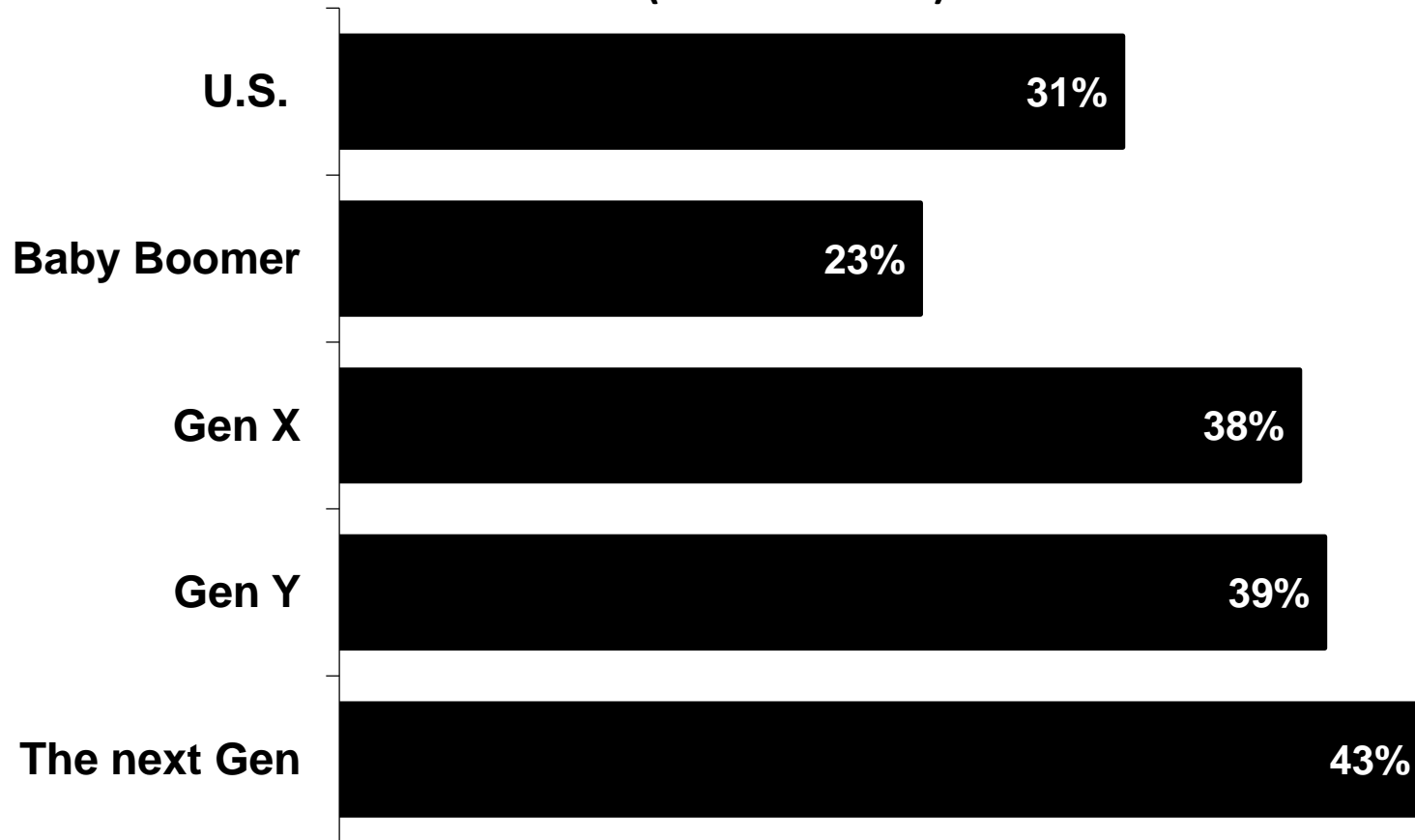
A Diversity of Markets (cont.)

Legal Immigration (000's)



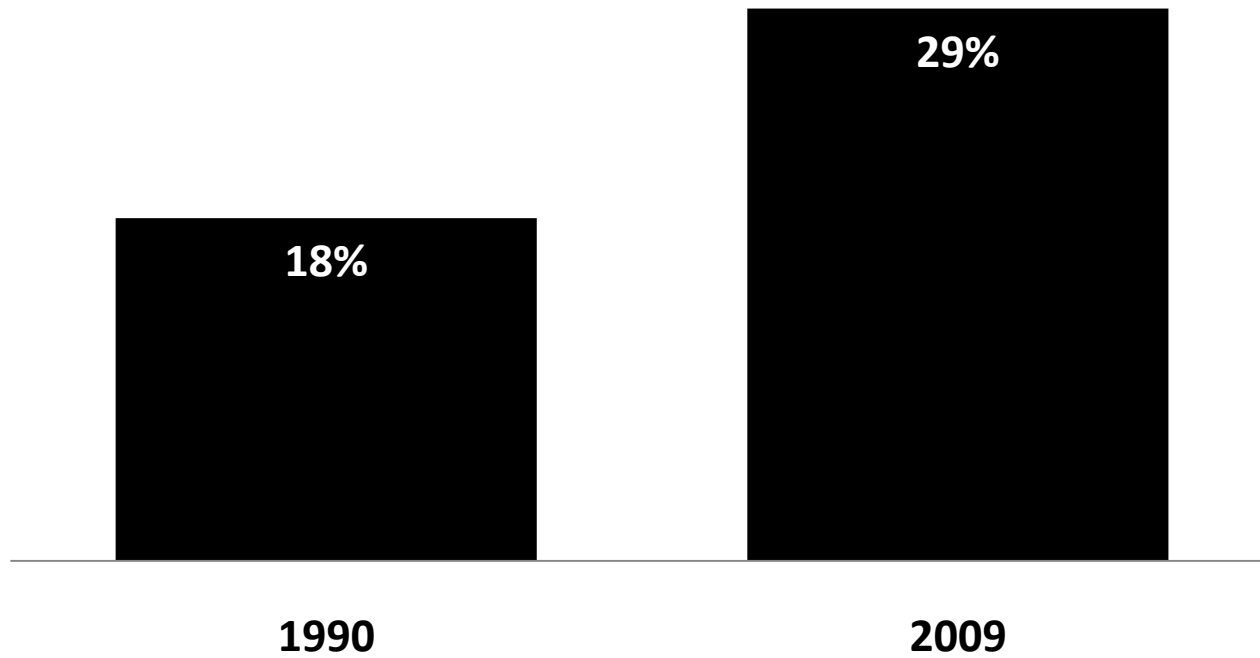
A Diversity of Markets (cont.)

Hispanic and/or Non-white (as % of cohort)



A Diversity of Markets (cont.)

Wives Earning More Than Husbands (Base married couples)



A Diversity of Markets (cont.)

