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FEATURE

Financial inclusion and the underserved life insurance market, part one

The net effect of COVID-19

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THE DELOITTE CENTER FOR FINANCIAL SERVICES

COVID-19 boosted adoption of life insurance products in the United States, but carriers will likely need to do more to close the coverage gap. Our new survey reveals what happened and the possible market implications.

RESPONSIBLE FOR OVER 500,000 US deaths so far,[1] the COVID-19 pandemic entered the United States in winter 2020, forcing Americans to directly confront their mortality. More than a year later, many still lack life insurance altogether, or are *underinsured*—if they died tomorrow, their existing policies would not fully cover their household expenses. Together, these underinsured buyers and nonbuyers represent the *underserved life insurance market*.

According to LIMRA, there is an estimated life insurance coverage gap of US$12 trillion industrywide,[2] and the average shortfall between what people have and what they need is approximately US$200,000.[3] This indicates insurers still have a lot of work to do to penetrate underserved markets once this crisis passes.

For insurance carriers, narrowing the gap presents a huge growth opportunity—financially, of course, but also from a corporate social responsibility (CSR) perspective. In March 2021, the Deloitte Center for Financial Services published *Driving purpose and profit through financial inclusion: Stronger together*, calling on financial institutions to advance financial inclusion: providing access to useful and affordable financial products and services to meet the needs of the underserved market."[4] As part of that effort, this is the first in a two-part series exploring how financial inclusion can be realized in the insurance industry by improving awareness of and access to life insurance products.

Based on a recent Deloitte survey, this article addresses how the COVID-19 pandemic impacted sales of mortality products and the possible implications going forward. Our follow-up article, publishing in the summer of 2021, will offer an in-depth analysis of how insurers could narrow the coverage gap, find growth, and meet financial inclusion goals.

The pandemic's effect on life insurance sales

What impact has the pandemic had on life insurance activity, and will the trends during the pandemic continue long-term?

The COVID-19 outbreak spurred a significant boost in life insurance activity, but not right away.[5] Despite rapidly rising fatalities, a JD Power study of US consumers showed most weren't any more motivated to buy life insurance in March and April 2020 than they were before the pandemic.[6]

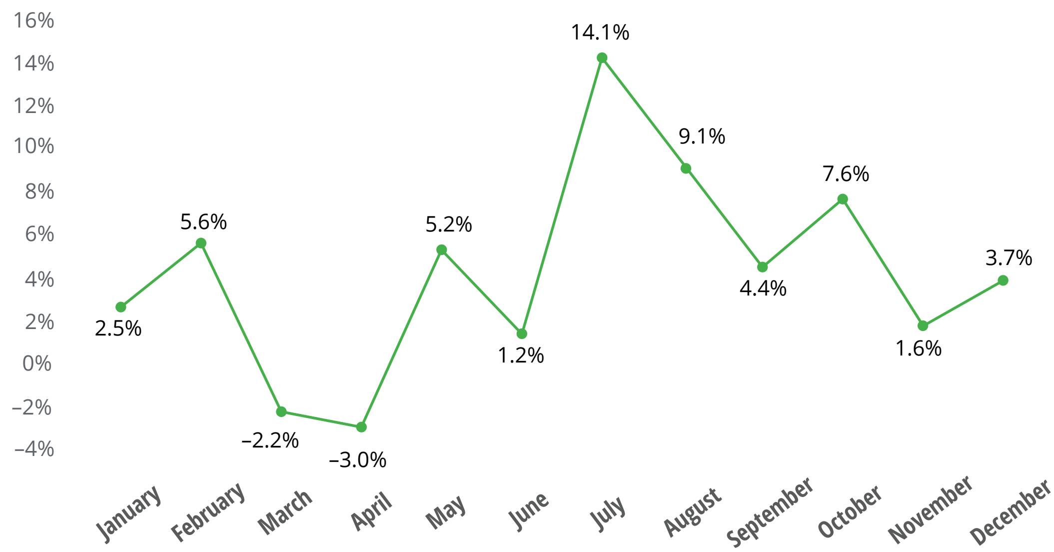
But that changed significantly over the course of the year. Indeed, MIB's Life Index shows life applications actually rose—4% in 2020, the biggest full-year increase in the last decade, bolstered by a 14.1% spike in July and a 7.6% jump in October (figure 1).[7]

What's more, growth in 2020 was largely driven by those under the age of 44 (7.9%), followed by the 45–59 age group (3.8%).[8] In contrast, activity for those over age 60 decreased by 1.7%.[9] This reflects a shift from the prior two years, where the 60-plus age group experienced growth while the 0–44 segment declined.[10]

