Term Life and Price Versus Value

By

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"There's a real crisis of under-insurance in this country…. There's a large market of uninsured and underinsured that remains to be developed." Excerpts from the FIIA's 1995 White Paper, *The Crisis in Life Insurance*? No.

These are comments by the president of the Life and Health Insurance Foundation for Education (LIFE) regarding the findings of a new Roper Starch survey conducted for LIFE.

The Crisis in Life Insurance Grows More Severe

The survey found that 26 percent of American households own no life insurance, an increase of 4 percent over the number of uninsured households FIIA reported and a 9 point rise since 1976. The number of households without group life insurance also increased from 47 to 49 percent.

Forty percent of single-parent households have no life insurance, and 65 percent of single parents say they need more. Nearly 4 in 10 households acknowledged their need for more life insurance. Seven in 10 respondents declared that life insurance is fundamental to a sound financial plan.

Between 45 and 54 percent of the following categories of respondents said they need more life insurance: married couples with children under 18, people whose existing life coverage was less than 3 times their annual income, younger people between the ages of 18 and 44, mothers who stay home to raise children rather than work outside the home, and those with incomes under $35,000. Additionally, one-half of families with school-age children and one-third of all adults plan to buy life insurance over the next two years.

The size of the average whole life policy in force has increased over 60 percent since 1989, while that of term life increased only 1 percent.

So, the number of U.S. households and individuals without life insurance continues to grow, and most of those with coverage are severely underinsured. Substantial numbers of Americans recognize their need for life insurance, and banks have an opportunity to meet their insurance needs.

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Keeping It in Perspective: Will Consumers Only Buy Term Life Insurance?

Many financial institutions and third-party marketers (TPMs) emphasize term life insurance in their bank insurance sales programs (along with some form of single premium life for their broker-dealers as an alternative to annuities). Term life sales are heavily promoted via direct mail, Internet sites, insurance-licensed platform staff who are trained to handle simplified, non-medical applications, and, in some cases, registered reps.

Common marketing mantras are "buy term and invest the difference," "consumers won't buy cash value life insurance," "consumers will only buy term life," "consumers are price sensitive and only want inexpensive term," "life insurance has become commoditized," and "term is the life insurance commodity of choice." Thus sing many cantors: Between ordinary life's choices, term or cash value (also commonly known as whole life), the consumers' choice is (or, will be) term life. True, the number of newly purchased term policies sold has increased somewhat. Term insurance represented 36 percent of all new policies sold through the third quarter of 1998, compared to nearly 32 percent in 1983. But, over the last two decades, term insurance has only slightly increased its market share of life insurance premium. According to the Life Insurance Market Research Association (LIMRA), term life's share of new premium only rose one point since 1979, to 17 percent in September 1998 year-to-date. The lion's share of premium, 82 percent, goes to purchase cash value life insurance, which includes whole life, universal life, variable universal, and variable life.

Moreover, within ordinary life insurance ownership, the 1997 Life Insurance Fact Book of the American Council for Life Insurance (ACLI) reports that the size of the average whole life policy in force has increased over 60 percent since 1989, while that of term life increased only 1.1 percent. Additionally, whole life increased its share of total ordinary life in force in recent years from 50.7 to 62.1 percent. During the same period, term life's share of the total amount in force declined from 48.4 to 37.6 percent. The total number of term policies in force fell 4.4 percent, while the number of whole life policies in force basically stayed level.

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It is also interesting that sales of annual renewable term (ART), typically the cheapest form of term life, have fallen in 5 years from 56 percent to 25 percent of the term market. Term policies with longer, level, and higher premium payments have increased their share of the term market 5-year term policies have increased from 23 to 38 percent, and 10-year term policies have doubled from 10 to 20 percent of the term market.

Price Versus Value

While there is certainly a role for term life insurance, bankers need to understand that many term-only proponents follow their own path of least resistance. Sell only on price and your margins will always be slim. Cash value life insurance brings more value to the consumer than just the cash; these products meet a considerable number of long-term needs of a wide variety of consumers.

What fears and beliefs drive some insurance marketers to be term-only advocates? Their position may stem from an inability to discover or locate consumer needs, a failure to tailor an insurance program to meet those needs and solve financial problems, or a lack of skill in selling products on a needs basis that emphasizes benefits rather than just price. Term-only fervor may also be a derivative of a general fear of selling (and/or rejection). Or, it may originate in a belief that consumers are no longer interested in buying life insurance, so to sell life one must always, and only, offer the lowest price, but not always the highest value. If one suffers from these intellectual and marketing ailments—well then, to that person life insurance is bound to be a commodity.

But the keys to successfully selling insurance, whether in a bank or from a traditional agency, lie in activity, productivity, and adding value to the buyer's purchase. Value is added when analytical and consultative skills are employed that produce sound and trusted advice that meets customers' needs or solves their problems.

As one speaker at LIMRA's annual meeting put it, "advice, not price." The truth is that consumers generally look for value above price. That's why LIMRA's consumer survey found that 77 percent of people who want to buy life insurance want to buy it in person from someone who can explain what they need to know.

Nineteenth century English essayist and reformer John Ruskin put it well, I think, when he issued this warning about selecting products and services based on the cheapest price:

> *It's unwise to pay too much, but it's worse to pay too little.*
>
> *When you pay too much, you lose a little money, that's all.*
>
> *When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do.*
>
> *The common law of business balance prohibits paying a little and getting a lot — it can't be done.*
>
> *If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better.*

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