

LIMRA: Sales Prospects Double In Underinsured Life Insurance Market

WINDSOR, Conn., Sept. 6, 2011—A new LIMRA study has quantified the sales potential in the life insurance market of underinsured households in the U.S.

"The underinsured life insurance market offers financial professionals tremendous opportunity, with 35 million underinsured middle market households in total — half of them (17 million) thinking they might be ready to buy life insurance in the next year," said Cheryl Retzloff, senior research director, LIMRA Markets Research. "The greatest challenge is not getting them to understand they need life insurance, but rather getting them to give it a high enough priority to investigate coverage now. These consumers need help to decide what type to buy, how much coverage they need and how life insurance can play an important role in their overall financial security."

The new report, "Trillion Dollar Baby Growing Up," is a follow-up to a 2004 study, in which LIMRA estimated that life insurance sales would increase \$9.5 trillion if the 48 million underinsured households bought the amount of life insurance coverage then said they needed.

With life insurance ownership at an all time low, the opportunity has doubled since 2004. In 2010, half of U.S. households (58 million) said they needed more life insurance coverage, a sales potential of as much as \$17.5 trillion.

For this report, LIMRA calculated the size of the underinsured market based on two different measures: the number of U.S. households that readily admit they are underinsured, and the number of households that think they might buy life insurance in the next 12 months. For these two groups, we measured the gap between the amount of life insurance these people think most consumers should own and what they actually own.

The study found that there are more Generation X households thinking of buying life insurance in the next year than Generations Y and Baby Boomers. Since three quarters of Gen X households are married and half have a child under 18 living in the household, this makes them prime candidates for life insurance. While the likelihood to buy life insurance does not vary by income level, there are more than double the number of U.S. households making \$35,000 to \$99,900 (17 million) that are likely to buy life insurance than those more affluent.

So what keeps underinsured people from buying life insurance?

LIMRA's study revealed three important factors:

1. Competing financial priorities — The top two reasons consumers delay buying life insurance are: because they have other financial priorities, or because they think they can't afford it.

Consumers need help to figure out how to fit the life insurance premium into their budgets — especially during this tough economy.

2. Lack of knowledge — Among those likely to buy in the next year, at least half are stalling because they don't know how much to buy, what type to buy, or worry about making the wrong decision. When consumers don't understand their choices and especially how much coverage is enough for their unique circumstances, then they won't buy. In fact, 44 percent that say they need life insurance say they haven't bought because they don't know how much to buy.

3. Procrastination and reluctance to initiate buying — Fifty-four percent of those likely to buy life insurance in the next year say they just "haven't gotten around to it." Many of them are likely to continue to procrastinate and not proactively seek out the insurance they need. Over one third of these consumers say they have not bought life insurance because no one has contacted them.

The industry will need to find a way to seek them out and engage them.

And what motivates them to buy?

The top three reasons that U.S. households purchase life insurance are: to pay burial and other final expenses, to replace the income of primary wage earners, or to pay off the mortgage. Other recent LIMRA research found that 45 percent of consumers were most influenced to shop for life insurance because of a life event — especially marriage, divorce, having a child, or experiencing the death of a relative or close friend.

"Interestingly, the study found that 24 percent of consumers seriously shopped for life insurance because a financial advisor initiated contact or suggested the need for life insurance," noted Retzloff. "However, a quarter of underinsured households said they were not approached to buy life insurance. Companies and producers need to find a better way to reach American households. Clearly, there is a large market interested in buying life insurance."

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