



Insuring the Way to a Financially Resilient America

Developing Successful Products for LMI Consumers

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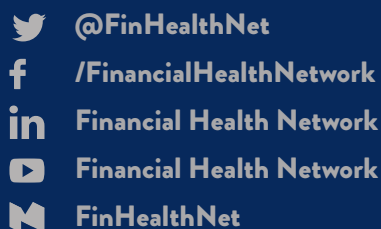
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The background of the entire page is a solid blue color. Overlaid on this background is a repeating pattern of stylized, light blue arrows. Each arrow is composed of a rectangular tail and a triangular head, all pointing towards the left. The arrows are arranged in a staggered, grid-like fashion, creating a sense of movement and direction.

Financial resilience is fundamental to achieving overall financial health.

Yet across CFSI's research, we see consumers of all income levels struggling with basic elements of resilience – weathering ups and downs, managing financial risks, and protecting against unexpected changes in their financial lives. Insurance is a unique tool that can support individuals when they face disruptive life events.

There are three underlying challenges that low-to-moderate income (LMI) individuals confront when using insurance as a tool for building resilience.

1

LMI individuals face a complicated financial calculation to determine when to rely on savings versus insurance to protect against financial shocks.

2

Price is the driving factor when LMI individuals shop for insurance, with the potential adverse consequence of being underinsured.

3

Even if LMI individuals have insurance coverage, they are often unsure if the coverage is adequate.

In order to gain deeper insights into how consumers engage with insurance and how they manage their ability to be financially resilient, CFSI conducted qualitative and quantitative research on the insurance needs, attitudes, perceptions, and coverage of American consumers, with a particular focus on LMI individuals.

The insurance products in scope for this research were auto, homeowners, renters, life, and short and long-term disability insurance, including both employer-provided and individually purchased products.



KEY FINDING

01

LMI individuals primarily turn to savings and borrow from friends and family in response to a financial shock.

They also depend on government social safety nets. Far fewer rely on insurance, although not all shocks are insurable. This research raises the question about where insurance as a financial tool ends and where savings should begin to help individuals build resilience.

KEY FINDING

02

Value for money is the key factor in selecting, maintaining, or not purchasing insurance policies, regardless of income.

Many people, especially LMI individuals, may be underinsured if they simply shop for the cheapest policy. The potential implication of this price sensitivity is that LMI consumers, in particular, are less protected from shocks in the future because of cost concerns in the present. All consumers need to understand the value of insurance policies at the time of purchase, not just at the time of use, to prioritize quality along with cost.



KEY FINDING

03

While individuals often have a negative perceived image of insurance companies, this is not always consistent with actual experiences.

Most people, including LMI individuals, feel somewhat knowledgeable about their insurance policies, especially at the time of purchase, although the focus group research revealed a much more mixed picture of people's understanding. People across the income spectrum are unsure if they are adequately covered by their policies, negating the peace of mind that insurance is meant to provide.



KEY FINDING

04

Uninsured individuals tend to be younger and low-income, and are more likely to be Hispanic than any other race.

To manage shocks without insurance, uninsured consumers most frequently turn to savings (if they have it), adjust their expenses, or, in the worst-case scenario, simply live with the results of the shock. They also rely on family and friends, along with government social safety nets.

Insurance and Financial Health

Looking at insurance ownership by financial health, instead of just by income, is important because it connects insurance to the other key indicators of someone's financial life, namely how they spend, save, borrow, and plan. Looking at CFSI's Financial Health Segments (Healthy, Coping, and Vulnerable), insurance owners encompass a higher proportion of financially Healthy individuals than non-owners, and individuals who own multiple insurance products are more likely to be financially Healthy than the overall average. The Coping segment, in particular, is ripe with opportunity to support with better insurance tools.

Opportunities for Insurers

Insurers can respond to the key challenges that LMI individuals face in a number of specific ways to help them build financial resilience.

- > Insurers have an opportunity to look holistically at individuals' financial lives and understand where potential insurance products fit into that picture.
- > With this more contextual understanding of their customers, insurers can market the value proposition more effectively to potential customers to make the benefits of insurance more evident at the time of purchase, not just at the time of use.
- > Since peace of mind is one of the main reasons why people purchase insurance, insurers can strengthen this sense of security by offering more tailored guidance to customers about their insurance coverage needs.
- > Insurers have an opportunity to integrate innovations that allow them to lower prices, without compromising on quality, and pass some of those savings onto customers, expanding the market of potential customers.

Methodology

CFSI commissioned the research firm Greenwald & Associates to undertake both the qualitative and quantitative components of this project. The insurance products in scope for this research were auto, homeowners, renters, life, and short and long-term disability insurance, including both employer-provided and individually purchased products. We chose not to include health insurance, given the particular complexities of this product. The qualitative research consisted of four consumer focus groups, two in Baltimore and two in Fresno, in September 2017. All focus group participants had household incomes between \$25,000 and \$56,000.

The quantitative research consisted of 4,149 responses from GfK's KnowledgePanel®. For this survey, a nationally representative sample of U.S. adults ages 21-70 was selected to align with ages in which insurance solutions are more likely to be relevant. The main data collection period lasted from November 22, 2017, to December 13, 2017. GfK oversampled 710 consumers with household incomes under \$60,000, sampled 495 bilingual and Spanish-proficient respondents, and sampled at least 700 owners and 500 non-owners of each type of insurance. Data was weighted back to the total U.S. population to ensure that it was nationally representative.

See the appendix for more details on the methodology and GfK's KnowledgePanel®.

Throughout the report, we refer to low-to-moderate income (LMI) consumers and define them as having incomes under \$60,000. This is the threshold that CFSI has used in other research and is just above the U.S. median household income of \$56,516, according to 2015 U.S. Census data.

Financial Health and Resilience

Financial resilience is an important component of overall financial health, yet CFSI research shows that people across all income levels face challenges in protecting themselves against life's unexpected financial shocks. The ways people manage these shocks vary and are multifaceted. Some people rely on savings by paying for a potential shock in advance. Others turn to credit and pay for the shock in installments after it occurs. Still others use insurance as a way to pool the payment for the shock among a large group of people. In most cases, people turn to all three of these strategies for different shocks of different magnitudes at different times. Savings, credit, and insurance are all tools people use to be more financially resilient.

Insurance is a unique tool used to provide a safety net for individuals when they face disruptive life events, such as major home repairs, income lost to unemployment, a pay cut, illness, injury, and death. Yet Americans are underinsured. Just 60 percent of adults have life insurance, 41 percent of renters have renters insurance, and 20 percent of workers have disability insurance.¹ And we know that these numbers are even lower among low-to-moderate income (LMI) consumers. To gain deeper insights into how consumers engage with insurance and manage their ability to be financially resilient, CFSI conducted research to understand the insurance needs, attitudes, perceptions, and coverage of American consumers, with a particular focus on LMI individuals. This report explores what that research revealed, highlights the key underlying challenges that LMI people face with regard to insurance, and provides suggestions for how insurers can respond.

Financial health comes about when your daily systems help you build resilience and pursue opportunities.

You are financially healthy when you...

Spend

1. Spend less than income
2. Pay bills on time and in full

Save

3. Have sufficient living expenses in liquid savings
4. Have sufficient long-term savings or assets

Borrow

5. Have a sustainable debt load
6. Have a prime credit score

Plan

7. Have appropriate insurance
8. Plan ahead for expenses

¹ "2018 Insurance Barometer Study, Life Happens and LIMRA," "Facts + Statistics: Renters Insurance," Insurance Information Institute, 2016.

Key Finding

01



LMI individuals primarily turn to savings and borrow from friends and family in response to a financial shock. Far fewer rely on insurance, although not all shocks are insurable.

Insurance as a financial product is all about managing risk. One of our biggest questions when undertaking this research was to understand how LMI people perceive and manage risk in their lives, and the role that insurance plays in that equation.

