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# New life insurance sales channels that meet younger consumers' advisory needs

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## Executive Summary



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*In the Japanese life insurance market, consumers are increasingly using new sales channels that have emerged in recent years (e.g., online channel, insurance shops). Life insurers should coordinate their sales channels to better meet consumers' online information-gathering needs and advisory needs.*

### New insurance sales channels are steadily gaining popularity

Two major trends have emerged in the Japanese life insurance industry in recent years. One is that life insurers are focusing on marketing products and services targeted at senior citizens (e.g., medical insurance, long-term care insurance, asset management) in response to the aging of their core customers. The second is that life insurers are targeting younger, low-net-worth consumers with low-cost products and sales channels. This article discusses such younger consumers' needs and how life insurers are endeavoring to meet them.

Examples of low-cost channels targeted at younger consumers include websites and walk-in insurance shops (also called insurance clinics, insurance counters, etc.). The online channel first gained prevalence in the financial services sector among brokerages and banks from the early 2000s. It has recently become widely used by nonlife insurers also. Life insurers, however, are only now starting to launch online sales platforms. Insurance shops have become common since the latter half of the 2000s. How widely used are these new channels?

According to the 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition)<sup>1)</sup>, conducted in Tokyo and three neighboring prefectures, the way in which consumers purchase life insurance has changed notably since the new channels' emergence (i.e., between the pre-2002 and post-2007 periods; see exhibit). Life insurance purchases from life insurance saleswomen, who formerly accounted for nearly half of life insurance enrollments, are in decline. Meanwhile, mail-in purchases in response to direct mail solicitations or telephone contacts are on the rise. Although new channels such as websites and insurance shops still account for only a small share of total insurance purchases, their share has increased

#### NOTE

1) The NRI Questionnaire Survey of 10,000 Consumers is a nationwide, door-to-door survey conducted triennially since 1997. In 2010, NRI initiated a financial edition of the survey that focuses on use of financial products and services. In August–September 2011, NRI conducted the 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition), a door-to-door survey of 4,484 18–79 year-old male and female residents of Greater Tokyo (Tokyo Metropolis and Saitama, Chiba and Kanagawa Prefectures), to supplement its triennial survey data series. The survey questions mainly pertained to the March 2011 earthquake's impact on financial behavior.

sharply from 1% to 7%.

### Younger consumers gather information online and purchase through face-to-face channels

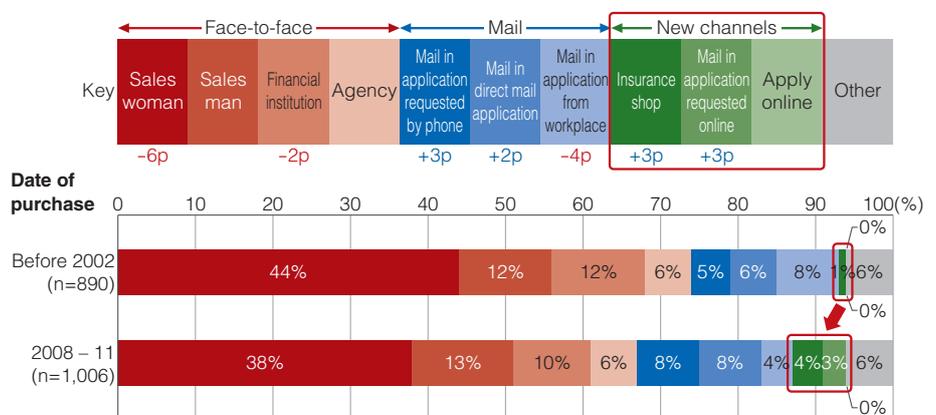
The Internet's role in shopping for life insurance is distinguished by growth in consumers that utilize the Internet for gathering information and comparison shopping, but few life insurance purchasers complete the entire enrollment process online, including applying for coverage.

According to the aforementioned survey results, the percentage of life insurance purchasers that request an application form online and return the completed application by mail has increased from 0% to 3%, but hardly any purchasers directly apply for coverage online (see exhibit).

