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Demystifying the middle market:

an actionable understanding for life insurance

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Introduction

The middle market represents an immense audience and is a top priority for many insurance carriers. Meeting the financial needs of this market and realizing the tremendous associated potential are persistent challenges for the industry.

While often treated as a homogeneous group, middle market consumers have strikingly different financial priorities and concerns, as well as widely varying perceptions toward risk and life insurance.

To identify a more effective approach to connect with this important consumer group, Epsilon and LIMRA partnered on a research project involving two major efforts. First, we surveyed executives from various life insurance and multi-line providers regarding current industry views, priorities, and practices toward the middle market, and the major challenges they face in marketing to this group.

"The priority of cost effectively growing the middle market is clear. This joint study will provide carriers with fresh insight and means to reach middle market households with greater relevance and marketing efficacy."

— Dave Edington,
SVP Insurance Practice, Epsilon

In addition, we conducted a large-scale consumer research project with the objective of determining whether meaningful, distinct segments of the middle market could be identified based on attitudinal factors, including the middle market consumer mindset toward life insurance, risk tolerance, and the impact various financial priorities have on purchase decisions. The research identified five unique consumer segments within the middle market. Next, to extend the analysis, Epsilon developed a classification algorithm using third-party data (including attitudinal, demographic, and financial information) to assign the estimated 50 million consumer households in the middle market to one of the five segments.

This report describes these five distinct consumer segments and offers actionable suggestions for insurers to more effectively market to them.

Importance of the middle market

There's little question that the middle market presents life insurers with significant growth potential. With about 50 million middle market households, and an estimated 35 million of them underinsured, insurers could add roughly $10 trillion in life insurance coverage by effectively reaching this market.[1]

Insurance executives recognize this opportunity. Of the 35 companies that responded to the survey, nearly 68 percent said the middle market was their top priority and played a critical role in their business success. Furthermore, 73 percent said the middle market will be their top priority in the future.

Challenges identified among insurance executives

In addition to identifying the middle market as their No. 1 priority, the executives revealed their obstacles and challenges to capitalizing on the market opportunity. Executives highlighted the following four closely related hurdles:

- Establishing life insurance as a priority in consumers' minds
- Finding a cost-effective means of reaching the middle market
- Developing a mechanism for finding life insurance shoppers at the right time
- Effectively communicating the value proposition of life insurance to consumers

"The middle market is typically defined by household income—although companies use a wide range of different income levels. Investable assets, net worth, age, and policy size are also used to define this market."

— Cheryl Retzloff,
Sr. Research Director, LIMRA

Complicating these challenges, less than half of the companies used any formal methodology to segment the middle market into meaningful subgroups, thus creating an ineffective one-size-fits-all marketing approach. Furthermore, the other half—companies that did employ some form of segmentation—based that segmentation primarily on demographic criteria. The work completed for the consumer research demonstrated the advantages of segmenting based on attitudinal factors rather than demographics.

68%
of insurers said the middle market was their top priority.

73%
of insurers said the middle market will be their top priority in the future.

A little less than half of the companies surveyed had a segmentation approach for the middle market.

Source: LIMRA/Epsilon executive survey

[1] *Trillion Dollar Baby - Sales Potential of the Underinsured Life Market*, LIMRA Report, 2012

The consumer research

To address some of the issues identified in the executive survey, we conducted a large-scale study of 6,000 consumers.

Insurance carriers have traditionally defined the middle market for life insurance using income and age requirements as the primary demographic criteria. However, there is no universal definition of the middle market, how to approach it, or how to prioritize efforts within it.

With this in mind, our research focused on the middle market with the goal of identifying unique segments based on differing need sets, attitudes toward savings, debt and protection, and short- and long-term financial priorities. The resulting information helps insurers refine their marketing efforts to better inform and educate consumers in this market, and raise awareness about the importance of having enough coverage.

In addition, the research provides an attitudinal component that is a missing element in typical segmentation approaches. This component explicitly informs which consumers are candidates for life insurance, the level of opportunity they present to a carrier, and what marketing investment should be made to acquire them—making for highly actionable results.

