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FEATURE

Embracing digital disruption

Consumer buying preferences and life insurance in a digital age

Kevin Sharps, Chin Ma, Michele van Rensburg, and Nikias Stefanakis

The number of households holding life insurance is at a 50-year low. Digital disruption has changed demand and how consumers interact with agents. To adapt, carriers must use more predictive analytics, increase digital offerings, and activate agents to give advice in a digitally enabled ecosystem.

An industry in flux

Today, the life insurance industry is at a 50-year low,[1] as many US consumers increasingly struggle to understand the full value of life insurance against competing financial priorities. Simultaneously, disruptors from other industries are entering the insurance sector, shaking up the traditional models across distribution, sales, products, and services and providing an immersive digital experience that traditional life insurance carriers have not yet been able to provide.[2]

So, how did we get here and what can carriers do about it? Deloitte surveyed more than 1,600 middle-market consumers in the United States on both their attitudes toward life insurance and their path-to-purchase for life insurance products. New results from the most recent survey, combined with our longitudinal analysis from Deloitte's 2012 and 2015 consumer preferences studies, has uncovered new insights that can help carriers better understand and engage a modern, more digitally savvy consumer.

Our analysis highlighted four key takeaways:

1. Consumers generally have a limited awareness of life insurance and do not understand the need for a policy until a life event triggers action. Marketing needs to be more effective at identifying and reaching out to consumers at the right time with the right message.
2. Carriers should differentiate through their services and innovate pricing. Competition for consumer wallet share is fierce and evolving to include new entrants not previously considered competitors, such as subscription entertainment services.
3. The time period for life insurance agents to inform the decision-making process is now compressed. While there is still a clear need for carriers to deliver high-quality, timely, and comprehensive financial advice, consumers are increasingly turning to digital channels that offer a more streamlined experience for product evaluation, purchase, and postpurchase service.
4. Most carriers have not yet developed the digital capabilities across the purchasing life cycle (research, evaluation, purchase, and postpurchase servicing) that consumers demand.

Facing this reality, the time for carriers to adjust to digital disruption in the path to purchase is now. Carriers should leverage more predictive analytics and marketing, increase digital capabilities, and better enable agents to provide holistic advice to meet consumers' evolving expectations.

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You can run, but you can't hide: Digital disruption is here

The life insurance industry is undergoing dramatic changes, from the expectations of its consumer base to the players who compete in the industry. This disruption coincides with the 50-year low in the number of US households holding a life insurance policy.[3] While the overall US economy is generally on an upward trajectory, the life and annuities industry continues to trail GDP in growth.[4] The industry is failing to adapt effectively to evolving consumer preferences, creating a need to redefine business as usual to be able to overcome the following key challenges.

A REWIRED CONSUMER

Today, consumers' expectations are shaped by the experiences they receive from leading digital companies. These types of experiences are characterized by a clearly defined customer value proposition and reinforced with a simple, easy, and elegant experience.[5] Our research shows typical consumers:

1. Are losing their understanding of the value proposition life insurance provides; and
2. Have not embraced the customer experience that leading modern online retailers provide.

RAPID TECHNOLOGICAL INNOVATION

With declining life insurance sales, the industry has turned to cutting costs.[6] But another approach could prove more fruitful: Workflow automation breakthroughs and implementation can enable carriers to scale every customer touchpoint. Further, the financial services industry and their infrastructure security and compliance organizations are increasingly accepting of cloud capabilities, thus driving speed to market for myriad software-as-a-service platforms that would enable engagement with the rewired buyer.

A CHANGING COMPETITIVE LANDSCAPE

Technological innovations have also reduced barriers to entry and have made the insurance industry more competitive than ever before. Incumbents face competition from external forces, such as from startups, as well as from emerging technological and pricing innovations within the industry.[7] Competition for consumer dollars is now not only between carriers but also across industries as consumers evaluate insurance alongside ever-evolving financial priorities.

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This changing landscape presents a clear opportunity for industry revitalization. Carriers should embrace digital disruption by developing the digital capabilities to more effectively engage digitally savvy consumers and compete with technologically driven competitors to spur much-needed growth.

Engaging a more digital consumer

Since 2010, Deloitte has been studying life insurance consumers to determine what separates buyers from nonbuyers. This study builds on Deloitte's published works in 2012[8] and 2015[9] that analyzed consumer preferences and identified key trigger moments in the path to purchase.

