

# The Underserved Insurance Market

Presented to the  
Canadian Council of Insurance Regulators

September 14, 2012

(speaker note version)

PRIVILEGED & CONFIDENTIAL

Presentation is incomplete without oral commentary.



# Canadian Association of Financial Institutions in Insurance (CAFII)

## About CAFII

- Established in 1997 as an insurance association for financial institutions involved in selling insurance via customer contact centres, agents & brokers, branches of FIs, travel agents, direct mail & Internet
- Its members offer a variety of insurance products, such as creditor's group, life, travel, health, property & casualty



### (Dave Minor)

Introduces self

I would like to welcome members of the CCIR to our inaugural CAFII Webinar. I understand that we have approximately 35 of guests on the line.

We really appreciate that so many of you have joined us today. We also want to extend a special thanks to Carol Shevlin for facilitating arrangements required to get everyone here today. **As a matter of housekeeping, we have 2 hours set aside for this presentation but we expect to be finished in less time than that, perhaps 1 ½ hours.**

To give everyone an idea of who is on the line, can I ask that starting with BC & moving east we ask that those on the line introduce who they are.....

Those regulators who have been in their positions for several years know that CAFII has taken every opportunity to interact with regulators. In past, we made presentations & held receptions at CCIR meetings & we visit regulators in their home provinces. We also hold regular speaker events. It is an exciting new development for us to be able to utilize technology to reach out to regulators & interact on topics of interest.

A webinar has the benefit of providing the necessary "geographic reach" to address regulators across the provinces. As we note in today's presentation, the Internet is an important tool to reach people who may be geographically dispersed.

### **Our topic today is the Underserved /Underinsured Market.**

This is the first topic in a series of webinars which we have planned. Other topics currently on the list include :

- An Overview of Creditor's group insurance & how it fills consumer needs, common industry practices, & the regulatory regime.
- Creditors Mortgage Life: This is a presentation of a CAFII research study entitled "Assessing the Value Proposition of Creditors Group Mortgage Life Insurance". This topic looks at the mortgage creditor product benefits & premium relative to Individual Life.
- Social Media & other channels,- This topic would look at alternative channels, digital social media & ecommerce, current & future trends, & impact on the insurance industry.

We would be interested to know any suggestions you have regarding topics of interest for a future webinar.

# Canadian Association of Financial Institutions in Insurance (CAFII)

3

## Today's Presenters

Cathy Honor	Board Chair	RBC Insurance
David Minor	Past Board Chair	TD Insurance
Jennifer Hines	EOC Chair	RBC Insurance
Maira Gill	Past EOC Chair	TD Insurance



### (Dave Minor)

Moving to logistics, I would like to first introduce the CAFII members who will be presenting today...

In addition, we have in the room:

- other members who will be assisting in answering questions you might have.....
- Anne Riley from Lawrie Savage & Associates, who some of you may know from her regular contact with regulators
- The webinar technology is new to us as a presentation mode & it is certainly different from addressing a live audience.
- We believe we have everything covered, but appreciate your patience if as we move through the presentations we find we need to work through bumps & hiccups .
- During the presentation if you have any questions, please use the online chat mode to record your question & we will do our best to respond.
- At the end of the session we will open the floor for Q&As & you will have an opportunity to raise any questions you might have.

# The Underserved Life Insurance Market

## Agenda

- Challenges for low & middle income Canadians
- Traditional channels & the underserved market
- Alternate distribution channels:
  - Description & advantages of channel & typical products offered
- How gaps can be addressed



**(Dave Minor)**

The Underserved Market is often referred to in the context of the insurance industry but what does it mean?

Our objective today is to explore this topic by looking at 2 components:

- Uninsured market- Those consumers who have no insurance
- Underserved Market- Canadians who have insufficient coverage to meet their needs

We will consider:

- Challenges low & mid-income Canadians, often referred to as the 'mass-market', have in managing risk & the insurance gaps they face
- Traditional Broker channels & why they are not able to effectively service this mass market
- Why Alternative channels are best suited to meet the needs of the underserved market & fill gaps

This mass market has unmet needs that could be addressed by a range of product solutions, including Life, Disability, Critical Illness etc.