High Prevalence and Impact of Shocks

Shocks are common in everyone's lives across the income spectrum. Fifty-nine percent of individuals have experienced an unexpected repair or expense costing between \$500 and \$2,000 in the past five years, and 28 percent have had one costing more than \$2,000. Close to 40 percent of individuals have experienced a death in the family, and one in five have had newly expanded financial responsibilities that were unexpected, all in the past five years. This data matches that found in other industry studies, most notably The Pew Charitable Trusts' extensive work on financial shocks, which found that 60 percent of

households had experienced a financial shock in the past 12 months.²

While the prevalence of shocks does not seem to differ by income levels, the impact of the shocks does. Forty percent of individuals with incomes under \$60,000 say these events affected their ability to pay their bills on time, and 45 percent said they affected their ability to control their level of debt effectively. Likewise, the focus groups (which only included LMI participants) revealed the significant impacts of financial shocks.

Similarly, the level of preparedness to handle financial shocks is mixed, but is particularly low for LMI individuals. Overall, individuals say they are somewhat prepared (38 percent) or not at all prepared (20 percent) for the unexpected. But 32 percent of those with incomes under \$60,000 say they are not at all prepared.

“I had breast cancer and had \$70,000 in debt and worked 90 hours per week after that to pay off my debt. I didn't want to lose my house.”

— FEMALE, GROUP TWO, BALTIMORE

² “The Role of Emergency Savings in Family Financial Security: How Do Families Cope with Financial Shocks?,” The Pew Charitable Trusts, October 2015.

Role of Savings is Significant, Though Less So for LMI Individuals

The most common coping mechanism to recover from these shocks is savings, and savings is also the biggest factor in providing a sense of financial security. Two-thirds of all individuals dip into their savings as a result of events that affect their financial situation, while 56 percent of LMI individuals do so. This increases to 75 percent for those with incomes above \$100,000. This overall coping mechanism is again corroborated by other research, which shows that 78 percent of Americans would use money in their checking and savings accounts in a financial emergency.³

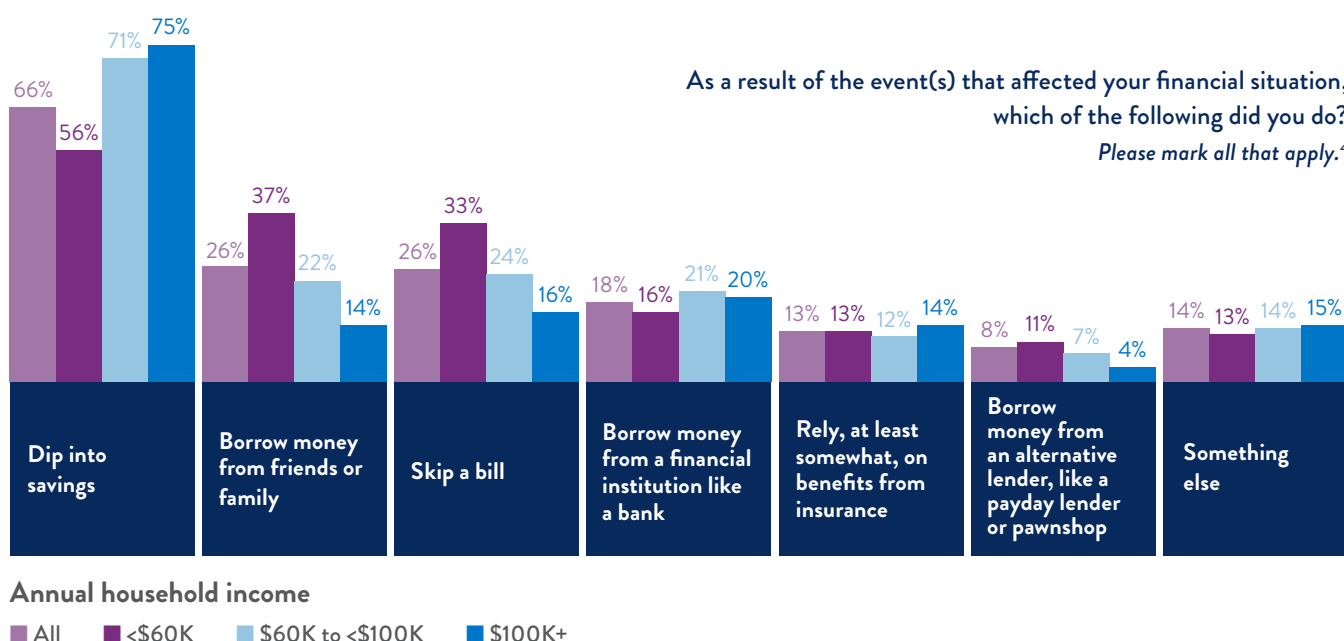
Alternative Safety Nets Are Key for LMI Individuals

While savings remain the most important factor in feeling financially secure, LMI individuals also highly value government social safety nets, such as Social Security, food stamps, and Medicare. These programs make nearly half (47 percent) of LMI individuals feel more financially secure, compared with just 30 percent of those making between \$60,000 and \$100,000, and 23 percent of those

making more than \$100,000. Our study also shows that LMI individuals are more likely than other income brackets to borrow money from friends or family (37 percent).

Role of Insurance is Marginal

Only 13 percent of all individuals say they would rely, at least somewhat, on benefits from insurance, with no significant differences by income, insurance type, or even ownership status. This low percentage could be partly explained by the fact that not all of the shocks asked about in the survey are necessarily insurable, such as an unexpected repair or expense, a move to a new area and/or change in living arrangement, or newly expanded financial responsibilities. Emergency savings are intended exactly for these types of events, and the fact that people turn to their savings as a first response should be seen as a positive trend. Our survey did not ask for a direct connection between specific coping mechanisms for specific shocks. There is an opportunity to dig deeper into these direct connections in future research.



³“The Role of Emergency Savings in Family Financial Security: What Resources Do Families Have for Financial Emergencies?,” The Pew Charitable Trusts, October 2015.

⁴The events in question and their prevalence are: unexpected repair or expense costing \$500 to \$2,000 (59%); death of a family member (39%); move to a new area and/or change in living arrangement (32%); unexpected repair or expense costing more than \$2,000 (28%); a major illness requiring hospitalization or a newly acquired chronic condition requiring ongoing care, medication, or equipment (23%); loss of job or other income (from benefits, pension, etc.) (20%); newly expanded financial responsibilities that were not expected (20%); other events with unexpected financial consequences (5%); divorce (4%).

“Long-term planning is difficult because it’s hard to know where you’ll be in a couple of months, let alone five to 20 years from now.”

— MALE, GROUP TWO, FRESNO

That said, there are two concerns with this trend that should be highlighted. First, some of the shocks asked about in the survey question are indeed insurable, such as a death of a family member, a major illness, or the loss of a job or other income. Despite this, 57 percent of individuals say that accumulating savings helps a great deal in making them feel more financially secure, compared with just 8 percent who feel the same way about purchasing various types of insurance.

Second, while self-insuring with savings and assets may seem sufficient in theory, the reality is that very few people have enough savings to self-insure adequately. Fifty-one percent of individuals report that it is very or somewhat difficult to build short-term savings, and 47 percent report similar difficulty in building long-term savings. These numbers increase to 68 percent and 66 percent, respectively, for LMI individuals. These savings challenges are also higher for non-insurance owners across the board, furthering the point that self-insuring through savings can be a risky strategy.

LMI Consumers Can Pay to Keep Policies in Place

Yet while people struggle to build savings, individuals do not report much difficulty in making payments to keep their insurance policies in place. Almost 80 percent say that this is not at all or not too difficult to do. This percentage drops to 66 percent for LMI individuals, with about a third of LMI individuals (34 percent) saying it is somewhat or very difficult. Even still, the majority of low-to-moderate income consumers do not seem to find insurance premium payments a huge financial burden. These consumers likely determined at the time of purchase that these were payments they could afford, while others who remained uninsured determined that the ongoing payments would be a struggle. Nonetheless, this shows that some LMI consumers may be missing *affordable* opportunities to protect themselves against *unaffordable* shocks.