FIGURE 1

COVID-19 motivated Americans to acquire or increase life insurance coverage

MIB life application activity in the United States, 2020



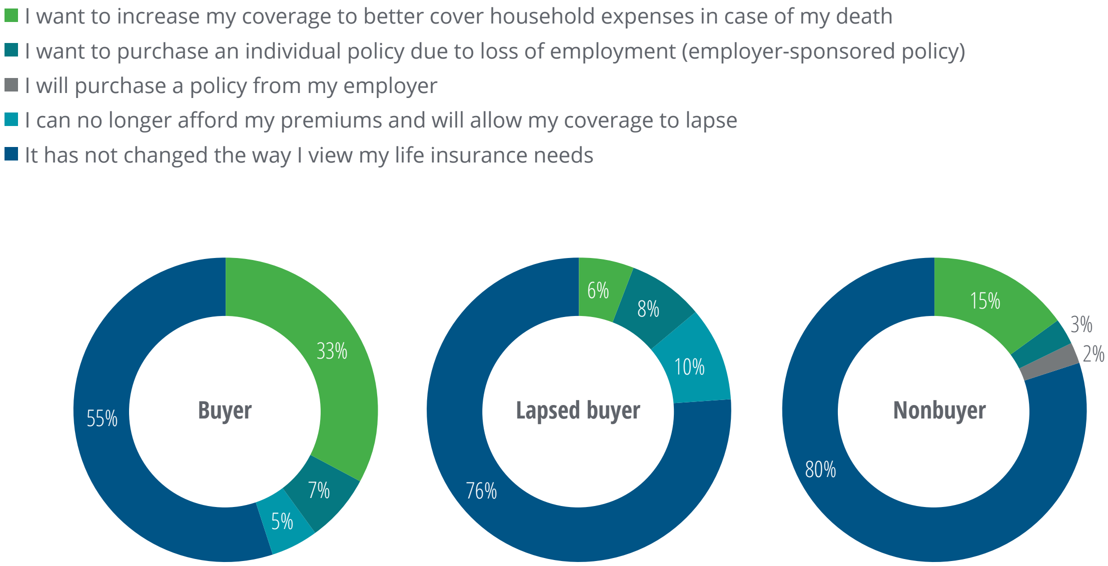
Source: MIB Life Index.

Additionally, Deloitte's own life insurance consumer survey launched in November 2020 revealed that 40% of interviewed underinsured buyers are now considering increasing their coverage because of the pandemic.[11] However, among lapsed buyers, those who had policies that have since terminated, as well as for those who have never had mortality coverage, consideration for coverage was much lower (only 14% and 20%, respectively; figure 2).[12]

FIGURE 2

Most lapsed buyers and nonbuyers planned to stay that way

Interest in life insurance due to COVID-19, by type of buyer



Note: Lapsed buyers who said "I can no longer afford my premiums and will allow my coverage to lapse" likely ended coverage during the pandemic.

Source: The Deloitte Center for Financial Services Life Insurance Consumer Survey 2020.

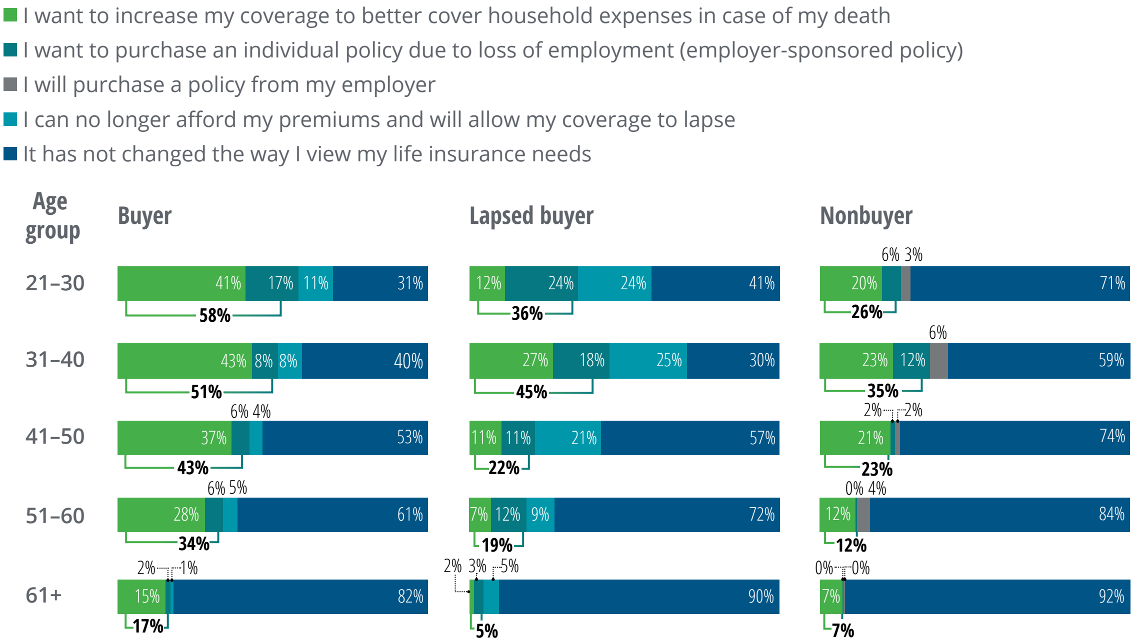
When examined by age range, our survey results were in line with the MIB life insurance application study: Younger respondents appeared more interested in increasing mortality coverage due to concerns prompted by COVID-19, and appeal generally waned as age increased (figure 3).[13] This could be because younger people are more likely to have children who are minors and higher amounts of outstanding mortgage debt to cover if they died. Moreover, younger workers experienced higher unemployment rates throughout the pandemic compared to older workers,[14] so they may have purchased individual coverage to make up for the loss of employer-sponsored policies.