Other major trends include:

- Multi-generational households
- Record number of “blended families”
- Women better educated than men

Key Implication

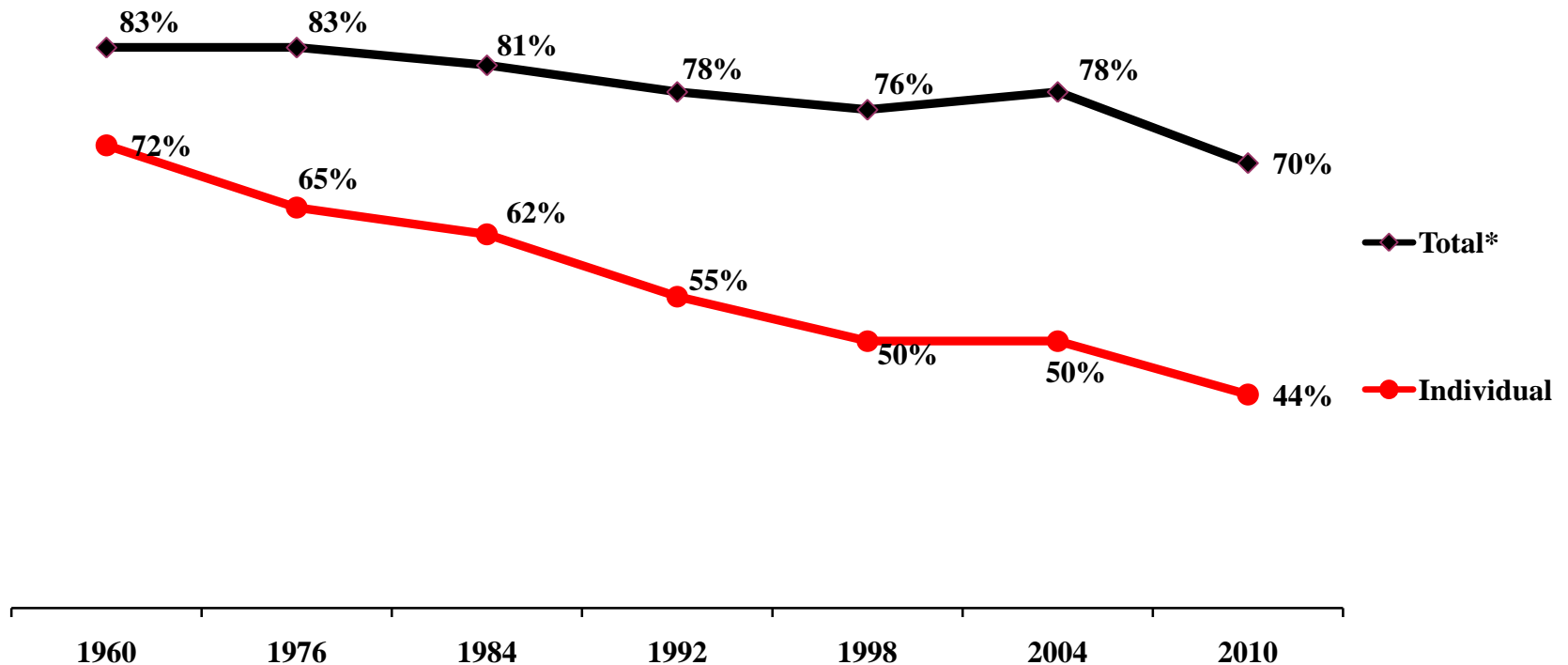
Recognizing the Need for a Robust Segmentation Strategy Based:

- **Demographics** – age, income, gender, geography, ethnicity
- **Economics**– revenues, costs, profit and lifetime value
- **Behavior** –ownership, spend patterns, channel use
- **Attitudes** –brand loyalty, trust, financial orientation

Implication (cont.)

Overcoming the Decline in Life Insurance Ownership

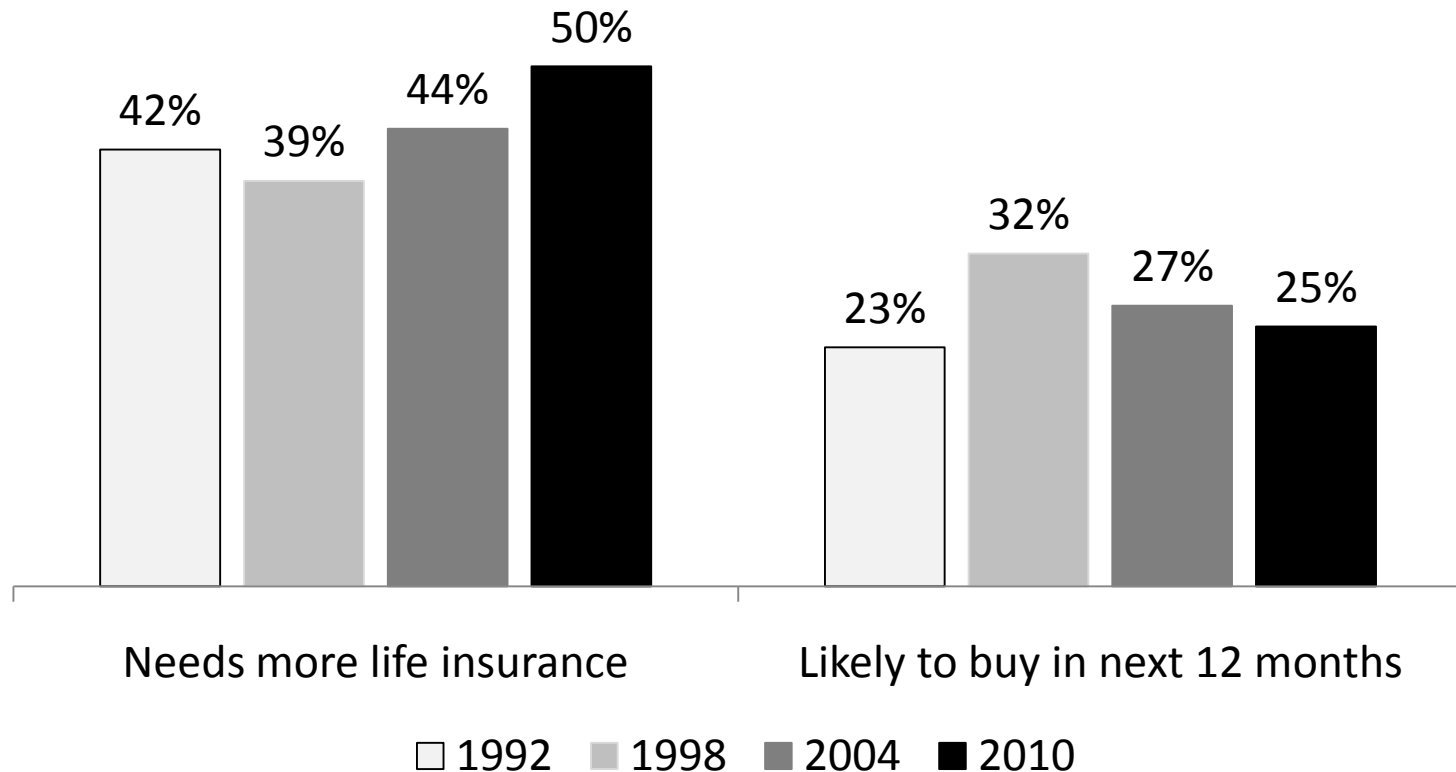
(Percent of households with private life insurance coverage)