		Overall LMI	LMI Car Insurance Owners	LMI Homeowners Insurance Owners	LMI Renters Insurance Owners	LMI Life Insurance Owners	LMI ST Disability Insurance Owners	LMI LT Disability Insurance Owners
<p>How difficult is it for your household to make payments to keep your insurance in place?</p> <p><i>For consumers with annual household incomes below \$60,000*</i></p>	Not at all difficult	30%	31%	37%	34%	34%	34%	38%
	Not too difficult	36%	38%	39%	36%	42%	43%	39%
	Somewhat difficult	21%	20%	17%	18%	17%	15%	15%
	Very difficult	13%	10%	6%	11%	6%	7%	7%

*This question was asked about insurance in general, not by specific insurance type. We then cut the data by ownership of specific insurance types. Owners may own multiple types of insurance.

Where Insurance Ends and Savings Begins

This analysis raises the question about where insurance as a financial tool ends and where savings should begin to help individuals build resilience. As The Pew Charitable Trusts' research points out, the popularity of deposit accounts for emergencies indicates people's preference for easily accessible cash when needed. Insurance is unlikely to ever be a product with a quick payout, and that may be fine. The need for instant payment varies based on the types of shocks that occur. Some shocks must be recovered from quickly (such as a car repair that makes it difficult to get to one's job), and savings may be the best option. But other shocks have the luxury of time (such as a home repair). Furthermore, people make calculated decisions about when it is worth filing a claim and when it might be best to absorb the cost to avoid deductible increases. In many cases, the deductibles themselves represent a major financial burden for LMI customers.

The interplay between savings and insurance, and even other tools like credit, to build financial resilience shows how interconnected and complex people's financial lives are. While financial services providers may think in terms of clearly defined financial products to meet specific financial needs, and insurers may think in terms of product silos to protect against specific risks, this is not how people actually live their lives.

This can be a challenge to insurers as they think about how to serve their customers better. There are few industries more diverse than insurance. Property and casualty and life insurance products (not to mention health insurance) are completely different products with different value propositions usually offered by different carriers. But as

this research shows, consumers do not place their risks and mitigating strategies into silos. The savings an LMI individual uses to compensate for a light workweek may have been taken from the money designated to cover next month's life insurance premium. Therefore, insurance is an important tool that allows people to use savings more strategically instead of on otherwise insurable shocks. Furthermore, it provides protection even in the absence of any savings cushion. A holistic view of someone's financial life will help insurers better serve their customers.

KEY TAKEAWAYS

- > LMI individuals largely rely on savings and borrowing to cope with shocks.
- > Insurance is a vitally important tool for LMI individuals who do not have the resources to weather catastrophic events otherwise.
- > When to rely on savings versus insurance is a complicated financial decision. People across the income spectrum would benefit from better guidance on how to use each tool effectively.
- > Insurance is a critical tool that provides protection, even in the absence of any savings cushion.

“My fear is that something catastrophic wipes me out – it could be cancer or other excessive medical claims.”

– MALE, GROUP TWO, BALTIMORE

Key Finding 02



Value for money is the key factor in selecting, maintaining, or not purchasing insurance policies, regardless of income. Many people, especially LMI individuals, may be underinsured if they simply shop for the cheapest policy.

When beginning this research, we hypothesized that consumers, even LMI consumers, are less price-sensitive when it comes to insurance. After all, this is a product purchased to protect loved ones or valued possessions for peace of mind. Spending a little more to ensure this protection would seem logical. Instead, we found that most people (76 percent) believe finding good value for their money is one of the most important qualities in an insurance company, and this priority remains high across income levels. This quality ranked higher than other important ones, such as having products that best fit one's needs (49 percent), responsiveness to questions (44 percent), communicating clearly (43 percent), and being easy to do business with (35 percent). Far fewer (16 percent) feel that being a well-known company is an important quality.

Upon reflection, price sensitivity makes sense for a product like insurance. It is difficult for a potential customer to evaluate the value they will receive from a policy at the time of purchase, and paying more does not necessarily change that expected value or provide greater peace of mind.

Potential Impact of Price Sensitivity

While shopping for the cheapest policy does not necessarily mean having less insurance coverage, it may affect coverage by forgoing useful policy features, such as collision coverage, replacement value, or even product bundling, that can provide added protection. By focusing only on price, other features are neglected. It is in this sense that we talk of someone being underinsured, where they are not fully protected from the extent of a shock or may be financially liable for some of the recovery costs.

The trend of selecting an insurance carrier based largely on price is also a major influencer in the decision *not* to purchase insurance. Over one-third of individuals forego renters and disability insurance because they believe it to be too expensive, and nearly half of individuals forego life insurance for the same reason. This lack of insurance is most prevalent among LMI individuals, a trend that was particularly evident in our focus group research.

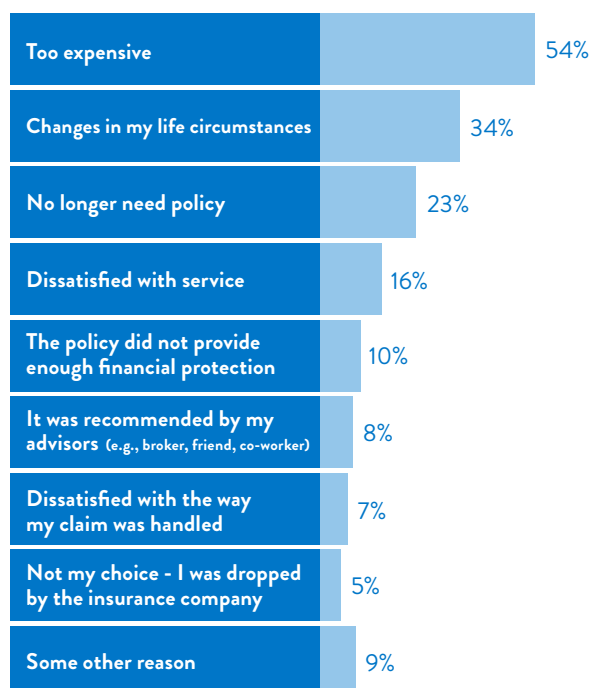
Less Future Protection Because of Current Price Concerns

Consumers are also more apt to replace or drop a policy because of expense (54 percent) than other reasons, such as dissatisfaction with the service (16 percent) or not providing enough financial protection (10 percent). LMI individuals are even more likely to drop or replace insurance coverage because of price (59 percent).

Once again, the potential implication of this price sensitivity is that consumers are less protected from shocks in the future because of cost concerns in the present. Providing a better value proposition to indicate the long-term potential savings from a short-term investment in insurance may shift these price concerns from the cost of insurance to the cost of the potential shocks.

Thinking about the insurance policy you most recently dropped or replaced, what were your top reasons for doing so?

Please select up to 3 reasons.



When Used, Consumers Report Good Value for Money

Despite cost issues in obtaining and maintaining insurance policies, for the small group of insurance owners that filed an insurance claim, over three-quarters of them across insurance types believe they received good value for their money. Moreover, only 7 percent of the individuals who dropped or replaced policies did so because they were dissatisfied with the way the claim was handled.

Therefore, while the value of a certain policy may not be clear at the time of purchase, it becomes much clearer at the time of use. The challenge here, of course, is that the vast majority of insurance customers never file claims. There is an opportunity to help customers evaluate value more objectively, even if they never need to use the policy.

KEY TAKEAWAYS

- > Value for money is the key factor in all stages of an individual's relationship, or lack thereof, with insurance carriers.
- > LMI individuals, in particular, may be forgoing valuable features to policies that would provide further protection because of price sensitivity.
- > LMI individuals are potentially less protected from shocks in the future because of cost concerns in the present.
- > All consumers need to understand the value of insurance policies at the time of purchase, not just at the time of use, to prioritize quality along with cost.

