Millennial Consumers and the Insurance Industry

By Matthew Lawlor and Meghan Alpert

Verisk Insurance Solutions

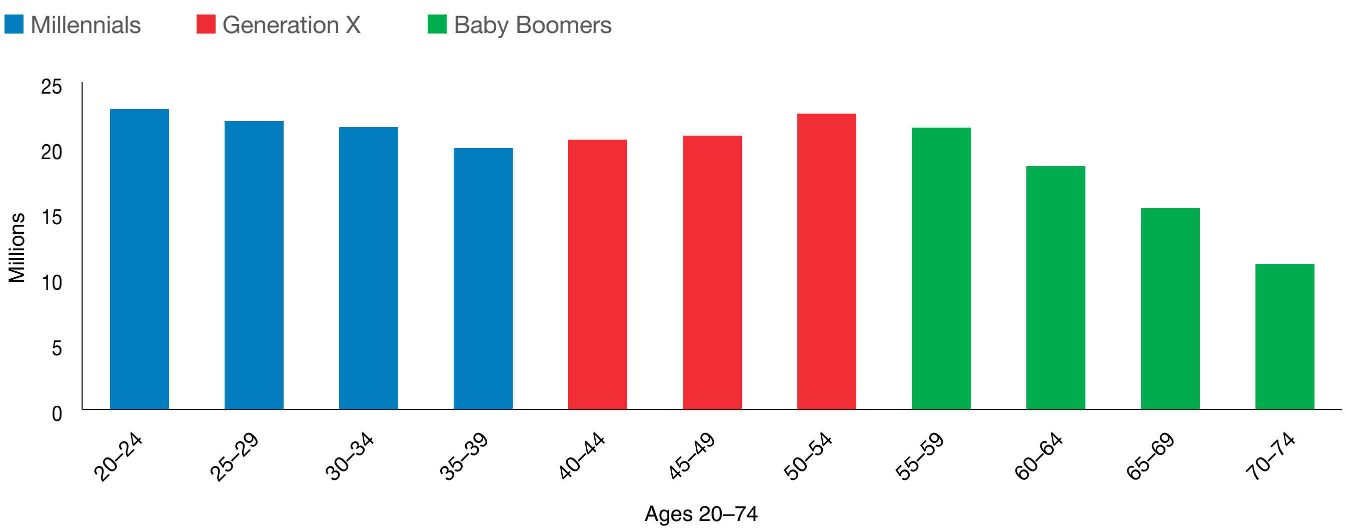
Introduction: Millennials

The generation commonly known as millennials, or Generation Y, is coming of age in the United States and potentially creating new challenges and opportunities for the insurance industry. Millennials are generally 20 to 35 years old and make up nearly 40 percent of the U.S. population.[1] In contrast, their parents (the baby boomers) currently constitute roughly one-third of the U.S. population.[2]

Unlike their parents, millennials have typically elected a lifestyle that includes postponing many significant life decisions, such as marriage, having children, and purchasing a home.[3] They're generally characterized as being highly educated compared with other generations, tech savvy, enjoy alternative methods of travel, and are moving to urban areas in record numbers. They also typically face significant challenges in the job market and record levels of debt from student loans.

This white paper will explore various aspects of millennial lifestyles, including some evolving purchasing habits and the potential effects millennials may have on insurance. We'll also discuss some of the ways to address the needs of the millennial generation in the context of personal auto and homeowners insurance.

Population of the United States



U.S. Census Bureau, 2014 Population Estimates

The Millennial Lifestyle and the Sharing Economy

The millennial lifestyle is driven largely by the experience of growing up during one of the most dramatic boom/bust cycles in American history.[4] The rise and fall of the dot.com bubble, followed by the rise and fall of the economy in general (attributed by many to the housing market crash), instilled in many millennials a rational fear of excess and spending beyond one's means.[5] One of the perceived effects of such events for millennials has been a significant personal investment in education but diminished investment in debt-inducing material goods such as cars and homes.[6]

The student loan debt seems to be at odds with the generation's frugality; however, this debt is not necessarily entirely negative. It can be perceived as "good debt" because it provides value—much like an investment such as a real estate or business loan. It's also possible that the burden of repayment has made frugality necessary for economic survival.

> According to one study conducted from 2007 to 2011, millennial car purchases declined 30 percent.

