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A report from the Deloitte Center for Financial Services

# Financial inclusion and the underserved life insurance market, part two

Closing the US coverage gap to drive growth and bolster DEI

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# KEY FINDINGS

- Life insurance interest was heightened among the US population since January 2020 as the pandemic's impacts unfolded—however, the fear of mortality, forced virtualization, and lockdown-driven consumer savings are expected to diminish going forward.

- Despite this heightened focus, the "underserved" US life insurance market—those who have declined to buy life insurance, have inadequate levels of coverage, or have yet to be approached about buying a policy—is still vast. LIMRA estimates there is a US$12 trillion mortality coverage gap.[1] Insurers have an opportunity to help close that gap by improving engagement with underserved segments to drive profitable growth in a low interest rate environment.

- Our survey revealed customer preferences and needs for mortality products varied widely by segment, indicating insurers should avoid "one-size-fits-all" approaches. Points of differentiation included willingness to purchase a product over the next 12 months, perception of value, amount of coverage needed, advice channels, desire for online and/or intermediary interaction, and desired product features.

- Insurers can use various customer experience–focused strategies and enhancements to achieve greater financial inclusion among the underserved population. These include increasing education and awareness, optimizing distribution with multichannel workflow, focusing on client-centric and advice-led propositions, offering broader product portfolios, and modernizing technology for greater efficiency and value.

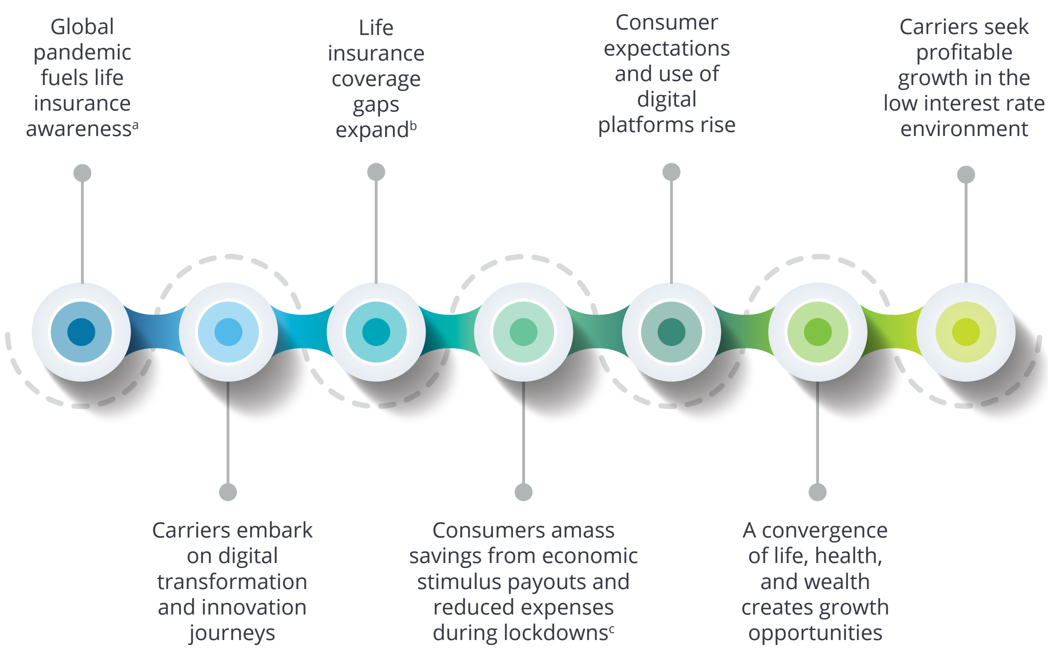
# Life insurers can capitalize on key macro events to drive growth

THE CONFLUENCE OF extraordinary events that unfolded over the past 18 months (figure 1) could help life insurers more effectively penetrate the massive amount of underinsured people in the United States—approximately 40% of US adults.[2] With flat to declining sales over the past decade, insurers haven't been able to accomplish this goal yet on a meaningful and sustainable scale.[3]

FIGURE 1

## A confluence of unusual events can help insurers achieve long-term growth

Factors impacting the US insurance marketplace, March 2020–present




Source: [a]MIB Life Index, "U.S. life insurance activity hits record growth in 2020," PR Newswire, January 13, 2021; [b]LIMRA, "Facts about life 2020: Facts from LIMRA," September 2020. [c]Simon Kennedy, "Consumers saved $2.9 trillion during the pandemic. Their money will drive the global recovery," *Bloomberg*, March 3, 2021.

In March 2021, the Deloitte Center for Financial Services published *Driving purpose and profit through financial inclusion: Stronger together*, which called 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. As part of that effort, Deloitte surveyed 2,800 US consumers in October 2020 across various demographic groups, who said they had life insurance but believed they didn't have enough (underinsured), as well as those who had no mortality coverage at all (uninsured) to discover why the gaps exist and how to eliminate them effectively.

This is the second in a two-part series exploring how insurers can advance financial inclusion by improving awareness of and access to life insurance products. The first article, published in April 2021, revealed two of the most visible impacts the pandemic has had on the US life insurance sector:

- Insurance applications increased in record numbers, due to Americans' increased focus on their mortality.[4]
- Insurers had to virtualize operations overnight.

Longer term, our survey findings uncovered other influences that may impact the future of life insurance growth (figure 1):

- More and more US adults have a life insurance coverage gap. About 102 million Americans, or 40% of the adult population, say they are uninsured (own no mortality coverage) or underinsured (do not have enough insurance to cover household expenses if they were to die tomorrow).[5] Cumulatively, this represents an estimated US$12 trillion coverage gap.[6]
- As a result of government-sponsored stimulus checks and lockdown barriers to spending, US consumers have amassed in excess of US$1.5 trillion in savings during the pandemic.[7]
- Lockdowns compelled consumers to turn to online and mobile channels to access products and services across all industries, fueling already increasing interest in digital interaction.
- In this high-mortality environment, carriers that offered a diverse set of life, health, and wealth products in addition to their core mortality offerings may have experienced lower negative impact from a portfolio standpoint. This could be an avenue to penetrating those segments who are more apt to consider a life insurance purchase as part of a holistic experience for their health, wealth, and wellness.
- The current low interest rate environment is compelling carriers to find sources of profitable organic growth. And increasingly, financial institutions are expected to be called upon to proactively enact positive changes to improve diversity, inclusion, and economic equity. By aligning these priorities, insurers can venture out of their traditional sweet spot in the life insurance market and cast the net wider to include underpenetrated segments.

