# Insurance for the Underinsured

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***Main conclusion: While developing and improving their sales process, insurance companies must maintain a Diversity, Equity and Inclusion (DEI) focus to better serve their customers. Insurance companies DEI strategies must be leveraged to close the underinsured gap.***

The main purpose of life insurance is to help your loved ones deal with the financial impact of your death. In the health benefits space, the coverage would help reduce financial hazard, for example, from medical treatments not covered by government sponsored plans. Its goal is to reduce financial uncertainty and make these events more manageable.

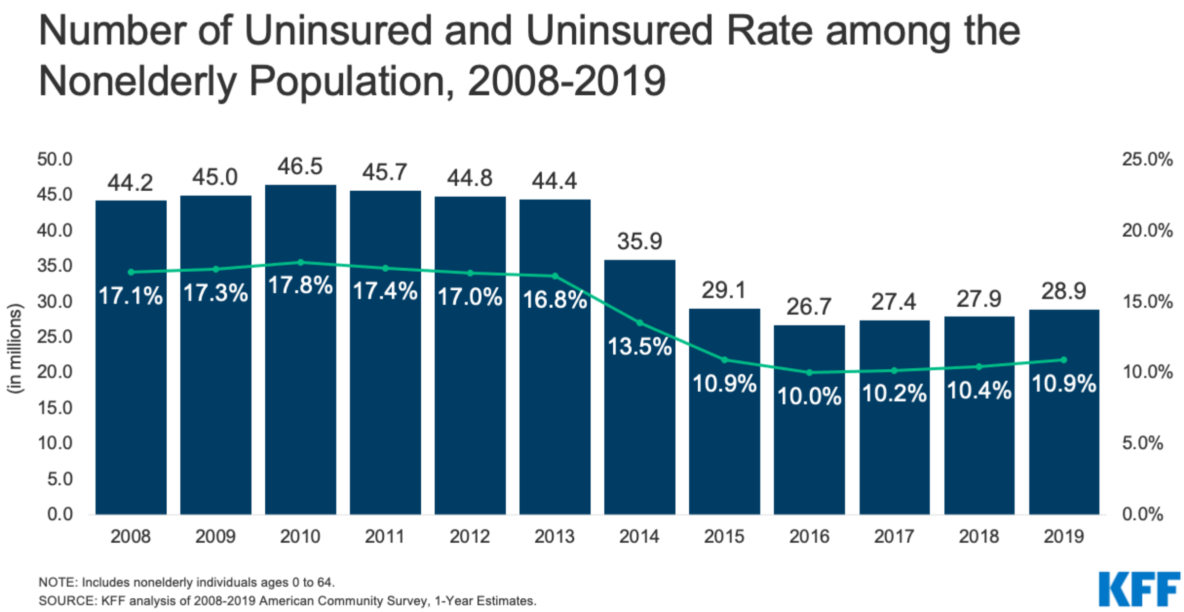
In pooling the risks, insurers must ensure that customers are paying their fair share for the risk they represent to that pool. This is where underwriting departments come into play to ensure approaches used to evaluate risks are robust. This requirement for "robustness" has historically led to a long and difficult purchase process. Compared to other significant transactions, the insurance purchase process has remained long and time consuming while others such as the purchase of a house and obtaining a loan have accelerated significantly.

Disruptors for insurance companies are no longer only their usual peers, but also Fintechs and startups which have increased the pressure for a better purchase process. As a result, insurance companies have continuously tried to simplify their process with significant improvements made within the last five years. Despite these efforts, the number of underinsured adults in US and Canada have remained high. Is it time to look at this differently?

## <u>The uninsured problem</u>

In the US, where medical claims on under/uninsured population often leads to bankruptcy, attempts have been made to provide support for the underinsured. Obamacare is a tangible example of such an attempt. In Canada, where a universal health care system covers most expenses, the focus has been on providing better drug coverage (e.g. RAMQ in Quebec, Pharmacare). Despite these efforts by the government, insurers and lobbying groups, the number of underinsured adults has remained high in both the US and Canada (see Figure 1 for US data).