In this 2018 iteration of the study, we leveraged longitudinal data and applied new psychographic variables, focusing specifically on what impacts consumer decisions for implicit and explicit interest, purchase, and retention. In surveying consumers, we sought to understand five key stages across the consumer life cycle:

1. Product awareness before purchase
2. Postpurchase interactions with carriers
3. Relationships and interactions with agents
4. Digital channels and their role in purchasing decisions
5. Age and generational consumer habits and their role in purchasing decisions

We compiled data from a sample population of US consumers largely in the 25- to 54-year-old age range—the Generation X and Generation Y consumers many carriers are targeting. The population was split almost equally by gender (50.1 percent men and 49.9 percent women) with a median household income of approximately US$52,000. Survey respondents included a distribution between buyers and nonbuyers of life insurance, as well as buyers who retained their policies and those who let them lapse. Figure 1 offers details on the 1,600+ survey respondents.

Confronting digital disruption

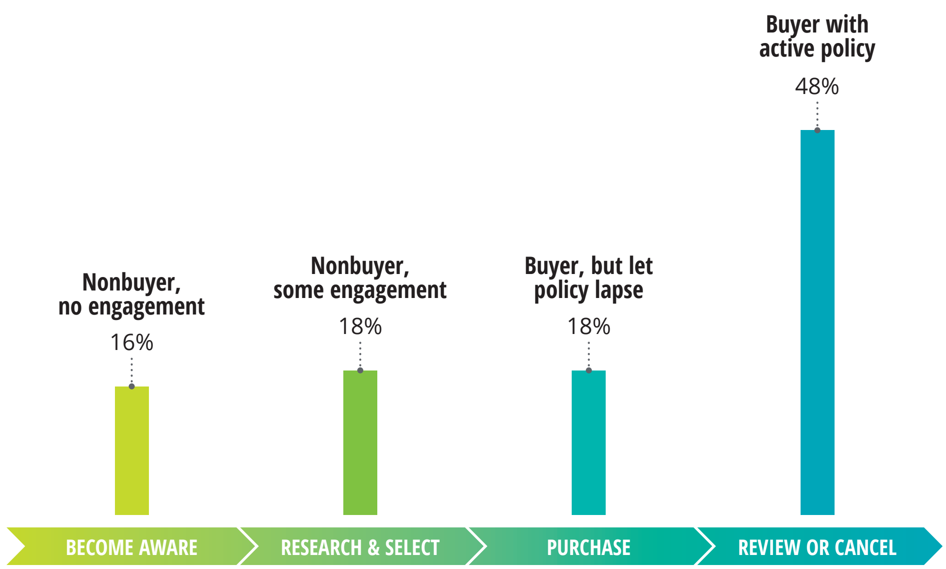
Our analysis found that to effectively engage modern-day consumers and embrace digital disruption, carriers must aim to provide a complete omnichannel experience. This holistic experience should be complemented with the “share of eyeballs” carriers want from consumers (see figure 2).

As we conducted our analysis across the consumer life cycle, four key themes emerged:

1. **Marketing deficit.** Many carriers continue to fall short at reaching consumers at the right time with the right message. Life events, which we identified in previous studies as triggers to purchase, overwhelmingly continue to be the top drivers for life insurance purchase. Carriers should develop a more targeted approach to marketing and a compelling value proposition that better resonates with modern consumers.
2. **New financial hurdles.** Competition for share of wallet continues to become more intense as it evolves to include less traditional products and services; consumer priorities have shifted to include experiences and subscription entertainment services, another reason carriers need to clarify their value.
3. **Advice compression.** The amount of time agents are involved in the buying life cycle is compressing and shifting. Most buyers now want to engage with agents later in the

FIGURE 1

Who responded to the survey?



Note: Total sample size = 1,600.
Source: Deloitte analysis.

process and for a shorter time period, creating a heightened need for high-quality, timely, and comprehensive advice.

4. **Digital gaps.** Consumers increasingly prefer to self-manage across the purchasing life cycle, but most carriers have not yet developed digital capabilities to match these preferences. Consumers also observed competition for their attention and dollars between many enterprises.

By addressing these key themes, carriers can improve their ability to create the frictionless omnichannel experience that consumers now expect while better addressing the needs of an increasingly complex consumer base.

