UK and US insurance markets: sharing to innovate

Kathryn Cox

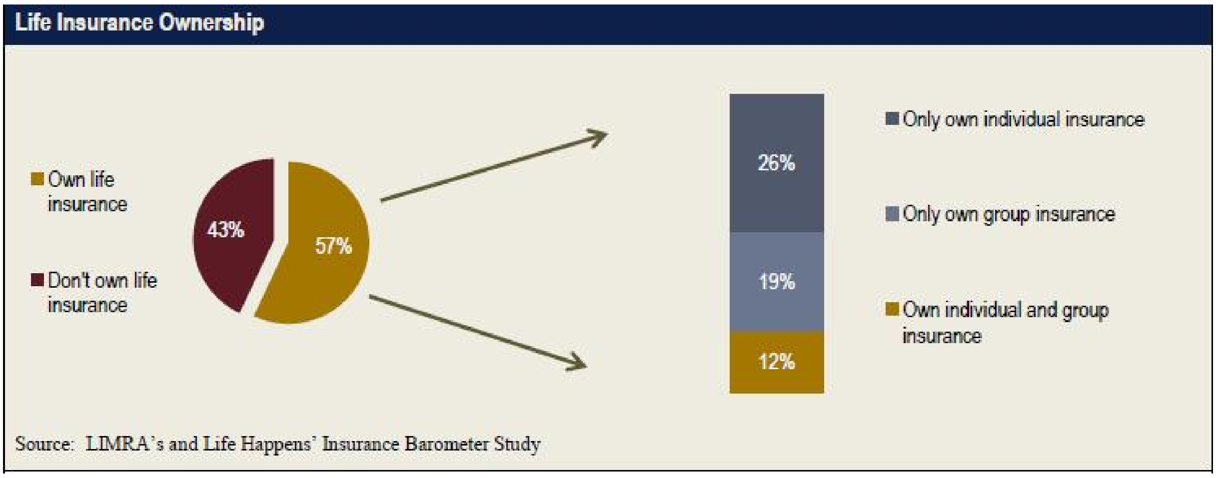
While the UK and US life insurance markets are similar – both are mature, English-speaking and heavily regulated – they are more different than might be surmised.

Some of differences come from misconceptions UK insurers might have about US consumer attitudes toward life insurance and the processes used to purchase life insurance. UK insurers tend to see US consumers as more proactive about insuring their lives and more likely to engage in open conversations about the products and amounts purchased. US mortgage advisors are also seen as making and closing credit life sales more effectively.

Let's explore these misconceptions.

Are US consumers indeed more proactive in the purchase of life insurance? In this regard, markets in both countries are similar. Life insurance continues to be a product that is sold rather than bought, and the US is still significantly underinsured: a 2011 LIMRA study found that 43% of all Americans own no life insurance at all.

Figure 1: Life Insurance Ownership



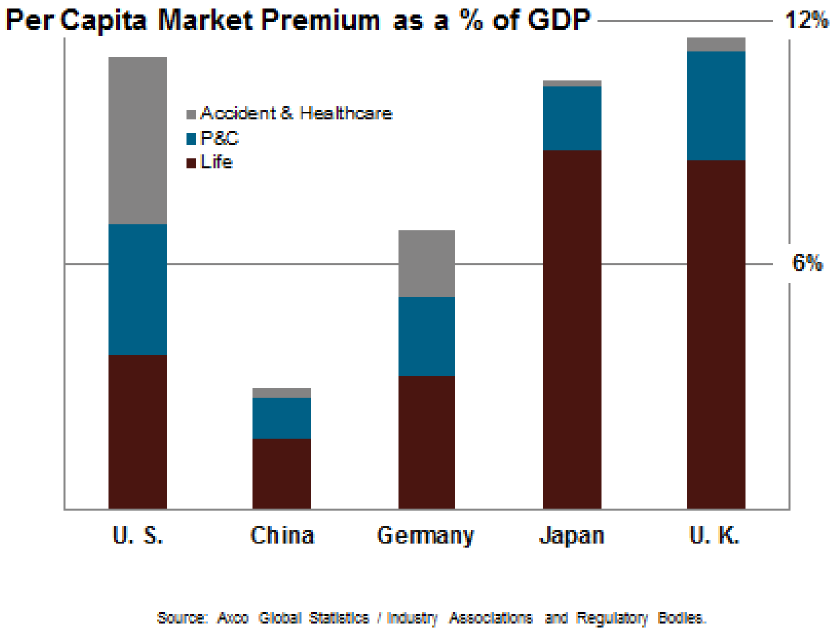
US consumers also tend not to discuss their financial plans unless they are either close to retirement or looking for a financial planner. Employees in US workplaces, however, will be likely to talk about their coverage, especially during the annual open enrollement period for employer-provided cover. This period creates a narrow yet strong window of opportunity for group isurance providers to discuss life insurance with employees and might even leverage the exchanges built to facilitate the purchase of affordable health benefits via the Patient Protection and Affordable Care Act (PPACA) (known as Obamacare).

