FEDERAL RESERVE BANK OF CHICAGO CFSI Center for Financial Services Innovation An Affiliate of ShoreBank Corporation The Annie E. Casey Foundation

Insurance and Asset-Building for the Underbanked: A Convening Summary

by Amy Brown

Introduction

Insurance protects against financial loss in the event of accident, death, unemployment or other crises. And yet, not all households are adequately insured. Those most likely to be uninsured or underinsured are low- and moderate-income consumers – many of the same households that are underbanked, but that may have the hardest time recovering from financial crises. These consumers generally recognize the value of insurance but are faced with competing financial demands and may need help understanding and choosing among insurance options. Similarly, the insurance industry is only beginning to focus on targeted marketing to this group and developing products specifically designed to meet their insurance needs.

On May 22, 2008, the Federal Reserve Bank of Chicago, the Center for Financial Services Innovation and the Annie E. Casey Foundation brought together non-profit and industry leaders to discuss insurance and asset-building for the underbanked. Following up on two recent reports, the purpose of the meeting was to raise the profile of insurance as an issue of importance for community development and to begin a dialogue about the issues, obstacles and opportunities for connecting asset-building and insurance.[1] This paper offers a summary of the meeting and sets the stage for next steps in this work.

Framing the Issue

Insurance and asset-building interact in multiple ways. The following four categories describe these interactions and help frame the larger discussion:

- *Asset Protection*: Insurance can protect assets owned (providing stability in case of loss).
- *Indirect Asset Building*: Insurance can facilitate or act as a barrier to acquiring assets (such as the need for insurance to buy a car or home).
- *Direct Asset Building*: Insurance itself can be an asset (in its cash value, with monthly premiums representing a sort of "rented savings.").
- *Asset Stripping*: Insurance can also deplete assets (if its cost is greater than its value).

As this framework suggests, the questions moving forward are complex, involving not only whether underbanked consumers need insurance, but what types, for what uses and at what price. It affirms, however, that insurance is an important component of financial security for households at *all* income levels. As such, it raises the importance of programs and policies that help underbanked consumers connect with affordable and appropriate insurance products.

Research on Insurance and Asset-Building

Recent research provides insight into the issues, challenges and opportunities for this work. A

[1] See: Robin Newberger, Insurance and Wealth Building among Lower-Income Households. Chicago Fed Letter, Number 251. The Federal Reserve Bank of Chicago, June 2008; and Rachel Schneider and Kimberly Gartner, The Insurance Industry and the Underbanked. Center for Financial Services Innovation, March 2007.

few key findings are highlighted below:[2]

- *Lower-income individuals are significantly less likely than others to have insurance*. For example, only 14% in bottom fifth of earners own cash value life insurance vs. 24.4% for all earners. This is true for all types of insurance, excepting private mortgage insurance.
- *Low-income households pay more for insurance*. It costs $400 more to insure the same car and driver in a neighborhood in which the median income is under $30,000 than in one in which the median income is more than $70,000.
- *Demand for insurance from these consumers may not be being met*. People have very positive views of insurance and 44% of lower-income households in the Detroit area believe they are underinsured. Those who do not have insurance, give lack of information or money as reasons.
- *Uninsured individuals try to save for emergencies and rely heavily on informal lending and short-term credit alternatives*. Borrowing from family and friends, use of pawn shops and payday lenders, and credit card debt are common.
- *People want insurance information in context*. Consumers are interested in understanding how insurance relates to their broader financial goals. They also think about insurance (especially life insurance) as a way to plan for their futures and those of their children.

Non-Profit Innovations

While insurance is not a traditional area for non-profit services, the issue comes up in the context of financial education, homeownership assistance, credit counseling and related services. Some organizations are beginning to expand their work to better help low-income consumers with insurance needs, and other are thinking about how they might do so.

Financial education curricula often include a segment on insurance, which might cover the role of insurance in general, as well as information to help participants determine what types and amounts of insurance are right for them. Insurance is also a piece of one-on-one counseling, such as that offered by EARN, a Bay Area non-profit.[3] Financial planners who work with alumni of EARN's Individual Development Account program conduct income and property replacement assessments, look at capacity to maintain insurance over time and help participants shop for vendors. The most relevant "teachable moments," however, occur when an insurance-related transaction takes place, such as buying a home or car. Homeownership organizations provide education around homeowners insurance (often through workshops taught by insurance agency partners). Yet more follow-up counseling is likely needed, to help homeowners use their policies when needed and re-evaluate their coverage over time.

There has also been some policy work on this issue. The National Council of La Raza, for example, has focused on the negative impact of the use of credit scores in auto insurance

---

[2] Information is from presentations by: Robin Newberger, Federal Reserve Bank of Chicago (based on focus groups conducted in 2007); Jennifer Tescher, Center for Financial Services Innovation (data from LMRI); and Ben Keys, University of Michigan Department of Economics (based on surveys of low- and moderate-income households in the Detroit area).