MARKETING DEFICIT

Today, carriers' marketing efforts are generally ineffective at encouraging consumers to consider buying life insurance policies. Generating awareness of life insurance products is the first step in engaging prospective buyers, yet survey respondents ranked seeing marketing advertisements and receiving marketing materials among the five least important events in prompting them to consider purchasing life insurance (see figure 3).

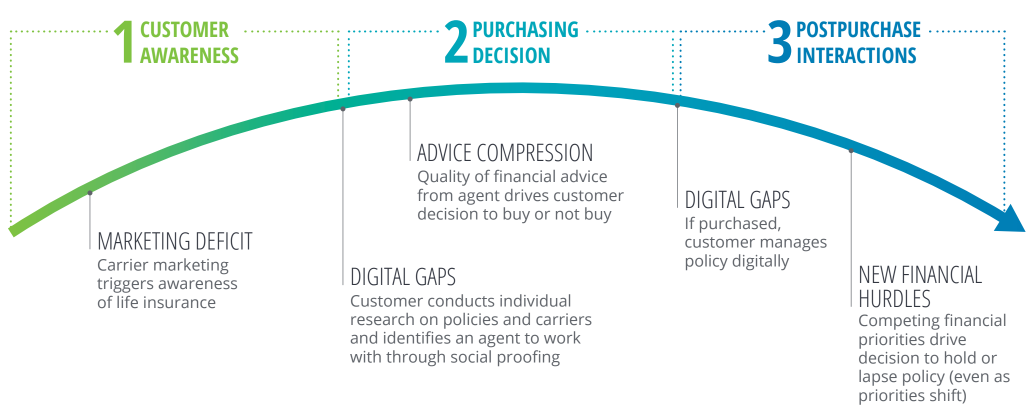
Today, carriers' marketing efforts are generally ineffective at encouraging consumers to consider buying life insurance policies.

Instead, survey respondents indicated that certain life events, such as having children (62 percent), changes to overall financial situation (54 percent), becoming a homeowner (54 percent), interacting with a life insurance agent (54 percent), and marriage (53 percent), continue to be the most important events leading them to consider purchase as they were in the 2015 study.[10] This consistently reactive nature of purchase suggests that most providers are doing an insufficient job demonstrating the importance of life insurance to consumers through marketing outreach.

Ineffective marketing efforts also have consequences throughout the consumer path to purchase. We found that when buyers moved past the initial

FIGURE 2

Creating an omnichannel experience: Understanding the future life insurance buyer cycle