The pandemic set the stage for life insurance growth. Still, insurers will likely need to distill the underpenetrated market into segments and customize propositions to the unique needs of these various demographic groups to sustain it.

Making the most informed decisions on the various segments will likely first require insurers' understanding *which demographics most need coverage*, their propensity to purchase, the top obstacles, and the amounts of coverage they seek. Insurers should also examine how each group prefers to interact across the life insurance life cycle, as well as their preferences for product features and holistic financial portfolios.

# Identifying and activating underserved segments

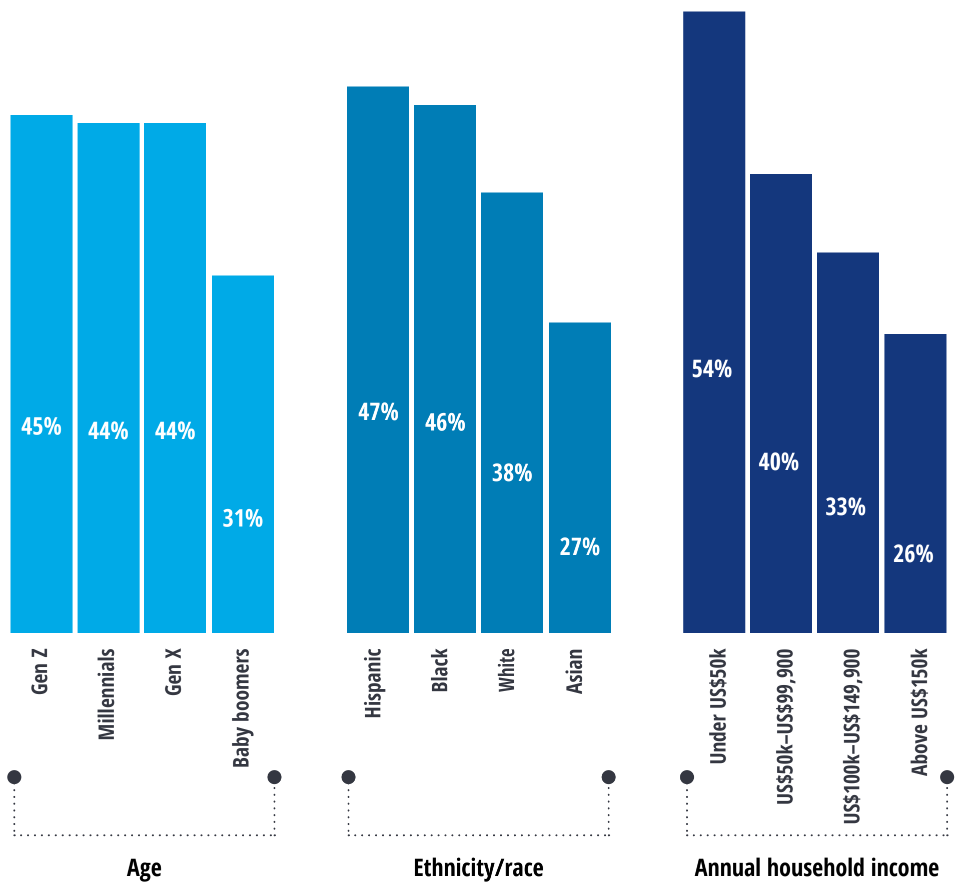
THE LIFE INSURANCE coverage gap spans all races/ethnicities, age groups, and income levels, but some are less penetrated than others.

According to LIMRA's 2021 Insurance Barometer Study, the largest percentage of coverage gaps appear in the youngest age group and lowest-income segment and decreases as age and income increase (figure 2).[8] The study also reveals Latino/Hispanic and Black/African American consumers tend to be more uninsured or underinsured compared to white and Asian/Pacific Islander segments.[9]

FIGURE 2

## Examining the life insurance coverage gap in the US

Percentage of uninsured and underinsured among the US population, 2021, by consumer segment




Source: Allison Bell, "The life insurance need gap: 2021 Insurance Barometer Study," Thinkadvisor.com, April 16, 2021.

## Capitalizing on pandemic-fueled savings and awareness could help fill gaps

Our survey revealed that across all ages, income levels, and races/ethnicities, the top deterrents for respondents to buying additional or new life insurance were *perceived cost of coverage* and *other financial priorities*. But, despite the rise in unemployment during the period, the pandemic-driven surge in savings among the US population[10] could make consumers more open to buying coverage now than they were prior to the pandemic—at least in the short term.

Still, some consumer segments are less financially literate than others. They may first need to be educated on the value of life insurance coverage before considering a purchase.

For example, nearly twice as many respondents in the youngest age segment (21- to 30-year-olds) revealed they were unfamiliar with the value of mortality products compared to older respondents. Not surprisingly, the lowest-income groups knew less about these products than higher earners did.

Similarly, 18% of Blacks/African Americans surveyed said they were not familiar with the purpose of life insurance compared to approximately 12% of whites, Latinos/Hispanics, and Asian/Pacific Islanders. Moreover, a higher proportion of surveyed Black/African American and Latino/Hispanic insurance owners (36%) revealed they are unfamiliar with different life insurance options, compared to 27% of whites and Asian/Pacific Islander respondents.

Our survey shows interest in purchasing life insurance over the next 12 months was highest for Black/African American and Latino/Hispanic respondents. This could be because both were hit hardest in terms of death rates[11] and unemployment[12] (resulting in loss of employer-sponsored coverage) during the pandemic.