* Percent of households having either group or individual coverage

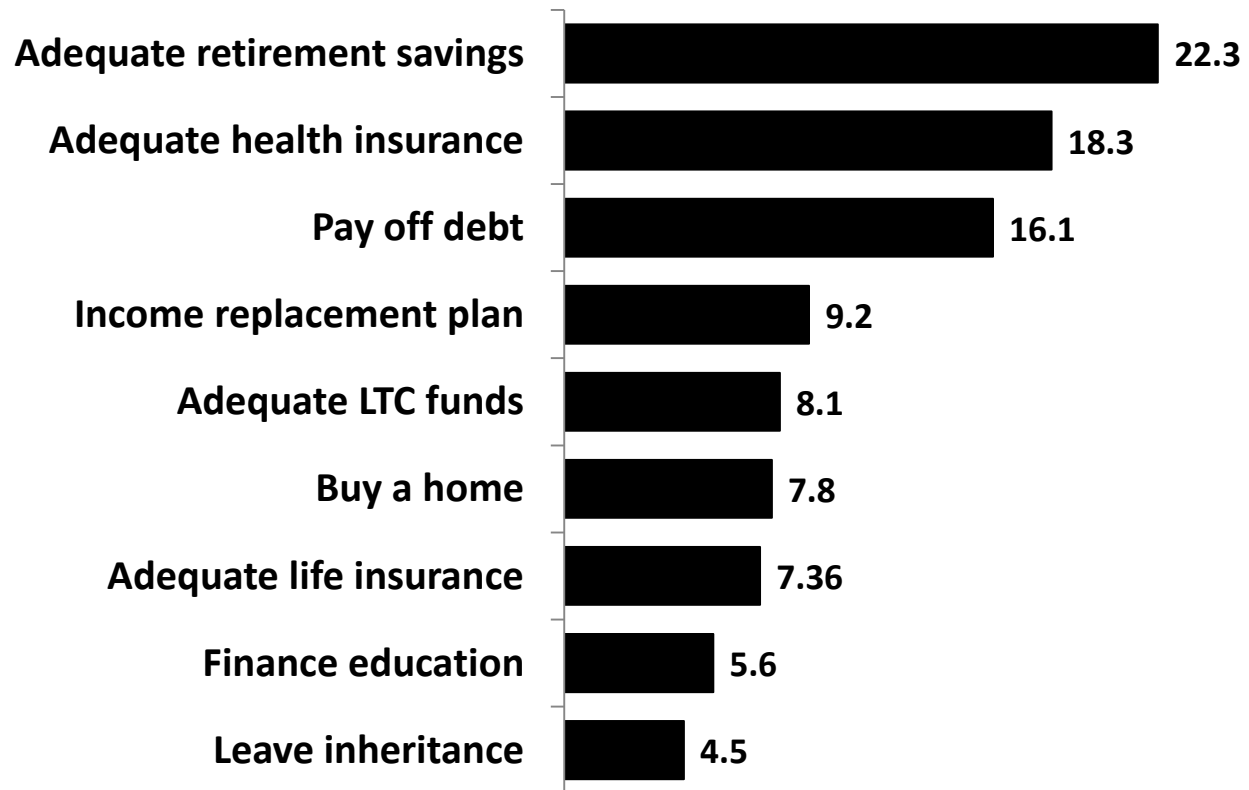
Implication (cont.)

Given consumers recognize the need for life insurance, how do we change behavior?



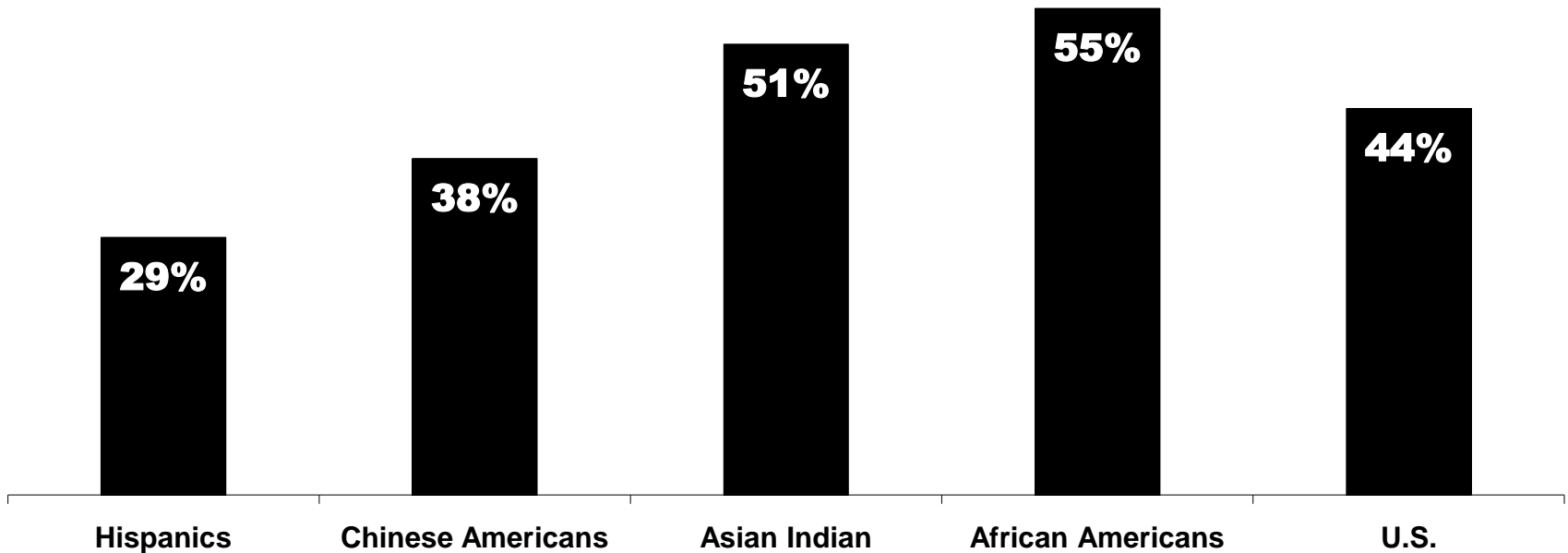
Implication (cont.)

Recognize Our Customer's Have Many Priorities, Few Dollars
(Average allocation of 100 points)



Implication(cont.)

Being Effective at Reaching Certain Multicultural Markets
(% Owning Individual Life Insurance)



Implication (cont.)

Recognize Ethnic Markets Value Different Things

African-American

- Lower tolerance for risk
- African Americans express greater interest in the concept of annuities than does the general population

Hispanic

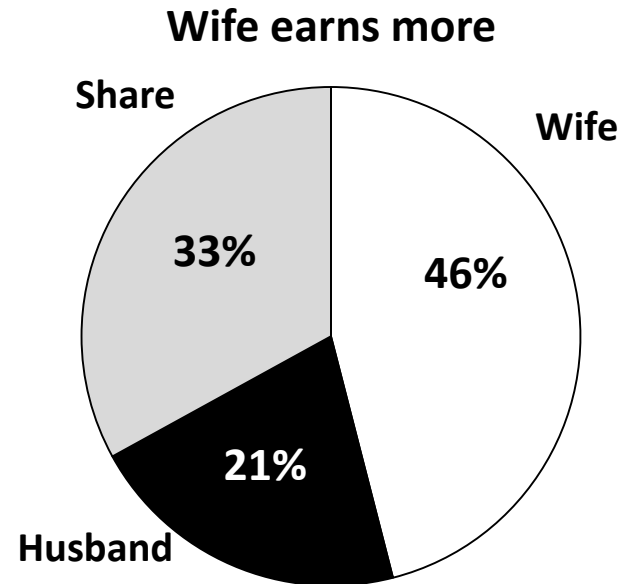
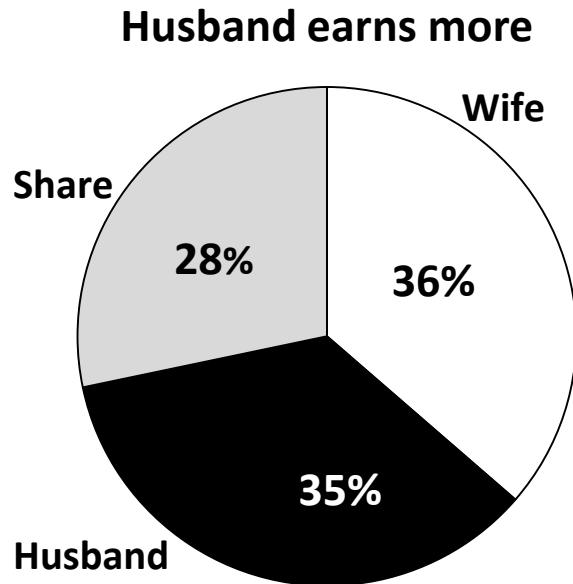
- Hispanic households often span multiple generations
- In language material

Chinese-American

- Savings oriented
- More concerned with premature death
- In language material

Implication (cont.)