Executive middle market survey results

The criteria used by companies to define the middle market are:

- **91%** annual income
- **36%** age
- **24%** investable assets
- **24%** policy size
- **12%** net worth
- **15%** other

Source: LIMRA/Epsilon executive survey

Breaking down the middle market

For the purpose of this study, we broadly surveyed adults in U.S. households, aged 25 to 64, with household incomes of $25,000 to $99,999. Cluster analysis techniques identified five unique consumer segments within this group solely on the basis of consumer attitudes and perceptions regarding life insurance, risk tolerance, and financial priorities/concerns.

One of the biggest challenges market researchers and marketers face is how to make the segment results actionable. To address this issue, we leveraged both Epsilon's TotalSourcePlus (TSP) third-party data assets and segment classification model methodology to develop a classification algorithm based solely on third-party data that assigned every middle market consumer household into one of the five segments identified.

"Adding the TSP data really helped us develop a 'persona' for each of the segments," says Debra Gustafson, VP Data Strategy, Epsilon. "We started to see differences emerge in family composition, lifestyle interests, amount of net worth, home ownership, and discretionary spending. These insights helped bring the segments to life and provided a tool to identify the best new prospects or upsell candidates for additional marketing."

"These five consumer segments are addressable and reachable, and therefore they can enable actionable and effective acquisition campaigns."

— Regina Chang, Ph.D.,
Senior Director,
Analytic Consulting Group, Epsilon

The five consumer segments

The five consumer segments illustrate the differences among consumers in the middle market and their priorities in the marketplace for insurers. The following pages provide a more detailed look at each of the five segments.

Segment 1

Full house, big dreams

Family first, savings later

Market size: 8 million households

While consumers in this segment are pursuing the American dream of home ownership, new cars, and family life, they're also facing the highest debt compared to the other segments. Consumers in this segment, who struggle to make minimum payments and balance "wants" with saving for the future, view life insurance as a necessity.

These dual-income, low-risk-taking families cite price as the main reason for selecting a life insurance company. They also prefer a more custom life insurance product and would rather determine purchase details themselves than consider agent recommendations.

7 in 10

households in this segment are limited by the amount of debt they carry and are considered "when they can" savers

Segment profile

- All have children between ages 0 to 17
- 68 percent are married
- Believers in buying life insurance

Age

- Youngest segment, with half under age 45

Income range

- $40,000 to $100,000

Net worth

- $100,000 to $500,000

Occupation

- Primarily in white collar occupations with 7 percent blue collar/trade

Behavioral categories

- Discretionary spending is low
- Debt level to income ratio is high
- Low risk tolerance
- Strong positive attitudes toward life insurance

Opportunities

- Potential to cross-sell related protection products
- Offering life insurance planning as part of a broader financial education discussion could allow for a more successful sales approach for this segment.

Distribution preferences

- The workplace may be a good way to reach this segment—38 percent of those who recently purchased life insurance were influenced by an offer at work.
- The Internet may be another way to reach those in this segment since they are already buying children's products, gifts, and B2B purchases (for those with home-based businesses) online.

Product approach

- Term may be a good product for members of this segment because it is a simple product that lends itself better to online sales and workplace offerings.
- Low-cost term is also the most cost-effective protection and it allows the segment to balance its need for protection and spending on family today.

Segment 2

Balanced believers

Enjoy life but save, save, save

Market size: 11 million households

Consumers in this segment strike a balance between spending money on everyday pleasures with a concern for saving for the future. This group of low-risk-takers maintains various saving goals that include saving for retirement (49 percent), creating emergency savings (39 percent), saving for future needs (31 percent), and building long-term savings (29 percent).

Consumers feel life insurance is a necessity, and having trust in the company from which they buy insurance outweighs price.

Even with mid-to-high middle market incomes, **28%** of this segment still carries a serious debt load that impacts spending.