Figure 1

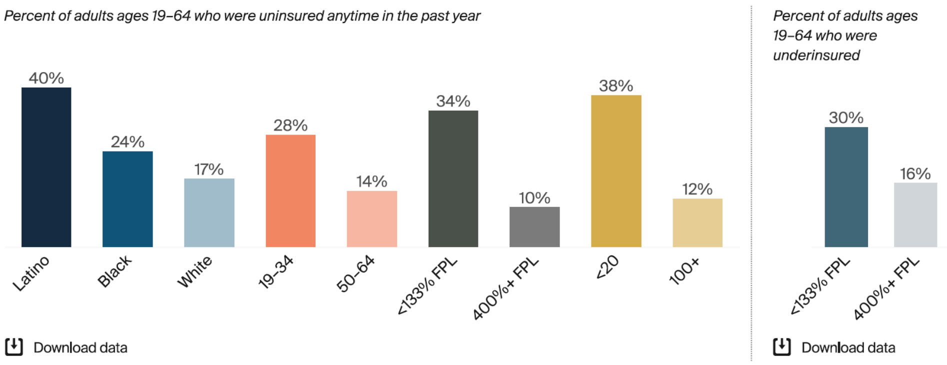



In Canada, extrapolating from a survey of 4,118 Canadian households conducted in the third quarter of 2019, the Life Insurance Marketing and Research Association (LIMRA) estimated that around 10.7 million households around the country have life insurance coverage, representing only 68% or around two thirds of the country. The total in-force market is pegged at $2.1 trillion, with $200,000 in coverage for the average household with life insurance.

That leaves an estimated 5 million households (32% of the Canadian population) with a possible coverage problem. Based on the study, 30% of Canadian households believe they are lacking in coverage, with 2.3 million having no life insurance at all and 2.4 million underinsured.

Despite recent efforts, the number of underinsured / uninsured still represents a significant portion of the population. Looking at the statistics at a more granular level, the data is lopsided towards minorities and underrepresented groups. In the chart below, the data shows that the number of uninsured increases more than threefold when salary is lower than 133% of the federal poverty level (FPL) versus 400%+ of the FPL. In addition, 40% and 24% of the Latino and Black communities respectively are underinsured. Since the beginning of the COVID-19 pandemic, we have heard countless times of situations where workers would not take sick leaves over fear of losing jobs and health benefits, or worse, not seeking out healthcare because they do not have insurance. These are examples that have contributed to the further spread of the virus, and as such, this issue is not only affecting individual peoples' lives, but the society in general.

## High Uninsured Rates Reported Among People of Color, Small-Business Workers, People with Low Incomes, and Young Adults




Notes; "Uninsured anytime in the past year" refers to adults who were either uninsured at the time of the survey or spent some time uninsured in the past year. "Underinsured" refers to adults who were insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equaled 10% or more of income; out-of-pocket costs, excluding premiums, equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income. FPL = federal poverty level.

Data: Commonwealth Fund Biennial Health Insurance Survey (2020).

Source: Sara R. Collins, Munira Z. Gunja, and Gabriella N. Aboulafia, *U.S. Health Insurance Coverage in 2020: A Looming Crisis in Affordability – Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2020* (Commonwealth Fund, Aug. 2020). https://doi.org/10.26099/6aj3-n655

**Advancements made to the underwriting / purchase process**

The purchase experience for insurance, and especially life insurance, has historically been long and painful (literally!). Paramedical exams, tele-interview and access to medical records are all part of the process with the goal of understanding the risks associated with each customer. This process can deter applicants who are unsure about purchasing insurance, consequently leaving more people underinsured.

In today's environment it is critical for insurance companies to improve their onboarding process given the negative purchase experience it creates. As such, companies are investing millions in data and technology to improve the process and remain competitive. Given that the current approach has protective value from an underwriting perspective [detecting conditions that are known or unknown to applicants], it is important to understand the value of specific steps that are being removed or simplified. For example, if a decision is made to stop collecting blood, what will be the impact on the detection of cardio-vascular diseases currently or in the future? Without urine tests, will insurers still be able to detect nicotine usage which has material impacts on life expectancy?

Distribution is key to selling products. Even with the Direct to Consumer (DTC) attempts of the last few years, insurance products are generally still sold, not bought, and insurance companies must rely heavily on their distribution networks to sell products. This distribution was face-to-face and mainly on paper based before COVID-19, but the pandemic has forced a shift in approach to electronic distribution to continue selling products during lockdowns. This shift brings new opportunities for insurance companies to simplify the sales process with alternative methods such as video paramedical exams and app-based applications.

While still in development and with experience taking a long time to emerge, early indications are that Artificial Intelligence (AI) has proven to be successful at mixing population data with applicants' medical records and tele-interviews to understand the risks of each applicant. This process involves training the model with past data and underwriting decisions to ensure it is operating as expected on new cases.

Common business cases supporting simplified underwriting process improvements usually highlight faster screening on easier cases so that more time is spent on the more complex cases (80/20 rule). Unfortunately, a more efficient process often leads to reduction in resources and not necessarily more time spent on complex cases. Once again, this would lead to more people being left underinsured.