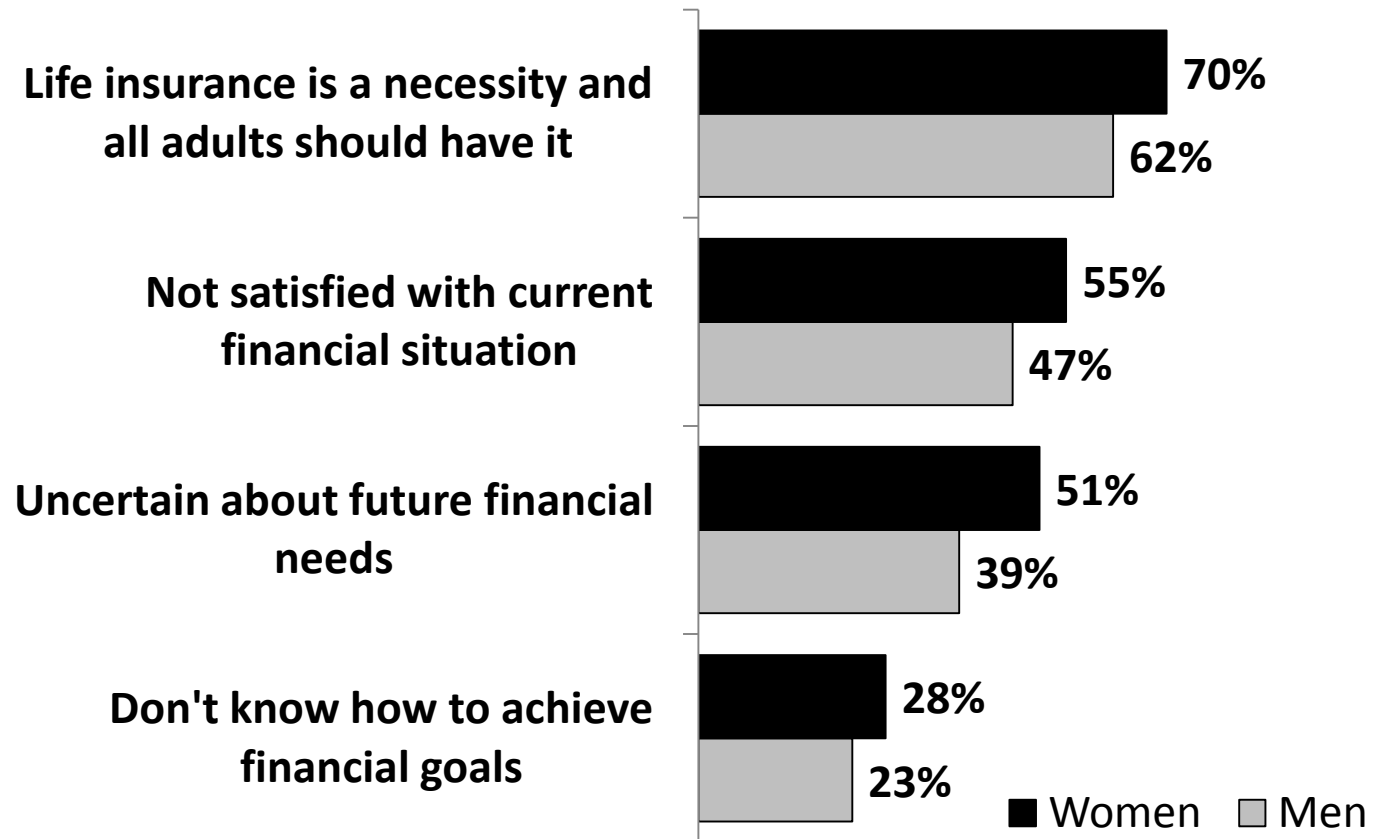
Better Marketing to Women Particularly When You Consider How Household Financial Decisions Are Made When...



Base: Married couples

Implication (cont.)

Better Marketing to Women Particularly When You Also Consider General Financial Attitudes and Women are More Receptive...



Questions or Comments?

Basic Forms of Social Media

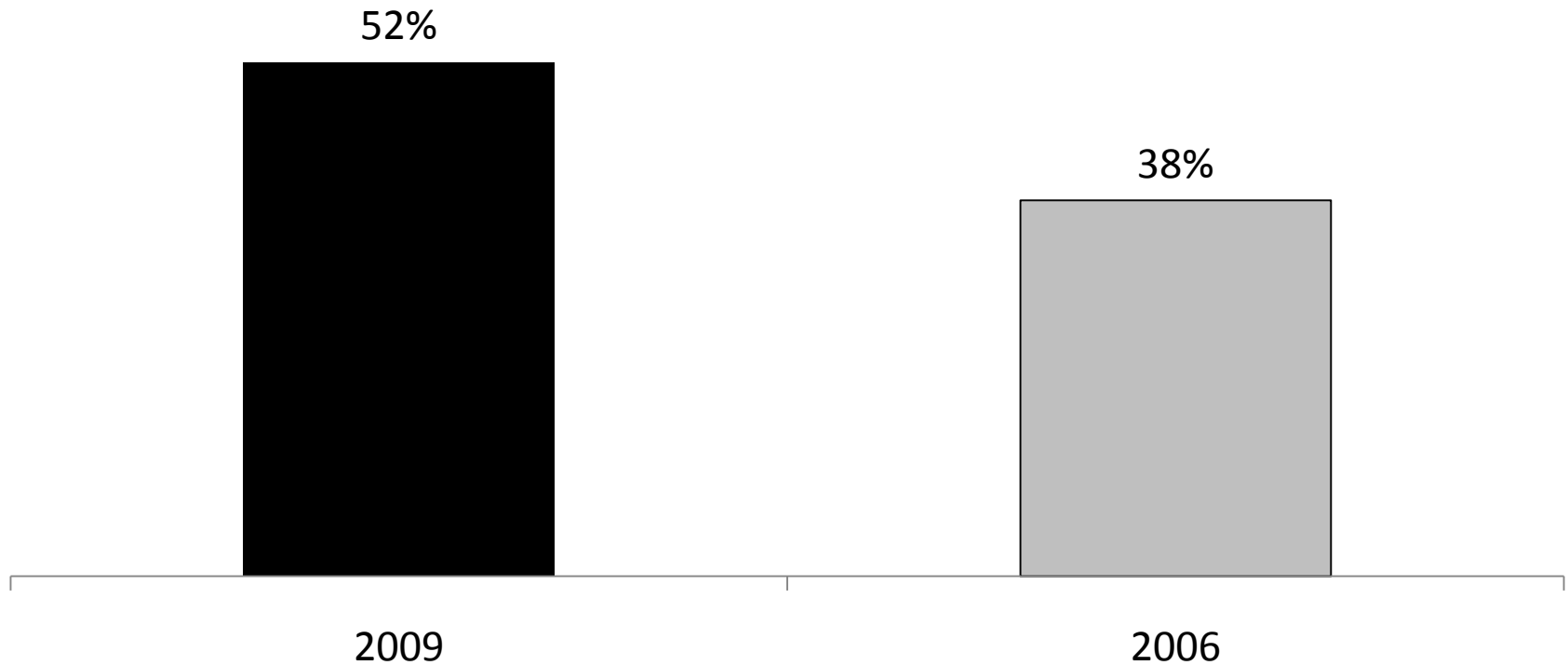
- 1) **Social Networks** – Facebook, QQ, etc.
- 2) **Blogs** – online journals
- 3) **Wikis** – websites that act as communal databases (Wikipedia)
- 4) **Podcasts** – audio & video files (iTunes)
- 5) **Forums** – areas for online discussions around specific topics and interests
- 6) **Content communities** – share particular kinds of content (YouTube, Flickr)
- 7) **Microblogging** – social networking combined with bit-sized blogging (Twitter)