Segment profile

- Primarily empty nesters, no children present
- 53 percent are married

Age

- 60 percent are ages 45 to 64

Household income

- $50,000 to $100,000

Net worth

- $50,000 to $500,000

Occupation

- Primarily in white collar occupations with 9 percent retired and 5 percent blue collar/trade

Behavioral categories

- Discretionary spending is high
- Debt level to income is moderate
- Low risk tolerance
- Strong positive attitudes toward life insurance

Opportunities

- Leverage cross-selling and up-selling of related insurance products

Distribution preferences

- The workplace may be a good way to reach this segment—37 percent of those who recently purchased life insurance were influenced by an offer at work.
- Online and direct mail may be a profitable way to reach this segment to provide education or to offer products directly.
- Online and direct mail spending is strong based on total dollars spent and total number of transactions.

Product approach

- Like Segment 1, term may be a good product for reaching members of this segment as it is a simple product that lends itself better to online sales and workplace business.
- Permanent products like whole life or universal life may also work with this group, but would likely need to be sold by financial professionals. A permanent product that offers a savings component to use during retirement along with death benefit protection may appeal to this segment.

Segment 3

Eyes on the prize

Focused on financial security

Market size: 6 million households

As the oldest group of consumers, this segment is less worried about meeting everyday expenses and is more concerned about saving enough money to enjoy a comfortable retirement (58 percent). Although financially mature, this segment of active spenders is challenged with paying down debt while saving for the future.

These active spenders prefer choices when purchasing life insurance and believe price outweighs company reputation. Two in ten selected their life insurance because they were contacted first by the agent or company, with 32 percent of the group indicating price as the deciding factor.

This segment has **7+** active credit cards and the highest amount in charitable donations of all the groups.

Segment profile

- 40 percent have children in household
- 57 percent are married

Age

- Oldest segment, with 40 percent between ages 55 to 64

Household income

- $50,000 to $100,000

Net worth

- $150,000 to $500,000

Occupation

- Primarily white collar occupations with 7 percent retired and 5 percent blue collar/ trade

Behavioral categories

- Discretionary spending is moderate to high
- Debt level to income is low to moderate
- Moderate risk tolerance
- Believe life insurance is most important for couples

Opportunities

- May be receptive to offers to review retirement planning strategies
- May be in the market for life insurance as a supplemental retirement product
- Leading with offers to review retirement planning could appeal to this older group that has challenges saving enough for their own retirement while still paying educational expenses or financially helping adult children or parents.

Distribution preferences

- Because it is the oldest group, consumers likely haven't reviewed their life insurance in a long time and might welcome proactive contact by a company.
- Contact by a financial professional has strong influence on this group, and offering to review coverage could be welcomed.

Product approach

- This segment strongly believes in purchasing juvenile life insurance so this older group may be candidates for purchasing coverage on grandchildren.
- This older group may represent an opportunity to offer products with living benefits riders that can help with emergency funds in the case of a long-term care or critical illness event.

Segment 4

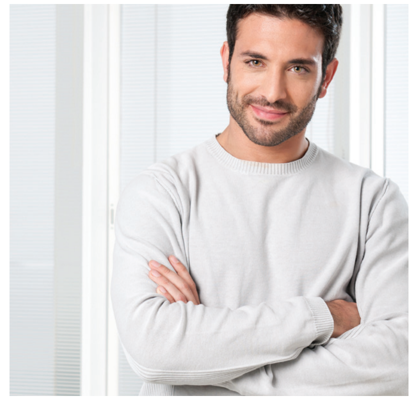
Watching every dime

Building nest eggs...bit by bit

Market size: 21 million households

As the largest segment, this group is primarily comprised of never-married males and single parents. While financially challenged, these consumers are mindful of saving money. Beyond saving enough for retirement, top concerns include having enough cash to meet everyday expenses (42 percent) and paying off debt (41 percent).

This group is more concerned with price when it comes to purchasing life insurance (54 percent), with 28 percent indicating they would only buy it for a specific purpose.



This segment wants to enjoy life today, but **42%** are concerned about meeting everyday expenses.

