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Rethinking the Middle Market

The never-ending quest for insurers to identify opportunities to place more business invariably points to the middle market. If the industry could only overcome the challenges of connecting with and profitably selling to the masses, it would pave the road for the elusive growth the industry seeks. This notion has been bantered about for decades, reinforced by LIMRA research that consistently points to the tremendous potential of the middle market. Our most recent U.S. Life Insurance Ownership Study estimates that middle market households comprise 42 percent of the underinsured market, have an average life insurance need greater than \$180K per household, and represent a combined sales potential of over \$4 trillion.

As the industry continues to search for solutions to the middle-market puzzle, I believe that it may be time to step back and refine how we think about this market. Perhaps this will create more effective paths to placing more business.

To begin with, how we define the middle market is inconsistent and overly simplistic. The vast majority of companies (90 percent) report that their definition of the middle market includes household income ranging from \$35K on the low end up to \$100K (with some going up to \$125K). Since focusing on household income without accounting for other financial means may not give a clear picture, some companies also include investible assets or net worth in their definition. Most do not. And I am unaware of any companies that take into account other variables that have a direct impact on financial situations, like composition of the household or regional economic differences. Certainly, even with the same household income (say, \$75K), a family of four living in Chicago with no money in the bank and a couple living in Omaha with a sizable nest egg will be in very different places financially.

Even more important, in order to optimize efforts to better penetrate the middle market, companies must recognize that they should no longer treat the middle market

as a single, homogenous sector. Even conservative definitions estimate that the middle market includes upwards of 42 percent of U.S. households (U.S. Census data). With that large a portion of the population, the fact that they might have similar incomes is no doubt offset by all of the meaningful ways in which they differ. Rather than trying to reach these consumers with one-size-fits-all, broad-brush strategies, it would be more effective to identify meaningful segments within the market and then plan specific strategies for the segments of most interest.

To illustrate this idea, envision that you have a deck of playing cards. With the cards spread face down on a table they all look the same. But when you flip the cards over you can group them based on color, suit, and rank. The different possible groupings vary in terms of the ways they are similar to and different from other cards in that group (although they all come from the same deck). A group of all red cards will be the same color, but will include different suits and ranks. Selecting all of the spades would then result in a group with the same color and suit, but different ranks. Applied to accessing the middle market, this analogy suggests that rather than treating the market as a uniform deck of cards, thinking of ways to segment into groups (within the middle market) will optimize similarities and minimize differences. The more similar the groups, the easier it should be to craft strategy to reach them. With the vast amounts of consumer data that are readily available today, segmenting the market in such a way is far more feasible than it has ever been.

A few years ago, LIMRA and Epsilon conducted research that segmented the middle market into clusters based on financial needs, attitudes, and priorities.¹ It was our intention to get companies to think about using data to get beyond uniform treatment of the broad market. I continue to believe that finding meaningful ways to segment the middle market will be critical as companies pursue opportunities to meet the needs of these consumers. 🌐

¹ *Demystifying the Middle Market: An Actionable Understanding for Life Insurance*, LIMRA, 2014.