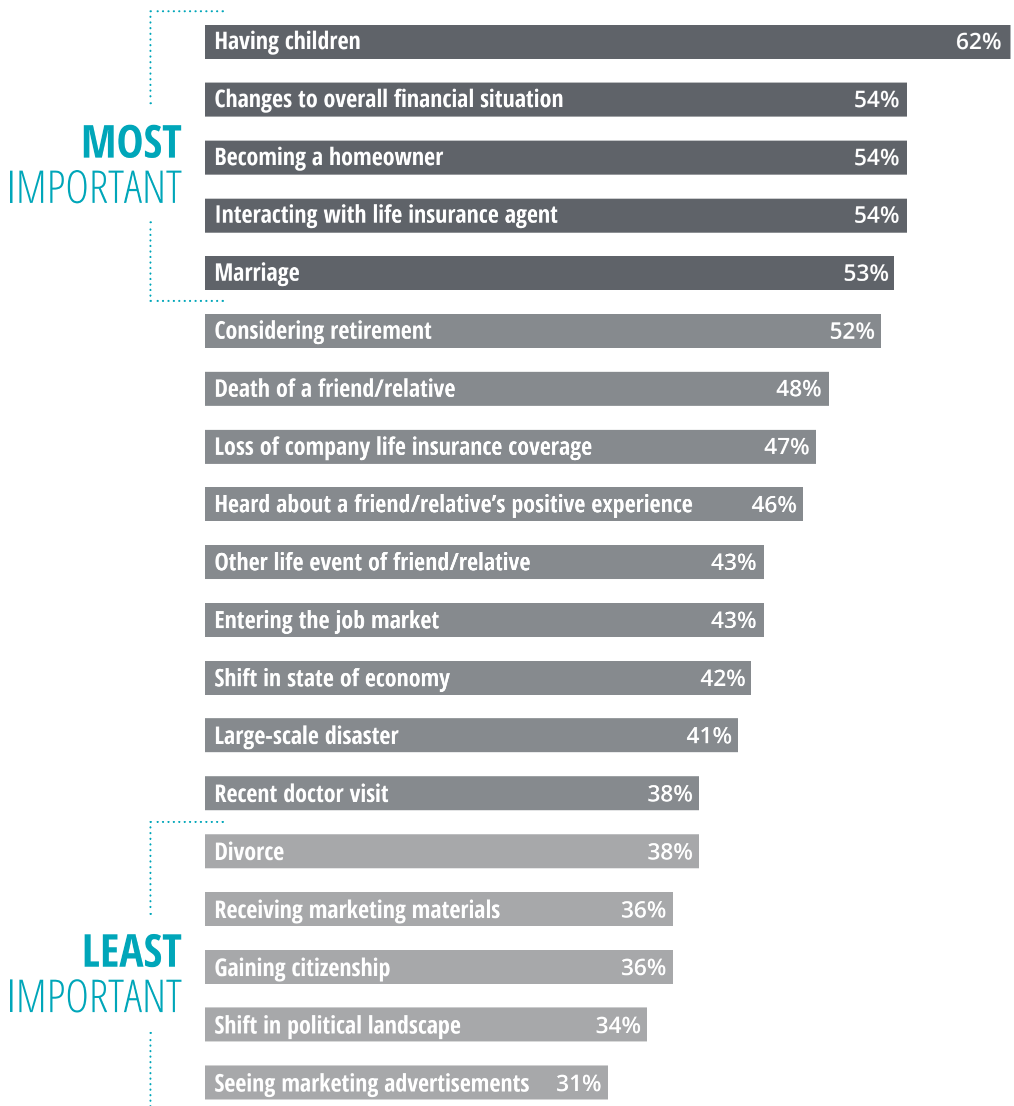


Source: Deloitte analysis.

FIGURE 3

It takes an important life event to prompt respondents to consider purchasing life insurance—not marketing outreach

What prompts consumers to consider buying life insurance?



Source: Deloitte analysis.

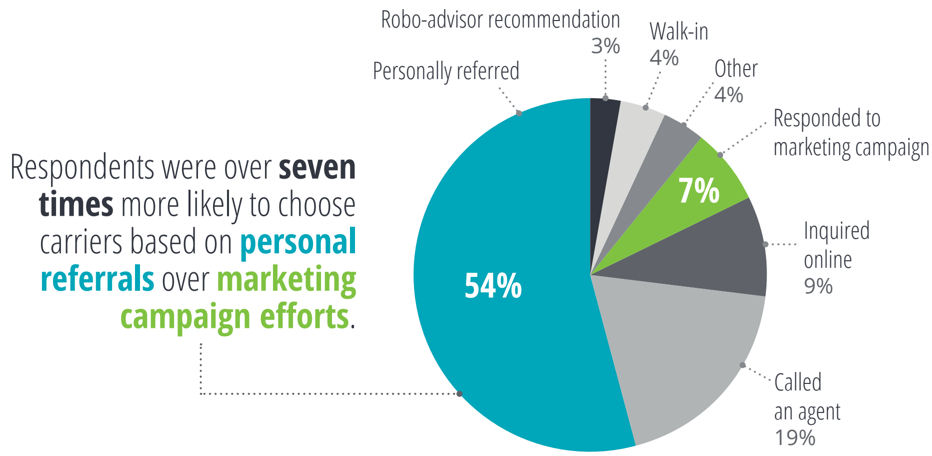
purchase consideration to provider selection, only 7 percent of respondents cited marketing efforts as the way by which they connected with their current provider; in contrast, more than one-half of all buyers cited personal referrals. Interestingly, despite the availability and convenience of digital channels, only 9 percent found their current provider through an online inquiry (see figure 4).

Overall, carriers should invest more in marketing efforts to identify the most effective timing, content, and channel to engage each individual consumer and to inform them of the full value of a life insurance product. Beyond this, carriers should

FIGURE 4

Ineffective marketing efforts continued to be exposed, as respondents were most likely to choose personal referrals when purchasing life insurance

How respondents found their carriers.



Source: Deloitte analysis.

aim to generate a sense of urgency and need for life insurance products, so any purchase is proactive instead of reacting to forces beyond provider control. This will also help prevent consumers from falling back on personal relationships to inform provider selection.