Segment profile

- 43 percent have children in household
- Half are single

Age

- Age range between 35 and 64

Household income

- $25,000 to $50,000

Net worth

- Varies widely from < $100,000 to $500,000

Occupation

- Primarily in white collar occupations with 6 percent retired and 9 percent blue collar/trade

Behavioral categories

- Discretionary spending is moderate
- Debt level to income is low to moderate
- Moderate risk tolerance
- Strong/neutral attitudes toward life insurance

Opportunities

- Focusing on the combined benefits of death benefit protection and a savings element (e.g. helping children fund educational goals in the event of a death) may be a more effective approach with this segment.
- Recommendations from family and friends are important so using referrals may be beneficial.

Distribution preferences

- This group is more open to sales through face-to-face channels.
- Guidance from a financial professional in all areas of financial planning may appeal to this group.

Product approach

- Approaching consumers regarding how life insurance can help their children meet education goals in case of their death may appeal to this group.
- For those where budget constraints are greater, low-cost term insurance may be the best option.

Segment 5

Controlling my destiny

Bold and self-reliant

Market size: 1 million households

As one of the smallest segments, two in three consumers are over age 45. But this segment also includes more young males than any other group. Mirroring many of the attributes of previous segments, these consumers are active savers, and they balance savings between retirement and building long-term savings. While this group is financially responsible, these consumers like spending money.

These risk-takers have negative attitudes toward life insurance, with 45 percent indicating they would not be willing to pay for it, and 81 percent saying they have no need at all if single.

This segment likes to spend money it has, and **48%** don't view debt as having an impact on their financial choices.

Segment profile

- 39 percent have children in household
- 60 percent married
- 25 percent single income

Age

- 63 percent ages 35 to 64 and 37 percent ages 25 to 34

Household income

- $30,000 to $100,000

Net worth

- 42 percent have less than $100,000 and 34 percent have more than $250,000

Occupation

- Primarily in white collar occupations, with 7 percent blue collar/trade

Behavioral categories

- Discretionary spending is high
- Debt level to income is moderate to high
- High risk tolerance
- Negative attitudes toward life insurance

Opportunities

- This is a difficult segment for sales of life insurance or other protection products; however, investments (e.g. bonds or annuities) may be an attractive alternative for some in this segment.

Distribution preferences

- Not likely to purchase life insurance through any channel

Product approach

- Not a high-potential segment for life insurance

How to use the five segments

Eighty percent of life insurance carriers that responded to the executive survey identify the middle market as important for growth of both policy and premium share. With these five key segments, insurers can now better support customized marketing approaches that will resonate best within each individual consumer segment based on attitudes, enabling them to move far beyond standard demographic profiling.

"The data segmentation from this study offers a critical view for life insurers to identify consumers they should be targeting, how those consumers view life insurance, and the marketing tactics to cut through the clutter," says Glenn Squire, Sr. Director of Strategic Consulting, Epsilon. "It's essentially a blueprint for developing an efficient marketing plan specific for the middle market."

Middle market strategy opportunities

- Improve product development – Segmenting attitudes and preferences regarding life insurance purchase and importance can inform the development of appropriate products and features for those segments.
- Target responsive prospects – Insurers can focus first on prospects with the highest propensity to buy.
- Understand prospects – Segment preferences can help inform financial professionals regarding the best product fit and approach to use with different prospects.
- Provide more personalized engagement – Financial advisors can address prospects with the highest propensity to buy with language that is more likely to appeal to them.
- Inform distribution strategy – Companies can better ascertain the channel preferences of each segment and offer products through the most effective distribution channels.
- Craft customized messaging – Insurers can extract consumer insight to inform and develop creative briefs, strategies, marketing collateral, and messaging for different segments.
- Find cross-sell and up-sell opportunities – Insurers can improve communication development and messaging to reach segments individually, cross-sell complementary products, or examine needs for additional life insurance protection.

Recommendations for using this report

The following recommendations can help insurers maximize the value of this report and refine their marketing strategies to differentiate between the five consumer segments identified in the middle market.