Interest in purchasing coverage also appears to be highest among younger consumers (under age 50): More than half of respondents between 31 and 40 years old said they plan to buy a life insurance product in the next year. Indeed, the surge in application activity throughout the pandemic was highest among respondents younger than 44 (7.9%) and decreased as age increased.[13]

Given the financial literacy disparities among segments, insurers have an opportunity to build on the increase in awareness of the need for coverage.[14] They can explore new ways to educate underserved populations by focusing on demographics that are least likely to understand the value of mortality coverage.

## Higher interest does not always yield higher coverage

Our survey revealed the relationship between some segments' willingness to buy and the coverage amounts they wanted were not necessarily correlated (figure 3).

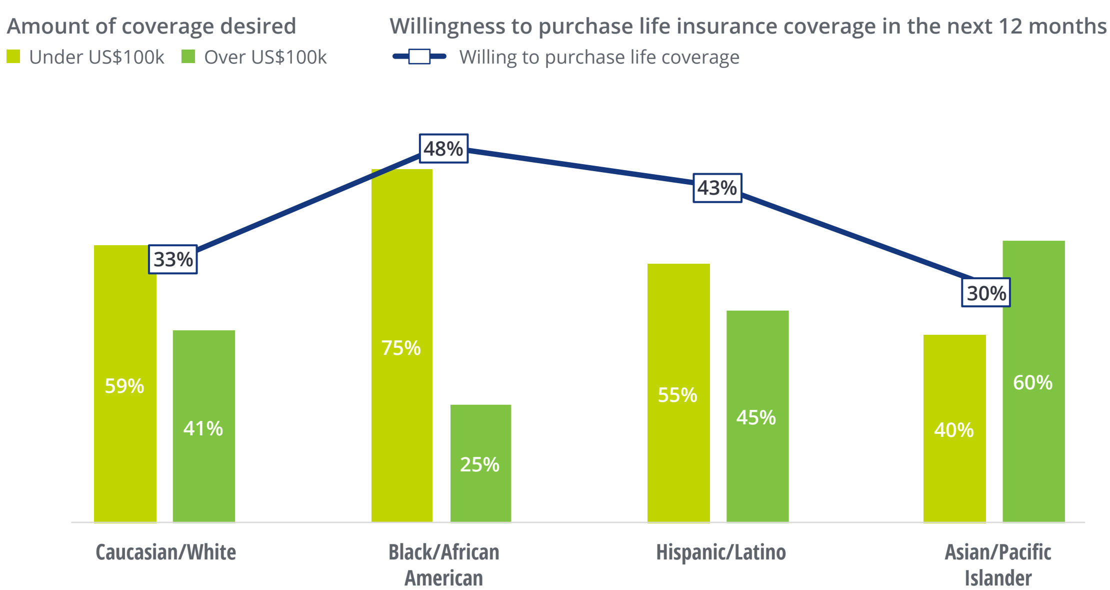
For example, although Black/African American respondents showed the most interest in purchasing a life insurance product in the next 12 months, the coverage amounts they wished to buy were lowest compared to all other races/ethnicities. Studies show that despite being more likely to have life insurance, Black/African American people are far more underinsured than whites.[15] Conversely, fewer Asian/Pacific Islander respondents said they wanted to purchase a life insurance product in the next year, and that they would like to attain higher levels of coverage than other ethnic groups indicated.

For consumer segments that wanted more life insurance but may understand it less, targeted initiatives exposing disparities between coverage levels and financial need could help fix this disconnect.

FIGURE 3

**Respondents' higher willingness to purchase coverage does not always correlate to higher amounts desired**

By ethnicity and race




Source: Deloitte analysis.

## Advice channels may be pivotal to driving financial inclusion and market penetration

As with all industries, the insurance sector is now operating in an environment that is increasingly socially aware. Insurers can focus more on achieving diversity, equity, and inclusion goals and financial inclusion by intensifying outreach to segments perhaps not traditionally on their radar. In addition to cultivating awareness, education, and trust in such underserved markets, they should take a more targeted approach, based on how each segment prefers to receive advice about financial products (figure 4).

For example, three times as many respondents in the youngest age group rely on advice from family/friends compared to the oldest segments. But this group *also* showed interest in using online sources to get financial advice.

Conversely, 38% of those surveyed over age 61 rely on their financial advisor, while only 13% of the 21- to 30-year-old group prefers this channel. Financial advisors appear to become more valuable to consumers as they get older.