- While recognizing these needs exist, to make the topic manageable within the time frame we have today, we will focus primarily on life insurance which in fact is often the first insurance product purchased

A large portion of the information we will speak about comes from research conducted by LIMRA:

- LIMRA is a worldwide research, consulting & professional development organization, that is a trusted source of Life Insurance industry knowledge.
- While they do work in over 73 countries, all the research we cite has been conducted within Canada & provides a Canadian perspective.
- LIMRA's work is very client focused. Our members find it to be an invaluable source of knowledge & insight about what is important to & needed by our clients,
- We hope you will find it equally valuable

I will now turn the floor over to Jennifer Hines who will explore these issues in more depth.

## Challenges for low & middle income households

- Many mass-market households face insurance gaps & are at risk
- They have insufficient or no life insurance
- Gaps exist in traditional Broker channels that prevent them from adequately meeting the needs of mass-market clients
- Low to mid-income, younger 'mass market consumers' are underserved



### (Jennifer Hines)

Thank you Dave.

When we look at the underserved market, we primarily focus on low & middle income households who comprise the mass market, many of whom are young

Many of these households are often in a start-up or build mode.

They are facing major life events such as marriage, birth of a child or raising children, buying a house

They are time & cash strapped & often have a low net worth, & do not have a 'nest egg' built-up to cover unexpected events such as illness or death.

With insufficient or no life insurance they face gaps & are at risk.

These individuals need convenient access to straight forward, cost effective insurance solutions

Unfortunately, as we will discuss, while traditional insurance channels comprised of licensed brokers or agents can meet the needs of mass-affluent or HNW clients, they are not able to fully service younger, low-mid income households.

These households face many challenges as they work to build & maintain there lives & it is important that their insurance needs be addressed.

## Many households have insufficient insurance

### *A significant gap exists*

#### **Life insurance coverage recommended**

- Replace income for 7 -10 years
- On average at least \$430,000 of insurance is required to replace 7 years of income

(Based on a \$60,900 average after-tax income for a family with children & one wage earner Statistics Canada. Average income after tax by economic family types, 2005-2009)

#### **Average amount of life insurance held**

- \$173,700 - only 40% of the recommended protection!
- 44% of life insurance owned is Employer Group coverage
- Average coverage \$42,700
- Coverage at risk in the event of job loss

CLHA, Canadian Life & Health Insurance Facts, 2011

*Many households are at risk if the wage earner died*



(Jennifer Hines)

To understand this issue, we want to will start off by considering the underinsured market:

While some households do have some insurance, it is insufficient to cover their needs & significant gaps exists:

To provide context on the size of the gap:

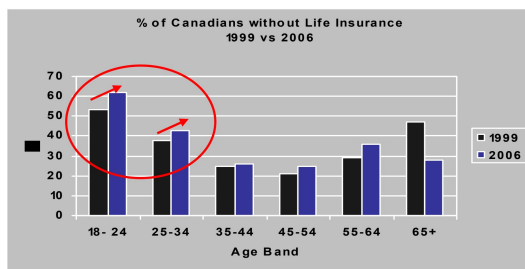
- It is typically recommended that life insurance is sufficient to cover a households income for 7-10 years,
- Currently, an average family with a single wage earner & children, earning ~\$60,000/ year needs \$430,000 in life insurance.
- Contrast this with \$173,700 which is the average amount of insurance coverage currently held
- On average households have 40% of the needed coverage

Further risk in that employer Group insurance represents 43% of this coverage:

- In this day & age, as individuals, especially at younger ages, change jobs more frequently, voluntarily or involuntarily,
- This insurance is at risk as it typically terminates when employment ceases.

## More than one third of adults in Canada have no life insurance coverage at all

*Younger Canadians  
have less coverage  
% by age*



LIMRA Canadian Ownership Person Trends, 2007, p. 16

*Less insurance is held  
at lower incomes*

% by income

Income	% without Individual or Group Life Insurance
< \$25,000	56%
\$25,000-49,000	23%
\$50,000-74,999	12%
> \$100,000	4%

LIMRA TOPIC 2009 - Financial Products, P.11

*Lower income, younger households are at greatest risk*

LIMRA 2007 Canadian Life Insurance Ownership Person Trends, p 8



### (Jennifer Hines)

In addition to those who do not have enough insurance. There is also a significant number who have no insurance.