Prioritize marketing efforts
Two segments clearly stand out as having higher potential value for life insurance marketers. Over 80 percent of the consumers in Segments 1 (Full House, Big Dreams) and 2 (Balanced Believers) believe that people should have life insurance throughout their entire lives, and not just for a single event. Ninety-eight percent of these two segments are willing to pay out of pocket for life insurance, and on average they have one to two times their income in life insurance coverage. Given that both of these groups have an average age of under 50, there is clearly a high-potential return to the carriers that connect with these consumers first.

Use circumstances to time contact points
Segments 3 (Eyes on the Prize) and 4 (Watching Every Dime) are more likely to pay for life insurance for a specific purpose, with 95 percent of Segment 3 willing to pay. For these groups, it's important to recognize when a household is going through a period of change, regardless of the reason for it. Segment 3 is generally older, has more financial maturity with greater discretionary income, and is less likely to lapse because they appreciate coverage once purchased.

Avoid costly acquisition efforts
Segment 5 (Controlling My Own Destiny) represents a high acquisition cost segment. Forty-five percent of consumers in this segment are unwilling to pay out of pocket for life insurance. This group is less likely to have a financial plan, and 42 percent have no financial plan and are not saving for the future. Even if individuals in this segment believe that they should have life insurance, companies may find these consumers unwilling or financially unable to commit to a policy.

Recommendations for using this report (cont.)

Communicate appropriately based on attitudes
Consumers in these five segments fall into one of two categories in terms of when they think they should have life insurance. Consumers in Segments 1 and 2 value protection and want to provide a monetary legacy to their heirs. Those in Segments 3 and 4 are more likely to buy life insurance specifically around a life stage event such as having a child, buying a home, or getting married.

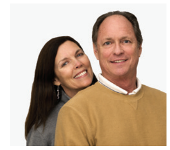
1. **Segment 1** (Full House, Big Dreams) would be an ideal target for term life insurance since it offers the low-cost protection. Retention efforts should also focus on family protection messaging.

2. For **Segment 2** (Balanced Believers), insurers should target this group with additional coverage and supplemental products.

3. **Segment 3** (Eyes on the Prize), with an eye on retirement, is a good target for permanent products that offer a blend of protection and savings. While this group is most likely to already have a financial plan, 71 percent do not and would likely welcome a financial advisor who offers both insurance and financial planning.

4. **Segment 4** (Watching Every Dime) offers an ideal opportunity to focus on the wage earner to ensure that coverage is sufficient to pay off a mortgage or to extend a financial buffer to children. This segment will be more skeptical than other groups, but will also value pragmatic financial guidance.

Consumer segments at a glance

					
	Full house, big dreams	Balanced believers	Eyes on the prize	Watching every dime	Controlling my destiny
	Size: 8 million	Size: 11 million	Size: 6 million	Size: 21 million	Size: 1 million
Value score	High	High	High-mid	Mid	Low

Using a combination of objective and subjective criteria, value scores have been given to each of the five segments.

Beyond the middle market, insurers can apply the results of this report to broader issues and opportunities that impact the insurance category.

Understanding consumer attitudes and behaviors about life insurance

Factors causing purchase delays

- Buying life insurance is a low priority compared to saving for retirement or paying down debts.[2]
- Among consumers likely to buy life insurance in the next year, at least half haven't made a purchase because they don't know how much to buy, what type to buy, or worry about making the wrong decision.[3]
- Consumers think life insurance costs much more than it actually does. When given the actual cost, 35 percent said cost information would make them more likely to buy.[4]

Drivers to buy

- Reviewing life insurance shoppers' overall financial needs improves their likelihood to buy.[5]
- Specific life events such as a marriage or becoming a parent can often drive purchase.[6]
- Consumers are more receptive to buying life insurance if a coverage amount is recommended.[7]

Planned uses for life insurance

- Individual life insurance owners plan to use life insurance (more than any other financial source) to provide for their families in the event of their death[8]
- People purchase life insurance to cover burial/final expenses, to replace lost income, or to pay off mortgages.[9]