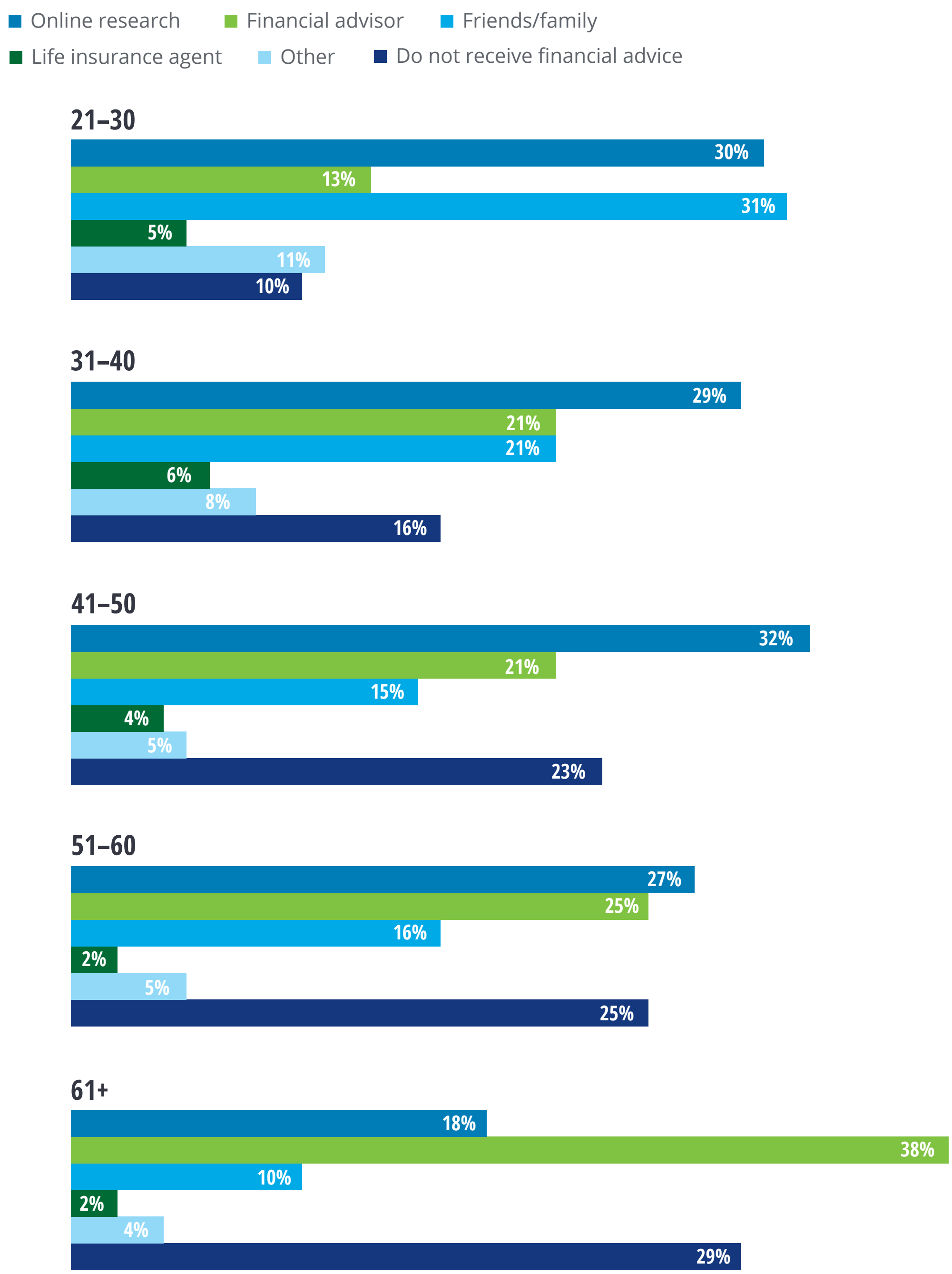
Looking at race/ethnic segments, our survey found that advice from family and friends resonated more with Latino/Hispanic and Asian/Pacific Islander respondents compared to whites and Black/African Americans. And, more white respondents will consider using a financial advisor compared to other races/ethnicities.

Carriers could consider targeting the younger group through conversations with their customers who have children in this age segment, particularly those of Latino/Hispanic and Asian/Pacific Islander descent. And the lower propensity of minority race/ethnicities to use financial advisors should encourage insurers to promote talent diversification in their client-facing workforce, as the current lack of diversity may potentially discourage some minorities from seeking life insurance for the first time or adding to existing coverage. In fact, Blacks/African Americans and Latinos represent less than 4% of certified financial planners in the United States, despite making up nearly 30% of the US population.[16]

FIGURE 4A

## Respondents' preferred advice channels vary by segment

Preferred source of financial advice, by age

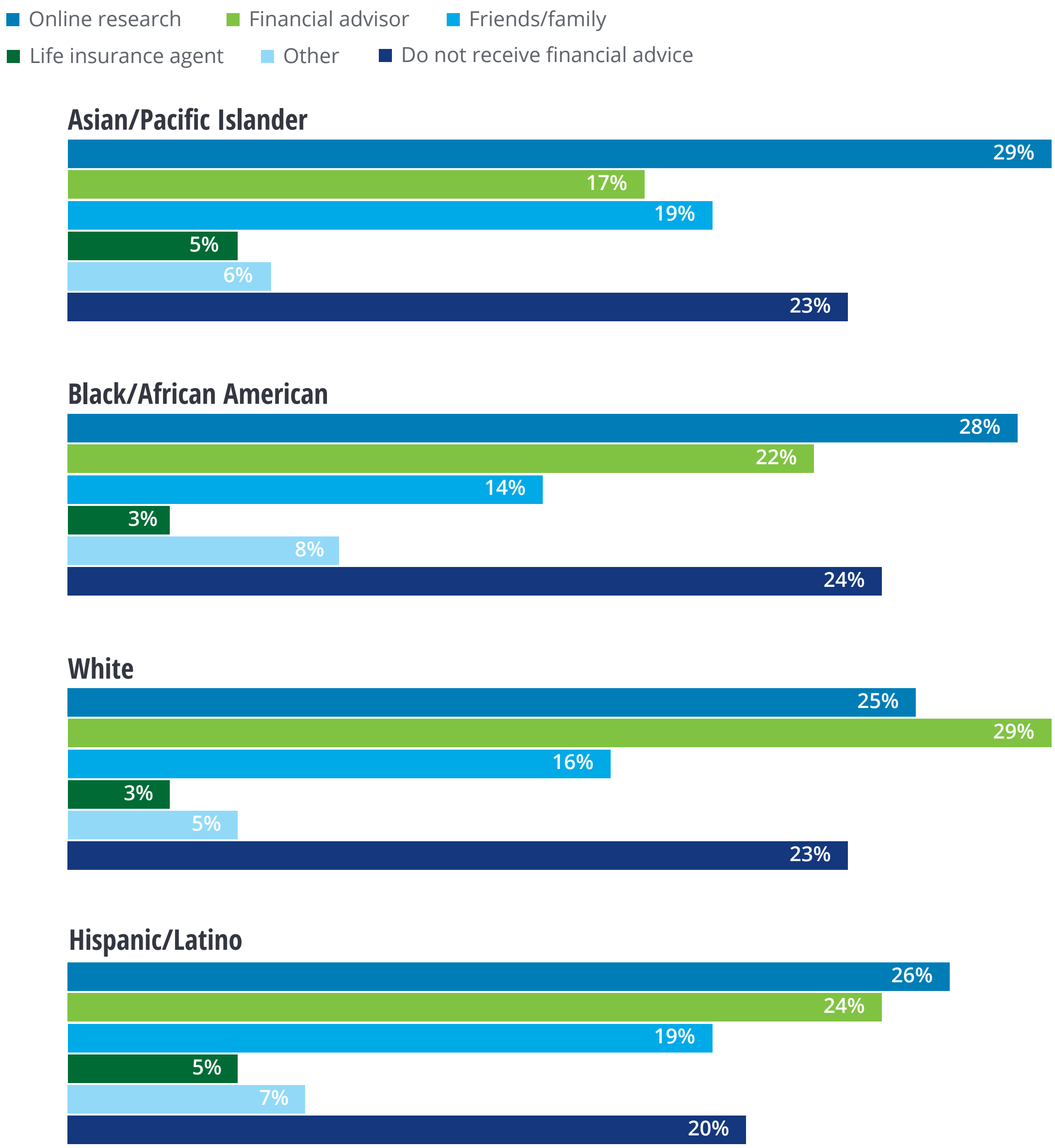



Source: Deloitte analysis.