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NEW FINANCIAL HURDLES

Insurance carriers in the United States have long faced the challenge of competing for consumer wallet share with day-to-day financial priorities (see figure 5). Articulating the value of insurance versus other purchases such as vacations or paying bills has long been a critical focus of carriers, but we are seeing an interesting evolution in the past several years.

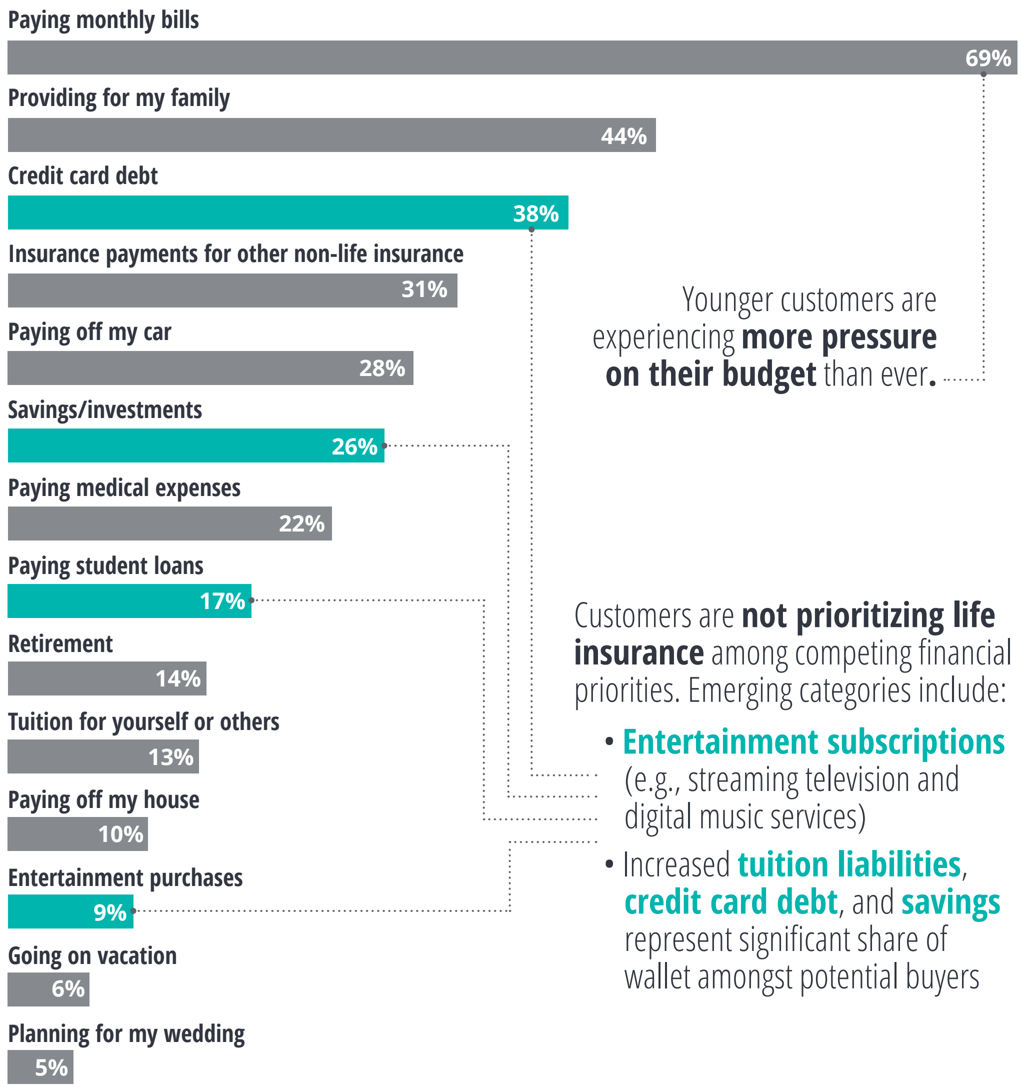
The majority of respondents who are either nonbuyers or lapsed buyers cited alternative financial priorities as the primary reason they did not purchase a policy or allowed their existing policy to lapse. Among the responses, we saw many of the same priorities from previous studies,[11] such as paying monthly bills (cited by 69 percent of respondents), providing for my family (44 percent), and paying off car payments (28 percent).