The Social Technographics Ladder

Does at least one activity monthly	
Creators (24%)	<ul style="list-style-type: none">• Publish a blog• Publish your own Web pages• Upload video you created• Upload audio/music you created• Write articles or stories and post them
Conversationalists (33%)	<ul style="list-style-type: none">• Update status on social networking sites• Post updates on Twitter
Critics (37%)	<ul style="list-style-type: none">• Post ratings/reviews of products or services• Comment on someone else's blog• Contribute to online forums• Contribute to/edit articles in a wiki
Collectors (20%)	<ul style="list-style-type: none">• Use RSS feeds• "Vote" for Web sites online• Add "tags" to Web pages or photos
Joiners (59%)	<ul style="list-style-type: none">• Maintain profile on a social networking site• Visit social networking sites
Spectators (70%)	<ul style="list-style-type: none">• Read blogs• Listen to podcasts• Watch video from other users• Read online forums• Read customer ratings/reviews

Technology Trends

The Majority Of Consumers Research Online
As Consumer Internet Use For Individual Product Information Is Up Significantly



Technology Trends (cont.)

What Prompts Consumers to Search Online

Triggers	All	Gen Y	Young Gen X	Older Gen X	Baby Boomers	Silent Generation
Life event (e.g., marriage, birth, death of someone you know)	24%	30%	34%	26%	18%	17%
Advice from friends, relatives, or coworkers	23	30	31	24	18	18
Advice from an insurance professional	23	17	20	25	22	32
Information through my employer	22	24	24	22	24	9
Something in the mail	16	8	8	10	21	24
Got a job or a new job	11	27	15	10	7	2
Information online	8	5	6	9	9	5
Ad or print source (not online)	6	5	4	4	7	8
Email	6	4	6	6	7	8
Became unemployed/retired	5	4	3	4	6	8

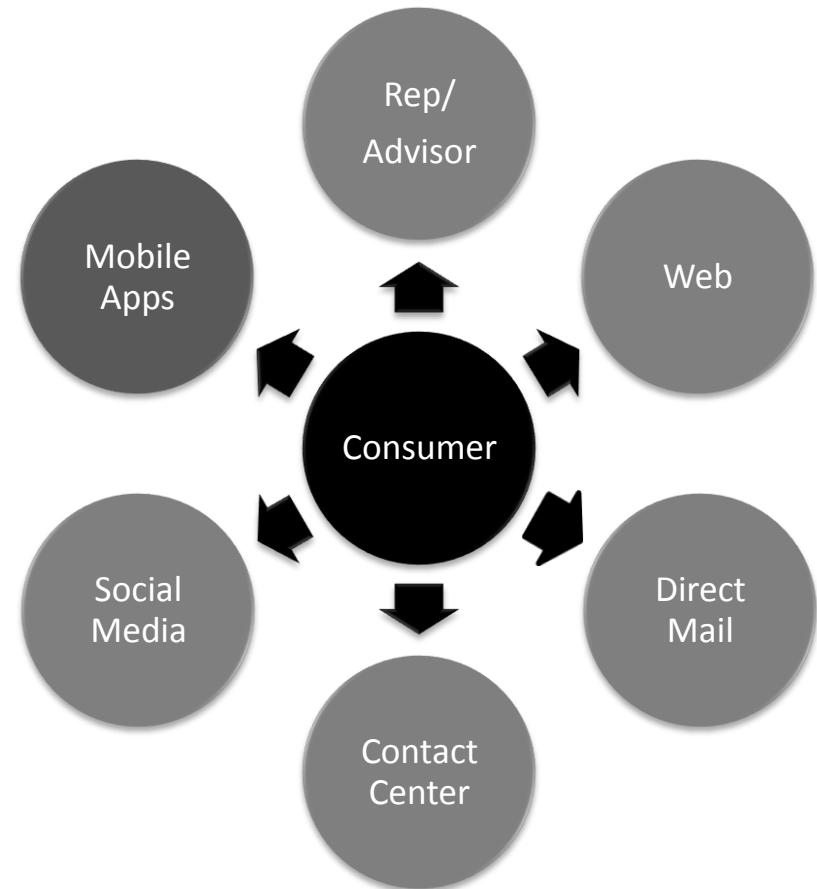
Technology Trends (cont.)

Consumers Preferred Contact Method When a Question Arises While Online Shopping for Insurance		
	2009	2006
Call a toll-free number	40%	38%
Connect to the company online via live chat	17	9
Check FAQs	16	15
Connect to the company by having the company call you	10	Not asked
Email the company	8	14

Implication

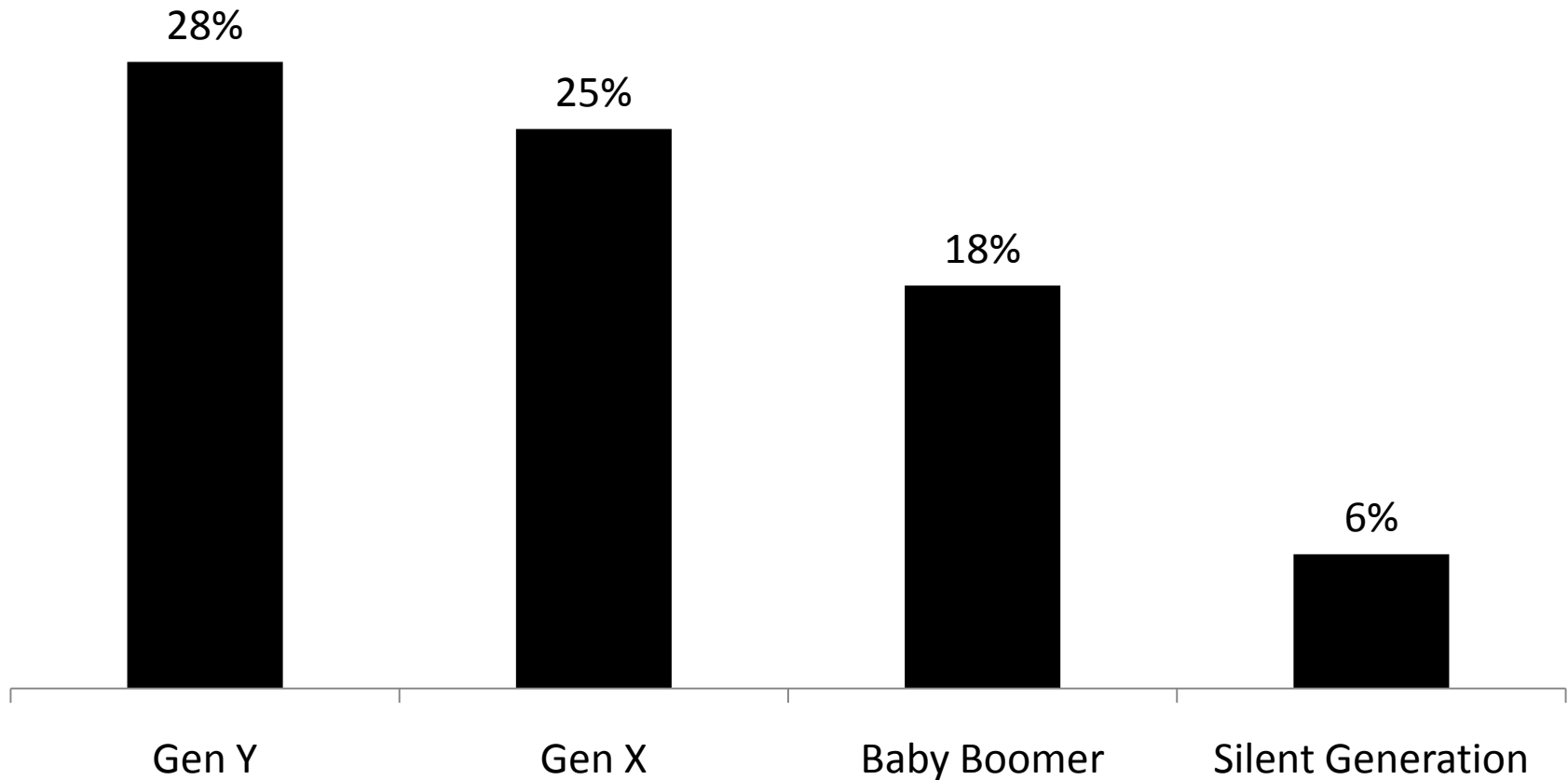
Consider Two Perspectives:

