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PANEL DISCUSSION

MARKETING TRENDS—SMALLER COMPANIES

I. *Mass Marketing*

A. What is the nature of the impact on smaller companies of the growing number of persons insured under the following: group plans, policies sold by direct mail, credit card, and newspaper-advertised coverages? How can a smaller company participate in this trend? Effectively counter it?

B. What underwriting, regulatory, product-design, and marketing questions arise in the various types of mass marketing of health insurance? Of life insurance?

C. To what extent are mass-marketing insurers using the services of advertising agencies and other independent marketing experts?

MR. JOHN S. THOMPSON, JR.: In recent years we have seen increasing interest in the so-called mass marketing of life insurance and health insurance, and it is of interest to inquire whether this is really something new or merely a new version of something that we have had all along.

When "mass marketing" is mentioned, one's first thought is of the traditional forms of group insurance. We should, however, exclude from our consideration this afternoon the type of group insurance purchased by an employer for his employees in which practically all eligible persons participate, largely because of subsidy of the program by the employer, and the "guaranteed issue" of group underwriting applies. This is the original form of mass marketing, and it is still its principal form. This kind of mass marketing, however, has been one of our principal classes of business for more than fifty years and is not a part of our discussion today. Instead, we will direct our attention to the newer forms of business that have been so much discussed in recent months.

In this discussion we shall be concerned generally with the classes of business that can be considered under the general category of "group insurance," but excluding the traditional forms of employer-employee groups. We shall also consider business that is sold by mail, policies offered to holders of specified credit cards, or policies offered through newspaper advertisements. To a certain extent, these classes of business are not mutually exclusive. Much of the association group business is sold by mail, for instance. We will direct our attention, however, primarily to the so-called association types of group life and health business.

Our first question implies that a smaller company must act one way or the other in the face of the trend toward mass marketing. The question carries the suggestion that the company must either engage in this class of business or find some way to counter it. This is not necessarily the case. Many companies would be amply justified in not attempting to participate in the new forms of selling, and yet they are not necessarily a threat to the older marketing methods by means of personal selling. It is not necessary for a company to counter the new methods except by strengthening its own selling methods.

Developing any of the new forms of marketing requires a capital investment like that required to introduce any new line of business. Some companies might well prefer to invest available funds in their regular marketing system rather than attempt to enter into a completely new field. Let us consider the problems that are encountered by a company that has just decided to enter one or more of the new mass-marketing areas.

Probably one of the first questions that will be encountered will be that of product design. If we are considering insurance offered to credit-card holders and paid for as part of the regular charges made by the credit card, a basic requirement is that underwriting be on the simplest possible basis, with the result that the coverages offered in this way are simply accidental death and dismemberment benefits. In the case of coverages offered through newspaper advertisements, again insurance is typically offered without any underwriting selection by the company. Consequently, newspaper policies typically are limited to accident plans.

Let us consider, then, the specialized group insurance plans offered to professional associations and other types of groups that do not fall within the typical employer-employee definition. Theoretically, all forms of life and health insurance could be offered to these groups. As a practical matter, however, most product development for these markets has been limited to term life insurance and disability insurance, and it is of interest to consider why this has been the case. In the first place, in comparison with the sale of term insurance, the savings feature of permanent insurance is difficult to sell by mail. Then, too, the growing interest in mutual funds and other equity investments has resulted in more emphasis on term insurance than on permanent insurance.

In the case of health insurance, medical expense coverage involves too many underwriting problems to be suitable for mass marketing. By underwriting problems we refer not to the problem in selection of risks but to the effect of inflation on the reunderwriting problem. The increase in annual claim costs that comes with currency inflation requires all-too-frequent correction of rates. In the specialized group insurance plans issued to professional associations and other specialty markets, we are looking for stability of claim costs in order to avoid frequent revisions of rates or other reunderwriting changes. The need for stability of claim costs is as great in the specialty mass-marketing lines as it is in individual insurance. Accordingly, there has been a tendency to avoid medical expense coverages and to concentrate on disability insurance, although medical expense plans are not completely unknown in this area.