The survey also inquired about respondents' inclination to use the Internet when shopping for life insurance in the future. Respondents across all age groups were highly inclined to use the Internet for gathering information and comparison shopping. In particular, 50–60% of 20–49 year-old respondents answered this question affirmatively. In contrast, less than 10% of respondents envisioned themselves completing the enrollment process entirely online<sup>2)</sup>. This data point has implications for Lifenet Insurance and other companies with online platforms that

2) Based on responses to the question, "Do you intend to use the Internet when shopping for life insurance in the future?" in the survey referenced in footnote 1.

**Exhibit: The changing ways that consumers buy life insurance**



Note: Date of purchase refers to the respondent's most recent life insurance purchase (one response per respondent).

Source: 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition) (conducted August–September 2011)

allow consumers to complete the application process online. Such companies' prospects of gaining market share are currently unclear.

Unlike auto insurance and other forms of insurance that are annually renewable, life insurance requires large premium payments. Such being the case, many consumers apparently feel uneasy about completing the life insurance enrollment process online. In fact, another NRI survey found that 70% of consumers in the 20–39 age group, a generation that habitually uses the Internet, want to consult with a specialist when shopping for life insurance<sup>3)</sup>. This holds true even for proactive consumers that gather information themselves. Recognizing that life insurance is a complex, long-term product, many consumers apparently want to use the online channel, which is convenient for gathering information, in combination with a face-to-face sales channel conducive to personalized consultation.

### Insurance shops and insurance information portal sites can accommodate different channel preferences

Business models that utilize insurance shops are designed to meet both the need to consult with a specialist and the need to gather a wide range of information.

Insurance shops meet consumers' information-gathering needs by operating comparison-shopping websites that offer 10 or more insurers' products. Their websites also offer search functions and the ability to book consultation appointments. Insurance shops are thus also able to smoothly meet consumers' need to consult with a specialist. Additionally, insurance shops have made it easy for consumers to consult with them by setting up shop in convenient locations (e.g., in supermarkets and railway stations), carrying many insurers' products, and offering unlimited free consultations.

Like insurance shops, insurance agencies constitute another channel that offers multiple insurance products and consultations with specialists. Although insurance agencies have been around longer than insurance shops, NRI survey results indicate that women in the 20–39 age group are more inclined to use an insurance shop than an agency<sup>4)</sup>. Given that there are not yet as many insurance shops as agencies, the survey results suggest that insurance shops are supported by younger consumers, particularly young women.

3) Based on responses to a survey question on respondents' approach to shopping for life insurance in an online survey (different from the survey referenced in footnote 1) conducted by NRI in October–November 2010. Respondents had a choice of four responses: (1) "I would prefer to consult with an insurance saleswoman," (2) "I would prefer to do my own research and consult with a specialist only about any questions I may have," (3) "I would prefer to do my own research and apply for coverage without consulting with a specialist," and (4) "I would prefer to let a specialist select life insurance for me because I do not know much about it and do not want to take the time to research it." Respondents who selected the second response were deemed consumers that gather information themselves but also need to consult with a specialist.

4) Based on survey respondents' responses to two questions in the survey referenced in footnote 1: "Are you thinking of using an insurance shop (e.g., in a supermarket or near a railway station) in the future?" and "Are you thinking of using an insurance agency (not an insurance shop) in the future?"

Insurance shops are not the only sales channel capable of meeting both information-gathering and consultation needs. Some companies that operate insurance information portal sites, such as Hoken-Mammoth, now offer advisory services by dispatching specialists to meet with prospective customers that have obtained information from the portal site. Through its portal site, Hoken-Mammoth provides basic information about selecting insurance and accepts requests for free face-to-face consultations with neutral, independent financial planners. In this respect, Hoken-Mammoth has a different appeal than conventional insurance agencies.

By virtue of meeting a full range of consumers' needs by combining an online platform with face-to-face consultations, portal sites such as Hoken-Mammoth, insurance shops, and other such sales channels will likely continue to gain popularity, particularly among younger consumers who are heavy Internet users. One challenge facing such channels is how to ensure the neutrality of their consultation services, given that the financial planners that provide the consultations earn sales commissions from insurance companies.

If new channels in the life insurance industry take root as channels more oriented toward serving customers than expanding insurance sales, they are likely to eventually become the predominant insurance sales channels.

## about NRI

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