- How do we communicate with our customers?
- How do they communicate with us?



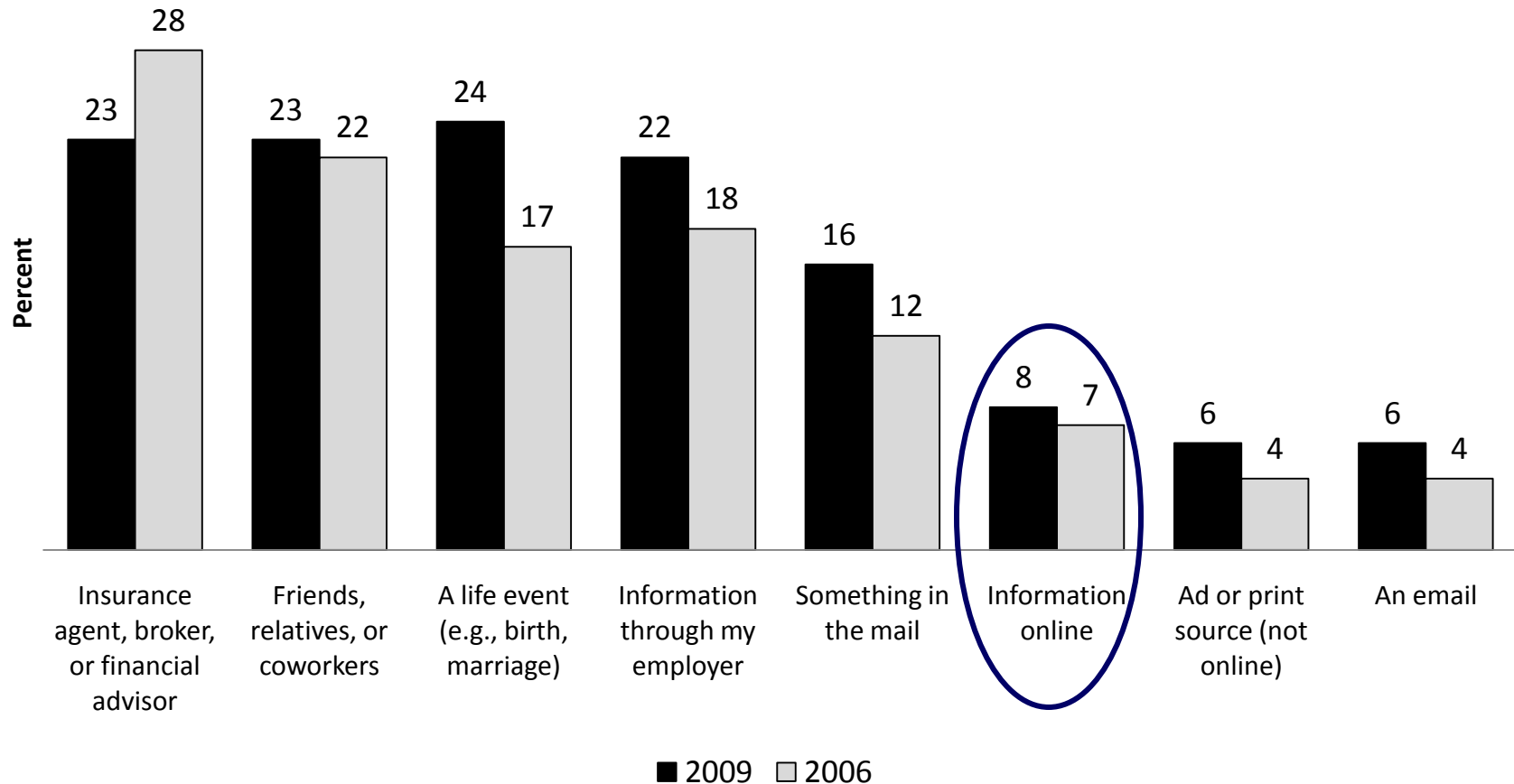
Implication (cont.)

Consider More U.S. Consumers Expect To Buy The Next Life Insurance Policy Online



Implication (cont.)

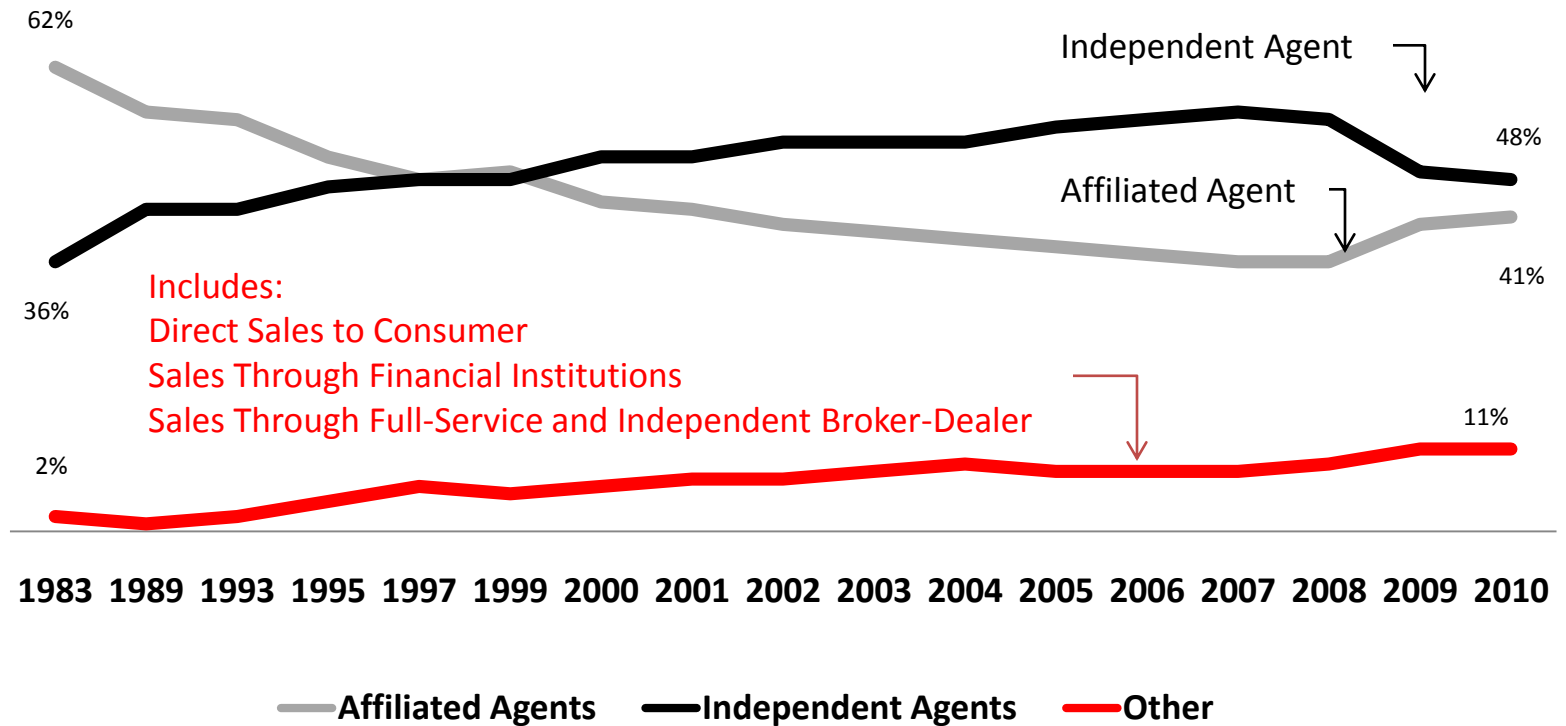
But Keep in Mind Consumers Are Still Mostly Triggered by People and Life Events As “Information online” continues to play a small role as a trigger to recognize product need.



