

Protecting a Niche Market

Session 97: Panel Discussion

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Moderator: Tom Bakos, FSA
Presenters: Gerry Danielson
Dick Dutton, FSA



Introduction

- What is a “niche”?
 - Specialized market
 - A suitable place to be:
 - position or activity that particularly suits talents or expertise
 - can claim ownership
 - a business environment that allows survival
 - A recess or hollow in a rock formation



Outline

- Two Stories
 - Gerry Danielson, CLU, ChFC, CSA
Director – Marketing, United Home Life Insurance Company
 - Richard C. Dutton, FSA, VP & Actuary,
Mass Marketing Insurance Group
- Protecting the Niche



Gerry Danielson, CLU, ChFC, CSA

Director – Marketing
United Home Life Insurance Company



BACK HOME IN INDIANA

- Agents love dealing with a small, friendly company – they love personal treatment!
- That's been Indiana Farm Bureau's culture since 1935; and our 500 captive agents love us



GROWTH CHALLENGES

- **HOWEVER**, confinement to a single state presents significant growth challenges
- Indiana Farm Bureau offers variety of coverages to select, homogenous group
- Farm Bureau Membership is required in order to buy our P&C coverages
- Philosophy: "We're the only agent you'll ever need!"

RESPONSE TO GROWTH CHALLENGE

- Acquisition – purchased UHL in 1997
- Gained block of 16,000 policyholders
- UHL already licensed in 26 states!
- They had the beginnings of a *Simplified Issue product portfolio*



CAPITALIZED ON UHL ASSETS

- Expanded *simplified issue* portfolio – added *simplified issue term*
- Renovated Final Expense portfolio
- Synchronized term and whole life app
- Added more states (total of 42 states)
- Developed new philosophy: *simple, fast and easy! Narrow range of products – large and varied distribution outlets*



NOTE PHILOSOPHY DIFFERENCES:



- Wide range of products – narrow distribution outlet
- Narrow range of products – wide distribution outlet

NEXT BIG STEP... FIND A PARTNER

- 2002: developed business relationship with national IMO
- Set production goals for compensation
- managing the relationship involves:
 - Maintaining efficiency (simple, fast, easy)
 - Providing exceptional service
 - new products and enhancements
 - Monitoring agent quality

RESULTS?

	Annual Premium	Agents Recruited
2002	\$672,000	247
2003	\$1,878,000	1,328
2004	\$4,600,000	3,000+

PROTECTING UHL'S GAIN

- Never lose sight of the philosophy:
Simple, fast, easy
- Never lose the feeling of the *small, friendly company with personalized service*
- Maintain contact with the IMO principals
- Always be looking for product innovations
- Continue to grow, but not at the expense of agent quality and quality of business

Richard C. Dutton, FSA

VP & Actuary

Mass Marketing Insurance Group



Background of Mass Marketing Insurance Group (MMI)

- Located in Wayne, PA, just outside of Phila.
- Formed in 1984 to provide direct marketing services to insurance companies
- Created concept of bonus marketing to credit card files in 1988
 - Initial period of coverage paid for by sponsor
 - Automated billing method
 - Telemarketing was primary marketing channel



MMI's Background cont'd

- Relationship with JCPenney Life from 1988-1999
 - Marketed bonus accident products to JC Penney customers
 - Expanded to other third parties in 1991
 - Generated over \$5 billion in collected premium



MMI Background cont'd

- Created new program with Guarantee Reserve Life in 2000
 - Developed Sign and Drive which is an accident product which covers motor vehicle accidents
- Moved program to AIG in 2002
 - Marketing various accident products to third party clients
 - Generated over \$100 million in collected premium



Changes to Program Over Time

- Product Enhancements/New Products
 - Increase benefit amounts
 - Products usually include a \$1 million benefit with low expected incidence
 - Add new benefits
 - Excess Major Medical, Family Leave, Monthly Catastrophic Disability
- Marketing Innovations
 - Multiple products on one sale
 - Incentive offers
 - Retention techniques

MMI's Niche

- Marketing products with an initial review period through direct marketing to customers of sponsoring organizations with automated billing capabilities

What do we need to protect?

- Marketing concepts
- Products
- Clients
- Market
- Our Position in the Market



How MMI Protects Its Niche

- Marketing Concepts
 - We have not patented any of our methods
 - Rely on ongoing innovation to maintain position
 - Focused on outperforming the competition
- Products
 - We have not patented any of our products
 - Protected our position with insurance company partners with various exclusivity arrangements



How MMI Protects Its Niche cont'd

- **Clients**
 - Focus on customer service
 - Innovative compensation structures
 - Focused on outperforming the competition
- **Market**
 - Monitor industry and regulatory changes
 - Involvement with appropriate industry issues
 - Respond to changes quickly and creatively
 - Privacy changes, Telemarketing rule changes



How MMI Protects Its Niche cont'd

- **Our Position in the Market**
 - Performance
 - Attention to Detail
 - Daily analysis of marketing results
 - Immediate access to detailed marketing results
 - On site monitoring of telemarketing vendors
 - Fostered competition among vendors
 - Relentless Protection of Our Position



Advantages of a Small Company

- Focus
- Flexibility
- Specialized Expertise
- No bureaucracy



Final Thoughts

- While business was being built - focus was on creating our niche, not protecting our niche
- Our efforts to grow and maintain business, while not looked at from that perspective, are all about protecting our niche
- Patenting might have added value or made it more difficult for competitors



Tom Bakos, FSA

Consulting Actuary
Tom Bakos Consulting, Inc.



Protecting the Niche

- Natural selection
 - Too small for bigger guys
 - Specialized skills required
 - leadership role → one with market
 - sole focus → innovation which shapes market
 - proprietary systems → barriers to entry
- Intellectual Property Protection
 - Trademarks
 - Copyrights
 - Patent innovative business methods



Patent Protection

- A patent allows an inventor to protect the investment in an innovative insurance process.
 - The inventor has the right to exclude others from making, using, or selling the invention for a limited period of time.
 - Of course, the inventor also has the right to license the invention for a fee (royalty)
- The process may enable an insurance product
 - Therefore, indirectly, protect the product



What Can be Patented ?

Typically, in the insurance industry invention falls into the *process* category of patentable subject matter.

- A business method is a process
- A patent can be issued for any “business method” that is new, useful, and not obvious.
- Generally (in the U.S.), the “business method” must involve a “technological art”



Recognizing Innovation

Often innovation is overlooked by the inventor because it comes so naturally - with little effort - or seems so obvious.

Ask yourself:

- did I find a solution an important problem?
- is it new?
- is it valuable?
- are we about to invest a lot of money developing the idea?
- do I care if my competitors know?



Patents Add Cost

A patent will add to the cost burden of product development.

- direct filing costs
- additional people costs
 - patent application
 - prior art search
- enforcement costs (patent infringement)



Benefits of a Patent

The innovators or inventors can use a patent to protect the value of the intellectual property they create.

- builds a true barrier to entry
- protects the value of developmental cost investment
 - by granting exclusive use → competitive advantage
 - allows recovery through royalties
- prestige



Insurance Business Method Patents (705/4) Issued by year

2001 – 2005*	101
1996 – 2000	101
1991 – 1995	18
1986 – 1990	12
1981 – 1985	1
1976 – 1980	0
1790 – 1975	1
TOTAL	234

* Issued as of 9/27/05

Insurance Business
Method Patents **applied**
for 2001 – 2005 = **581**



Questions?

- Evaluating your niche?
- Expanding beyond your niche?
- Room for others?
- Is your niche too big?

