April 2024

Insurance Against Financial Shocks

The Next Frontier of Financial Inclusion

FINANCIAL SECURITY PROGRAM
aspen institute

AUTHORS

Katherine Lucas McKay and Sohrab Kohli authored this report.

ACKNOWLEDGMENTS

The authors thank our Aspen FSP colleagues who participated in the community of workplace insurance innovators or provided assistance, feedback, and support in developing this brief, especially Karen Biddle Andres, Steven Brown, Sheida Elmi, Ramiro Garcia, Shehryar Nabi, Julia Rocchi, Noha Shaikh, and Tim Shaw.

Aspen FSP is grateful to the participants in the community of workplace insurance innovators for sharing their experience, expertise, and insights with us and each other. Special thanks to Jamie Kalamarides for his review and helpful comments on a draft of this brief.

The Aspen Institute Financial Security Program thanks Guardian, The Hartford, and Prudential Financial for their generous support of this brief. The findings, interpretations, and conclusions expressed in this brief—as well as any errors—are Aspen FSP's alone and do not necessarily represent the views of its funders or other participants in and advisors on this work.

ABOUT THE ASPEN INSTITUTE FINANCIAL SECURITY PROGRAM

The Aspen Institute Financial Security Program's (Aspen FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. Aspen FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans. To learn more, visit AspenFSP.org, join our mailing list at http://bit.ly/fspnewsletter, and follow @AspenFSP on X and LinkedIn as The Aspen Institute Financial Security Program.

Introduction

The majority of households in the United States (60 percent) experience at least one financial shock (an unexpected change in a household's expenses or income) annually, with 32 percent reporting that they experienced two or more shocks in the past year.[1] The cost of shocks varied, but the median cost of a household's most expensive shock was $2,000.[2] The financial inclusion field has mostly focused on the important goal of helping people build up liquidity to weather shocks—but that is only one tool in the toolbox. Risk-pooling strategies, offered for centuries by insurance providers of different kinds, are essential in helping Americans weather shocks that are too expensive to self-insure against.[3]

That is why we at the Aspen Institute Financial Security Program (Aspen FSP) convened a community of workplace insurance innovators—a group of leaders from major insurance companies, the debt management field, academic and policy experts, and startups—to discuss innovative insurance products that can provide stability to people when they experience financial shocks.[4] Participants were focused on the risks of the future—including those related to climate and hazardous weather, caring for family members, and digital technologies. We also identified opportunities for millions more Americans to access, use, and benefit from insurance coverage of financial shocks. Through four meetings held between July and October 2023, we explored the possibilities for insurance to help Americans maintain financial stability when they encounter life events that create financial shocks; we examined participants' experiences developing and distributing insurance products designed to support people's financial resilience; and we assessed opportunities to build connections between the insurance industry and the financial inclusion field. This brief shares the top insights from those conversations and some exciting opportunities for future action. Short, illustrative quotes from those conversations are featured throughout this brief.

INSIGHT 1

People Struggle to Effectively Protect Themselves From Common Financial Shocks

Less than half of all households in the United States (45 percent) have the amount of liquid savings needed to cope with financial shocks.[5] Many are also un- or under-insured against common financial shocks, such as a loss or reduction of labor income, an event that requires receiving or providing care, or simply a sudden large expense.[6] Many insurance products that are designed to support financial resilience are distributed through workplace platforms, but they are not fully reaching those who face the highest risks of experiencing financial instability:

- 57 percent of U.S. workers have life insurance through their workplace;[7]
- 40 percent of workers have access to short-term disability insurance;[8]
- 35 percent of workers have access to long-term disability insurance (including just 10 percent of the lowest wage workers);[9] and
- 23 percent of workers have access to paid family leave.[10]

Instead, people tend to cope with large financial shocks as they happen. When they do not have sufficient liquid savings, people take on debt, draw down retirement savings,[11] and defer care—strategies that further undermine long-term financial security and often lead to downstream costs.[12]