At the same time, we see a shift in priorities: The biggest movers speak to consumers taking on more personal debt and a growing number of subscription services. For example, paying credit card debt and student loans marked two of the largest increases (referenced as top financial priorities by 38 percent and 17 percent of respondents, respectively). Payments for entertainment subscriptions represent a new entrant, with a rather substantial response rate (9 percent), outpacing going on vacation and several other “traditional” priorities.

FIGURE 5

Day-to-day financial priorities continue to compete with the value of life insurance products for space in the consumer's wallet

Competing financial priorities



Source: Deloitte analysis.

This transition and movement of financial priorities necessitates more active differentiation of services, as well as innovative solutions to help make insurance more affordable. To address these shifts, insurance carriers could utilize the following tactics:

1. Have agents articulate the value of life insurance against specific competing financial decisions.
2. Leverage innovative pricing models (such as dynamic pricing, or "pay as you go" payment options) to match emerging competing models.
3. Develop intelligent financial planning tools so consumers can understand the impact of insurance payments on their budgeting and financial goals.

Digital gaps

Our data revealed that there is a gap between consumers' preferences for digital services and carriers' digital capabilities throughout the buying life cycle. Twenty-three percent of buyers surveyed reported that they were willing to purchase life insurance via digital channels, but on average only 11 percent purchased digitally. The difference between these two values speaks to the incongruence between consumer preferences and carrier capabilities. Moreover, just under one-quarter of buyers expressed a willingness to purchase digitally; this does not mean that consumers are ready to dive headfirst into a fully digital experience, but there is a growing appetite for these capabilities. Product complexity continues to drive consumers to an agent for clarity, however, as many view life insurance as a complex product not easily understood without the help of an agent. When put all together, these insights underscore the importance for carriers to invest in creating a streamlined omnichannel experience for consumers across all touchpoints, including both agent and digital (see figure 6).

While product complexity presents a challenge for customers leveraging digital channels, carriers can still focus on digital channel development for simpler transactions. Survey respondents indicated a preference for digital-only engagement over direct agent contact for simple transactional touches such as making annual or monthly payments, and 90 percent of all respondents rated postpurchase account management via Web or mobile channels as very helpful or helpful. A dramatic drop in preference for analog channels, branch, and phone interactions between 2015 and 2018 only further demonstrates the importance of digital is increasing over time.

Overall, the preference for digital channels throughout the path to purchase, from research and evaluation to postpurchase management, was strongest among younger consumers. Differences between expressed attitudes and actual purchasing behaviors were greatest among this cohort, which suggests these digital natives would have preferred to purchase digitally but carriers may have lacked the capabilities to allow them to do so. As these consumers age into the primary purchasing group of life insurance products, carriers should expect an increased reliance upon, and preference for, digital channels.

While product complexity presents a challenge for customers leveraging digital channels, carriers can still focus on digital channel development for simpler transactions.

