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No 6/2013

Life insurance: focusing on the consumer

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Executive summary

Conventional wisdom has it that buying risk protection through insurance increases individual and societal welfare.

It has become apparent that people around the world are under- and even uninsured against a wide range of risks, be that disability, health, longevity, mortality or other. Conventional thinking presumes that the purchase of risk protection through insurance products increases individual and societal welfare. A simplistic inference is that individuals, as rational beings, buy insurance to meet an implicit need for protection and following in this vein, that life insurers have an easy task selling their products.

Yet the reality is that many people do not buy life insurance.

Yet mortality protection gap data[1] tell a very different story, revealing instead substantial inadequacy in life insurance coverage across societies at large. Contrary to it being an easy task, this report shows that in the real world, the buying and selling of life insurance is a challenging process for both sides of the transaction.

There are common themes across different regions why people don't buy life insurance.

Data from consumer surveys from the US, Latin America, Europe and Asia reveal some common themes as to why consumers do not buy life insurance, including price, affordability and value for money. Other key themes are a perceived lack of need, limited product knowledge, product complexity and lack of trust in the insurance industry. Interestingly, surveys indicate that while individuals are often aware that having insurance would be beneficial, they still don't buy it. This discrepancy hints to the inadequacies of traditional economic theory in explaining consumers' buying behaviour.

Behavioural economics offers further insights into consumer decision making.

Behavioural economics has gained more attention in recent years and is a rapidly growing field of research. The discipline is still developing and sometimes offers differing views on consumer behaviour but does nonetheless provide useful insights. Combining behavioural economics with an understanding of the institutional, legal, regulatory, ethnic and socio-economic factors affecting consumer decisions, helps shed some light on consumer buying decisions with respect to life insurance.

Life insurers have a compelling value proposition, but to be successful they need to better understand consumer needs and preferences.

As managers of risk, life insurers have a compelling value proposition to help consumers reduce exposure to uninsured risks. Risk protection is the core of life insurance, and life insurers are well positioned to help societies reduce the mortality protection gap by doing more to reach out to consumers. To do so successfully, however, better understanding of consumer behaviour and preferences is a pre-requisite.

The modern consumer wants to be empowered in his or her buying decision.

Another core theme to emerge is that the modern consumer wants to be able to research options and make choices based on objective information as well as from peer group experience. The consumer does not want to be 'sold to'. Rather, the consumer expects to be empowered in his or her buying decision.

This report offers some pointers to help life insurers adapt to changing consumer decision-making dynamics.

This *sigma* offers some pointers as to how life insurers can improve product design and the sales process to respond to this important dynamic. It emphasizes the need to invest more in consumer research and to close life insurers' own knowledge gap in order to reach those who currently do not buy or do not even consider buying life insurance. It also discusses the need to build long-term relationships with existing customers, improve communication and educate consumers on the importance of life insurance and how to assess their risk mitigation needs.

[1] The mortality protection gap is calculated as the difference between the resources needed and the resources available to maintain dependents' living standards after the death of the primary breadwinner. For methodology details see *sigma* 4/2004 *Mortality protection: the core of life.*