Property Casualty 360

Catering Insurance Products for House Poor, Contents Rich Millennials

Gaining Revenue from New Property Insurance Options and Practices

BY **JON MCNEILL**
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The Millennial generation, or those that came of age in the 2000s, presents a unique challenge to today's employers, especially those in the insurance industry—namely, how to adapt traditional product strategies aimed at homeowners to the needs of a population following a non-traditional path into the housing market.

The average member of this growing segment—one that typically drove the growth in the homeowners' insurance market in years past—is now graduating from college carrying a much heavier debt load than his or her parents ever did, in the form of an average of $23,000 in student loan debt. Today's higher costs of financing a college education will not likely abate any time soon.

According to *Bloomberg*, U.S. debt from college loans has reached $1 trillion, surpassing consumer credit card debt for the first time while sparking heated debate on Capitol Hill. Consequently, home ownership for this generation will be significantly delayed. So exactly what does this mean for selling homeowners' insurance bundles?

Even graduates who are landing good paying jobs are finding it difficult to buy their first home. Rather than being able to save the $20 to $30,000 for a down payment on a house, Millennials between the ages of 23 to 35 are still paying down substantial college debt. Assuming they're also apt to carry significant credit card debt, one can begin to envision a new reality that must be addressed by the insurance industry.

Expansive Personal Property

While this generation may not be in a position to jump into the housing market for years to come, they have managed to accumulate a large amount of personal wealth in the form of household contents. Items such as large flat screen HDTVs, gaming consoles, multiple computers, carbon fiber sports equipment, designer apparel, jewelry and luxury items—while not equating to the value of a new home—all add to significant investment in personal property.

Based on processing $2 billion in property claims data annually, our internal data set indicates Millennials have, on average, accumulated approximately $65,000 worth of consumer items within 10 years of graduating. A typical renter's insurance policy doesn't meet the needs of this demographic. This evolving market segment, while challenging, also provides carriers with an opportunity to devise innovative products that support these new ownership trends, while building customer loyalty.

A Slow Ride from Auto to Home

It is a well-understood process: Carriers sell entry-level indemnity products such as auto insurance, then migrate the customer into a renter's policy. As these young consumers mature and build assets, carriers look to transition these customers to homeowners' insurance. In this way, insurers develop a persistent, profitable, long-term relationship for products addressing all aspects of the consumer lifecycle.

The difference from how this business plan progressed in the past, though, is in the length of time it now takes for this overall process to unfold.

Since the majority of Millennials will most likely not be able to afford buying a house until well into their 30s, insurers are looking at a much different earnings curve than has historically been the case. At the same time, carriers don't have the income they traditionally relied on during the boom stock market years. In turn, this creates a need for new products, not to mention enhanced visibility into opportunities.

Product Adaptability Is Key

The old $250 per year renter's policy is a starting point; however, Millennials are willing to pay for (and coincidentally need) more coverage. Successful insurers are creating ways to bridge the current product gap and understand that although many Millennials may be in debt, they are definitely considerably "richer" in contents than ever before.

It should be noted that Millennials are not the only ones who are being impacted by current economic realities. In fact, hundreds of thousands of long-time homeowners have abruptly become renters over the past five years as a result of the mortgage crisis. The foreclosure trend is affecting insurers along with an ongoing wave of underwater mortgages and short sales. Many families have been forced to downsize from substantially larger homes to condos and apartments. Their contents are more reflective of their former lifestyle than the demographic of a $250-per-year renter's policy. Therefore, P&C insurers must recalibrate how they price renters' policies for this new segment as well.

Enhancing Underwriting Practices

Knowing how to accurately create such products requires pricing tools that tell insurers at what rate a person is accumulating assets, and what their valuation is. Insurers need to determine the right-sized coverage so that they can begin to offer the appropriate amount at the outset and continue to provide appropriate products at different milestones in the insured's life.

That's a tough task without a real estate value on which to base the contents estimate. Analytical products are emerging that offer useful estimates about the necessary contents coverage for a specific insured household and the property. Predictive analytics and other big data applications can determine these customer assessments by combing through years of claims data to gain insight on consumer profiles based on marital status, age, zip codes and other data points.

Clearly establishing the right limits and pricing is critical for carriers in order to increase profitability on personal property coverage. New insights about how to price this risk correctly represent a significant innovation in the underwriting process. *Informed* pricing assures faster, more accurate settlements when claims arise but are critical in setting expectations and building customer satisfaction.

Though too often neglected, homeowners' policies are still a key to generating industry revenue, but getting customers to these products calls for more adaptive creativity than in the past. As Forrester analyst Ellen Carney notes in her recent *Trends 2013* report, 'after decades of segmentation based on attitudes and averages, insurers are now equipped with the business intelligence needed to look at just how customers behave.'

Designing products that reflect these changes and build customer retention that lasts until the insured is ready for his or her first homeowners' policy is vital. P&C carriers that fully grasp this will be able to capture revenue from a rapidly growing segment in property insurance.

Jon McNeill is CEO of Enservio, a provider of software and services to property insurers since 2004.