“It’s something I realize is valuable with the information I have, but there’s more immediate needs, like the water and cable. The electric company will turn off my lights if I don’t pay them.”

– FEMALE, GROUP ONE, BALTIMORE

Price Analysis by Insurance Type

Homeowners Insurance

For homeowners insurance, individuals are more likely to select insurers based on value for money (29 percent) than any other reason, including having a product that fits the individual's needs (10 percent).⁵ Surprisingly, individuals with higher incomes, those making more than \$100,000 annually, indicate they are even more likely to select homeowners insurance based on value for money (36 percent) than individuals with incomes less than \$60,000 (24 percent).

For further consideration: It is possible individuals with higher incomes have more to insure, and are more focused on and able to obtain access to adequate insurance. Can more be done to provide high-quality, cost-effective insurance to lower-income individuals who may have a smaller financial cushion than their higher-income counterparts?



Renters Insurance

For renters insurance, individuals are again more likely to select insurers based on value for money (27 percent) than any other reason, including having a product that fits the individual's needs (9 percent). Additionally, more than two-thirds (37 percent) of individuals forego renters insurance because they believe it to be too expensive, with LMI individuals being most likely to believe renters insurance is too expensive (40 percent) compared with their higher-income peers.

For further consideration: The national average cost of renters insurance premiums is only around \$188 annually.⁶ This type of insurance could potentially be a key tool for renters to build resilience, but the perceived barrier of cost is preventing many from purchasing. Can insurers help consumers understand its value and its low cost?

⁵ These percentages are relative to all the answer choices respondents could select. For example, in this case, "value for money" was the most selected answer choice at 29 percent.

⁶ "Facts + Statistics: Homeowners and renters insurance," Insurance Information Institute, 2018.

Life Insurance⁷

Individuals are narrowly more likely to select life insurance based on a recommendation (24 percent) than good value for money (20 percent), but both of these reasons are still more common than having a product that fits the purchaser's needs (16 percent). Similarly, across income levels, individuals say the top reason they chose not to purchase life insurance was because it was too expensive (48 percent). As with renters insurance, LMI individuals who chose not to purchase life insurance were more likely to believe life insurance was too expensive (59 percent) compared with their higher-income peers (46 percent of individuals earning between \$60,000 and \$100,000 and 34 percent of individuals earning more than \$100,000).

Working for an employer that offers life insurance greatly impacts ownership, and this correlates with income. When asked why someone purchased life insurance, 21 percent of people making more than \$100,000 said it was because their employer offered it. This drops to just 15 percent of people making less than \$60,000.

For further consideration: Can employers expand their benefits programs to provide more individuals with access to high-quality life insurance?



Disability Insurance⁸

Disability insurance differs from the other insurance products in that people primarily chose their carrier because it was offered through their employer (35 percent) over price (14 percent). Disability insurance follows a similar pattern to renters and life insurance for those that opt out of purchasing, with 34 percent of individuals saying they chose to forego disability insurance because they believed it was too expensive. This again is more prominent for LMI individuals (42 percent) compared with their higher-income peers (33 percent of individuals earning between \$60,000 and \$100,000 and 31 percent of individuals earning more than \$100,000).

For further consideration: There is a big opportunity to expand high-quality, cost-effective disability products to build resilience, especially when the Social Security Administration estimates that one in four 20-year-olds in the workforce today will suffer a disability before they retire.⁹ How can disability insurance carriers better demonstrate the need for their product and the value for the cost?

⁷ The analysis here does not include respondents that receive life insurance for free in the workplace.

⁸ The analysis here does not include respondents that receive short or long-term disability insurance for free in the workplace.

⁹ "The Faces and Facts of Disability," Social Security Administration.

Key Finding

03



While individuals often have a negative perceived image of insurance companies, this is not always consistent with actual experiences. Most people, including LMI individuals, feel somewhat knowledgeable about their insurance policies, especially at the time of purchase. People across the income spectrum are unsure if they are adequately covered by their policies, however, negating the peace of mind that insurance is meant to provide.

Insurance owners tend to have negative perceptions of insurance companies in the abstract, but then express satisfaction when interacting with them in practice. This is very similar to the phenomenon in the banking sector of “hating your bank, but loving your banker.” To understand this better, we look at how consumer views break down by attitudes, understanding, and confidence.

Mixed Attitudes

Most people (71 percent) feel that insurance companies are very or moderately interested in serving them, and not surprisingly, those with car, homeowners, renters, and life insurance are more apt to say that insurers are at least moderately interested in serving them. This attitude decreases with income, though not by much. Among LMI individuals, 61 percent still feel that insurers want to serve them, although a quarter feel that insurers are not at all interested in serving them as customers.

Individuals' attitudes about insurance in general and insurers in particular are also mixed. People know they

need it, but there is skepticism in how insurers will respond in times of need.

Mixed Understanding

Three-quarters of all individuals, regardless of ownership status, feel very or somewhat knowledgeable when it comes to understanding insurance in general and how to buy it. This only drops to 67 percent among LMI individuals. These numbers are even higher when asking about specific insurance products, and interestingly, there are not large differences in understanding among products or among income levels, although life and disability insurance are the least understood among the five we studied.

But the focus group research revealed a much more mixed, and likely more accurate, picture of customer understanding where people struggle with the complexities. Likewise, people do not rate insurance companies very highly in explaining policy features and qualities. Only 4 percent rate insurance companies as excellent in this regard, and 40 percent rate them as fair or poor.



“Insurance is very convoluted, it is hard to understand the ins and outs, so much legality that it’s hard for the common person to really understand.”

— FEMALE, GROUP ONE, BALTIMORE



“If something happens to me, my family will be taken care of. It makes me feel safe.”

— FEMALE, GROUP ONE, FRESNO

“Insurance companies say, ‘We’ll cover this tooth, but not that one.’”

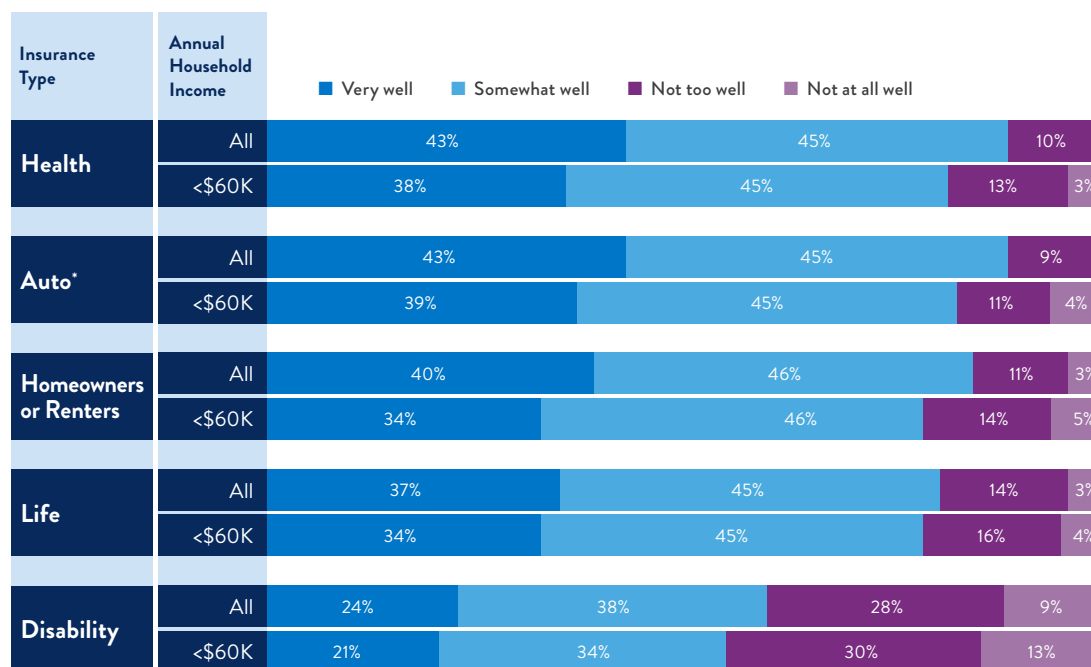
— MALE, GROUP ONE, FRESNO

“The fact is that this is life, and anything can happen. You need insurance.”