FIGURE 4B

## Preferred advice channels vary by segment

Preferred source of financial advice, by ethnicity and race




Source: Deloitte analysis.

## Human touch or digital channels: Does it have to be an "or"?

The other byproduct of the pandemic discussed in part one of this series is that it forced life insurers to increase digital capabilities nearly overnight.[17] Insurers rapidly implemented alternative sales and customer service capabilities, including streamlined online application and sales processes, and virtual interaction with intermediaries and customers.

But equally as momentous, lockdowns forced consumers across all demographic segments, even those who never or rarely used digital channels, to escalate their use of online and mobile channels to procure products and services. Longer term, US consumers are expected to increasingly want speed, flexibility, and convenience when interacting with providers across industries.

Since January 2020, there has been a 30% to 50% increase in online life insurance sales for companies with digital capabilities and algorithm-driven underwriting.[18] While that increase was dominated by those under age 45,[19] even 29% of our survey respondents over age 61 were interested in using online channels for purchasing (figure 5).

Across income groups (figure 5), those making over US$200,000 showed the most interest in online purchase options (40%), while the lowest earners (under US$50K) preferred this channel least (34%). Insurers that believe the most cost-effective way to reach the lowest income group is skipping agent intervention altogether may want to reconsider this strategy. As a result, it appears that a significant percentage of higher earners may not need the amount of hand-holding previously perceived, leaving the door open for more profitable growth in this segment through lower human touch.

Meanwhile, interest in agent-driven sales is trending downward. In 2011, 64% of consumers said they preferred to buy in-person; by 2020, just 41% felt this way.[20] To an industry whose products have traditionally been sold, not bought, this could seem alarming. But intermediary interaction is still desired by those over age 50, with the highest interest from respondents over 60 (56%). Our survey also found that Black/African American (50%) and white (43%) respondents showed a higher propensity toward agent interaction than Latino/Hispanics and Asian/Pacific Islanders (34%).

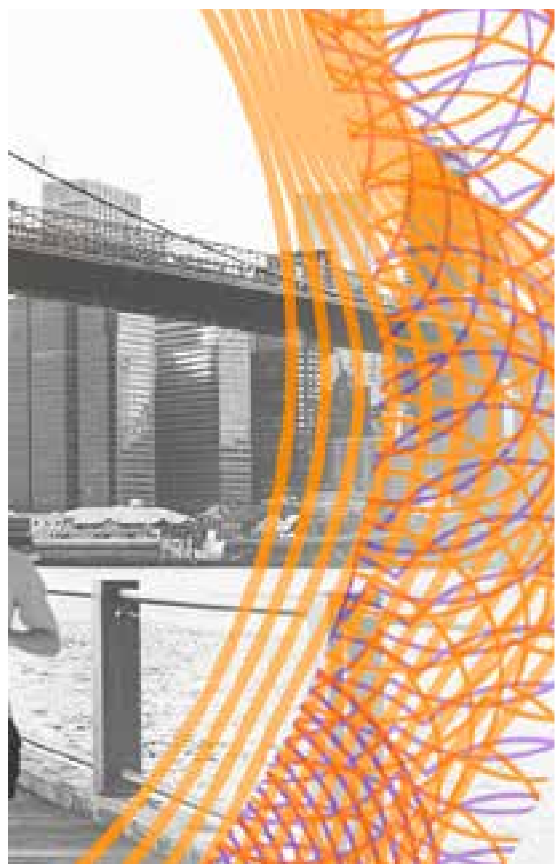
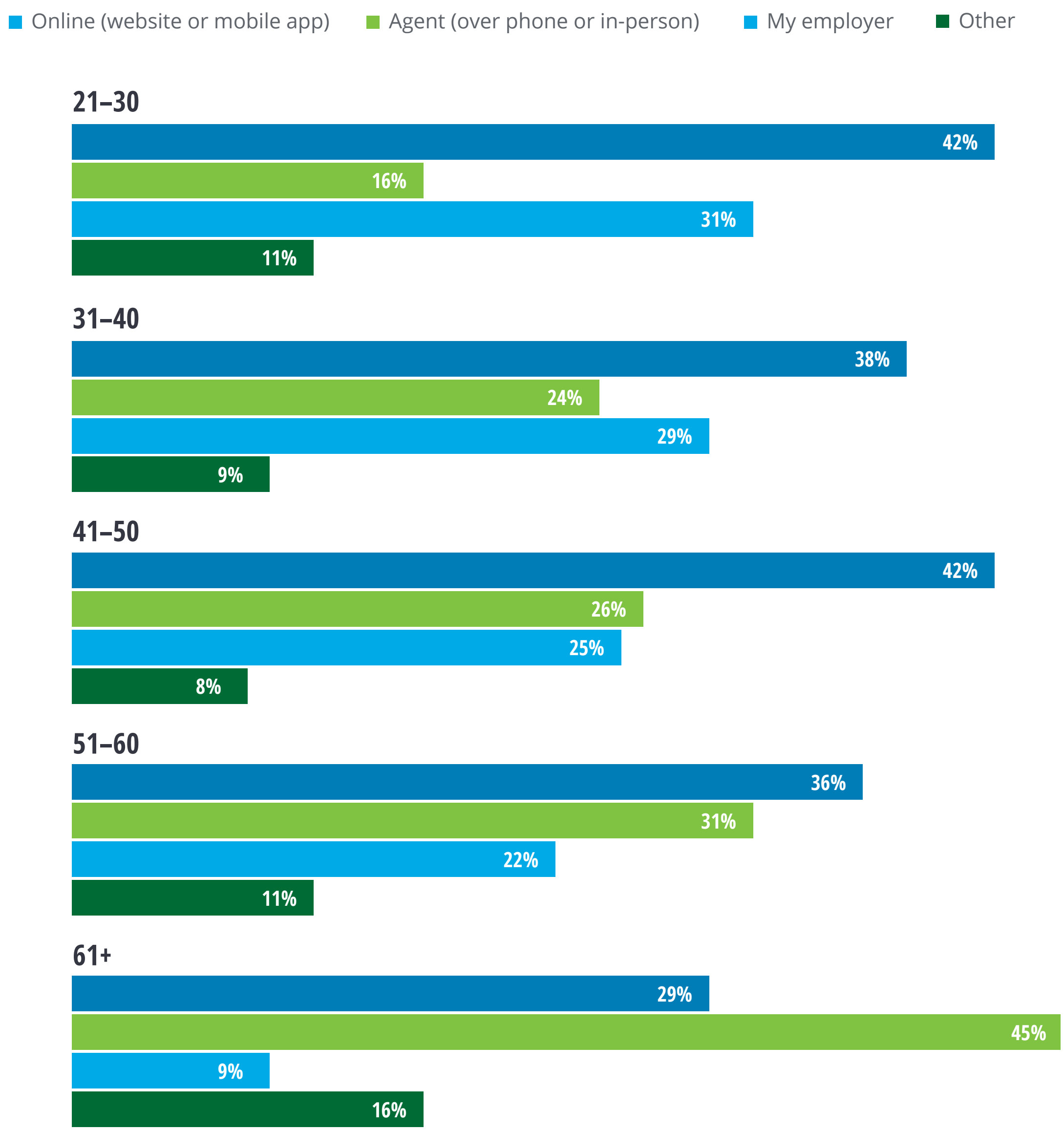