So as insurance industry stakeholders, we must ask ourselves the questions; are we truly helping to reduce the uninsured gap? Or are the new methods such as the use of Artificial Intelligence further contributing to increasing the gap in the uninsured population?

## **How can product segmentation be used to serve a potentially underserved market through Diversity, Equity and Inclusion Strategies?**

Multiple events over the last few months have raised awareness on the importance of diversity. Companies are looking into Diversity, Equity and Inclusion (DEI) initiatives to improve their employee diversity and better line up with customer expectations and needs.

One question that does not receive a lot of attention is "are insurance companies all targeting same segments, leaving large segments untouched?" Using an 80/20 rule, if all insurers focus on the 80, are we good with leaving the 20 behind? Does that leave a significant opportunity for improvement for the underinsured? Can a more digital approach be used to tackle underserved problem?

Customers are expecting to see in companies the same level of diversity they see in the general population, where they live. As such, insurance companies need to consider diverse perspectives when designing and launching products. The customer base can be very diverse for insurance products and when considering group benefits and retirement benefits, diversity is even wider. As more companies are looking at agile ways of working and human center design, it is important that these teams are as diverse as possible for maximum outcomes.

Distribution networks' feedback can help, but it is critical to have diversity from inside the company as well. Marketing studies and consultants can provide great insights, but nothing will be as effective as a diverse team that can combine their diverse background / experiences with a broad understanding of products and customers.

As customers remain on insurance companies' balance sheets for a significant amount of time, it is important to not only consider the point of sale, but also accompany them throughout their life. Using a DEI approach, insurance companies need to also ensure they maintain a customer-centric approach to their diverse customer base based on their age, culture, preferred language, physical abilities, etc.

The more complex the product, the more difficult it will be to administer in the future and for customers to understand. Studies have shown, time and time again, that diverse teams are far superior at solving problems and now is the time to give a very specific mandate to these teams.

## **The importance of product / marketing segmentation when selling life insurance**

The concept of insurance is to help customers or beneficiaries through difficult times. That said, a fair amount of people over-estimate their health status and therefore will have the tendency to underinsure themselves from the worst outcomes. As such, it is important to develop products that are addressing specific needs, even if these customers are not actively looking for that insurance protection. To do this, insurance companies need to segment customer effectively so that they can develop marketing strategies that are customized for the right audience and promote the right product for that customer segment. These product and strategies must be relevant to consumers and diverse enough to meet different needs. Would you actively pursue a customer segment with car insurance if people in that segment generally do not own a car?

Some very good insurance products have been designed in the past, but when segmentation has been poor, it has resulted in lackluster sales and in some cases become insulting to potential consumers. As such it is important for the marketing areas to have a deep understanding of these segments and who is represented.

In addition to segmentation, people are expecting to see employees or representatives that look like them. Diverse teams should be considered in all areas of the insurance process including product design, pricing, administration, and sales. Without diversity, there are significant risks of misunderstanding the market segment, selling unsupportive products, and failing to quickly react to outside factor changes. Further, having diverse teams creates opportunities to sell the same product to multiple segments which could result in savings. When marketing insurance products, it is also important to consider that each segment would likely be reached differently. Questions must be asked such as: How do different segments want to buy products? Over the phone or Internet? Direct to consumer or from their bank or financial advisor? Understanding these questions (and multiple others) is critical for sales success.

Cultural differences and language barriers will also influence how people want to be served. Companies have invested in AI, chatbox, voice recognition which have improved the customer experience for many but have made it difficult for others. For example, voice recognition has a track record of failing with accents, leaving frustrated customers miserably trying to navigate through the phone triage to speak with someone who can understand them. The same applies to people with disabilities such as hearing or speaking disabilities.

Overall, while customer segmentation is crucial to selling insurance products effectively, it is also crucial to consider diversity when products are priced, sold, and serviced to avoid leaving more people underinsured.

## **Pairing Insurance and DEI**

Insurers in North America are donating millions each year to charities. In a survey conducted by McKinsey in 2019 on 22 insurance companies in the US [including insurers and brokers] that represented over $200 billion in premiums, between $560 million and $600 million in cash, grants, and other donations have been made since 2015. In the same survey, McKinsey also concluded that Millennials prefer to work for companies that are involved in charitable causes, indicating a greater desire to make a social impact through their work compared with previous generations. As a result, we see that a growing share of charitable strategy is through volunteerism. If volunteerism were combined with insurance knowledge, could these programs be used to educate the uninsured and help them to seek insurance?