Most people do not independently seek out and purchase existing products such as life insurance and disability insurance. That is why group coverage strategies that connect people to risk-pooling products and services through trusted intermediaries—traditionally workplaces—are effective. Although take-up rates are one of the most important factors determining whether a benefit meets workers' needs, the rates for many essential benefits remain relatively low[13] unless workers are automatically enrolled. In employer-distributed retirement accounts, where automatic enrollment policies have become common, about twice as many people take up those benefits when enrollment is automatic.[14]

Participants identified the need for more innovation to scale access to and take-up of insurance products for financial shocks. They hope to enable automatic enrollment into insurance products that are distributed through employers, given the impact that has had on workers' retirement savings. Other innovations of interest included AI-supported personalized guidance available not only when the consumer is benefit shopping, but also when they are considering whether to make claims or renew policies. They also raised the potential for group-based strategies that are not focused on employers, but rather members of associations and unions, or even the possibility of reaching consumers through retailers or other financial institutions, like credit unions.

> ***"Insurance needs to be sold, unless it's offered through an employer, leveraging employer trust. The fundamental issue is that most consumers can't anticipate a benefit to avoid future risk. They can't look into the future and estimate what that risk actually is. They're dealing in the present."***
>
> ***— From a Community of Workplace Insurance Innovator Participant***

INSIGHT 2

The Future Holds Even Greater—and Different—Risks for Workers and Insurers

Participants in the community of workplace insurance innovators are preparing for the challenges of the future. Most people will face greater levels of risk in the coming decades due to factors like climate change impacts, technological change, rising costs of housing and healthcare, labor market shifts, and even increasing human longevity.

People will need new tools to ensure they can maintain financial stability in the face of a riskier future. For example, storms and other types of extreme weather are becoming more frequent and destructive—and more likely to cause significant interruptions in income and increases in expenses. In the aftermath of a major weather event, time is of the essence; people cannot wait weeks or months to receive federal and state aid when they do not have other means of meeting their immediate needs. How can workers prepare for that? How can insurers implement real-time responses? Innovators are drawing lessons from the financial inclusion field, such as focusing on quick cash transfers that ensure people can cover expenses like temporary shelter, food, transportation, and care.[15]

Another risk that is likely to become more commonplace is cybercrime, as so much of our sensitive information is online and vulnerable to attacks that can be costly to victims. While there are some consumer tools for enhanced privacy and protection, they typically do not insure against the financial costs of most types of cybercrime (with the exception of identity theft insurance). Here, products developed for businesses, such as ransomware insurance, may have increasing relevance for consumers.

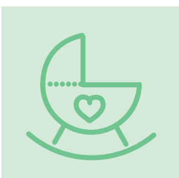
> *"One thing that will become more impactful will be what's covered by cyber insurance, not just identity theft but also the loss of assets. As the world moves more and more digitally, the risk of loss around things that are digital is likely to grow. That's a very emerging market."*
>
> *— From a Community of Workplace Insurance Innovator Participant*

Participants noted several other future risks they must contend with, particularly related to the rising costs of healthcare, dependent care, and housing; more tenuous connections between workers and employers; and even the trend toward older adults living longer.

INSIGHT 3

Innovators Are Thinking Differently About How to Expand Access to Products That Insure Against Financial Shocks

Leaders in insurance are innovating along five key parameters to improve how insurance supports people's stability and resilience in the face of financial shocks:



Insurable events: Several participants were focused on increasing the number of people who own insurance policies that offset the financial costs of insurable events, such as funerals or the birth and adoption of children. Short-term disability insurance and funeral insurance exist—the challenges include both expanding access and increasing policy ownership rates.

Simplified language: Participants discussed how many insurance products have complicated names—like accidental death and dismemberment or hospital indemnity— which some consumers do not recognize or immediately understand. Industry leaders are reducing jargon and modernizing language to better convey the purpose and value of products.[16] Even when regulations require specific terminology, innovative providers are finding compliant ways to describe products in simpler terms during enrollment and in product collateral.