In some cases, millennials are initially returning to their parents' homes or moving to cities, depending on their individual economic needs and goals. The mass migration to urban centers by many millennials has created the opportunity for these young workers to replace owning or leasing cars with other forms of transportation, such as ridesharing. According to one study conducted from 2007 to 2011, millennial car purchases declined 30 percent.[7] This may be the temporary result of the adverse effects of the economic recession. At the same time, ridesharing has continued to grow, with an estimated 11 million or more people in the United States currently participating in ridesharing.[8]

Migration to urban areas and home sharing are trends increasingly associated with millennials. These trends may in turn potentially disrupt the traditional hotel industry because the migration has also enabled many millennials to rent or home-share their residences (mostly to travelers) while they're away engaging in another popular millennial pastime, travel. Home-sharing services, including Airbnb, Couch Surfing, and HomeAway, allow millennials to move away from the traditional hotel guest experience and feel more "at home," integrated into the community and immersed in the cultural lifestyle of the location they're visiting.

These services may also appeal to millennials seeking to save money or, alternatively, earn additional income by renting out their residences through such home-sharing arrangements. As a guest, home sharing can potentially be a less expensive and more flexible option than staying in a hotel while traveling. As a host, renting out either a room or the entire house or apartment can result in a lucrative profit. The cost to rent through home-sharing services can range from under a hundred to several thousand dollars, depending on the length of stay, location, amenities, and so forth.

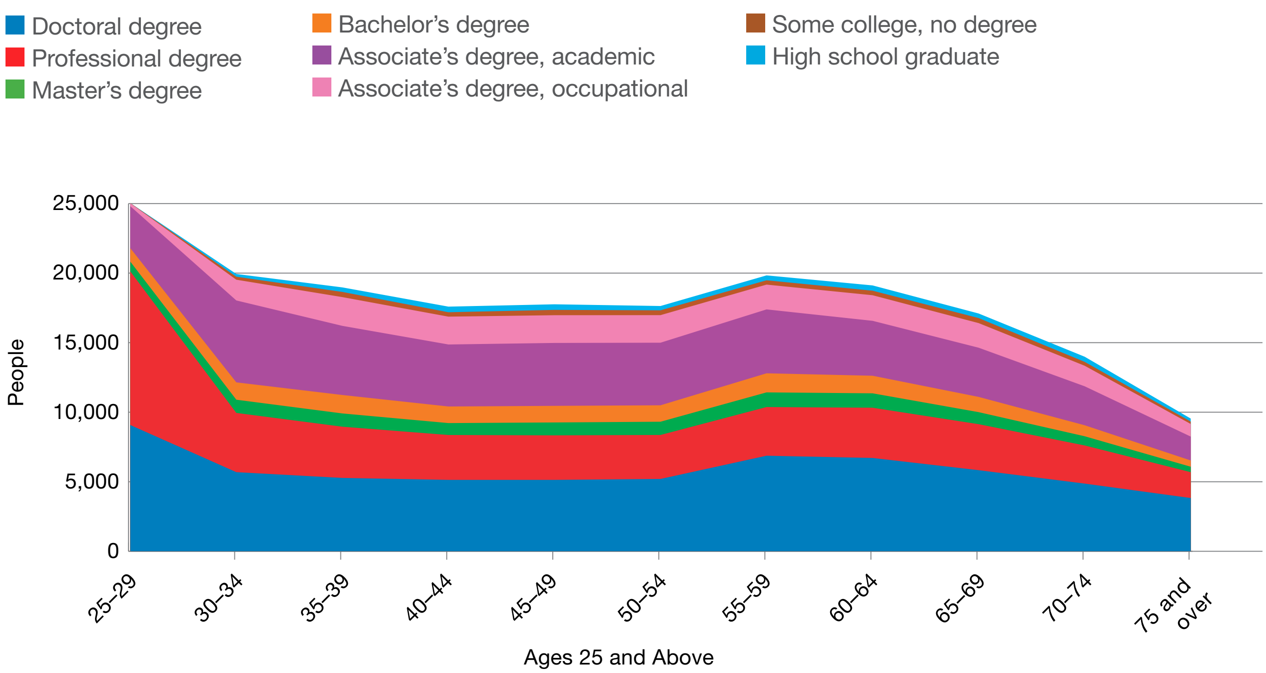
With more than 2 million listings available for rent worldwide through at least one home-sharing service provider, this trend will likely affect many markets, from travel to insurance.[9] Even though home-sharing companies generally provide protection for property and liability exposures related to home sharing, the risks and exposures for renting out your home or staying in someone else's residence through such home-sharing services could potentially affect the homeowners insurance market.[10]