This could be an opportunity for insurance companies to help while using their insurance expertise and might be more valuable than building a house as a team gathering event, for example.

In the insurance world, the general population and specifically the underinsured are often associated with poor experience, poor health and anti-selection. However, we are still talking about a market of millions of people, that could be interested in products, different than what is currently sold. Putting the DEI product team into action, it is crucial to build teams that know the customers, the type of insurance they need and how they react to different types of marketing strategies. In a diverse team, every team member will bring something unique to the table, better understand issues as they emerge and then react quickly when needed. Do you need an American football team with 10 quarterbacks? A soccer team with 10 goalies? The same applies here.

Companies often target more complex products with fund accumulations, riders and return of premiums. While these products have their purpose and can provide great benefits for their targeted customers, they will likely be too complex and too expensive for the uninsured. Leveraging process improvements, it is important to provide a product that is easy to buy, with a low face amount as a start. Term insurance is a good example of an easy-to-understand product. This can help leaving a basic amount of money to their beneficiaries to, at least, cover funeral costs. Pair that offering with simple education material on the importance of health and wellness, and in addition, providing an activity tracker to track steps. Link all of that together and you have a holistic view of how a product can both cover the basics but could also motivate customers. In a worst-case scenario, the customer's behaviors towards health do not change. However, any increments from the current situation would have positive benefits.

Looking at this differently, could a simple, direct-to-consumer product, with limited underwriting questions, marketed through for example, places of worship, be successful? One of the issues that has surfaced within the last few years in North America is that years of segregation and violence towards minority groups have resulted in trust issues with governments and some large corporations. As such a marketing campaign centered around television ads will likely not be successful. The best people to support the marketing campaign would be representative of these communities. They will know how to reach out to their communities and which product speaks to them. A diverse team working on product, pricing and marketing will be able to pick up on that and adjust their strategy accordingly.

Insurance products are often supported with a significant number of exclusions and fine print which makes them very hard to understand. A product that is complex and for which a significant portion of the population do not believe they need, will be very difficult to sell. In addition, if there are trust issues, the likelihood of increasing insurance protection in that population is limited at best.

Due to the trust issue, the regular insurance advisor to customer sale will be challenging. What if instead, a representative from the product team would spend time volunteering hours discussing the importance of insurance and savings with its community? This may not lead to an immediate sale, but it could in the future. Even if it does not lead to a sale, the hours spent teaching financial literacy would go a long way towards educating communities on the benefits of insurance and savings. This approach would leverage the insurance company employee's strength and knowledge while at the same time, helping covering gaps where our education systems have failed (financial literacy).

Remember how Millennials are focused on working for employers that give back to communities. To accomplish these goals successfully, these acts of volunteerism need to result in meeting these communities directly, in their environment. When members of these communities will need insurance and savings products, they would then reach out based on that developed trust. Word of mouth could then take over through further community activism. Win-Win!

## Conclusion - Next Steps

I understand that money does not grow on trees and that what I am proposing has been attempted in the past. This is not the first time people have been trying to sell insurance products to underserved communities. I believe these efforts were unsuccessful because there were not approached from a DEI lens and it was expected that publicity would be sufficient to attract people to the company. In addition, a lot of focus is put towards high-net-worth individuals as these sales are material and allow businesses to reach sales goals and other key performance indicators quickly. The same amount of focus is needed for underserved communities as well, although it must be accomplished differently.

Given the above, can we really sit there and think that nothing can be done for millions of individuals in North America? This represents a customer segment on its own and having a proper team that understands this segment and their products needs, could really make an impact by combining volunteering and insurance knowledge. The following list is not exhaustive, but I believe it includes the most important steps to accomplish this idea successfully:

1) Establish a program within the company to facilitate financial literacy volunteerism
2) Dedicate time and resources to build a diverse team that can build and launch very simple products
3) Use the knowledge from that diverse team to identify communities as well as the proper approach to reach them
4) Organize meetings between employees and these communities. The format of these meetings will differ based on the community employees are attempting to reach
5) Use diversity within team to react quickly and pivot if needed
6) Establish proper key performance indicators to track progress and ensure long-term success

I recognize that regulation may be a factor here in terms of insurance sales, so the process would have to be developed ensuring that once the financial literacy aspect has been improved within the community and that sales are starting to flow, referrals to a licensed advisor would be planned while still considering DEI.

Building diverse teams within insurance companies going forward will not only help them meet current customers' needs but will also allow them reach out to new customer segments. In general, people enjoy sharing their knowledge and through this approach, employees will be providing a meaningful service while at the same time have the internal recognition of accomplishing something very useful. Again… WIN-WIN!