— FEMALE, GROUP ONE, BALTIMORE

KEY FINDING 3

How well do you understand each of the following types of insurance?



*Beyond basic liability required by law.

Low Confidence in Coverage

Having an insurance policy in place does not necessarily mean that someone feels fully protected. People instead expressed a lack of confidence in the insurance coverage they have. Focus group participants consistently indicated that they would not know if their insurance policies, regardless of type, were adequate to protect them against a shock unless they had to actually use them, and only then would they know if they were sufficient.

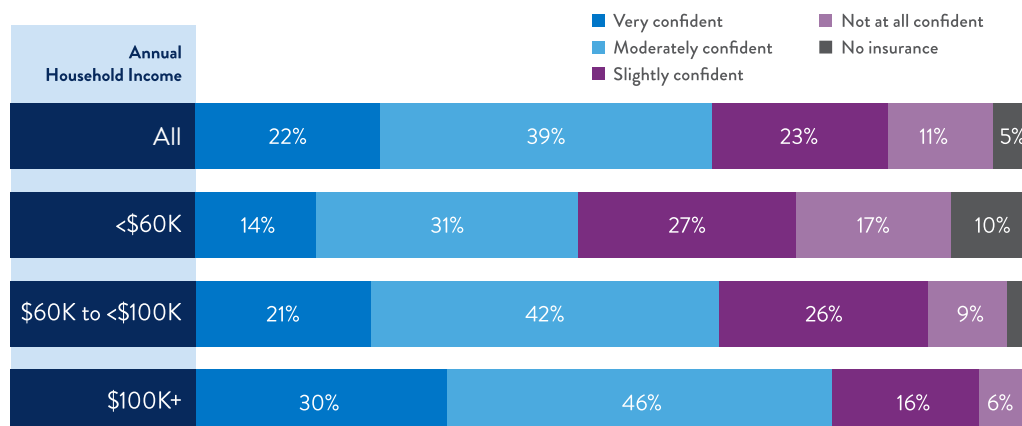
The quantitative data provides some helpful nuance here. In general, the majority of insurance owners across all insurance types felt that they were probably adequately covered by the policies they had (49 percent for auto, 51 percent for homeowners, 53 percent for renters, 49 percent for life, 61 percent for disability). But less than a third across insurance products felt that they were definitely adequately covered, without large differences by income. This lack of confidence negates the peace of mind that insurance is meant to provide.

“Insurance is a necessary evil; I feel like I’m at the casino and I hand my money to the insurance agents; sometimes I might win, sometimes someone else might win.”

— MALE, GROUP TWO, FRESNO

How confident are you that your household's insurance policies will provide you with enough support in case of an emergency?

Please consider the amount of coverage you have for your health insurance, vehicle insurance, home/rental insurance, life insurance, and disability insurance.



“There needs to be some explanation. It is very difficult to know, except for a mandate by the state, how much is desirable.”

— MALE, GROUP TWO, BALTIMORE



KEY TAKEAWAYS

- > Low coverage tends to be driven by affordability issues more than by the image of insurers. The majority of LMI consumers feel that insurers are interested in serving them.
- > People rate their perceived understanding of insurance as somewhat high. But LMI individuals, in particular, expressed frustration by the complexity of the products.
- > A significant challenge all consumers face is the uncertainty of their insurance coverage and whether it will be enough in the case of a shock. This has the largest implications for LMI customers, who may be ill-prepared to cover costs not covered by their policies.

Key Finding

04



Uninsured individuals tend to be younger and low-income, and are more likely to be Hispanic than any other race. To manage shocks without insurance, uninsured consumers most frequently turn to savings (if they have it), adjust their expenses, or, in the worst-case scenario, simply live with the results of the shock.

Being uninsured does not inherently mean that an individual lacks financial resilience, but it can be problematic when these individuals experience a disruptive life event without having a sufficient alternative safety net. To serve these consumers well, we need to understand more clearly who they are and what approaches they are using to build resilience today.

In the charts that follow, we look at *non-ownership* percentages by income, age, gender, and race. We do not look at auto and homeowners insurance in detail here, because both are typically required.¹⁰ For renters insurance, we consider ownership/non-ownership only among those who rent; for life insurance, only among those who are married and/or have financially dependent children; and for disability insurance, only among those who are working full-time.

The widest gap in insurance ownership by income is in life insurance, where 45 percent of LMI individuals do not have

coverage. People younger than 30 years old are less likely to have life insurance and short and long-term disability insurance than older individuals.

Insurance ownership is fairly similar across gender, although the biggest difference arises in life insurance, where women are more uninsured than men. And across all four insurance types, Hispanics are more uninsured than other races.

Alternative safety nets may partly explain why Hispanics have higher uninsured numbers than other races. Hispanics are statistically more likely to say that being able to rely on family and friends (16 percent Hispanic versus 10 percent overall), relying on government programs (21 percent Hispanic versus 15 percent overall), and having a formal retirement plan (30 percent Hispanic versus 20 percent overall) would make them feel a great deal more financially secure.

¹⁰ Our uninsured numbers differ slightly from those referenced in LIMRA in the introduction because our sample included owner and non-owner quotas to enable a deep dive into the uninsured segment, as well as normal sampling error between the two studies.

Percentage of Non-Owners by Income

Insurance Type	Total	<\$60K	\$60K to <\$100K	\$100K+
Renters ¹	48%	61%	40%	23%
Life ²	28%	45%	23%	17%
Short-term Disability ³	53%	64%	53%	45%
Long-term Disability ³	58%	68%	60%	50%

Percentage of Non-Owners by Age

Insurance Type	Total	18-29	30-44	45-59	60+
Renters ¹	48%	46%	48%	50%	49%
Life ²	28%	38%	32%	21%	25%
Short-term Disability ³	53%	67%	53%	47%	50%
Long-term Disability ³	58%	72%	58%	50%	58%

Percentage of Non-Owners by Gender

Insurance Type	Total	Male	Female
Renters ¹	48%	47%	49%
Life ²	28%	24%	31%
Short-term Disability ³	53%	53%	53%
Long-term Disability ³	58%	57%	60%

Percentage of Non-Owners by Race

Insurance Type	Total	White	Black	Hispanic	Other
Renters ¹	48%	42%	52%	62%	44%
Life ²	28%	23%	22%	49%	32%
Short-term Disability ³	53%	49%	47%	68%	61%
Long-term Disability ³	58%	55%	50%	71%	66%

¹ Among those who rent. ² Among those who are married and/or have financially dependent children. ³ Among those who work full-time.

Why People Remain Uninsured

Since the reasons for not having certain insurance products vary greatly by product type, we look at each of them in turn.

Renters Insurance

Of those who rent, 48 percent do not own renters insurance. This percentage increases to 61 percent among LMI consumers. The landscape here may be changing as more landlords require their tenants to obtain insurance. For renters who decided against purchasing renters insurance, 38 percent said it was because they had no need for the product. But as indicated earlier, LMI consumers are also more likely to cite price issues with purchasing this type of insurance.

Life Insurance

Of those who are married and/or have financially dependent children, 28 percent do not own life insurance. This is significantly higher for LMI consumers, at 45 percent. For those who decided against purchasing life insurance, 31 percent said that they had no need for the policy. This may indicate that individuals have a false sense of security concerning the risk of death, may prioritize more “immediate” needs with their spending, or may assume their spouse and dependents will turn to alternative means of supplementing their lost income.