One of the factors driving these shifting trends toward sharing is that millennials are generally comfortable using web-based apps and sites to share rides and homes.[11]

Education

Millennials' overall response to the most significant economic downturn since the Great Depression has been to invest heavily in their education.[12] Millennials have achieved higher levels of education compared with any other generation in U.S. history.[13] In 2013, 47 percent of 25-to-34-year-olds received a postsecondary degree (associate, bachelor's, or graduate degree), and an additional 18 percent had completed some postsecondary education.[14] These rates are significantly higher than those reported for previous generations.[15] According to U.S. Census data, less than a third of baby boomers (28.8 percent) have college degrees. Roughly the same number (28.9 percent) have some college education.[16] The significant investment in education by millennials has also had the negative consequence of considerable student debt, totaling $1.2 trillion nationally as of 2014.[17]

Education Levels by Age in the United States



U.S. Census: Educational Attainment in the United States: 2015

Boomerang Kids

Millennials are not all the same and sometimes exhibit different economic goals and strategies. One example is millennials who move to the cities (city dwellers) versus those who move back with their families (boomerang kids). City dwellers move into urban areas citing reasons that range from being closer to friends, maximizing their earnings at high-paying city jobs, and reducing some of their transportation costs.[18] Boomerang kids typically move back with their parents (most likely in the suburbs) after completing postsecondary education until they've saved enough money to move out and buy or rent a place of their own.

The boomerang kids constitute a significant portion of the millennial generation. The rate of 18-to-34-year-olds living at home increased from 28 to 31 percent between 2000 and 2010. Forty-three percent of young millennial men and 36 percent of young millennial women were living at home as of 2014.[19] The percentage of those age 18 to 34 who are heads of households has also dropped from 76 to 67 percent from 2009 to 2015.[20]

Average student debt in 2012 was $29,000.

Various factors may account for boomerang kids moving back home with their parents, including inability to find jobs in a recovering U.S. labor market. However, a more significant factor may be student debt, which in 2012 was reportedly greater than the average median wage. (Average student debt in 2012 was $29,000, and median wage in the United States is $26,000.[21])

Still, the "boomerang" phenomenon may not last. In fact, it's possible that this group is simply waiting until they can join their fellow millennials in the city. A 2014 research survey by Nielsen found that 62 percent of millennials prefer to live in cities.[22]

Renting in Cities

According to research from the White House Counsel of Economic Advisors, 73 percent of 25-to-34-year-olds with a college education lived in large or midsized cities in 2011, compared with 67 percent in 1980.[23] Renting is also becoming the new norm. The growth rate of U.S. citizens renting in the United States increased 600 percent between 2005 and 2010.[24] In contrast, first-time home buyer numbers are weak—33 percent of the housing market and the lowest level since 2002.[25]

Experts say that millennials are renting in cities rather than buying suburban homes because it gives them greater career flexibility in terms of physical mobility.[26] Another reason mentioned is that millennials have witnessed the collapse of the real estate market; as a result, many may not perceive purchasing a home as an effective long-term investment.

The Demographics of Renters

U.S. homeownership rates have returned to 64 percent from a peak of 69 percent in 2004, a significant decline from the housing bubble in the early 2000s.[27] In 2014, there were 1.7 million fewer households owning homes than during the housing bubble. Many of the 64 percent that own homes are baby boomers, who as previously indicated, account for 76 million of the U.S. population.[28] Baby boomers are at their peak of home owning, which, due in part to the considerable size of this age group, could be a false indicator that the U.S. housing market is recovering. However, while people age 65 and older have enjoyed stable or increasing homeownership, every other age group has declined in homeownership since 2004.[29] These macro-level changes in the housing industry are affecting the composition of who rents in the United States. As a result, the 2010s may see the greatest growth of renters in U.S. history.[30]