Advice compression

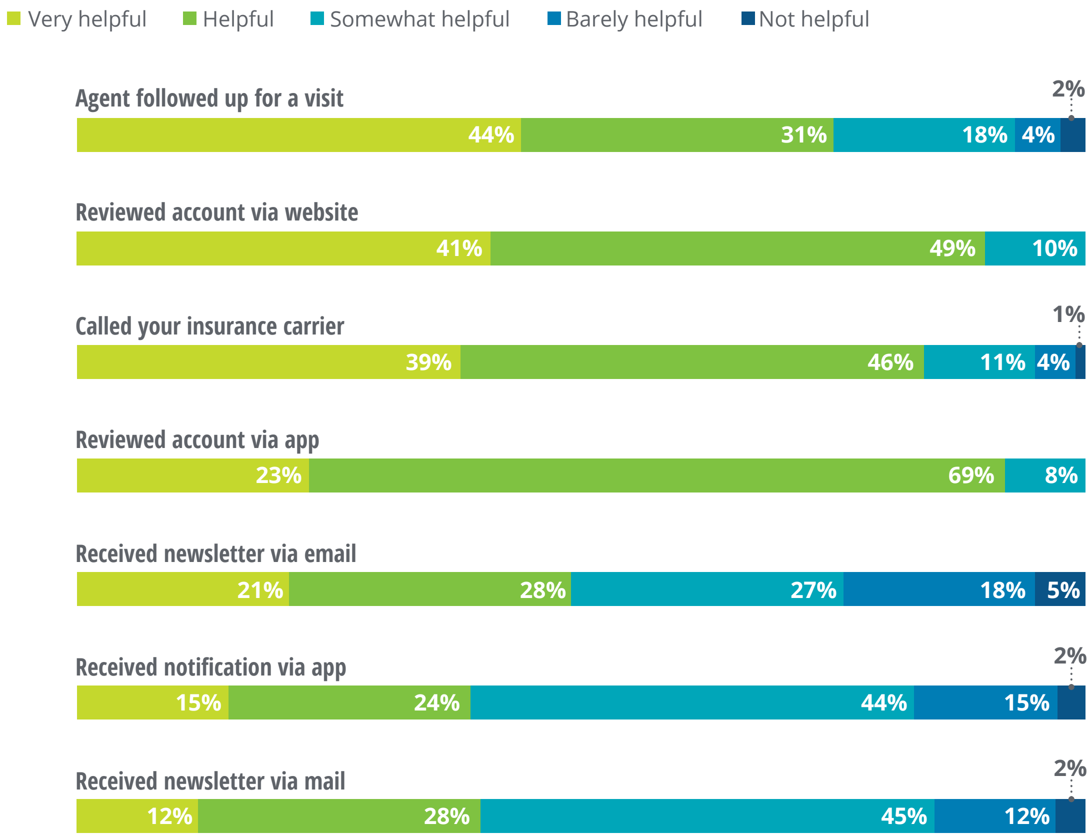
While life insurance consumers traditionally relied on an agent throughout the buying life cycle, more and more consumers indicated they would prefer to interact with agents and carriers later in the purchasing cycle and for a shorter period of time. Today's consumers prefer self-service capabilities for research and evaluation and digital self-management of existing policies: Forty-one percent of buyers surveyed preferred digital[12] platforms during the research stage and 90 percent of buyers indicated a preference for self-management of existing policies through digital channels. Given this preference for self-service, the period of time in which an agent has the ability to influence purchasing decisions has been compressed.

However, there is a silver lining to this advice compression trend. Data indicates that consumers still value high-quality, timely, and comprehensive financial advice at the decision-making stage. Sixty-eight percent of buyers prefer to speak to an agent before purchase compared to 31 percent of

FIGURE 6

Respondents showed the importance of having a streamlined experience for consumers, including both agent and digital touchpoints

What helped respondents in their decision-making?



Note: Percentages may not total 100 percent due to rounding.
Source: Deloitte analysis.

nonbuyers. This indicates that as the role of the agent is compressed, high-impact agent advice remains critical to drive purchases. So despite this increasing emphasis on digital distribution channels, agent advice still provides a degree of clarity and fosters confidence in ways that independent research cannot.

Furthermore, the preference for self-directed research and evaluation paired with timely and comprehensive agent advice may also be leading to increasing retention rates. Buyer lapse rates dropped 18 percent from our last survey in 2015.[13]

The implication here is that as consumers are more diligent in evaluating their needs before they purchase a policy and when an agent supports their choice, that decision can be stickier than ever.

As advice compression continues, how carriers position agents in the buying cycle matters now more than ever. When consumers own the product evaluation and account management of their policy choices, an agent's ability to offer targeted and informed outreach becomes even more important. Carriers should develop tools and services that provide consumers with easy methods to evaluate their services and a direct and efficient connection to agents to finalize purchase decisions. Further, the recent reductions in insurance lapses also reveal the importance of having quality digital interactions and personalized agent interactions at the front end of the buying cycle.

Moving forward in a digital world

Digital disruption has arrived and the time to act is now. Our research has highlighted the various risks carriers may face if they cling to yesterday's status quo practices. To effectively engage today's consumer, carriers should:

- Enable targeted marketing outside of triggering life events;
- Educate consumers on the value of life insurance sooner rather than later;
- Understand when human interaction is desired, when digital channels are preferred, and how these preferences are influenced by demographic factors;
- Position agents so they can address consumers' financial well-being holistically, beyond just life insurance;
- Adopt new pricing and engagement models to address competing financial priorities, such as subscription services; and
- Make digital and self-service channels more readily available and easy to use.