In terms of mortgage life products, the two markets are quite different. In the US, obtaining a mortgage is a fairly straightforward process; the offer of life insurance is generally not discussed during the mortgage process, but instead, after the loan is finalised. US mortgage life products are not distributed by an agent, but through direct mail after the consumer has moved into their new home. They also have the lender as beneficiary, are typically structured as guaranteed acceptance and the product is decreasing term. Take-up rate is generally low and premiums are high. For individuals that do have life insurance, mortgage debt can be a key component in the needs analysis. Purchase of an underwritten term insurance product that will cover the amount of the mortgage is a better value for a healthy consumer than the guaranteed acceptance mortgage protection insurance available in the US.

There are many reasons life insurance penetration in the US is low, ranging from poor consumer understanding of the products and misperceptions about price and affordability, to the onerous needs analysis process (not to mention the lengthy and invasive underwriting process) and the lack, whether perceived or actual, of disposable income available to spend on insurance.

Interestingly, the overall spend on insurance written by life and P&C companies, as a percentage of gross domestic product, is similar in both countries, but in the US, which has no universal health system, per capita healthcare spending is significantly higher.

Figure 2: Per-Capita Market Premium as as Percent of GDP



Underwriting is notably different in the two countries. The lack of a universal health system in the US means there is no unified countrywide system for storage or maintenance of individual cradle-to-grave medical records. US insurers therefore require bio-fluid specimens and paramedical exams at fairly low levels of life cover. US insurers also segment risks into multiple categories beyond non-smoker and smoker to identify the best risks and price them accordingly. US insurers segment risks into as many as six preferred and standard classes (most only use three to four), and determine where an applicant fits by requiring bio-fluids and parameds in order to check major medical conditions and verify basic biometrics.

US life insurers also mandate a contestable period of two years, during which claims submitted, if they meet the insurer's definitions for fraud, can be declined and coverage rescinded (interestingly, there is very little post-issue underwriting in the US). There is justifiable concern in the US about applicant transparency and honesty, and fraud. Even when customers know, for example, that they will be tested, a percentage will still misreport their smoking status. A 2013 article published in the *Journal of Insurance Medicine* stated that 19.3% of insurance applicants self-reported they were not smokers, despite taking cotinine tests (which they knew they would have) that conclusively indicated they were smokers.[1]

Insurers and reinsurers in the U.K. very much recognise the need for change and innovation in how life insurance products today are structured, priced and marketed. Companies must open up the dialogue,

[1] James Palmier, MD, MPH, MBA; Brian Lanzrath, MBA; Ammon Dixon, MAOA; Oluseun Idowu, PhD, "Demographic Predictors of False Negative Self-Reported Tobacco Use Status in an Insurance Applicant Population," *Journal of Insurance Medicine*, December 11, 2013

educate consumers, improve and enhance all processes and strengthen underwriting, with the ultimate goal of providing products and processes that consumers can grasp and that fit their needs.

Some examples of innovations in the US with potential applicability in the UK include:

- **Social communities**. Life insurance companies in the US are creating real-life social communities where individuals can expand their financial knowledge in social settings alongside like-minded individuals. State Farm's Next Door™ brick-and-mortar coffee shops, American Family's DreamBank in Madison, Wisconsin, which features exhibits, lectures and events to spark innovative thinking among visitors, and MassMutual's Society of Grownups initiative, designed to help young people strengthen their ability to achieve their financial goals through face-to-face classes and lectures as well as one-on-one advice, are examples of this.
- **Robo-adviser companies.** These are defined by Investopedia as online wealth management services that provide automated algorithm-based portfolio management advice without the use of human financial planners. At least 25 robo-adviser companies are known to be in the market today. Although most consumers still prefer to receive advice face to face, robo-advisers may align well with certain straightforward products and with consumers who prefer to conduct business online.
- **Education.** Non-profit organizations such as 'Life Happens' publicise the need for life insurance and provide a broad range of educational materials about protection coverage to consumers.
- **Direct-to-consumer internet sales.** The internet today features in eight of every ten life insurance sales in the US, whether due to research, needs analysis or the actual direct purchase. One example of an end-to-end process is HavenLife from MassMutual, a term life insurance policy that can be purchased entirely online within minutes.
- **Data enhancements.** The use of prescription histories and the recent introduction of insurance credit scores into the underwriting process are examples of enhancements that have been transforming the underwriting experience. Both are non-invasive, instantaneous sources of data that have been proven to add protective value, predict mortality and complement or replace the need for bio-fluids in certain products.

While the two markets have many parallels, life insurance across the pond remains similar but explicitly different. Where our two markets can learn from one another is in the themes both are mining in order to develop simple, straightforward buying processes for the customer.

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