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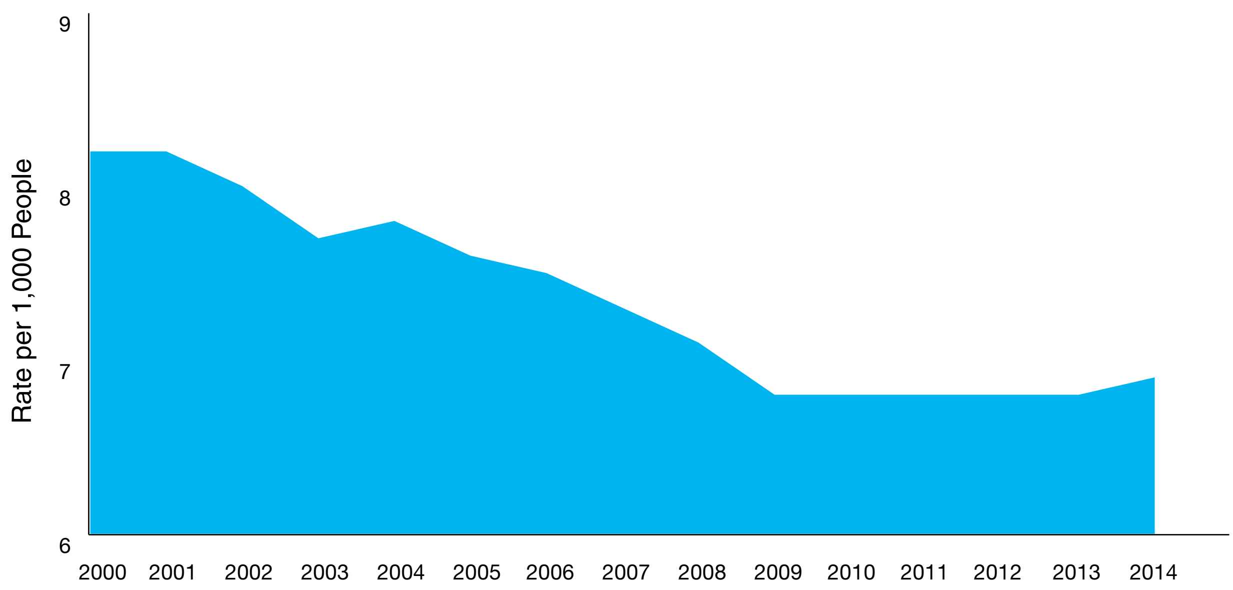
The demographics of the average person who rents is evolving. Renters are no longer unmarried young workers, but people of a wide variety of ages. Renters now include young working couples, including married couples and young families, many of whom are millennials.[31] Although builders are responding to this change by increasing construction on multifamily dwellings, they haven't been able to keep up with demand in many geographic locations. Another emerging issue in relation to trends in renting is that a significant amount of new construction is considered luxury apartments and targets a certain demographic. Those construction projects may not be addressing the overall demand in the rental market.

Marriages in the United States

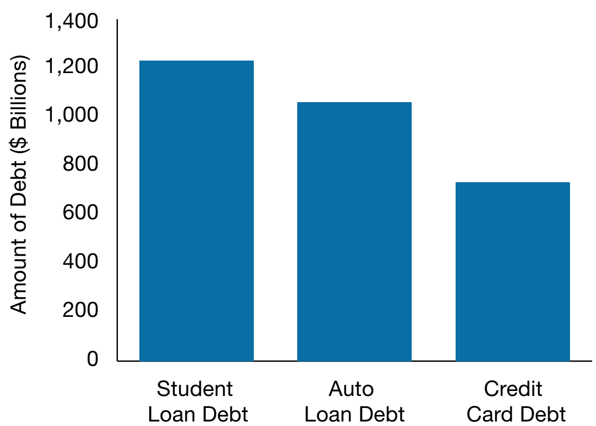


CDC/NCHS National Vital Statistics System

Earning Potential and Savvy Shopping

Because millennials have invested so much in their education, their projected earning potential should grow significantly.[32] However, research also suggests that weak labor market conditions at the time millennials entered the work force may have lasting effects on their future earnings and create huge wage losses over the course of decades.[33] Either way, they'll eventually earn more than they do now and will likely be able to purchase expensive items in the course of their lifetime. And they may want those purchases insured against damage. In addition, the perceived benefits of higher-level education may include a greater ease in millennials' gauging their potential exposures and appreciating the benefits of certain insurance products.[34]

Debt in the United States



Federal Reserve Bank of New York: Household Debt and Credit Report

Tech Savvy

Millennials are widely accepted as having strong technological abilities and backgrounds.[35] One reason may be an advanced education, which potentially gives them a "technological edge." Another contributing factor is that, as children, they witnessed the personal computer revolution of the late 1990s and early 2000s. During that time, they were able to experiment with the new technology and adapt to it more quickly than older generations.

