Niches For Riches:

Is This The Future Of Life Insurance?

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Diversified Insurance Brokers markets nationally and is licensed in nearly all states, specializing in life, health, DI, LTCI, travel medical, senior products, and providing coverage for impaired risk clients. They are a family-run business with long term employees and combined experience of more than 100 years.

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Historically, brokerage life carriers have captured market share by some combination of lowering premiums, raising commissions and / or making underwriting easier, all of which reduced the carrier's profit margin with the idea of making it up in volume. However, how does a company produce a lower priced product or a higher commissioned product or a more easily underwritten product in today's market? Is there enough margin left in the low cost term and guaranteed universal life products to continue on this path? Many would suggest not.

The first time I heard the words "niches for riches" was at a NAILBA convention where one well known disability firm was extolling the virtues of selling specialized disability products that were designed to meet the needs of certain underserved niches of clients. Now, 15 years later, it seems like the life insurance industry has followed this lead. One key to marketing life products today is to identify a niche, determine the needs of that niche and develop a product that meets those specific needs—with the catch of still being profitable to the carrier. We have seen many attempts at this over the years. The foundation of brokerage was in the "substandard" business. This is a niche that was identified, investigated and served by many companies that are no longer in business. It seems that many of them were very good at meeting the need but not so good at keeping it profitable!

We have also seen a large amount of simplified issue life products that are intended to reduce the hassles and complications of underwriting for your "standard risk" clients. However, these products also lend themselves to some adverse risk becoming insured because of the relaxed underwriting standards. This has led most carriers to build a few tables into the rates, as well as limiting the age and face amounts in order to cover this risk. This then makes these products less competitive, with the client paying a significant extra premium for the simplicity of the underwriting. The extra premium then leads to this product being used more by clients that have health issues than by clients who are truly standard risks. Achieving the balance between ease of issue, not giving away the profit margin and keeping it salable is a difficult task. This is why we have seen several carriers exit this market, except for situations in which they feel they can attract standard risks to offset the substandard risks they get.

The most promising area of niche marketing seems to be in the tobacco / nicotine use area. Since the early 1970s, we have seen a great shift in the underwriting of nicotine use. When the first non-smoker discounts were introduced, the view of the industry was that clients got a discount for not being a smoker of cigarettes. Over time the definition of smoker changed, with most carriers including all forms of nicotine ingestion in the tobacco user classification. While it may just be semantics, the view of tobacco rates being the "normal" rates and non-tobacco rates being a discount has changed over time. Now, non-tobacco rates are considered to be the normal rates and tobacco rates are seen as a form of upcharge for nicotine use. This shift can be seen in the advertising, where most carriers lead with their preferred non-tobacco rates when comparing with other carriers.

With this shift in perspective of non-tobacco being normal, many carriers have tried to carve out niches from the tobacco use definition to offer better rates. We have seen the occasional cigar smoker or the smokeless tobacco user carved out and offered better rates than cigarette smokers. This trend has gotten a little more aggressive over time, as at first the client was required to admit the use and not show nicotine in their system. Today, some carriers have decided to ignore any nicotine in the system as long as the client provides an acceptable reason for it being there.

Niche marketing has also led to an attempt to encourage people to become healthier. Some examples of this are the attempt to measure the biometric age of a client instead of their chronological age, benefits added to life policies that pay for second surgical opinions on specific surgeries, and subscriptions to medical newsletters that promote healthy living being provided with every policy. This niche marketing is a little different in that it is an attempt to attract people who are already interested in becoming more healthy or staying healthy longer and are thus a better life insurance risk.

One of the most interesting niches being pursued by a few carriers is to combine the healthy niche with the tobacco niche. This concept provides an incentive for the tobacco user to quit and become healthier. One carrier is doing this with its universal life policies. They will give tobacco users a non-tobacco product for three years with the understanding that they will quit using tobacco for at least 12 months prior to the end of the three-year period. If the client does stop using tobacco, then the policy stays as issued. If the client does not stop using tobacco, then the internal costs of the policy are increased to the tobacco user rates of the policy—which are loaded to recover the lower costs that were charged during the first three years. This is an interesting concept that encourages the client to quit using tobacco but not make them wait to purchase the insurance.

A brand new product on the street that plays in this niche is a 15-year, 20-year or 30-year level premium term plan. With this product, the client is offered a guaranteed level premium for the policy term, which is near a non-smoker premium for the initial face amount. If the client stops using tobacco for 12 continuous months after the policy issue date, the policy face amount stays level and the premium stays level. If the client does not stop using tobacco for a full 12 months before the end of the third policy year, in the beginning of year four the face amount reduces slightly but the premium stays level. At the beginning of years five, six and seven, the face amount continues to reduce each year. On the 15-year plan the face amount year seven plus is 60 percent of the original, and on the 20-year and 30-year plans, the face amount year seven plus is 70 percent of the original face. At any time between year two and year seven the client can levelize the face amount by showing that he has been tobacco free for 12 months. In addition, the insurance company provides information to the client about the state stop-smoking program for their state of residence.

The days of company and product differentiation by just lowering the price, raising the commissions or simplifying the underwriting appear to be coming to an end. Life products are following the disability industry into niche marketing and the niches are starting to get very specialized. That is not to say that price, commissions and underwriting are not important; it is to say that they are no longer enough!