When we examine coverage and benefits, we find that simplicity is the watchword. For instance, when group term insurance is offered, only a limited number of plans are written—generally no more than two or three—with premiums or benefits, or both, graded by age. The gradation by age is generally accomplished by use of broad age groups. For instance, it is not uncommon to find benefits level to, say, age 60, with a decrease in benefit amount at that age and further decrease at age 65, with coverage expiring at age 70. Premiums might be graded by age on a step-rate basis with increases at five-year intervals, to avoid the risk involved in the use of average premiums over too broad an age group. The decreases in benefit at the older ages make it possible to avoid premium increases that might appear excessive to participants.

Amounts of life insurance are generally not large. For one thing, it is desirable to keep within your company's retention limits and, thereby, to avoid the problems inherent in reinsurance. More importantly, however, amounts of insurance must be consistent with the extent and precision of the underwriting information that is contemplated. For instance, if underwriting is to be entirely on the basis of nonmedical applications with only abbreviated health histories obtained, we would not wish to offer coverage in amounts exceeding $40,000 or $50,000 and probably less than those amounts at the older ages.

In the case of disability insurance, the same objectives with regard to simplicity of benefits and underwriting apply. It is typical to find a minimum of options with respect to plan of insurance, although options with respect to elimination period are sometimes used. Likewise, a typical rating system involves age grouping with premiums increasing on a step-rate basis but remaining level throughout fairly broad age groups.

Concerning the underwriting problem, we find that once again simplicity is the rule. For instance, medical examinations and other special medical requirements are avoided, but nonmedical underwriting information is almost invariably required, at least in the form of simplified nonmedical applications.

"Guaranteed issue" is much discussed, especially among agents and agency men; but, except for such coverages as accidental death and dismemberment or limited accident policies, at least a simplified form of application is almost invariably used. In those few cases where all the underwriting conditions for guaranteed issue exist—such as minimum participation requirements—it is quite likely that the case would fall outside the class of business that in modern terminology is referred to as "mass marketing." We would, in fact, be in the regular group area.

In considering the regulatory problems that arise under the new forms of mass marketing, our first question relates to the form of contract that is to be used in writing this class of business.

In general, it is desirable to write these plans under group contracts where it is feasible to do so. In many states it is possible to write professional associations and other specialized groups under group contracts. It is interesting to note in connection with this point that state laws governing the use of group life contracts are considerably more restrictive than corresponding laws on group health insurance. While group health contracts can be written on specialized groups much more freely than group life and, in fact, are legal in almost every state, there are still many states, a majority, in fact, that are very restrictive on the extent to which group life contracts may be issued to cover professional associations and other specialized groups. There are, however, a number of states in which it is possible to write group contracts for an association life plan and, when feasible, it is generally recommended.

In those states in which the group form of contract may not be used, an individual life policy of the so-called wholesale form or an individual disability policy of the "franchise" type may be used to accomplish essentially the same purpose as that of a group contract. Renewability of the "wholesale" life policy or the "franchise" disability policy is virtually identical to that of the coverage under a group contract. The only differences between the two, in fact, relate to policy-form approval and rate-filing requirements. While virtually all states will accept a "franchise" disability policy, a few states still refuse approval for a "wholesale" life policy. In these states, regular individual policy forms can be used in order to provide coverage on all members of a nation-wide group.

In connection with the question of state regulation of policy-form content, it is worth noting that this is one of the major problems facing the company that proposes to enter the mass-marketing field. The many differences between the treatment of group life and group health insurance contracts, the tremendous variations from state to state, and the many illogical restrictions on the uses of various contract forms all add up to an extremely difficult problem in attempting to design a single program to cover a specialty group involving members who are residents of a large number of states. The lack of uniformity in this regard places an extremely difficult problem in the way of the company that proposes to enter this field. Resolving the many problems that result from this lack of uniformity among the states constitutes a very important area in which the trade associations—LIAA and ALC—could direct their efforts.