Product design: Participants were focused on innovative product design, particularly related to products covering extreme weather events, such as parametric insurance products that provide a cash payout as soon as certain conditions are met. They see a need for tools that help people navigate purchasing decisions and gain confidence that their insurance products will actually work for them when needed. They emphasized the importance of automaticity, drawing a parallel to the role that auto-enrollment policies have had in increasing retirement account ownership. There was also interest among the group for follow-on discussions to explore opportunities to bundle insurance and savings products to better help consumers mitigate financial shocks.

> *"Borrowing from the retirement [industry], use defaults. And if you can't use defaults, use choice architecture to provide a best guess of what the best alternative is … Help me avoid making a bad decision."*
>
> *— From a Community of Workplace Insurance Innovator Participant*

Distribution channels: The employer-distributed group coverage model will continue to be the largest channel, so some participants were using new technology to expand access to and purchase of insurance against financial shocks within that system. There was consensus about the need for a wider variety of distribution strategies, especially direct-to-consumer, in order to reach the millions of Americans who do not have a full-time traditional employment arrangement. Participants pointed out that the U.S. market needs more products specifically designed to meet lower-income people's needs. Some noted that public-private partnerships may also be critical to close coverage gaps.

Group classifications: Participants' interest in offering products that insure against financial shocks through groups other than employers was partly in response to changing labor markets. It is also a promising strategy to reach working people who lack access to insurance products through the workplace, such as the self-employed. At least one participant had already partnered with a Community Development Financial Institution (CDFI) to reach small and micro business owners.

INSIGHT 4

Partnerships Can Ensure That Financially Insecure People May Access, Own, Use, and Benefit From These Insurance Products at Scale

Insurers, employers, leaders in the financial inclusion field, and policymakers all have interests and expertise in serving households and workers who lack financial security. The insurance sector and the financial inclusion field have opportunities to collaborate on products and distribution strategies that can reach and appeal to workers and families who face the highest risks of experiencing financial instability in the face of a shock. Expanding access to products that insure against financial shocks is only the first step—as success depends on people purchasing insurance policies, actively submitting claims when they experience insured events, and actually benefiting financially from the policies they purchase. Participants noted that consumers need confidence that they will benefit from their insurance when they need it rather than fearing or assuming their claims will be denied. Building trust with potential customers may require different approaches to helping people make claims than insurers typically pursue.

> *"A good claims experience reinforces good trust and good brand for both the employer and the insurance provider."*
>
> *— From a Community of Workplace Insurance Innovator Participant*

Policy and regulator engagement are also essential to scaling up effective solutions. Participants in the community of workplace insurance innovators noted that this is somewhat challenging because of the state-by-state regulatory landscape of the insurance industry, but it remained a priority. They also identified issues like climate change, data privacy, and cybercrime as beyond the capacity of any single state or corporation to address at the necessary scale. Likewise, product innovation for low-income consumers may be stymied by the lack of regulatory frameworks for microinsurance products (lower-cost, small-dollar policies). Participants saw microinsurance solutions as critical to closing insurance gaps and promoting holistic financial inclusion.

> *"Regulators need to contemplate a different framework for microinsurance—small-dollar, low-cost products—where, by definition, the complexity and the risks for the consumer are significantly lower. [There should be] more flexibility around how these products get regulated and where they can be sold."*
>
> *— From a Community of Workplace Insurance Innovator Participant*

A major theme of the community's conversations was cooperation as talks focused on the interest in, benefits of, and opportunities for partnership and collaboration between leaders in the insurance industry, the financial inclusion field, and government. Participants in the community of workplace insurance innovators expressed the desire to learn from financial inclusion experts about consumers' perspectives as they weigh risks, consider how to prepare for them, shop for products, and make decisions about insurance. Group members were also interested in getting a better understanding of the frequency of different financial shocks and how the costs and effects of those shocks vary with and without insurance coverage.