Questions or Comments?

Multiple Channel Distribution

Individual Life Sales by Channel
(% of New Premium)



Multiple Channel Distribution (cont.)

Estimated Number of Reps and Advisors by Channel

	Total
Affiliated Agents	171,801
Independent Agent	150,765
National Full-Service Rep	56,143
Regional & Independent Broker-Dealer Rep	75,377
Bank Financial Consultant	15,250
Independent Registered Investment Advisor (RIA)	~ 15,000
LIMRA Estimate*	426,941

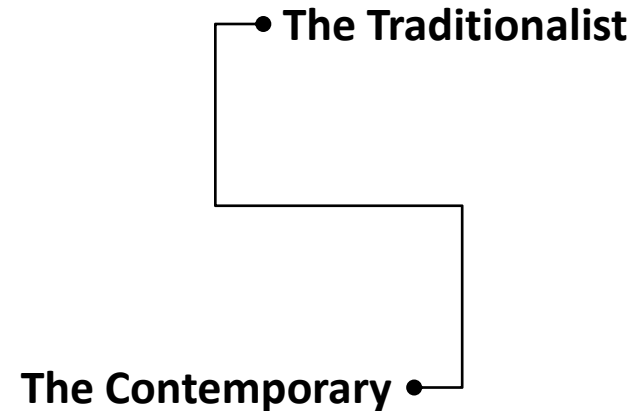
Source: LIMRA, 2009

* Adjusted for Independent Agents registered with a IBD and Independent RIA's dually registered

Multiple Channel Distribution (cont.)

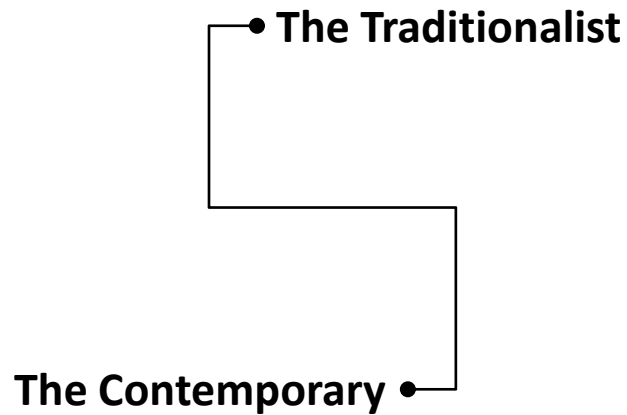
“What is emerging are two kinds of sales representatives and financial advisors...”

‘Forces of Change: Issue Facing Distribution Leaders’
by LIMRA and McKinsey & Company

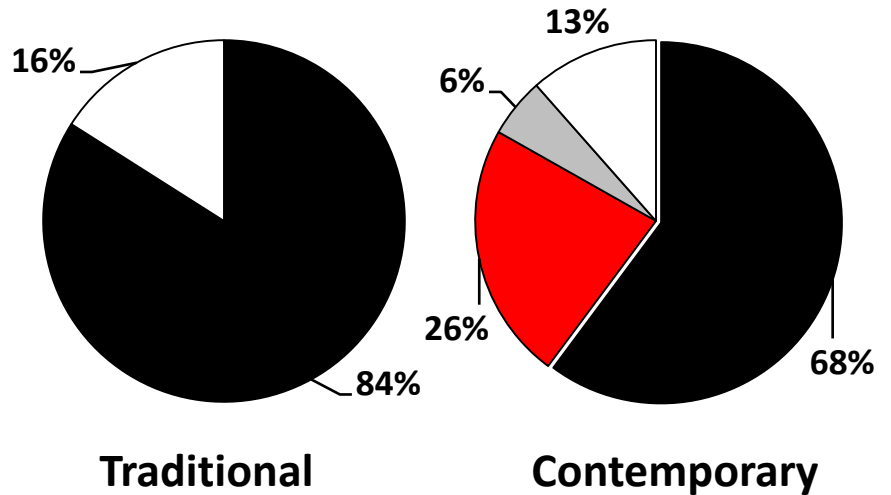


Multiple Channel Distribution (cont.)

Insurance Oriented Representative



Mix of Business

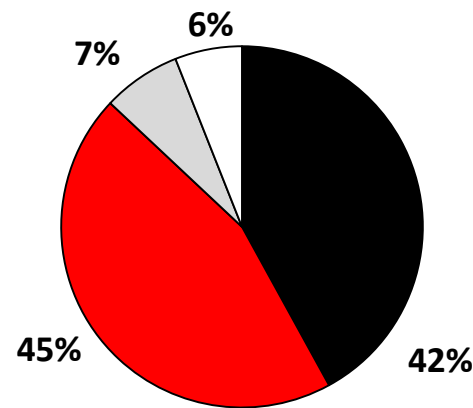
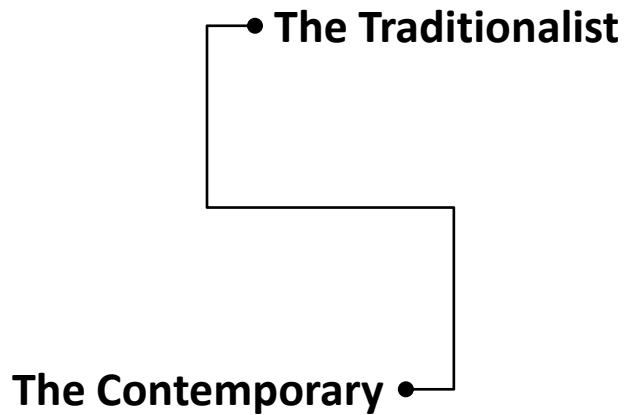


Insurance  Investments  Advisory  Other 

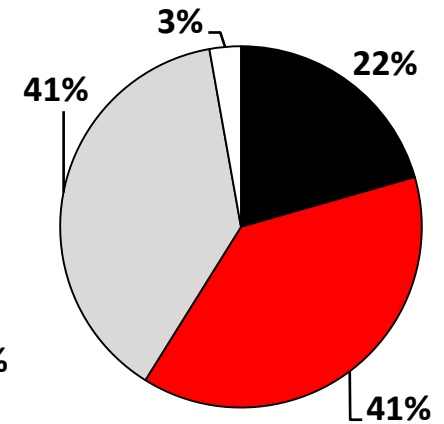
Multiple Channel Distribution (cont.)