When broken down by race and ethnicity, our survey showed Hispanic/Latino underinsured buyers (53%) were most interested in increasing life insurance coverage over the next 12 months, followed most closely by Black buyers (50%) as a response to the pandemic (figure 4).[15] This could, in part, be explained by the higher unemployment rates among Black and Hispanic/Latino people during the pandemic,[16] which resulted in the loss of employer-sponsored life coverage. More broadly, however, Black and Hispanic/Latino people were disproportionately affected by COVID-19. For example, in New York City and Los Angeles County, Black and Hispanic/Latino people have been twice as likely to die from the virus as their white peers.[17]

FIGURE 3

Age played a key role in decision-making about obtaining coverage

Interest in life insurance due to COVID-19, by age group

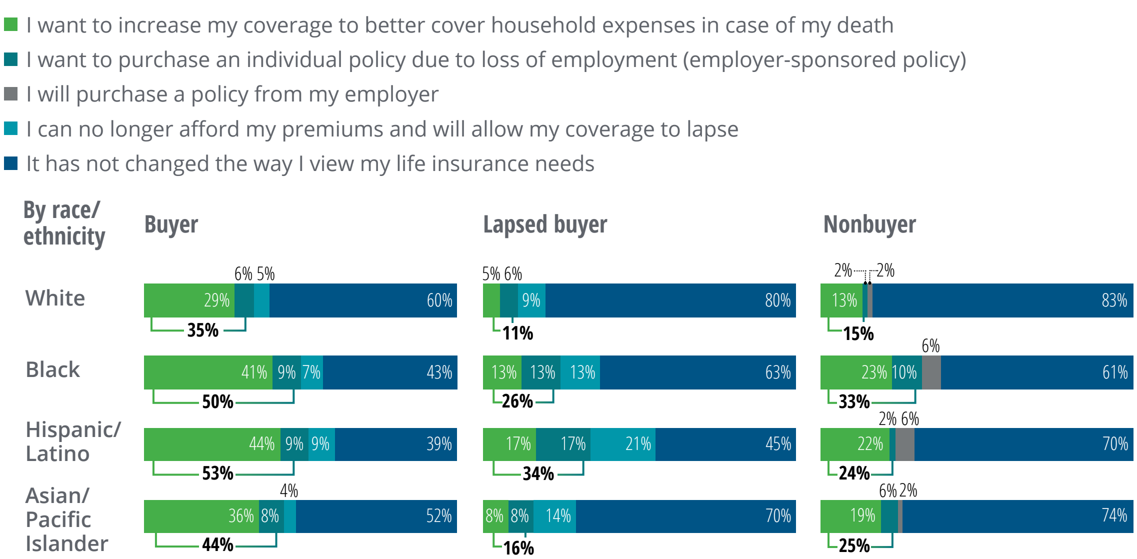


Note: Lapsed buyers who said "I can no longer afford my premiums and will allow my coverage to lapse" likely ended coverage during the pandemic.
Source: The Deloitte Center for Financial Services Life Insurance Consumer Survey 2020.

FIGURE 4

Decision-making around purchasing or increasing coverage varied by race and ethnicity

Interest in life insurance due to COVID-19, by race/ethnicity



Note: Lapsed buyers who said "I can no longer afford my premiums and will allow my coverage to lapse" likely ended coverage amid the pandemic.
Source: The Deloitte Center for Financial Services Life Insurance Consumer Survey 2020.

But, "anyone can sell an umbrella in a rainstorm"

While some of the coverage increases were substantial, the factors behind them tended to be situational in nature. More than one-third (35%) of those who considered purchasing life insurance due to the pandemic—but ultimately didn't—said they decided against it because COVID-19 cases in their area started to drop.[18]

These behaviors make it clear that to achieve sustained growth, insurers cannot rely on global disasters to boost uptake of life insurance. Persistent disinterest in buying coverage among significant segments of the population—even during a pandemic—indicate that insurers will likely need to try different approaches to attract hard-to-penetrate customer segments. They may need to make more comprehensive shifts in life insurance education/advice, product proposition, customer acquisition/retention, and customer experience strategies.

Necessity really is the mother of invention

Fear fueled by the global pandemic certainly catalyzed consumer interest in and awareness of mortality products. The pandemic also illustrated the truth behind the proverb, "Necessity is the mother of invention." Over the past year, many insurers rapidly advanced their digitization efforts, enabling them to pivot to effectively address customer needs virtually.

We believe insurers can use this momentum to accelerate innovation and substantially narrow the coverage gap for the long term. The pandemic has offered carriers incentive to push forward in their efforts to streamline processes and enhance customer experience, as well as generate greater awareness and understanding of the core value of their products. Our next article will explore how carriers may be able to effectively and profitably penetrate underserved market segments, including recommendations about how to fundamentally reimagine innovation, education, targeting, and the customer experience.

To achieve sustained growth, insurers cannot rely on global disasters to boost uptake of life insurance.

Endnotes

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