Realize this is a busy slide so I will go through it in a bit more detail:

#### Left Hand Graph-

- Illustrates the number of Cdns by age band who have no insurance.
- Compares 1999 to 2006
- (more recent work underway, report not complete, but speaking to researcher & trends are the same)
- Shows that Younger consumers have greatest gaps
  - 60% in the age 18-24
  - 40% of age 24-34 have no coverage
  - Over the years, the # without coverage in both age bands has increased.
  - Some ask at age 18-24 why do they need coverage?
    - Concern is with 24 yr olds - they are starting out & should be getting at least basic insurance.

#### Right Hand Graph-

- Illustrates the number of Cdns who have no insurance by income level.
- Shows that Lower income consumers are also at greater risk,
  - > 1/2 of those earning <\$25,000 & 1/4 of these earning \$25,000 to \$49,999 have no insurance.
  - Not even to cover final expenses

If you also consider those who only have group coverage there are risks related to this segment:

- <\$25,000 there are an additional 4%,
- \$25,000- 49,999 have 11% more
- As previously noted these individuals could face issues if they loose or change jobs.

See full chart LIMRA TOPICS 2009 Financial Product page 11 – Group share

These younger, lower income households who have no insurance have nothing to fall back on in the event of loss of the wage earner.

## Canadians worry over risks due to insurance gaps

- 58% could not provide for their family if they died unexpectedly
- 48% would have concerns if they lost their job
- 75% worry they would not have enough money if they became critically ill or disabled

LIMRA TOPIC Studies - various (Retzliff)

*38% or 5MM households feel they are underinsured*

LIMRA Canadian Ownership Study - Household trends, 2007. p. 6 & 27



### (Jennifer Hines)

Over 50% of Canadians < 35 say they need more Life Insurance coverage & they worry about it:

• They are concerned that if they died, loose their job, or become sick or disabled they will not be able to provide for their family.

• 5MM Canadians feel they are underinsured

Many Canadians feel at risk

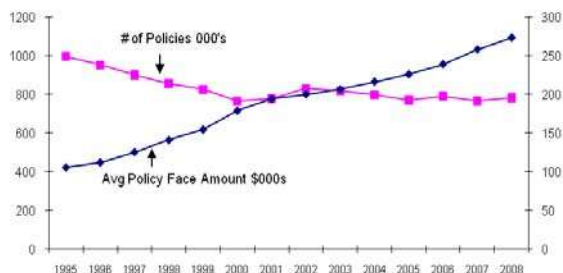


## Many households are not being well served by traditional insurance sales channels

### *Households find purchasing life insurance a challenge*

- 58%+ Don't know how much or what type to buy
- 58% Dread high pressure sales tactics
- 36% No one has approached them.
- 48% Find it very difficult to find an advisor/agent

LIMRA Canadian Life Insurance Ownership 2007 Household Trends, P.28  
LIMRA 2011 Trends in Canada Factbook (Ahmed)



Individual policy sales have decreased  
Brokers are selling fewer policies, with  
higher face amounts

LIMRA Canadian Life Insurance Ownership 2007 Person Trends, P. 9-10

*Alternatives are needed*



### (Jennifer Hines)

Given that many Canadians feel they are underinsured & are worried about it the question arises as to why don't they just purchase the coverage they need.

There are a number of reasons, & one of the most basic is that they find the purchase process & decision difficult.

- More than half of consumers:
  - don't know what type of insurance they need or how much they should purchase &
  - fear high pressure sales tactics
- 1/3 have not been approached by anyone to offer them insurance
- Nearly 1/2 find it difficult to find an advisor.

Clearly Traditional Distribution Channels are not effectively serving this underserved mass market & they need different ways to access insurance

This can be seen in the current trend illustrated in this graph where:

- Brokers are selling fewer policies (pink line)
- Policies have an increasing average policy size. (Blue line)
- Overall Individual sales have decreased
- These policies are not targeting the mass market
- In force stats

Year	% with Ind Ins	Average Policy size
1999	43%	\$ 87,400
2006	38%	\$145,100

Alternative channels are needed to serve the mass market

# Many households are not being well served by traditional insurance sales channels

## Compensation Structure Drives Broker Behaviour

Compensation programs that pay commissions based on a % of premium incent brokers to target older clients needing higher value, higher premium policies

