Conning — Demographic Changes & Personal Lines

Conning has a new study on the nation's demographics and how changes in those demographics are changing the face of personal lines insurance sales. The study is done every year and is titled ***Personal Lines Consumer Markets Annual***.

It starts with the premise that the U.S. will add another 100-million people — giving us a population of 400-million — somewhere close to 2050. That's 33% more people than were in the U.S. when we hit 300-million in 2006. While that seems like a lot, Conning notes that it's the slowest growth rate since World War II.

Fewer people — so to speak — will push down exposure and the growth of the value of the property of insureds. Conning's report said, "An expanding population has fueled growth in exposure units in both personal auto and homeowners, but longer-term planning will need to reflect slower growth. All other things being equal, slower population growth is expected to slow demand, which will, in turn, exert downward pressure on asset values — personal property and vehicle."

In other words a shrinking pie will heat up the competition.

Conning's report goes on to say that all of U.S. society will change along with the changing demographics. Here are some predicted changes:

An older population: It's called the Baby Boom population budge. In other words there are more older people than younger. As a result demand for housing and autos will shrink. Maybe. And it's maybe a big maybe. Medicine is radically changed and continues to change. Seniors today eat better and more nutritionally. They're likely to live longer.

Living longer means they'll work longer. Some will work longer because they're going to live longer and don't have enough retirement savings. Whatever the reason, seniors working more mean more miles will be driven. That poses insurance problems. Those over 75 have a greater risk of a crash than those under the age. In fact, they're riskier drivers than any group except the very young.

There is good news for insurers in this scenario. The size of the senior personal lines market in 2013 hit $43 billion. It might not shrink that much in the near future.

Socio-economic changes: Sociologically everything is changing. Seriously changing. Conning's report says home ownership and in what the traditional household looks like is radically changing and will continue its radical changes as time marches on.

“Because the household has been the cornerstone of personal-insurance marketing and product design for generations, these changes will be of increasing importance for personal-lines insurers,” the report notes.

A declining income for the average person and long-term unemployment are hitting the personal lines market hard and with it consumer expectations. While some of that may be short term, it does reflect on the traditional American dream. “For many, the American dream of homeownership has slipped away, with clear implications for exposure growth in the homeowners line.”

Since we may see fewer homes purchased and an altering of the American dream and the traditional “home” Conning says there will be more renters and more demand for insurance for those renters. But that may be a negative. Conning adds that renters have much less demand for personal property insurance than homeowners.

“Of the estimated 115 million occupied housing units in the U.S., 35% are renter-occupied, but renters policies make up only an estimated 15% of total personal-property policies,” Conning said.

Personal auto isn’t far behind in fading demand. Fewer people owning homes usually means fewer people owning personal vehicles. Other changes:

- More grandparents as primary caregiver to grandchildren.
- More divorces.
- More single parents.
- More remarriages.

Geographic changes: Population is growing most in the West and the South. It’s barely growing in the Northeast and the Midwest. “The differing growth rates and the emergence of high-growth and slow-growth states will present insures with very different marketing opportunities on a state-by-state basis. Insurers with a regional focus in the Northeast and Midwest states will be particularly challenged,” the study said.

Racial and ethnic diversity: Conning notes that the U.S. is seeing more immigrants and they have a higher fertility rate than Caucasian Americans. This will develop “an increasingly diverse consumer base, with differences that will be important for marketing and product development.”

How serious a change? Huge. Minority groups accounted for 87% of the nation’s population growth from 2000 to 2010 says the U.S. Census Bureau. Projections say Hispanics will be the majority-minority by 2042.

The bottom-line of Conning's study is these demographic changes are going to impact every single aspect of U.S. society. And soon.

"The value of this information lies in understanding how these different groups behave as customs. The increasing diversity will bring with it different financial needs, channel preferences and attitudes toward insurance," the study said.

As an example of change Conning notes that Hispanic youth makes up the highest proportion of the youth in the nation. That means insurers must understand their importance.

- Right now the personal auto market for Hispanics is between $18 billion and $21 billion.
- The homeowners insurance market potential is estimated to be $6.4 billion.
- By 2020 both markets could jump to a total of $41 billion.

Insurers need to be ready to roll before the demographic changes become more apparent. "As insurers implement new customer touch points, they will notice that different types of transactions will develop preferences for one channel over the other — be it agency, web, mobile application or social media," Conning said.