FIGURE 5A

## As respondents' interest in online channels grows, insurers can offer multichannel options

Preferred channel, by age

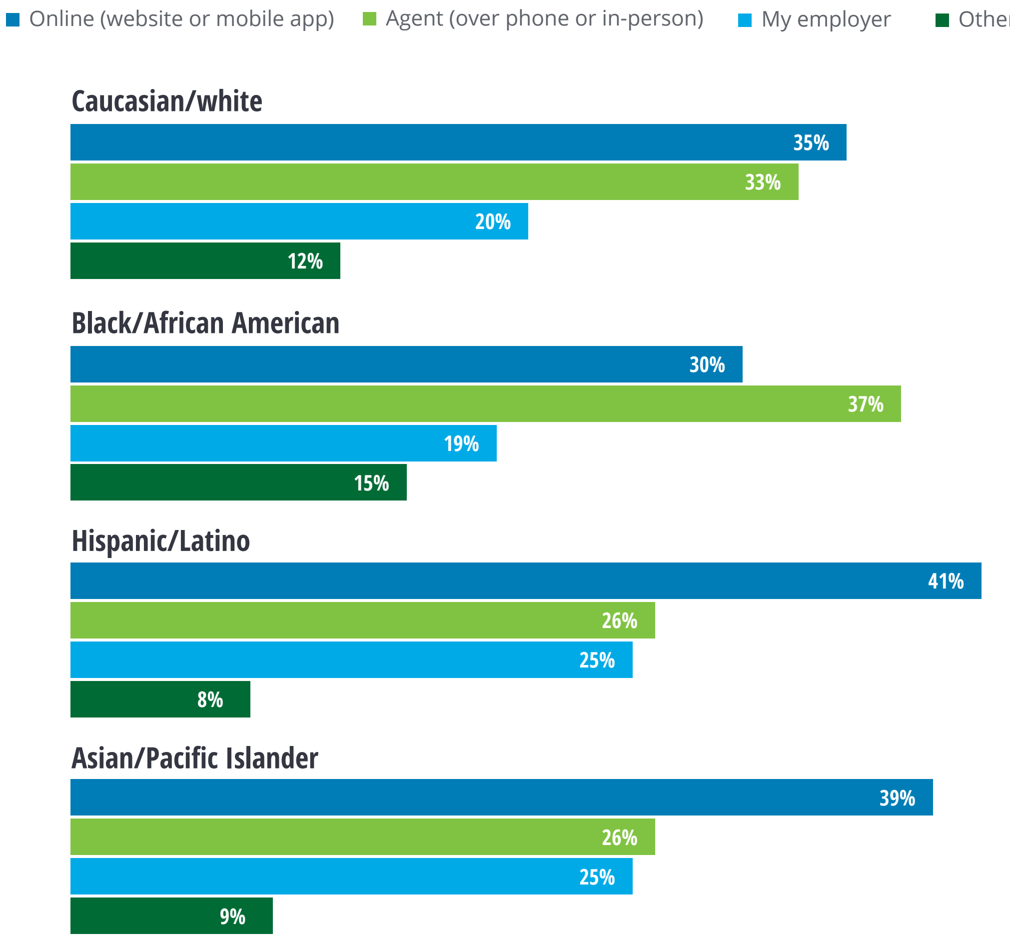



Source: Deloitte analysis.