[3] Information in this paragraph and the one that follows is from a presentation at the meeting by Jill Sturm of EARN and comments by Eric Rodriguez of NCLR.

underwriting. Lower-income consumers (who may have no credit history, thin credit files or low credit scores) can have difficulty accessing insurance and often pay more for it when they do.

Industry Innovations

Compared with the banking and credit industries, there has been less innovation in the insurance sector around serving underbanked consumers. While a few companies are looking for ways to do more, the industry tends to be cautious and both regulatory and operational issues inhibit experimentation. Product innovation can be difficult and slow because companies need approval from 50 different states to launch new products. Furthermore, insurance is traditionally marketed and sold by independent agents, making it hard for a company to approach new markets.

CFSI has identified four strategies being tested by industry to reach underserved groups:

- *Alternatives to the agent distribution model*. These include investing in affiliated agents, recruiting more agents in urban areas, marketing directly to consumers and offering insurance through retail locations, such as check-cashing outlets or grocery stores.
- *Increased marketing to underserved groups*. This includes sponsoring local events and partnering with community organizations for education, marketing and referrals.
- *Bundling or cross-selling financial services and insurance*. This includes adding insurance features to other transactions or cross-selling financial services at key opportunities.
- *Creating new products*. This includes streamlined policy features, such as a bare-bones homeowners policy without liability coverage that low-income households may not need. Products that combine asset-building and insurance features seem especially promising.

Three insurance companies who spoke at the meeting demonstrate distinct approaches to reaching underserved consumers. Combined Insurance serves a large number of low- and moderate-income customers with a range of insurance products. This is a by-product of the types of policies they provide and the markets they traditionally serve. Aegon Direct has not served many lower-income consumers in the past, but is actively seeking out new opportunities to do so. They have had success with efforts that sell insurance directly to consumers through partnerships with retailers, such as a pilot in which life insurance was coupled with international remittances. Finally, MassMutual Financial Group has created a free life insurance policy as a philanthropic effort. The product is delivered through agents and partnerships with community-based non-profits. Take-up has been slow, however, and the company is looking for ways to expand its outreach.

Issues and Opportunities

This section draws from the discussion at the meeting to frame some broad questions around insurance and asset-building for the underbanked. There are more questions than answers at this point, but the ideas and insights from the meeting help bring some clarity to the issue.

Who is our target group and what are their needs?

There are actually two target groups, each with slightly different needs. The first group includes those who are uninsured or underinsured and need basic information and guidance. The second group includes consumers who may already have some insurance but need help to evaluate their needs and choose options that support long-term asset building and protection. Stepping back, the critical question for individuals and families is: "what would happen if … (you lost your job, you got sick, there was a flood, etc.)?" Consumers need a ready answer, but formal insurance products might be only part of that answer. It is important to remember that not everyone needs insurance, and not every type of insurance is right for every consumer.

How can we encourage more innovation in the private insurance industry?
One way is by continuing to share experiences and ideas. While there are legitimate barriers to innovation, there is likely more flexibility and opportunity than the industry currently uses. There may also be ways to help ease regulatory barriers, through policy change or identifying more promising avenues that may already exist (for example, some states may be more regulatory "friendly" or may be leaders that other states follow). Finally, expanding the Community Reinvestment Act to include insurance could have a transformative impact on the sector, spurring innovation and outreach.

What is the role of non-profits in assisting consumers with insurance needs?
Non-profit organizations have a potential role in education, access, marketing and advocacy – both alone and in partnership with the private sector. As with other important purchases, trust is an important factor for low-income consumers when they look for information about insurance, and this is an area where non-profits are strong. On the other hand, focus groups suggest that people do not think of non-profits as a place to get information about insurance. This can make marketing difficult, especially if there is not a direct tie to other services, such as homeownership assistance. Given the role of credit scores in insurance underwriting, there may be opportunities to connect insurance with the work many non-profit organizations do around credit repair.

What are the opportunities and challenges for partnership?
One promising strategy for addressing the insurance needs of lower-income consumers is through partnerships between insurance companies and non-profit organizations. Partnerships currently exist primarily in financial education and homeownership programs, though there are also a growing number of partnerships around marketing insurance. There is strong interest on both sides in expanding partnerships and exploring new ways to partner. Yet there are also challenges to partnership. Non-profits are often skeptical of the motives and messages of the for-profit world, and are reluctant to be seen as endorsing a specific company or product. From the insurance companies' perspective, non-profits are often hard to work with because many are understaffed and have competing programmatic objectives.

What is the policy advocacy agenda on this issue?
There are a number of policy options that might expand access to insurance for underserved households. Among those being considered by the industry and advocates is replacing the current 50-state regulatory structure with Federal oversight. This might simplify the process and make it easier to try new things and get to scale. Other ideas include extending the Community Reinvestment Act, as described above. Advocacy might also focus on limiting the use of credit scores in determining insurance risk and cost, or identifying alternative data sources and new ways of underwriting that are actuarially sound but give a fuller picture of credit and risk.

Where Do We Go From Here?