Female Non-smoking Client	Life Insurance Policy Type	\$100,000 Life Policy		\$500,000 Life Policy	
		Annual Premium	Base First Year Commission (FYC) \$	Annual Premium	Base First Year Commission (FYC) \$
Age 35	Term 10	\$ 134.50	\$ 53.80	\$ 221.00	\$ 88.40
	Term 20	\$ 155.00	\$ 69.75	\$ 314.50	\$ 141.53
Age 55	Term 10	\$ 332.10	\$ 132.84	\$ 941.00	\$ 376.40
	Term 20	\$ 577.80	\$ 260.01	\$ 2,190.00	\$ 985.50

**Commission Rate Assumptions:** T10 Base FYC = 40%; T20 Base FYC = 45%

source: RBC Insurance Illustration 31/08/55

*Seven \$100,000 Term 10 policies must be sold to 35 yr olds to earn the commission paid on one \$500,000 Term 10 policy for a 55 yr old*



(Jennifer Hines)

There are a number of reasons why Traditional Broker Channels are not serving younger low & mid-income Canadians:

One is the Broker compensation structure.

Given their predominantly Commission based compensation program, basic economics has driven broker activity.

- A number of CAFII members, including RBC whom I represent, have large blocks of business sold & serviced through traditional broker channels, in addition to the business we distribute through other channels, which clients are very receptive to.
- We find that Broker are very effective at targeting mass affluent & HNW clients who represent a large % of their business & income
- By comparison there is much less income to be made from small premium policies that would typically be sold to mass market younger individuals.
- It would be very challenging for a broker to make a living by selling small face amount term life policies.

This chart illustrates this showing the annual premium & FYC paid:

- For 2 female non-smokers- one age 35 the other 55,
- If they purchase a \$100,000 policy or a \$500,000 policy of either T10 or T20
- Uses FYC which is a % of premium approx +/- 40% (+ override 205% FYC)

Looking at the illustration, a broker receives FYC of approx:

- \$53 for selling a \$100M T10 policy to a 35 female- typical purchase for this age
- \$376 if they instead sold a \$500M policy to a 55 yr old – again a typical purchase for this age

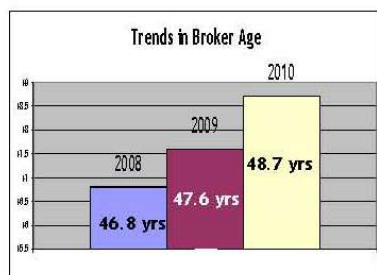
The Broker would have to sell 7 smaller \$100M policies to earn the same commission they would received from one larger \$500M policy.

- This would mean 7 X the cold calls, 7x meetings, 7X application submission, 7X time ---- all for the same commission

Brokers are generally self-employed entrepreneurs, so it makes sense for them to focus on larger higher face amount polices.

## Many households are not being well served by traditional insurance sales channels

**Advisors are aging & few new recruits are entering the business**  
**Only 70,000 life insurance advisors serving 30 million Canadians**



### Insurance Advisor Profile (2011)

- Average age 48.7 years
- 17 years in industry
- Manage a relatively stable base of ~ 446 client households
- New advisors experience high turnover with 4 year retention rate of only 31%

Investment Executive Research 2011 Insurance Advisor Report Card  
 LIMRA annual survey of Canadian Sales Force Retention (April 6, 2011).

**Advisors are more likely to develop their existing block of business & target new clients within their peer group**



### ((Jennifer Hines)

A second reason is Broker Demographics:

Advisor / Brokers in Traditional Channels are aging at a rate of one year/ year with an average age of nearly 49 years.

- This profession is not regenerating itself, as younger individuals are not joining / repopulating the profession.
- Those who do join have high turnover & only 31% are still there after 4 years
- There are 70,000 brokers to serve 30MM Cdns & <10,000 are FPs
- Very different situation from say 25 years ago when there was a steady stream of new recruits into the life insurance sales role
- To start with there are not enough Brokers to serve the mass market

The Broker role is highly relationship based & brokers will use their time wisely where they can develop & leverage their relationships.