FIGURE 5B

## As respondents' interest in online channels grows, insurers can offer multichannel options

Preferred channel, by ethnicity and race

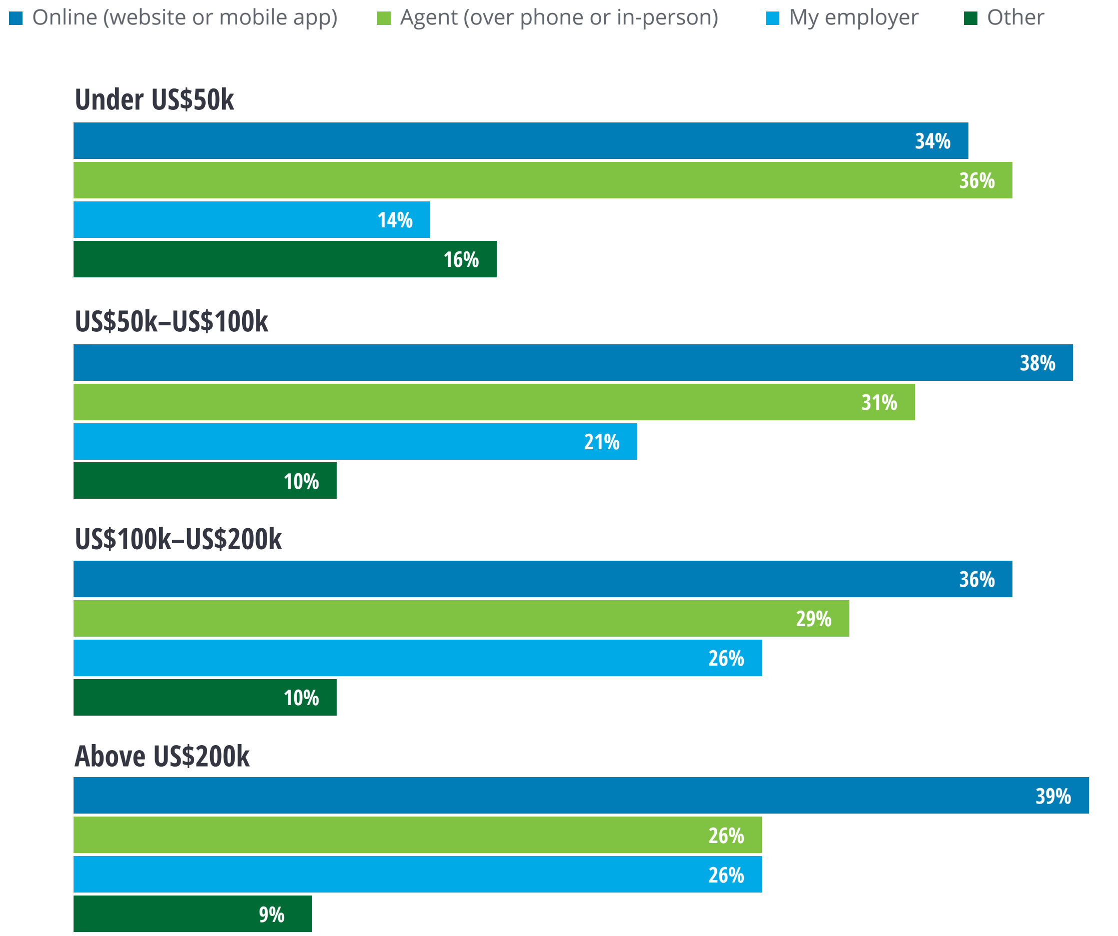



Source: Deloitte analysis.

FIGURE 5C

## As respondents' interest in online channels grows, insurers can offer multichannel options

Preferred channel, by household income




Source: Deloitte analysis.

## Consumers across segments seem to want more control and flexibility

Customer expectations for product features are also transforming as the population becomes more digitally savvy and having greater control over their products seems to dominate their asks.

When asked about which product feature would make them more likely to purchase life insurance in the next 12 months, the element that resonated most across nearly all demographics surveyed was the ability to increase or decrease coverage online as needed. For example, someone with one child and another on the way may want to purchase more coverage but would prefer to be able to dial their current policy up instead of jumping through hoops to buy an entirely separate policy. Similarly, a recently divorced consumer may want the ability to dial down coverage online without agent intervention.

A feature that also rated high among respondents for the 31-year-old-plus segment and across all ethnicities was an adjustable premium based on lifestyle and healthy eating, which could be measured by fitness apps or other data sources.

The product features that appeal to a large segment of the underserved market will likely require the use of alternative data sources. Even prior to the pandemic, many insurers were starting to use alternative data to substitute for medical exams. When lockdowns ensued, some insurers even relaxed blood and urine test requirements.[21]

Insurers will likely have to design an approach that enables the development of innovative products, as well as the infrastructure to support them. Insurers may also need to reskill talent, to capture, synthesize, and analyze this new data and to underwrite policies according to the new data sources.

## Some segments want integrated product propositions

For many insurers, one of the key lessons the pandemic offered was the value of diversifying their portfolios to include health, wealth, and wellness products. Those who provided a wider range of offerings were likely able to offset some of the financial pressure from higher life insurance claims. Therefore, insurers may also want to target segments that may be more apt to buy life insurance as part of a more comprehensive product portfolio.

Half of respondents who already owned some life coverage said they would be more interested in purchasing supplemental coverage as part of their larger financial portfolio, nearly twice the amount of the uninsured segment.

At 55%, Black and Hispanic respondents were also much more likely than Asians (38%) and whites (37%) to consider mortality products as part of a broader financial portfolio.

Meanwhile, more than half of respondents in the younger age groups (21–50) showed interest as well, compared to 39% of those 51–60 and only 19% of the over 61 age bracket.

# Carriers can build on the momentum gained from confluence of extraordinary events to fuel growth

MOST LIKELY, THE fear the pandemic provoked will only be a short-term catalyst for life insurance sales. But insurers can take advantage of the momentum it spurred in addition to the confluence of extraordinary events that unfolded over the past 18 months to reposition themselves for sustained long-term growth (figure 6).

Insurers are realizing that some of the underserved segments may be equally as profitable as their more traditional upmarket customer base. But many will need to make changes across the entire life insurance life cycle to conform to the nuances in attitudes and desires among the varied demographics.

In formulating such strategies insurers can:

- Use data and analytics to generate leads and design marketing campaigns that target prioritized underserved customer segments.

- Develop more targeted and personalized education and awareness campaigns geared toward the underserved life insurance population once segments are identified. Gaining greater commitment from all stakeholders across the life insurance community will likely be important. The disparity in financial literacy and perceived value of life products among and between segments should be considered during outreach.

- Accelerate innovation and digitization across the value chain and enhance digital capabilities to span the full customer experience. Insurers can develop digital-enabled distribution and/or multichannel experiences to appeal to a broader set of consumers. But one size will not fit all: Finding the right balance between digital and the human touch for each segment will likely be key to achieving greater market penetration.

- Redesign products and services to adhere to evolving channels and changing consumer expectations for elements such as control, simplicity, and flexibility desired by specific segments.