Investment Oriented Representative

Mix of Business



Traditional



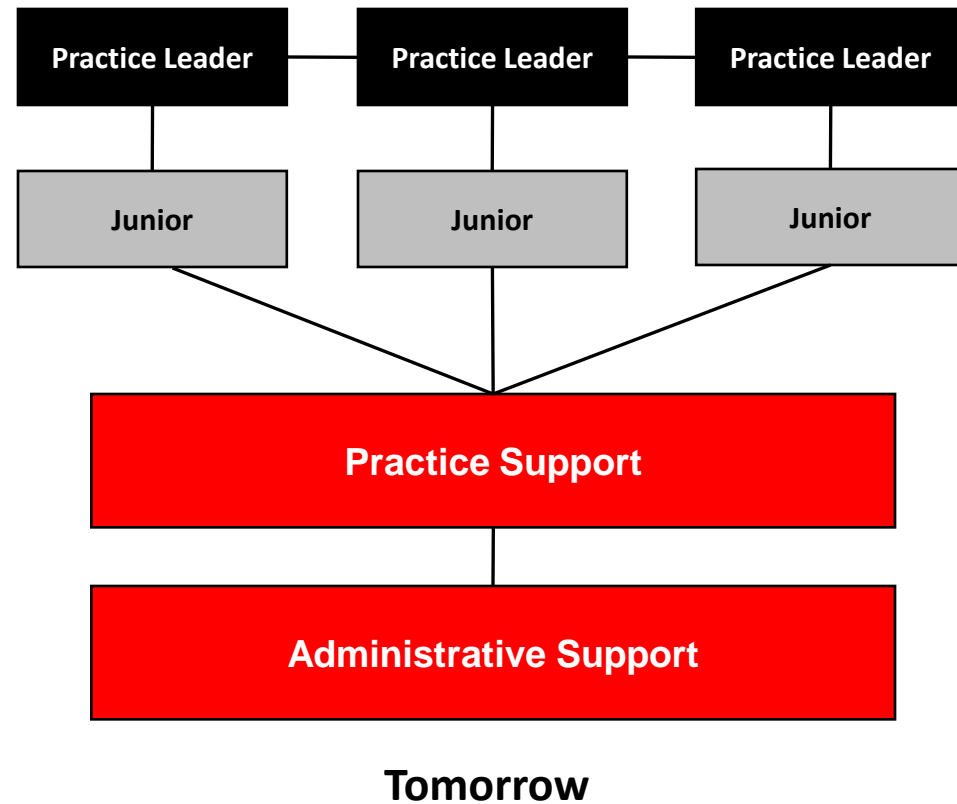
Contemporary



Implication

“Tomorrow’s offices will be built around leverage and collaboration”

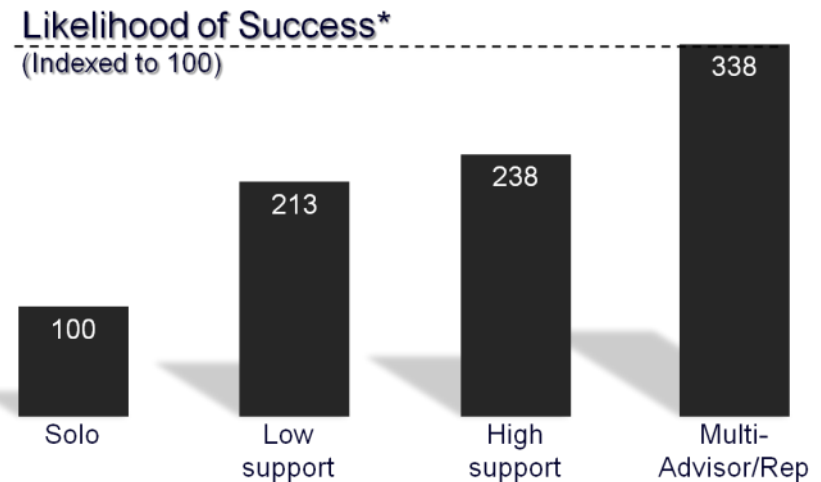
‘Forces of Change: Issue Facing Distribution Leaders’
by LIMRA and McKinsey & Company



Implication (cont.)

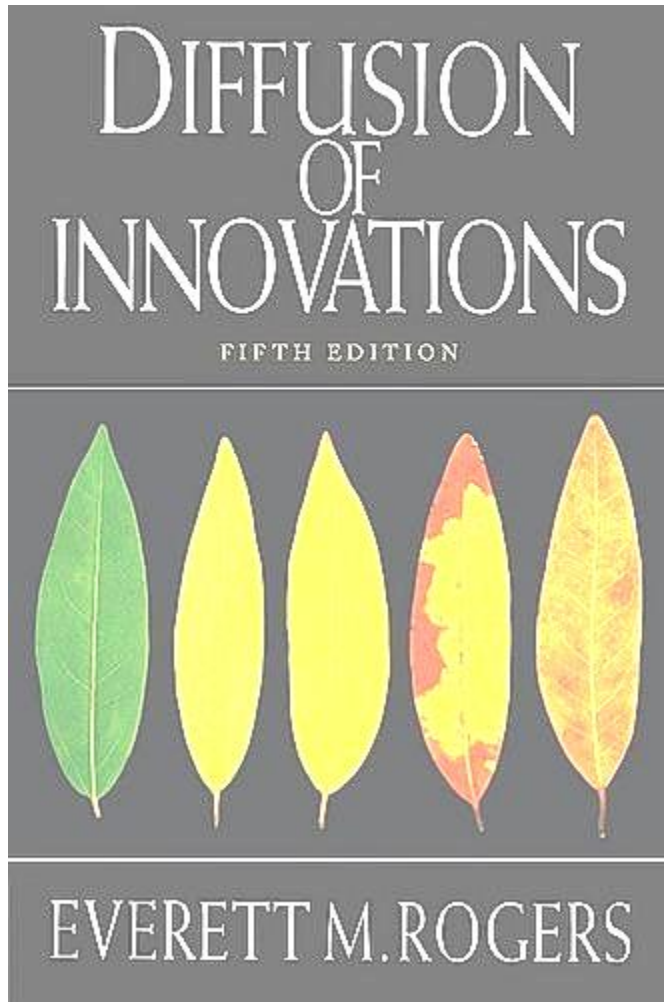
“Members of a collaborative team are three times more likely to be successful than those working solo.”

‘Forces of Change: Issue Facing Distribution Leaders’
by LIMRA and McKinsey & Company



Implication (cont.)

Consider Sales Reps and Financial Advisors' Adaption Rate for New Technology



Adaption Rate

(% Advisors/ Rep)

Early Adapters

18%

Early Majority

53%

Late Majority

25%

Late Adopters

4%

Implication (cont.)

Consider Rep's Current Use of Online Functions And Their Demand For Less Prevalent Online Functions

(% of Sales Representatives and Financial Advisors)

Function	Have it now and use	Have it now and do not use	Do not have it, but want it	Do not have it; do not want it
Reflexive forms (i.e., can complete online)	73	10	12	5
New business applications: submit online	46	16	28	10
Pre-populated forms	43	12	31	14
Electronic signatures at the point of sale	27	17	43	13

Implication (cont.)

Other

- **Better understanding and managing the risks associated with simplified issue and automated underwriting**
- **Not avoiding channel conflict but manage channel conflict**
- **Continually strive for improving integrated marketing efforts**
- **Growing need for real-time contact management**

Questions or Comments?

The Key Implication

Integrating a New Marketing Perspective:

Customer not Product

Cost not Price

Convenience not Place

Communicate not Promote



**Impact of
Environmental Change
on Products & Distribution**



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