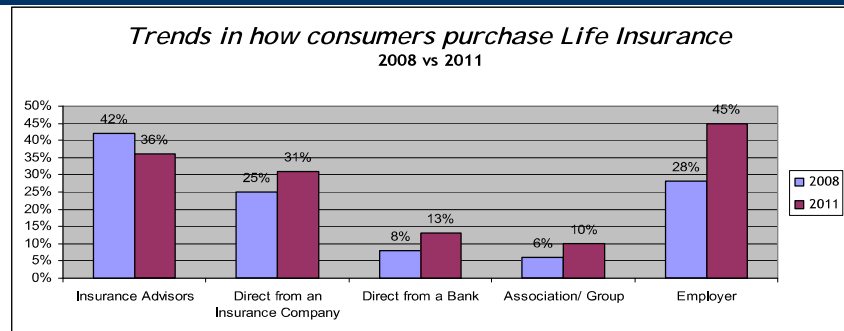
They have on average been in the business for 17 years, manage stable block of under 450 households.

This means they will tend to:

- Continue to develop their existing block of clients- who are likely to be older, & more affluent.
- Cultivate referrals from existing clients who are likely going to be similar to existing clients & to themselves ( age, position the community)
- If they prospect new clients they are likely in their peer group & are of a similar age, with similar characteristics & who are also more affluent or HNW,

Mass market clients- who are younger & low to mid income households are not their target market & remain underserved.

# Consumer purchase behaviours are changing



↓ Insurance Advisors

↑ Alternative Channels including:  
Banks/Ins Companies, Associations & Employers

*Insurance Advisor Share of Market is decreasing  
as consumers are using Alternative Channels*



## (Jennifer Hines)

Traditional Channels are not meeting the needs of low/mid income consumers particularly those who are younger.

Alternatives are needed.

Consumers have recognized this & are showing a willingness to use alternative or new distribution channels that provide convenient access to simple & cost effective ways of accessing insurance products.

Chart illustrates interesting trends in Life Insurance purchase behaviours from 2008 to 2011:

- Purchases from Insurance Advisors have decreased by 6% (from 42-36%)
- All other channels have experienced a growth:
  - Direct Insurance + 6%
  - Direct Banks + 5%
  - Associations + 4%
  - Employees +17%

Consumers are showing a preference for Alternative channels

As insurance manufacturers & distributors we need to respond to these needs & create & offer products that are suitable for these channels & for mass market clients:

- Move from complex UL/ permanent products to simpler product options that these clients need & want.

I would now like to turn the presentation over to Moira Gill, who will speak further about Alternative Channels

## Consumer demand for Alternate Distribution Channels is increasing

### *Channels they are choosing*

- Financial Institution & Bank Branches
- Contact Centres/ Direct Marketing
- Online/e-commerce

### *Clients often use multiple channels during the purchase process*



### **(Moir Gill)**

Alternate distribution channels provide convenient access to simple & cost-effective insurance solutions.

It is our members' experience that consumers do not limit themselves to any one channel.

- They may consult the Internet, talk to an agent or broker, and/or call a contact centre for background information & then make their purchase decision.
- Clients choose the channel where they are most comfortable.
- Online channels & electronic applications are in demand from younger consumers.
- Representatives in all channels are appropriately trained & qualified.

While it is often said that insurance is sold & not bought:

- What has been found that when consumers are facing certain key life events ( i.e. marriage, birth of a child, first home purchase) they may in fact start to research financial impact
- This can lead them to investigate & research insurance options
- Some of the alternative channels, in particular the internet very strongly support this behaviour

## Alternate Distribution: Financial Institution & Bank Branches

*Over 8,000 Financial Institution (FI) branches  
offer authorized products to clients*

- Product offerings are timely & fulfill a clearly defined need
  - Creditor insurance when there is new debt
  - Travel insurance when they are getting ready for a trip
- Face to face channel with representatives who are properly trained & supervised
- Convenient availability in most communities
- Well established channel from which consumers are comfortable seeking financial advice

*Well positioned for Underserved Mass Market Clients*

Ipsos Reid research study: RBC Insurance May 2008



### (Moir Gill)

- CAFII members are heavily involved in providing products through their financial institution channels that are permitted or authorized by Bank Act e.g. creditor & travel insurance.
- Products such as creditor insurance are offered in amounts & at a time when consumers need it, that is, when they take on new debt.
- This distribution network makes insurance accessible for the underserved market - branch networks provide broad geographic access to financial services & advice with 8000 branches across the country.
- Customers are comfortable talking about financial matters in this channel. For this customer segment this is often their first experience with an insurance product.