Disability Insurance

Of those working full-time, 53 percent do not have short-term disability insurance and 58 percent do not have long-term disability insurance, with these numbers being highest for the LMI segment (64 percent for short-term and 68 percent for long-term disability insurance). Of those who decided against purchasing disability insurance, 43 percent said they had no need for the product.

Increasing Insurance Access Through Employers

There is an opportunity to expand employer benefits for all individuals, and to LMI consumers in particular, to provide better access to life and disability insurance products.

33 percent of individuals receive free life insurance coverage in the workplace. This benefit is more common for those who make more than \$100,000 (44 percent), compared with \$60,000 to \$100,000 (28 percent) or less than \$60,000 (21 percent).

33 percent of individuals have life insurance coverage that they pay for through payroll deductions in the workplace. This option is more common among those who make more than \$100,000 (40 percent), compared with \$60,000 to \$100,000 (33 percent) or less than \$60,000 (25 percent).

59 percent of individuals receive free short-term disability coverage in the workplace. This option is more common among those who make more than \$100,000 (62 percent) compared with less than \$60,000 (50 percent).

35 percent of individuals have short-term disability coverage that they pay for through payroll deductions in the workplace. There are no significant differences by income.

49 percent of individuals receive free long-term disability coverage in the workplace. 40 percent of individuals have long-term disability coverage that they pay for through payroll deductions in the workplace. There are no significant differences by income.

Perceived Need vs. Non-Ownership

“Regardless of whether you currently have it or not, which of the following types of insurance do you think you need?”
Please mark all that apply.

- > Of those without life insurance, 51 percent of people thought they needed it.
- > Of those without renters insurance, 50 percent of people thought they needed it.
- > Of those without short and/or long-term disability insurance, 29 percent of people thought they needed it.

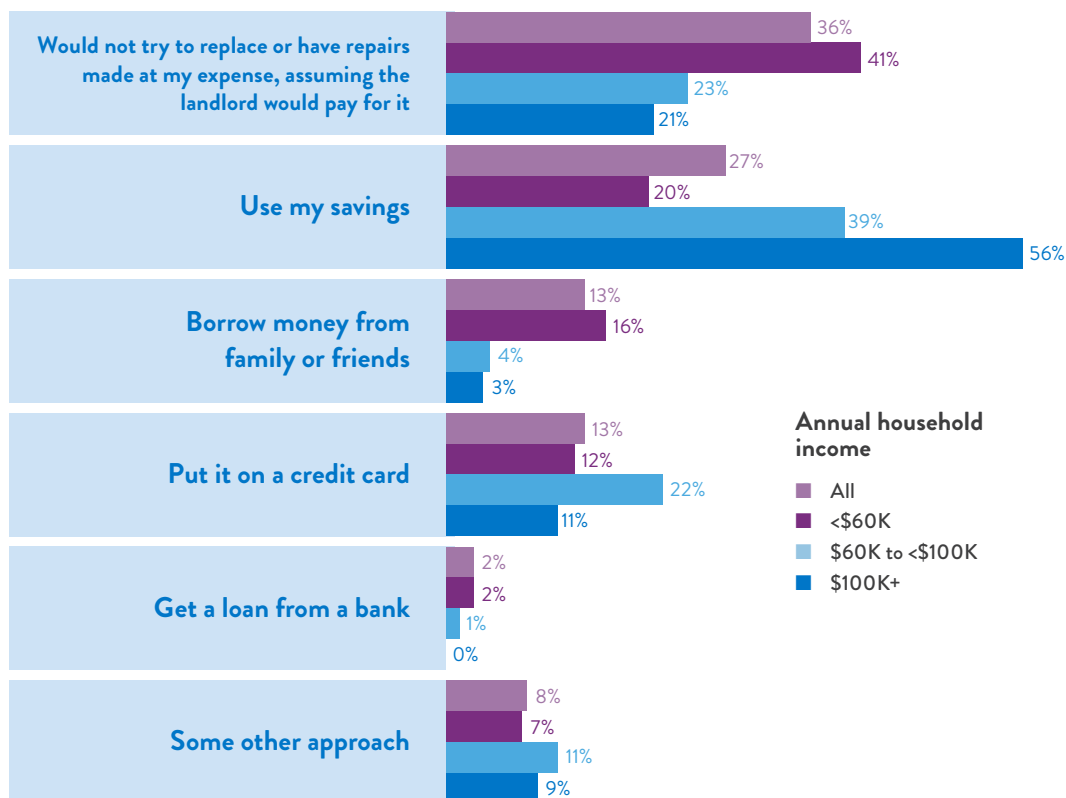
The Uninsured Fallback Plan

One of our biggest questions when beginning this research was what the uninsured person's fallback plan was to manage disruptive life events. As discussed in Key Finding 1, many of these individuals turn to savings, but we know that excess savings is not always available, especially for LMI individuals. The uninsured also attempt to adjust expenses, and in the worst-case scenario, they simply do nothing and adjust to life after the shock. For LMI individuals, family and friends are also key to maintaining a sense of resilience, with 32 percent saying that relying on family and friends helps them feel more financially secure.

The uninsured also rely on government social safety nets to feel financially secure, such as Social Security, food stamps, and Medicare. Among non-owners of renters, life, and disability insurance, 48 percent, 45 percent, and 30 percent respectively feel more secure having these programs in place. Many of the write-in answers in the graphs below also indicated reliance on these government programs.

If you were to have a theft or property damage of \$500 or more where you currently rent, how would you most likely deal with the financial impact of that?

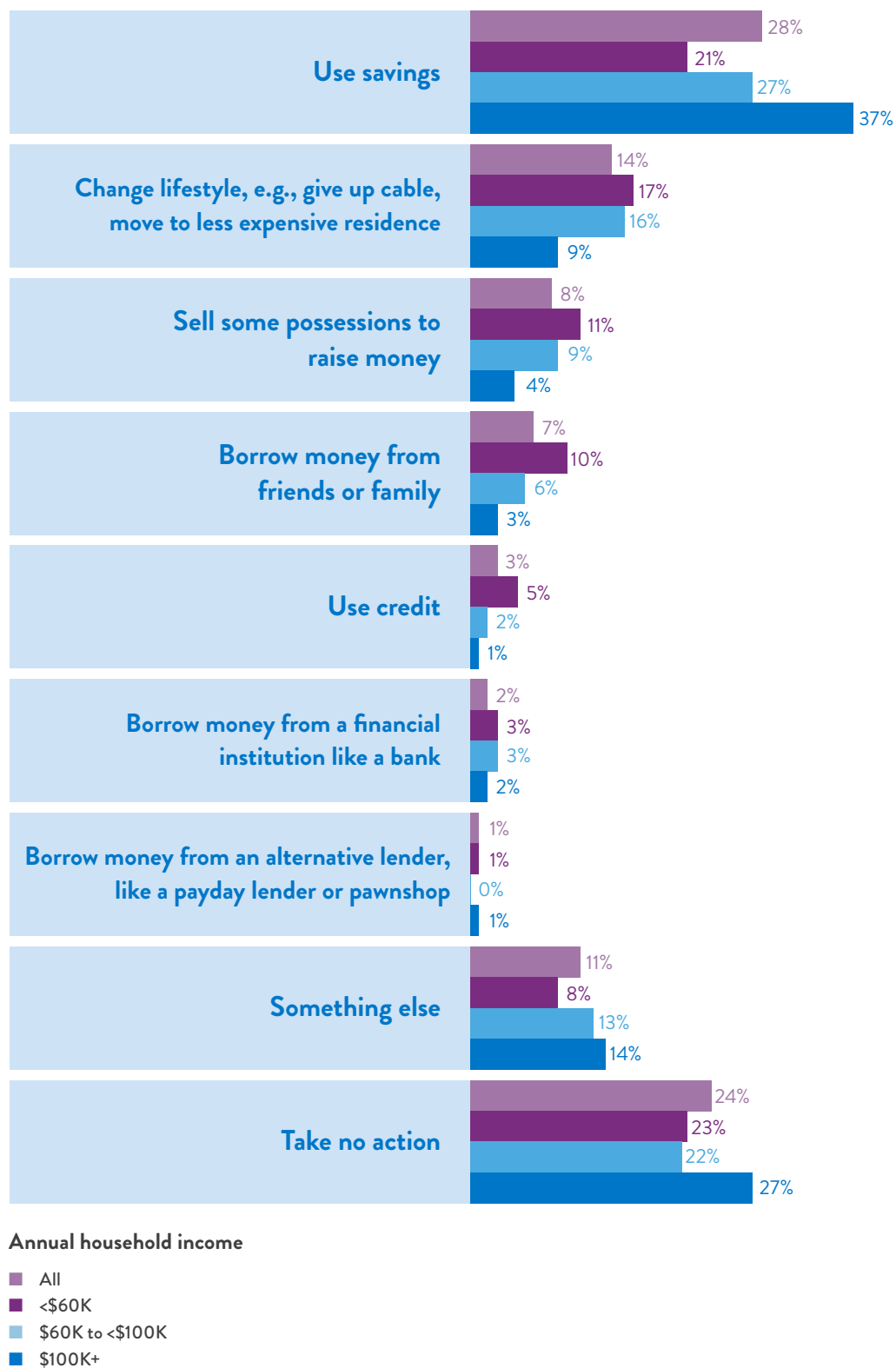
(Among those who do not have renters insurance)