The next regulatory area of interest is the various counter-signature requirements and the statutes relating to agents' licensing. These matters are of interest and importance because mail solicitation is frequently such an important element of the specialized mass marketing of life and health insurance.

Illinois and West Virginia require that the agent's signature shall appear on the policy. It is quite likely that the agent's signature on the application will satisfy this requirement. There are several states that require that the policy be placed through a licensed resident agent. There are various ways, of course, in which laws of this type can be satisfied.

In addition to these laws, almost every state requires that commissions shall be paid only to duly licensed persons. This is a necessary adjunct to the antirebate laws, and we cannot really question its soundness. In the light of these restrictions, it is generally desirable to have the plan administrator apply for and obtain a nonresident license wherever such licensing is available to him.

Finally, the reserve requirements of various state laws deserve some mention. So long as premiums are on a step-rate basis, there is no real problem. If premiums for an association disability plan are on a uniform or level basis, we should consider the reserve requirements recently introduced in conjunction with the development of the 1964 Commissioners Disability Table. The legislation that arose from that effort has led to new reserve requirements for franchise and association disability plans where they are on a level-premium basis. There are new requirements that we have not had before this year.

MR. A. DEAN ARGANBRIGHT: I work for a sixty-one-year-old company with assets of approximately $60 million and insurance in force of $340 million. We currently sell individual life and health insurance through the general agency system without having yet used any, what I would call, "mass-marketing techniques."

To answer the question, "What impact have mass-marketing techniques had on our company?" I sent a questionnaire to our top agents and general agents asking them what impact the various mass-marketing techniques had had on their individual life sales and their individual health sales. The conclusion that I reached from reviewing the survey was that, except for group insurance, the other mass-marketing techniques have had almost no impact on our sales force.

About half our field force feels that group life has had quite a serious impact on life sales, whereas 80 per cent felt that group has had a serious impact on individual health insurance sales.

MR. LYLE H. BARNHART: Our company solicited by mail about twenty-five professional associations; as a result, we have insurance with fifteen professional associations in force at this time. This results in about $100,000,000 of insurance in force.

The insurance is underwritten using a short-form nonmedical application containing about twelve questions. Insurance is placed in force when there are applications ranging in number from 150 to 500, depending on the eligible membership.

The first mailing usually attracts applications from about 3 per cent of the membership, and the second mailing attracts applications from about 2 per cent of the membership. This is, of course, not adequate coverage, since 95 per cent of the membership does not respond.

Commissions are 15 per cent of the premiums yearly, or $17\frac{1}{2}$ per cent if the annual premium developed exceeds $50,000.

The plan is usually a term plan, reducing 50 per cent at age 65 and expiring at age 70. The rates are on a five-year step-rate basis.

There may be dividends when there is at least $50,000 of annual premium from any one association. This is based on a formula whereby a mortality fluctuation reserve is held at interest in order to offset abnormal losses.

Continued solicitation of this business is necessary in order to attract new healthy lives, because of the adverse selection which will result at the older and middle ages at the time the rates are increased.

This business has been profitable, since the business is of short duration and is in the select period because of underwriting.

MR. ROBERT H. DREYER: As consulting actuaries we work with numerous new and small company clients—what could be called the the "smallest of the small." During the planning stages of its development, each of these companies analyzed its potential market and the means by which it would attempt to reach that market. Very few of these companies indicated any concern about the present-day approaches to mass marketing, and even fewer considered the possibility of trying such a product. Without exception they felt that their best inroad into the life insurance business was through the use of the traditional face-to-face individual sales approach.

Much of the industry today seems to be splitting into one of two camps, the first claiming that the traditional life insurance salesman will be replaced by an all-round financial planner and the second claiming that he will be replaced by mass marketing. On the basis of the number of new companies entering the individual life field and the tradition built up by the salesmen of the older established companies, it would seem that the traditional life insurance agent will be with us for some years to come. Therefore, a new company struggling to get on its feet need not try to race the giants into the future by spending excessive amounts to experiment with mass-marketing ideas before it is mature enough to handle them.