[2] *Household Trends in U.S. Life Insurance Ownership*, LIMRA, 2010
[3] IBID
[4] *2013 Barometer Study*, LIMRA, 2013
[5] *To Shop or Not to Shop for Life Insurance: Turning Shoppers Into Buyers*, LIMRA, 2011
[6] IBID
[7] IBID
[8] *Household Trends in U.S. Life Insurance Ownership*, LIMRA, 2010
[9] *2013 Barometer Study*, LIMRA, 2013

Conclusion

Industry trends point to increasing opportunities for the sale of life insurance, despite the economy's slow recovery. The insurance industry has the capability to make significant inroads with the middle market and reach potential customers entering their prime life insurance buying years. However, tapping into the middle market is a complex process, and applying a one-size-fits-all model rarely works well.

Previous research studies have not been able to move beyond using solely age and income to understand the middle market. The ability to identify key segments in a more granular way reveals critical attitudinal differences in middle market views of life insurance, which allows for the development of actionable, customer-centric strategies.

The findings in this study help insurance marketers develop unique approaches for clearly differentiated segments of the broader middle market. What's more, the research reveals how companies can improve their penetration of the middle market by understanding which consumers are ideal candidates for life insurance, how to market to them with more effective messaging, and what are likely to be the most effective distribution channels. The key to reaching each segment in the middle market is to understand where and how each segment wants to be contacted and targeting each one at the right time.

"While we understand there is a tremendous need for life insurance in the middle market, the challenge is in knowing what to do about it. We're hoping this study will help our members lay out very specific and actionable steps so they can better serve this market."

— Todd A. Silverhart, Ph.D.,
Director, Insurance Research, LIMRA

Methodology

Executive summary

To validate the importance of the middle market to life insurance companies, LIMRA and Epsilon surveyed life insurance and multi-line provider executives for additional insight and understanding of issues related to better serving the middle market. Executives from companies currently selling life insurance products responded to an online survey.

Thirty-five companies responded to the survey, with information that includes how they define the middle market, the importance of the middle market to their current and future business, and the challenges in reaching this market segment. The findings of this survey provided context for the current thinking in the industry regarding the importance of the middle market and the strategies to penetrate it.

Customer segmentation

Epsilon and LIMRA conducted a survey of middle market customers from September to October 2013. Of the 6,000 surveys returned, there were 3,844 responses from consumers aged 25 to 64 with household incomes of $25,000 to $99,999.

The team, using a data-driven approach, reviewed possible segment solutions, and then profiled each segment. The statistical technique used for the consumer segmentation was a factor cluster analysis. The data that drove the segmentation was self-reported, consumer attitudinal data collected from the survey. No demographic data was used in the initial segmentation process.

After the segments were defined based on the survey learnings, Epsilon's TotalSource Plus™ (TSP) database was used to append additional consumer information to the survey data, including household-level demographics, financial characteristics, lifestyles, channel preferences, and purchasing characteristics. This allowed for the development of a segment classification model that helped us to reliably assign the full U.S. middle market population into one of the five segments.

This combination of the classification methodology with the detailed information collected regarding each segment's characteristics, preferences, and attitudes should allow companies to take a much more targeted approach to tackling the remaining hurdles to effectively market life insurance to the middle market.

About Epsilon

Epsilon is the global leader in creating connections between people and brands. An all-encompassing global marketing company, we harness the power of rich data, groundbreaking technologies, engaging creative and transformative ideas to get the results our clients require. Recognized by Ad Age as the No.1 World CRM/Direct Marketing Network and No.1 U.S. Agency from All Disciplines, Epsilon employs over 7,000 associates in 70 offices worldwide. Epsilon is an Alliance Data company.

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About LIMRA

LIMRA is a worldwide leader in research and learning and development for more than 850 financial services companies in 64 countries. As the trusted source for industry knowledge for the insurance, retirement and financial services industries, LIMRA helps members build their business and improve performance. Members use LIMRA data to generate new ideas and strategies, benchmark their competition, develop new products, enter new markets, and add new distribution channels. LIMRA's learning and development programs are instrumental in driving increased distribution productivity. For more information, go to www.limra.com, follow us on Twitter@LIMRA, or join our LIMRA LinkedIn group.

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