KEY FINDING 4

If you were to pass away, how would your dependents replace the financial support you used to provide for them? Please select the main source they would use.

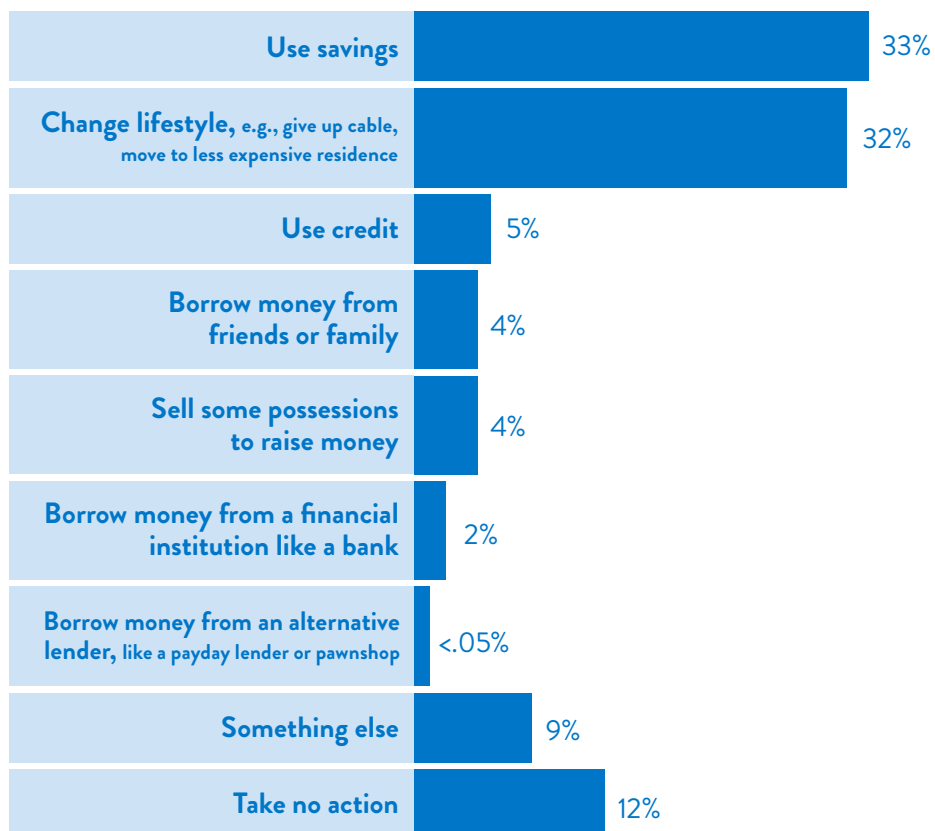
(Among those who do not have life insurance or receive free life insurance in the workplace)



If you were to become disabled and unable to work, how would you replace the salary you were no longer making? Please select the main approach you would use.

(Among those who do not own disability insurance)

Note: There is no significant difference here by income among non-owners of disability insurance.



KEY TAKEAWAYS

- > The uninsured tend to be younger, low-income, and Hispanic.
- > Without insurance, people who experience shocks most frequently turn to savings (if they have it), adjust their expenses, or simply live with the results of the shock. They also rely on government social safety nets for financial security.
- > Employers can do more to provide coverage to uninsured employees.

Insurance and Financial Health

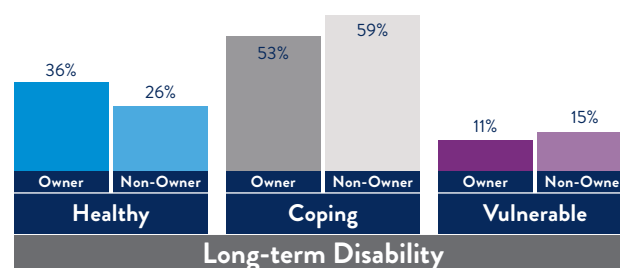
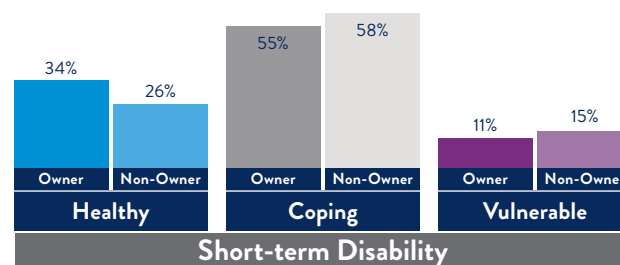
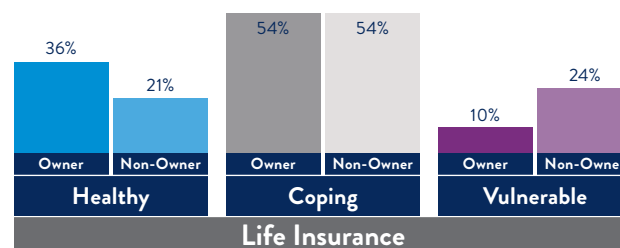
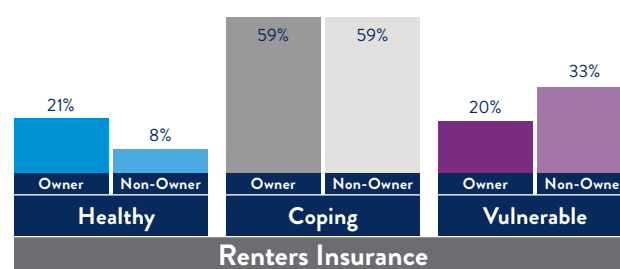
CFSI has developed the CFSI Financial Health Score™ to provide a holistic, moment-in-time snapshot of an individual's financial health.

The score is based on eight multiple-choice questions that align with CFSI's eight indicators of financial health.¹¹ We included these eight questions in the questionnaire that was fielded to our survey respondents for this study (see questions 24-31 in the [survey questionnaire](#)). With this data, we were able to score the financial health of all the survey respondents. Scores below 40 are considered Vulnerable, scores between 40 and 79 are considered Coping, and scores 80 and above are considered Healthy.

Methodological Note: One of the eight questions used to score someone's financial health asks about insurance. The exact question asks, "How confident are you that your household's insurance policies will provide you with enough support in case of an emergency? Please consider the amount of coverage you have for your health insurance, vehicle insurance, home/rental insurance, life insurance and disability insurance." In analyzing the financial health of survey respondents on the topic of insurance, there is a small degree of circular logic, as this question is one of the eight questions used to generate the CFSI Financial Health Score™.