As millennials become more technologically advanced, their expectations of quality are affected. They see the rapid delivery of goods and services as standard practice. They also tend to expect high quality and performance from their purchases. Failure to meet their expectations can have serious consequences for businesses, with social media and peer review websites such as Yelp providing a powerful tool to broadcast grievances.[36]

Travel

The millennial lifestyle is also affecting the travel industry. Not only do millennials demand speedy online booking processes, they also expect efficient accommodations. For example, they prefer checking into flights and hotels using a smartphone and free Wi-Fi. To determine which accommodations are best for them, millennials often look to their peers for "expert" opinions. The average millennial checks 10.2 sources before booking a trip,[37] including real-time social media websites or peer review applications such as Yelp and TripAdvisor.

Millennials also reportedly want a sociable travel experience, which includes traveling with others (whether or not they have previously met each other) and feeling culturally immersed in the location to which they travel. Fifty-eight percent of millennials prefer to travel with friends,[38] which is about 20 percent higher than older generations.

To meet this demand, hotels and other organizations have developed "socialization" services to connect individuals having similar interests who want to travel together or socialize. For example, one hotel created "the social lobby" to draw fellow guests to meet and gather in the lobby area, advertising that this makes their guests' stay more enjoyable.[39]

Another industry that has emerged, partially in response to the millennial demand to be sociable and culturally immersed, is home sharing. Home sharing generally refers to services that connect guests looking for rentals with homeowners or renters seeking to rent out their homes, spare rooms in their homes, or apartments for compensation.

Personal Property Valued by Millennials

A recent report providing insight on lifestyle choices, brands, and types of property that are important to millennials notes that millennials generally want high-quality products but also want bargain prices.[40] Millennials have a complicated relationship with brands,[41] and in particular, they appear to be demanding more variety from their brands. Exclusivity and expensive price tags are less appreciated than uniqueness, customer service quality, and genuine personality.[42] According to one article, "[I]it's not just homes: Millennials have been reluctant to buy items such as cars, music and luxury goods. Instead, they're turning to a new set of services that provide access to products without the burdens of ownership, giving rise to what's being called a 'sharing economy.'"[43] Millennials are typically also avoiding expensive purchases, at least for the foreseeable future.[44]

In addition, millennials are increasingly turning to social media as the most accessible means of connection. Mobile electronic equipment, such as tablets and smartphones, that can provide real-time access to every social media platform imaginable is highly valued by millennials, but large, expensive televisions may not be.[45] The report also indicates that sporting equipment is very important.
A reported preference of millennials to purchase sporting equipment may be partially tied to health being an essential value for millennials.[46] They're exercising daily, eating better, smoking less, and often using applications to track their health behaviors. Sporting equipment aligns with this value and, interestingly, is one of the only areas they're willing to splurge on expensive brands.[47]

Future of Insurance

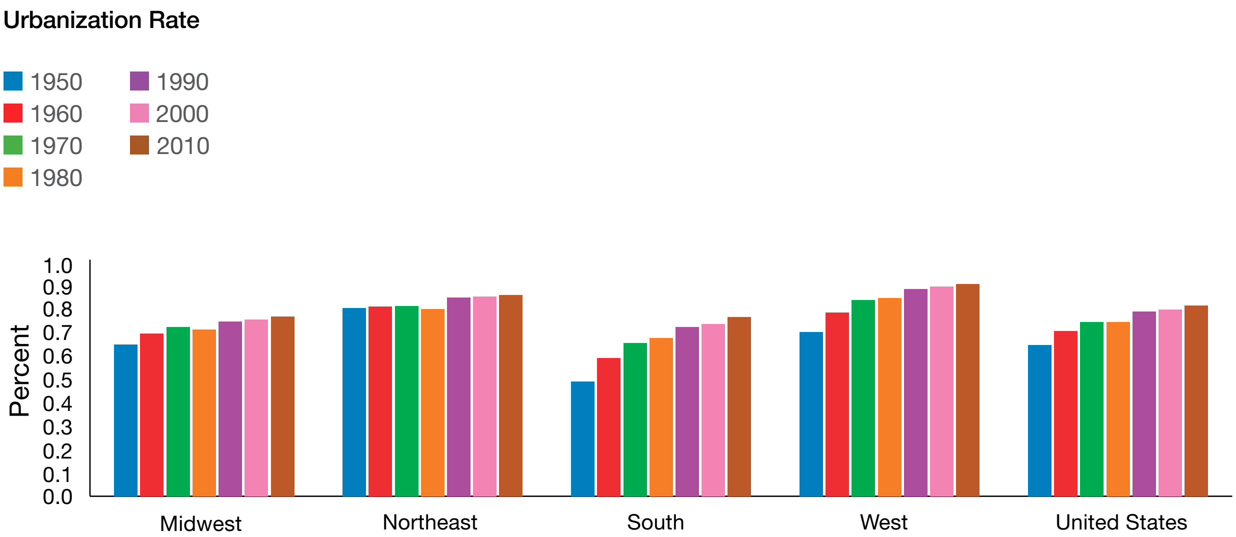
Millennials are increasingly making decisions that, due in part to the size of their age group, will likely have lasting effects on property/casualty insurance. The fact that millennials are not buying homes at the same rates as their parents may affect home-owners insurance significantly. If the trend toward urbanization continues at the projected rate, there may be a significant impact on homeowners insurance.