The discussion, summarized above, helps map the landscape of insurance and asset-building for the underbanked, and sets the stage for next steps in this work. To guide those steps, meeting participants identified specific questions for further research and experimentation, outlined below. While the list is long and far-ranging, we hope that it will inspire more concentrated and coordinated focus on this critical area for the community development field. Some groups are already doing so and we look forward to hearing their findings and sharing them with the field.

- *Research on the underinsured*. Who is underinsured and why? What are the relationships between insurance, assets and debt? What kinds of circumstances do people most need insurance for, and how do those needs change as people move along a path toward greater financial security? What are the primary reasons for underinsurance by lower-income consumers? Are there a few key products or features to focus on? What is the "right" level of insurance for this group?
- *Research on marketing*. What groups are the primary target markets for insurance expansion? What are the most effective distribution channels for reaching the underinsured? What insurance products and features are most attractive and useful to underbanked consumers, and what bundling and cross-marketing combinations make most sense? What are effective messages for both consumers and community-based practitioners about why insurance is important?
- *Research on industry innovation*. What is the business case for investing in this market and figuring out how to serve it? What streamlined operational models or technological innovations might more cost-effectively serve smaller-value accounts? Given the current regulatory environment, what strategies can facilitate innovation and experimentation? What states are most open to innovation or leaders that other states will follow?
- *Research on policy*. What is the relationship between credit data and insurance risk, and what alternative data might give companies the information they need while opening more opportunities for consumers? What other regulatory and policy issues can support or hinder innovations that might expand insurance access? What are the issues, pros and cons of federal regulatory oversight and expanding the CRA?
- *Experimentation in products*. Are there ways to retool existing products to make them friendlier to lower-income consumers? What additional retail transactions might be good places to bundle insurance? Are there opportunities for combining insurance and savings products in a way that promotes asset building? Are there new products that could address the smaller-dollar-value crises that are common for lower-income consumers?
- *Experimentation in non-profit programs*. As more programs look to financial coaching as an asset-building model, what are the best ways to integrate insurance issues? What ways can programs build in more follow-up assistance to reevaluate insurance needs over time? Are there other places to add insurance to the asset-building mix? Do reliable sources of information exist which non-profits can use to educate their clients about insurance? Are there ways for foundations to encourage and reward private innovation, such as through recognition awards or program-related investments?

Conclusion

Insurance is a critical piece of families' financial portfolios. Yet lower-income families, who arguably are most at-risk from loss, are far less likely to be insured. Furthermore, the relationship between insurance and asset-building may be more powerful and complex than was previously understood. Research suggests that low rates of insurance have less to do with lack of demand than with lack of information and access. The meeting documented here represents the beginning of a conversation around proposed solutions. Moving forward, we hope that the insurance industry and the non-profit community will continue to work together to explore these and other ideas to expand insurance coverage and support asset-building among underbanked consumers.

FEDERAL RESERVE BANK OF CHICAGO | CFSI Center for Financial Services Innovation An Affiliate of ShoreBank Corporation | The Annie E. Casey Foundation

List of Participants

NAME	TITLE	AFFILIATION
Janis Bowdler	Associate Director, Wealth-Building Policy Project	National Council of La Raza
John Bradley	Vice President and Director of Product Management	Combined Insurance
Amy Brown	Consultant	Aspen Institute
Moira Carlstedt	President	Indianapolis Neighborhood Housing Partnership
Mary Donoghue	Housing Counselor	North Side Community Federal Credit Union
Bridget Gainer	Director of Government Affairs	Aon Corporation
Chris Gorman	Project Manager	Center for Economic Progress
Joe Huntzinger	Vice President, Mortgage Lending	Indianapolis Neighborhood Housing Partnership
Tom Kazar	Vice President of Sales	Aegon Direct
Benjamin Keys	Researcher	University of Michigan
Genevieve Melford	Program Manager in Applied Research and Innovation	CFED
Robin Newberger	Business Economist	Federal Reserve Bank of Chicago
Suzanne Reade	President	SReade Inc.
Eric Rodriguez	Deputy Vice President, Office of Research, Advocacy and Legislation	National Council of La Raza
Patricia Sullivan	Financial Professional	MassMutual Financial Group
Timothy J. Sullivan	Senior Associate	Pearre & Associates, Ltd.
Cindie St. George	Director of LifeBridge	LifeBridge / Mass Mutual
Ellen Seidman	Director, Financial Services and Education Project, Asset Building Program; and Executive Vice President	New America Foundation National Program and Partnership Development, ShoreBank Corporation
Irene Skricki	Program Manager for Assets and Savings	Annie E Casey Foundation
Jill Sturm	Asset Services Director	EARN
Lee Sutton	Program Associate, Innovation, Evaluation, and Public Policy	Neighborhood Housing Services of Chicago
Jennifer Tescher	Director	Center for Financial Services Innovation
Shane Wolf	Regional Vice President	Aegon Direct
Beadsie Woo	Senior Fellow	Annie E Casey Foundation