Aspen FSP will continue to build connections between leaders in the insurance industry and the financial inclusion field through our Benefits 21 and Inclusive Financial System initiatives. We are exploring opportunities to convene leaders, establish new partnerships, and investigate critical questions related to the nature, frequency, and costs of financial shocks and the ways households can mitigate those risks. We invite you to stay connected and to join us in this work.

Endnotes

1 The Pew Charitable Trusts. "The Role of Emergency Savings in Family Financial Security: How Do Families Cope with Financial Shocks?" October 2015. https://www.pewtrusts.org/~/media/assets/2015/10/emergency-savings-report-1_artfinal.pdf?la=en%20.

2 Ibid.

3 Wallace, Mack, and Kate Griffin. "The State of Inclusion in the U.S. Financial System: Benchmarking Progress, Gaps, and Disparities." The Aspen Institute, October 30, 2023. https://www.aspeninstitute.org/publications/the-state-of-the-u-s-inclusive-financial-system-benchmarking-progress-gaps-and-disparities/.

4 Ibid.

5 McKay, Katherine Lucas, and Shehyrar Nabi. "The New Wealth Agenda: A Blueprint for Building a Future of Inclusive Wealth." The Aspen Institute, May 26, 2023. https://www.aspeninstitute.org/publications/the-new-wealth-agenda-a-blueprint-for-building-a-future-of-inclusive-wealth/.

6 Ewas, Jason, and Tim Shaw. "Weathering the Storms: Modernizing the U.S. Benefits System to Support Households Financial Resilience." The Aspen Institute, January 4, 2023. https://www.aspeninstitute.org/publications/weathering-the-storms-modernizing-the-u-s-benefits-system-to-support-household-financial-resilience/.

7 LIMRA. "Facts About Life 2021." 2022. https://www.limra.com/siteassets/newsroom/fact-tank/fact-sheets/wpb-facts-about-life-2021-flyer.pdf.

8 KFF. "Paid Leave in the U.S." December 17, 2021. https://www.kff.org/womens-health-policy/fact-sheet/paid-leave-in-u-s/.

9 U.S. Bureau of Labor Statistics. "National Compensation Survey: Employee Benefits in the United States, March 2021." Accessed February 2024. https://www.bls.gov/ncs/ebs/benefits/2021/employee-benefits-inthe-united-states-march-2021.pdf.

10 KFF, "Paid Leave in the U.S." December 2021.

11 Treger, Stan, and Steve Wendel. "The COVID-19 Pandemic, Retirement Savings, and the Financial Security of American Households." Morningstar, April 2021. https://www.morningstar.com/lp/finances-during-covid.

12 Ewas and Shaw, "Weathering the Storms," January 2023.

13 Aspen Institute. "2022 Benefits Scorecard: Assessing the Performance of Public and Private Benefits in Supporting Worker Financial Security." July 2022. https://www.aspeninstitute.org/publications/2022-benefits-scorecard/.

14 Orszag, Peter. "Behavioral Economics: Lessons from Retirement Research for Health Care and Beyond." Congressional Budget Office, August 2008. https://www.cbo.gov/publication/41727.

15 Elmi, Sheida, Bianca Lopez, and Shehryar Nabi. "A Gathering Storm: Why the Growth in Climate Hazards Matters for Financial Security." The Aspen Institute, March 4, 2024. https://www.aspeninstitute.org/publications/a-gathering-storm-why-the-growth-in-climate-hazards-matters-for-household-financial-security/.

16 Bennett, Jonathan. "One Fix for Financial Wellness: Modernizing Insurance Benefits Language." *Human Resource Executive*, January 9, 2024. https://hrexecutive.com/one-fix-for-financial-wellness-modernizing-insurance-benefits-language/.

www.aspenfsp.org