Yet, the future of this trend is unknown because there are countervailing efforts currently being employed in many parts of the country in an effort to reverse the trend. Suburban towns are reportedly making their areas more appealing to younger adults. Places such as Winrock, New Mexico, Suwanee, Georgia, and Sarasota, Florida, have created walkable downtown spaces that are highly favorable among millennials.[48] It's too early to know the results of those efforts. Given the current trend of a rising renting population, there may be a growing need in the insurance marketplace for renter-centric insurance products.

Another major change that may affect the insurance industry is the home-sharing and ridesharing phenomena. There are early signs that some insurance carriers are developing products to meet the new niche demand for both home-sharing and ridesharing-related insurance.[49]

Urbanization Trends in the United States

The urban population as a percentage of the total population by U.S. region (1950–2010)



United States Summary: 2010 (PDF). 2010 Census of Population and Housing, Population and Housing Unit Counts

ISO has also developed a number of tools and resources to help insurers address the sharing economy; information can be found at online ISO resource centers for ridesharing (www. iso.com/ ridesharing) and home sharing (www.iso.com/homesharing). As the demand for these products grows, ISO's staff will continue to be actively engaged in monitoring such needs and developing tools and program enhancements in response to the demand.

The insurance industry may also discover that maintaining the customer loyalty of millennials is a challenge. Millennials have a perceived reputation (earned or not) that they're not bound to traditional models of customer loyalty.[50] Regardless of whether this perception is true, their loyalty as consumers is about to become an important consideration for the insurance industry. Millennials may gravitate toward companies that allow for the most efficient insurance shopping process.

As millennials develop as workers and earn more, it's likely they'll require more insurance products. Only the most responsive companies will be able to capitalize on this new demand for insurance products. Now more than ever, the companies that aggressively challenge the status quo and adapt their quote delivery process to the evolving needs of the marketplace—which now includes millennials—may reap a considerable reward.

Conclusion

Some economists believe that the unique lifestyle of millennials is only temporary, and milestones such as getting married, buying homes and cars, and migrating from cities to suburbs are simply delayed. In fact, evidence suggests that this group is already beginning to experience some of the life events that they've postponed. Millennials purchased more cars than Generation X in 2014,[51] but research suggests that they are still not expected to buy as many cars as the baby boomers.[52] Reports also suggest that home buying may be on the rise for this generation and, according to the March 2016 report from the National Association of Realtors, they're increasingly purchasing homes in suburban locations.[53] Nevertheless, at the current rate, the growth of renting, ridesharing, and home sharing shaped by the distinct needs of millennials and, possibly, future generations will have significant impact on the current landscape of auto and homeowners insurance and may change how these products are marketed, both now and in the future.

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For more information about this report, please contact:

Matthew Lawlor
Marketing Analyst
Verisk Insurance Solutions – Underwriting
MLawlor@verisk.com
201-469-3182

Meghan Alpert
Product Development Lead
Verisk Insurance Solutions – ISO
Meghan.Alpert@verisk.com
201-469-2714

Michael Gannon
Marketing Director
Verisk Insurance Solutions – Underwriting
MGannon@verisk.com
608-233-1670

Kevin Poll
Director of Product Development
Verisk Insurance Solutions – ISO
Kevin.Poll@verisk.com
201-469-2015

Verisk Insurance Solutions™

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