

LIFE INSURANCE AND THE BUYER

by Anna Maria Rappaport

At the meeting of the Actuaries Club of New York on Oct. 5, there were two panel discussions; one on Consumerism and one on the Interest Adjusted Cost Method.

At those discussions, I heard a great deal about providing the consumer the means to make an intelligent choice. When intelligent choice is mentioned, it is often assumed to mean the ability to make meaningful price comparisons. Price comparisons are but a small part of the problem. Solving the price comparison problem does not make intelligent choice possible; substantial and difficult problems which are far more important must be solved first. If we assume that a better cost method is the solution to providing the consumer a way to make an intelligent choice, then we missed the major issues.

In this article, I will express some thoughts on the concept of intelligent choice and try to clarify the position of the buyer who wishes to make an intelligent choice with respect to various types of purchase decisions. The life insurance buyer has a very difficult time making an intelligent choice. The product is complex and confusing. The following factors must be considered in the rational selection of life insurance:

(1) Amount of coverage needed.

(2) Understanding of the basic workings of various products, and a rational evaluation of death benefit and savings priorities.

(3) Choice between various types of products.

(4) Choice between companies—based on different product features, cost and service.

(5) Choice between agents.

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The purchaser may be unable to make a rational choice for the following reasons.

Selection of a suitable amount of insurance is a part of long-term financial planning for contingencies. It is difficult for most people to do such planning.

The individual buyer does not really understand the use of the product, and has not defined the need which the insurance will meet. (The business insurance buyer is usually in a much better position because the need has been well defined and quantified). He does not understand what the various different products are, and how they can serve to meet

differing needs. Until the buyer understands how the product works, attempts to compare price are essentially meaningless. Further, meaningful price comparisons are difficult to make, and the knowledge and information to make them are usually not available to the consumer.

Intelligent choice is possible only for those buyers who wish to make a rational choice, and who are willing to make the effort required to develop the necessary information. It is one of the functions of the consumer movement to exert pressure so information will be made available to analyze a purchase with a reasonable amount of effort. In my opinion, there are a number of conditions which must be present in order for the buyer to be able to choose rationally:

(1) The buyer must understand the use of the product to him. It is only possible to evaluate a product in terms of the use to be made of it. An individual buying an automobile must be able to understand the use he intends to make of it, or he will be unable to choose between a sport car, a stationwagon, or a sedan. The individual buying insurance must have clear priorities in terms of death benefits at various points in time, retirement needs, etc. Until needs are well defined, it is impossible to determine whether or not they have been met.

(2) Adequate usable information must be available about the product. This information may be provided either by an outside agency, or by the seller directly. However, information provided by the seller will normally be available only because economic or other pressure has forced the seller to provide it. This information includes disclosure of price, features, and all relevant data needed to compare the product with other products which might fill the same need.

(3) The buyer must feel that the purchase is of sufficient importance for him to be willing to make the effort to investigate. He must also recognize that differences exist in the product provided by various sellers and he must feel that it is possible for him to develop the information he needs.

Where does the buyer's information come from? The most direct and simple source of information is the buyer's own experience. This is probably very helpful when choosing clothing or when mak-

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ing any type of purchase which is repeated relatively frequently. It is not very useful in making a large purchase of a type not made very often. Experience is also very useful to the specialist who is selecting on behalf of a business or other organization.

Other information comes from published sources; for example: *Consumer Reports*, or published lists in trade journals of all comparable equipment of a certain type on the market. This information is useful to the purchaser able to determine independently what he wants, and wishing to evaluate competing products on the market.

A third source of information is the seller. Such information is normally presented to promote the sale. A purchaser looking at a product about which he is knowledgeable will know what to ask for, and also will know how to interpret the information. A purchaser not knowledgeable will be influenced by the information, but it may not help him to make an intelligent choice.

An additional source of information often used by business and other organizations is the paid consultant. It has no relevance for the individual consumer.

What is the impact of the distribution system on the buyer and his ability to make an intelligent choice? The buyer has the best choice when he seeks out the seller, and when there are a number of retailers selling like products. In this situation, the need is established prior to contact with the seller, perhaps by the buyer's own life style or that of his neighbors, or by advertising. However, if the buyer is to make an intelligent choice, he probably will need either sufficient experience, or data from a third party source. Information provided by the seller will probably be of limited use, because this buyer has little economic power, and economic power is what forces the seller to provide more data.

The buyer also seeks out the seller when he is looking for professional or consultant services. The individual, in choosing, however, probably has little basis for comparison, and must rely on references. The provider of the service is the expert, and it is extremely difficult to choose intelligently whenever professional services are sought.

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