MR. ALFRED L. BUCKMAN: Our company pioneered in the sale of insurance to credit-card holders more than ten years ago. During these years we have conducted many experiments and have learned what type of advertising is best suited to the varying situations. Two years ago we had occasion to conduct a wide experiment involving fourteen different offerings to card holders of a nation-wide merchandising firm. The literature for half the offerings was prepared by our own staff, and the literature for the other half of the offerings was prepared by an outside advertising agency selected by the merchandiser. The cost of the literature prepared by the advertising agency was much greater than the cost of that prepared by our own staff. In each case, however, our own literature produced better results than identical offerings prepared by the advertising agency.

II. *Manpower*

How can a smaller insurer find field manpower in the face of intense competition for capable salespeople?

MR. A. DEAN ARGANBRIGHT: I would like to hear from someone who has been successful in attracting field people. We have had problems. A couple of years ago I asked Jack Miller of LIAMA, "How do you develop a successful sales force?" He said that there are proved methods of recruiting, selecting, training, and supervising. Companies that follow these proved fundamentals are successful. His advice was to stick to proved fundamentals. Some of the unique advantages which a small company may be able to offer a recruit are the following:

1. A chance to advance to management sooner
2. More personalized service
3. More rapid service
4. Possible higher commissions
5. Greater recognition for accomplishment
6. Greater choice in territory

In addition, you may have some unusual or unique policies which interest prospective agents or, perhaps, some unusual computer services. Perhaps you have more computer capacity than you are using. I believe that we are greatly underutilizing our computers as a sales tool and as a sales management tool. Possibilities in this regard are endless.

MR. JOHN S. THOMPSON, JR.: Competition for capable manpower is indeed intense. In addition, the cost of training new men who have had no experience in life insurance imposes a tremendous strain on any company that elects this method for building up its field force, and for a smaller company the costs involved in training and financing men who are new to the business are prohibitive.

Accordingly, we concentrate on the personal producing general agent who is compensated directly on the basis of his production and results. We do not overlook the desirability of developing career agencies under salaried managers, but we have not, as yet, developed this kind of field operation in a major way.

As to the techniques involved in attracting new agents, this would seem to require simply an appropriate combination of (*a*) a competitive product line, (*b*) good service to policyowners and agents, and (*c*) reasonable compensation.

III. *Product Philosophy*

What considerations determine the following:

A. The number of different contracts to be offered?

B. The frequency of revision of product lines?

C. Sources of new-product ideas?

D. The number of different markets that can be effectively pursued at one time?

E. How to avoid the cost of product failure? Is test marketing feasible for a smaller insurer?

MR. A. DEAN ARGANBRIGHT: Some of the considerations that determine the number of different contracts to be offered follow:

1. Cost of developing the additional contract.
2. Expected increase in sales, profits, or agent's earnings.
3. Ability to attract agents.
4. Markets you are trying to serve.
5. Insurance needs or other financial needs that your company is trying to meet.
6. Tax laws—you may want different contracts for certain tax-sheltered markets.
7. Number of different lines of business that you are in. If you specialize in individual life insurance only, it would seem reasonable that you will have more contracts in that line than you would if you were in half a dozen different lines.
8. Type of agency organization. The more sophisticated your sales people, the more contracts for which they will find a need.

Considerations affecting the frequency of revision of product lines at Wisconsin National Life are these:

1. Competition, either in rates or benefit provisions.
2. Changes in mortality experience, interest, expenses, and the like. Changes prompted by changes in the state laws regarding policy forms. Changes in sales directors.
3. All these factors are weighed against the cost of making the revision. Another factor is the number of old rate manuals that you have in the supply department.