## Alternate Distribution: Contact Centres

### *Convenient, easy to access, well established channel*

- Often available during extended hours
- Comfortable customer experience
- Insurance offer is timely & matches a need
  - e.g. travel insurance when a trip is being planned
- Adherence to associations' guidelines (i.e., CLHIA Guideline 7 & 9)
- Consistent, scripted communication
- Continuous supervision of representatives
- Supported by mail / internet fulfillment

### *Provides convenient advice & products to consumers wherever they are located*



### **(Moirra Gill)**

#### Convenience

- Consumers can call in during extended business hours with questions or to get information as well as to buy.
- Can be supplemental to information or sales process in another alternate channel such as web

#### Compliance and control advantage over traditional channels

- From a market conduct perspective this channel facilitates a great deal of oversight & control over what is said to the consumer during the sales fulfillment process
- Scripts adhere to CLHIA guidelines for Direct Marketing.
- Telephone scripts are consistent, controlled & are be recorded for training, monitoring, problem resolution & compliance.
- Again, CAFII members typically have a 30 day free look period for consumers to cancel for full refund.



## Alternate Distribution : Online /e-commerce

### *Emerging / growing channel especially to research product information & advice*

- Has been primarily used by consumers for information & research
- Is now beginning to emerge as a direct sales channel
- Available 24/7 for immediate information or coverage
- Chosen for ease & convenience to research & comparison shop
- Avoids pressure sales
- Information can be presented in a clear, logical order
- Advice can be made available from online tools
  - e.g. needs analysis, scenarios,, pop-ups, contact information & “click to chat”
- Cancellation period with full refund on all offerings, typically 30 days
- Broad based use amongst mass market & younger consumers

### *Facilitates enhanced financial literacy & increases access to insurance*



### **(Moir Gill)**

- A web-based offering can greatly simplify the learning process for consumers.
- Websites of providers give clear, current & consistent information & the ability to easily purchase needed coverage.
- According to a recent POLLARA survey commissioned by CAFII[1], almost 50% of Canadians would be comfortable buying life & health insurance products online.
- In 2011, Canadian consumers purchased over 180,000 insurance policies online from CAFII members.
- CAFII members typically have a 30 day free look period for consumers to cancel for full refund.
- From a market conduct perspective this channel facilitates a great deal of oversight & control over info presented to the consumer during the sales fulfillment process
- All segments of the population are engaging online to varying degrees, but the high level of engagement and anticipated area of greatest growth is in the younger age groups, who have already be identified earlier in this presentation as being part of the underserved market.
- Commend CCIR on their leadership in the ecommerce consultation

[1] POLLARA Survey of Canadians' Views on Purchasing Life Insurance Products Online, Conducted for CAFII, April 2012. All questions related to products that generally cost less than \$400 per year to buy, such as travel insurance & accidental death insurance.



## Advantages of Alternate Distribution

*Provides convenience & easy access to information throughout the product lifecycle*

- Convenient & wide availability
- Allow consumers access to a variety of products
  - E.g. Basic term, Disability, Critical Illness, Creditor & Travel insurance
- Well-trained & supervised salaried sales people
- Simple, affordable products

*Can make insurance more easily available to underserved Canadians*



### (Moir Gill)

• Consumers who do not have an agent & who do not have adequate insurance need to be able to access basic, competitive & cost-effective insurance products, as well as advice.

• These can be provided effectively through alternate channels.

• For the underserved market, the advantages of alternate distribution channels are clear

Convenient & wide availability, and ability to move among channels

Highly controlled environments - Well-trained & supervised salaried sales people

Simple, affordable products which meet both the needs of our customers and are appropriate to the characteristics of these distribution channels

Non-medical application required in most cases

Summarize & wrap up above

## Summary

- Mass Market, younger, lower & mid-income families, are underserved:
  - They face significant insurance gaps
  - They need & want basic advice & simple products
- Traditional Brokers do not focus on the Underserved Mass Market
  - Brokers are aging & fewer are coming into the business
  - They target & develop relationships with Mass Affluent & High-net worth clients
- Consumers are demanding alternative means for obtaining advice & coverage
  - Alternate channels meet customer needs for access, convenience & simplicity

*It is critical to ensure that regulatory regimes help to foster & support the ongoing growth & development of these channels*



**(Cathy Honor)**

Summarize above & thank them for their attendance

Indicate that their input is important to us to ensure we are meeting their information needs. Will be emailing out a survey & would appreciate them taking the time to complete & return

# Questions & Answers



Thank you