Now more than ever, to be able to meet the needs and preferences of the modern consumer, insurance carriers will need to employ bold and innovative thinking. As carriers adapt their capabilities to how and when consumers want to engage most, a key first step would be to focus on bolstering their digital and analog capabilities. Approaches to consider are outlined in figure 7.

Digital disruption has arrived and the time to act is now.

FIGURE 7

Ways carriers can address digital deficits

	Marketing deficit	New financial hurdles	Advice compression	Digital gaps
Improvement areas	Carriers should adopt more sophisticated segmentation strategies, developing realistic customer journeys to guide personalization and human interactions.	Carriers should identify the new priorities that compete for wallet share and develop new pricing and engagement strategies to compete effectively with other subscription services.	Agents should be equipped to provide holistic and transparent financial advisory services to complement digital resources and help consumers plan for their future.	Carriers should accelerate self-service in research, application, and postsales service so customers can manage their journey digitally.
Capabilities	• **Predictive analytics** to identify marketing opportunities and segment potential customers at key trigger moments • **Timely and customized marketing material** to help agents interact with potential customers	• **Innovative pricing models** to directly compete for wallet share with subscription services • **Intelligent financial planning tools** to enable customers to compare and understand the impact of monthly spending adjustments	• **Digital advisory complements** to enable agents to provide holistic financial advice • **Aligned incentive structures** for agents based on referrals, long-term relationships, and customer-rated advisory interactions	• **Integrated, multichannel digital platform** to enable customers to complete as many activities as they prefer online • **Omnichannel customer service** that is available 24/7 and is able to explain complex products

Source: Deloitte analysis.

Endnotes

1. LIMRA, "Ownership of individual life insurance falls to 50-year low, LIMRA reports," press release, August 30, 2010.
2. Source: CB Insights; figures based on Series D funding from Bridge by Deloitte data set.
3. LIMRA, "Ownership of individual life insurance falls to 50-year low, LIMRA reports."
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12. Including both digital-only and hybrid digital/agent advisory channels.
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About the authors

KEVIN SHARPS is a principal in the Deloitte Consulting Insurance practices. He leads Deloitte's Global InsurTech practice for Life and Retirement and serves as the lead client service partner for select accounts in the United States, including leading global insurance and banking firms. Sharps also has served as the lead partner for Deloitte's US Life and Annuity practice. Sharps has over 25 years of consulting experience focused on customer growth, distribution, and operations transformation strategies. He is a frequent speaker and author on the topics of growth, distribution, and customer experience. He has led the development of a digital insurance marketplace for life and auto insurance, sponsored the development of a proprietary market sensing platform, and has helped numerous insurance clients develop and implement digital strategies.

CHIN MA is a leader in Deloitte's Customer and Marketing market offering. He leads customer and distribution transformations for some of Deloitte's largest financial services clients. Over the last decade, he's led Deloitte's primary consumer research efforts in retail financial services, including research such as "Life insurance consumer purchase behavior: Tailoring consumer engagement for today's middle market" and "Retooling wealth management for the digital age: A look at consumers' digital propensity."

MICHELE VAN RENSBURG is a leader in Deloitte Consulting's Financial Services practice specializing in organization transformation. Van Rensburg has more than 18 years of experience in the insurance and asset management industries as both a provider and consultant. Van Rensburg advises clients and leads strategic growth initiatives on operational efficiency, technology platform transformation, regulatory reform, product segmentation, customer experience improvements, cost transparency, and pricing strategies.

NIKIAS STEFANAKIS works in Deloitte's Customer and Marketing portfolio offering, specializing in commercial excellence and experience. His primary focus has been in the financial services industry focusing on customer experience, sales processes and design, analytics-driven change, and business transformation. He also has cross-cultural and international experience, having lived and worked in Indonesia, India, and the United Kingdom. Stefanakis previously worked in the microfinance industry, in which he has published insights on advanced technologies.

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Contacts

Kevin J Sharps
Global InsurTech lead, Life and Retirement
Principal
Deloitte Consulting LLP
+1 415 783 4686
ksharps@deloitte.com

Chin Ma
Senior manager
Deloitte Consulting LLP
+1 757 286 2616
cma@deloitte.com

Michele van Rensburg
Senior manager
Deloitte Consulting LLP
+1 917 664 8750
mvanrensburg@deloitte.com

Nikias Stefanakis
Senior consultant
Deloitte Consulting LLP
+1 347 480 6556
nstefanakis@deloitte.com

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