As expected, insurance owners encompass a higher proportion of financially Healthy individuals than non-owners, and conversely, non-owners encompass a higher proportion of financially Vulnerable individuals. The Coping segment looks similar across owners and non-owners alike.

Insurance Ownership and Non-Ownership by Financial Health



¹¹ "Eight Ways to Measure Financial Health," CFSI, May 2016.

Individuals who own multiple insurance products studied in this research are more likely to be financially Healthy than the overall average. A suite of insurance products is needed to meet an individual's varied resilience needs. Moreover, across insurance types, individuals that are financially Healthy are much more likely to say they understand their insurance products, while Coping and Vulnerable individuals are less likely to indicate strong understanding.

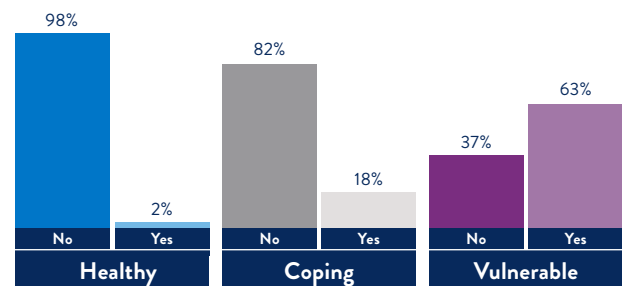
Number of Insurance Products Owned by Financial Health

CFSI Financial Health Segment	% Total, Weighted	Insurance Products = 0	Insurance Products = 1	Insurance Products = 2	Insurance Products = 3	Insurance Products = 4	Insurance Products = 5
Healthy	30%	5%	11%	31%	37%	31%	41%
Coping	55%	54%	62%	55%	55%	58%	50%
Vulnerable	15%	41%	28%	15%	8%	11%	10%

The Coping segment is ripe with opportunity to support with better insurance tools. Coping non-owners of renters, life, and disability insurance products say that they would take no action or make a lifestyle change in the face of an insurable shock, indicating a need for protection. Yet a significant differentiator between Coping individuals and their Vulnerable peers is their level of savings – 22 percent of the financially Coping have six months or more of savings, and 34 percent have between three to six months of savings, indicating that over half of the individuals in this segment have some degree of a savings cushion. Similarly, the Coping segment does not struggle with the day-to-day stress of keeping up with bills as the Vulnerable segment does. Insurance therefore has the potential to provide the additional edge of resilience to help move Coping individuals into the Healthy segment.

As a result of the event(s) that affected your financial situation, which of the following did you do?

Selected answer: Skip a bill



Looking at insurance ownership by financial health, instead of just by income, is important because it connects insurance to the other key indicators of someone's financial life, namely how they spend, save, borrow, and plan. If an uninsured individual must turn to savings to cover the effects of an insurable shock, it is important to understand whether that person is actually able to build emergency savings for such a purpose. If building savings or accessing credit is a challenge, it places someone's overall financial situation in a more precarious context. This is important for insurers to understand as they seek to offer the best protection to customers. Insurance is but one interconnected piece of a whole system of building financial resilience.

Opportunities for Insurers

Insurers can respond to the key challenges that LMI individuals face in a number of specific ways to help them build financial resilience.

1

Insurers have an opportunity to look holistically at individuals' financial lives and understand where potential insurance products fit into that picture. With the increasing use of data, customers can be targeted with appropriate insurance products as they cycle through various life stages.

2

With this more contextual understanding of customers, insurers can market the value proposition of their products more effectively to potential customers to make the benefits more evident at the time of purchase, not just at the time of use. For example, bundling products to meet various financial needs may show some of this value more clearly.

3

Since peace of mind is one of the main reasons people purchase insurance, insurers can strengthen this sense of security by offering more tailored guidance to customers about their insurance coverage needs, even possibly developing heuristics as a guide.

4

Insurers have an opportunity to integrate innovations that allow them to lower prices, without compromising on quality, and pass some of those savings onto customers, expanding the market of potential customers.

Looking Ahead

Incumbents and startup insurtech providers are already experimenting with and implementing innovations to respond to many of these challenges. This includes strategies such as process improvements for claims management, direct-to-consumer interfaces that supplement the agent model of distribution, online comparison shopping tools, pay-per-use and peer-to-peer (P2P) models, and underwriting improvements that can expand the pool of insurable customers.

These innovations are happening in a world where the nature of work is changing. People are less and less able to rely on traditional employment and the benefits that come with it, and must rely more and more on the gig economy. Yet despite this shift, or perhaps because of it, people will need to be more insured and protected, not less.

While savings and credit will always have its place in how people respond to life's ups and downs, insurance carriers are uniquely positioned to serve individuals with high-quality tools that directly protect against shocks. This is a critical moment of opportunity for the insurance industry to build all people's financial resilience further.



Appendix

Methodology

CFSI commissioned the research firm Greenwald & Associates to undertake both the qualitative and quantitative components of this project. The insurance products in scope for this research were auto, homeowners, renters, life, and short and long-term disability insurance, including both employer-provided and individually purchased products. We chose not to include health insurance, given the particular complexities of this product. The qualitative research consisted of four consumer focus groups, two in Baltimore on September 12, 2017, and two in Fresno on September 14, 2017. In each location, Group One focused on life and disability insurance and Group Two focused on auto, homeowners, and renters insurance. To qualify for the study, all participants had to be between the ages of 21 and 62, live in their own residences, have household incomes between \$25,000 and \$56,000, and at least participate in the financial decision-making in their household. Each group had between nine and 11 participants, with no more than four participants with college degrees per group. The Baltimore group had a mix of white and black participants, and the Fresno group had a mix of white and Hispanic participants. Life and disability participants had to be employed full-time and have a dependent spouse or child. Auto and homeowners/renters insurance participants had to own a car, be a mix of homeowners and renters, and, if renters, be responsible for paying the rent. The groups represented a mix of at least three participants who owned each product and three who did not own each product.

The quantitative research consisted of 4,149 responses from GfK's KnowledgePanel®. For this **survey**, a nationally representative sample of U.S. adults ages 21-70 was selected to align with ages in which insurance solutions are more likely to be relevant. The main data collection period lasted from November 22, 2017, to December 13, 2017. To qualify for the study, respondents had to be household decision-makers and not live with their parents or in a group setting. In addition, GfK oversampled 710

consumers with household incomes under \$60,000, sampled 495 bilingual and Spanish-proficient respondents, and sampled at least 700 owners and 500 non-owners of each type of insurance. Because of the large number of questions asked, respondents were randomly rotated to answer more extensive questions about just one type of insurance product so that respondents averaged only 15 minutes to complete the survey. Data was weighted back to the total U.S. population to ensure that it was nationally representative. Data was weighted by gender, age, income, race, region, education level, and metropolitan population according to the U.S. Census Bureau.

About GfK's KnowledgePanel®

KnowledgePanel® is a large online panel that relies on probability-based sampling techniques for recruitment from which fully representative samples can be generated to produce statistically valid inferences for study populations. The panel was first developed in 1999 by Knowledge Networks, a GfK company, with panel members who are randomly selected, enabling results from the panel to represent the U.S. population with a higher degree of statistical accuracy than results from volunteer opt-in panels (for comparisons of results from probability versus nonprobability methods, see Yeager et al., 2011).

KnowledgePanel's recruitment process was originally based exclusively on a national Random Digit Dialing (RDD) sampling methodology. In order to improve the representation of the panel, GfK migrated to using an Address Based Sampling (ABS) methodology via the Delivery Sequence File (DSF) of the USPS for recruiting panel members in 2009. This probability-based sampling methodology improves population coverage, and provides a more effective sampling infrastructure for recruitment of hard-to-reach individuals, such as young adults and those from various minority groups. Under the ABS recruitment, households without internet connection are provided with a web-enabled device and free internet service to enable participation in the online panel.