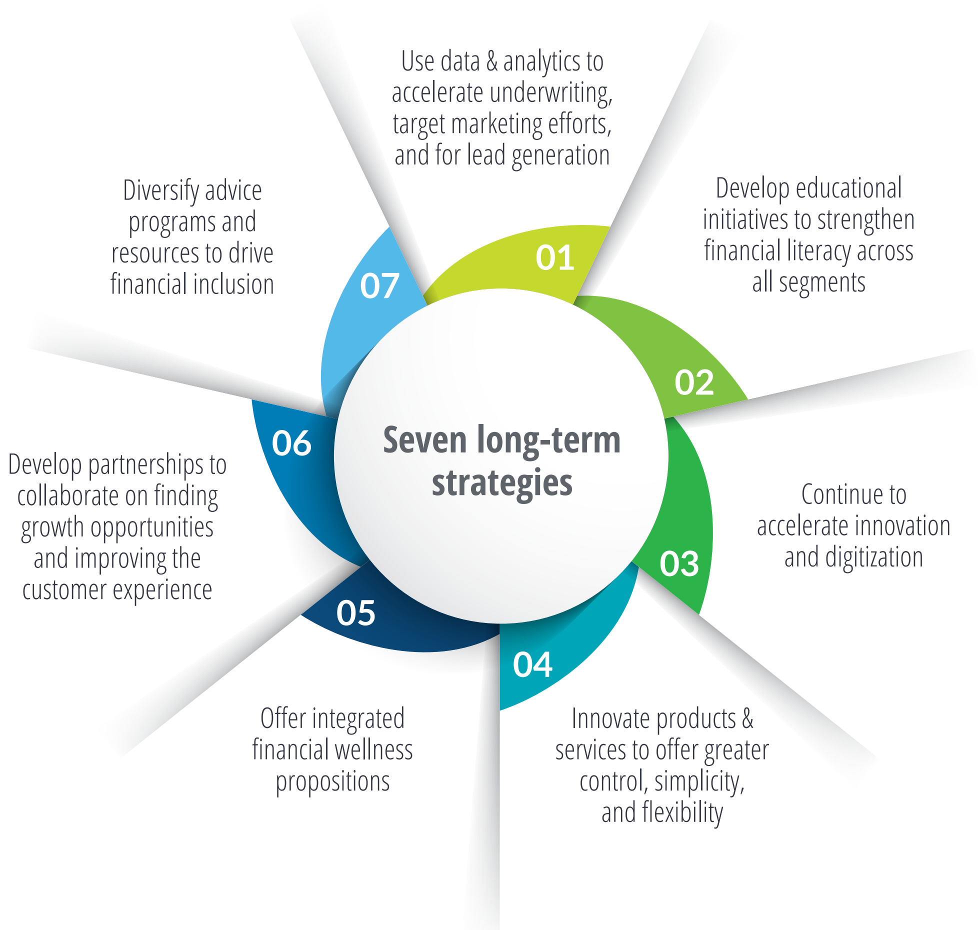
- For customer segments interested in a broader portfolio approach to coverage, create a comprehensive proposition of wealth, health, and wellness products, features, and services. In addition to providing growth opportunities, this strategy could even potentially push these customers toward healthier behaviors, which would add value to both insurer and consumer. And if faced with another global disaster, having a diversified product and service portfolio may also help insurers mitigate portfolio risk.

- Collaborate with industry and nonindustry partners across the value chain to provide an excellent customer experience and fulfill unmet needs of specific segments. Insurers will need to determine which parts of the business they want to own and where partners should come in. Such partnerships could include services for lead generation, ancillary products and services (wellness, wealth, health, etc.), alternative data sources, and digital channels. The alignments could also offer insurers additive fee-based, nonpremium revenue streams. Initially, though, they may need to take the following steps:
  - Upgrade legacy infrastructure to accommodate new sources of data from and connectivity with partners.
  - Enhance talent pool skill sets to capture, synthesize, and analyze alternative data necessary to support new kinds of products and features.
- Examine how various segments prefer to receive their advice and align outreach strategies accordingly. Aim to provide personalized and holistic advice mechanisms to priority segments in a multichannel environment.

The pandemic heightened consumer interest in mortality coverage but relying on global disasters is not considered a sustainable approach to growth. Life insurers can capitalize on the confluence of recent extraordinary events by readjusting strategies to embrace a broader client base. This may be exactly what insurers need to support long-term growth in the post–COVID-19 world—*and* help achieve financial inclusion goals at the same time. That's a win-win.

FIGURE 6

**Seven long-term strategies insurers can use to help fuel growth, penetrate underserved customer segments, and achieve financial inclusion**




Source: Deloitte analysis.

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# About the authors

**Puneet Kakar | pukakar@deloitte.com**

Puneet Kakar is a principal and leader of Monitor Deloitte's Financial Services strategy practice with more than 20 years of experience as a strategy consultant and investment banker. He has advised C-Suite, board, and senior executives on a range of issues including corporate and business-unit strategy, customer strategy, innovation strategy, new business models, digital transformation, fintech ecosystem partnerships, strategic execution, and capability building. In addition, Kakar consults a variety of financial institutions in the United States and globally.

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**Gary Shaw**
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+1 973 602 6659 | gashaw@deloitte.com

Gary Shaw is the US Insurance practice leader for Deloitte LLP. He works with Deloitte's teams to coordinate services to strategic clients, marshal resources globally, share thought leadership and industry insights, and connect client executives with their peers.

**Puneet Kakar**
Principal | Deloitte LLP
+1 212 829 6210 | pukakar@deloitte.com

Puneet Kakar is a principal and leader of Monitor Deloitte's Financial Services strategy practice with more than 20 years of experience as a strategy consultant and investment banker.

## The Deloitte Center for Financial Services

**Jim Eckenrode**
Managing director | Deloitte Center for Financial Services | Deloitte Services LP
+1 617 585 4877 | jeckenrode@deloitte.com

Jim Eckenrode is managing director at the Deloitte Center for Financial Services, responsible for developing and executing Deloitte's research agenda while providing insights to leading financial institutions on business and technology strategy.

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