Some of the sources of new-product ideas at Wisconsin National Life have been the creative actuaries, the other home office staff people, agents, and other companies. If you welcome suggestions from your field force, they do a fairly good job of keeping you informed of what your competitors are offering that they need.

Let us look at some factors that determine the number of different markets that can be effectively pursued at one time:

1. Ability of your home office staff.
2. Desires and ability of your field force.
3. Extent to which you are doing a reasonable job of serving the markets that you are now pursuing.

I believe that test marketing is feasible, provided that your primary purpose is not to limit cost. If, rather, you are trying to determine how a particular change might affect your sales force and what effect it might have on the individual agent's earnings, or if you want to determine consumer reaction or to develop your selling techniques, test marketing can be helpful.

Some additional ways to avoid the cost of product failure can be listed:

1. To market another company's product, as is being done by some companies with variable annuities today. This avoids the expense of developing your own product. It also, of course, has its disadvantages.
2. To allow your agents to broker a particular product with other companies.
3. To use some other ready-made product, perhaps not exactly what you want but close to it, that is available at a reasonable cost from some source, such as consultants.

MR. JOHN S. THOMPSON, JR.: The number of different contracts that a smaller company should offer is governed to a large extent by the needs of its field force, considering the various markets in which they operate. There is an obvious limit, however, to the number of different forms that a company can afford to maintain. The need for product flexibility must be compared to the cost of maintaining a large number of forms and the proper balance found between flexibility in the product line and economy of operations.

In this connection, it is important to note that we now have a major new development in our business that makes it possible for us to concentrate much more on flexibility of product line without sacrificing economy. I am referring to the use of electronic data-processing equipment which can be readily adapted to the issue of new business. We have found this to be the case in our company through the adoption of the CFO system of programs and the IBM 360. While the use of the 360 for issue of new business is not a part of the CFO package, mechanical issue can be readily programmed and integrated with the CFO.

The CFO package provides for the calculation of all the cash and nonforfeiture values required for the issue of virtually every form of ordinary policy, and the mechanical issue system on the IBM 360 equipment avoids the necessity of maintaining elaborate and costly policy-issuing techniques. Under this approach, the cost of offering a large number of different plans of insurance depends solely on the cost of maintaining the various printed forms, which is a controllable expense item and is not great in comparison with the expenses involved in the older methods of policy issue.

Frequency of revision of product lines seems to be controlled principally by the need to keep pace with changing conditions. A revision of any product line, however, does not necessarily mean that a company's entire ordinary series must be completely revolutionized. For instance, as interest rates increase and mortality rates decline, it is not essential to recast completely the entire policy series. A revision that involves only a change in ordinary premium rates does not necessarily require any change in policy form or in the expense involved in policy-form filing. A change that goes beyond a change merely in premium rates, however, generally does involve insurance department filing. Here, again, the expenses involved in such filing are an important consideration. Changes that involve complete reprinting and refiling of policy forms should be undertaken as infrequently as possible. At the same time, however, it is important to consider the needs of the field force and the desirability of making certain that they have a modern style of policy form to sell. That is, we cannot completely avoid revision that involves modernization of our forms or insurance department filing.

The sources of new-product ideas are many and varied. One excellent source is the company's own field force; another is what our competition is doing. These two sources are not, however, entirely distinct. When an agent comes in with a good new-product idea, it may be a result not only of his own imaginative thinking but also of his observation of what competition is doing. Consequently, if we listen to the field force, we will probably have a fairly good idea of what the competition is up to. I would like to be able to say also that a further source of new-product ideas is our own imagination. I would question, however, whether there is anything new under the sun; perhaps an important source of ideas would be some of the 1910 and 1920 ratebooks of the companies that were operating in the ordinary market in those eras. Were not such ratebooks the real origin of the joint life contracts that were introduced as something brand new about four years ago?

The number of different markets that can be effectively pursued at one time again brings us back to the question of expense rates and their importance in controlling optimum operations. Our own view at North American is that we should be able to offer all forms of health and life insurance under as many different forms of contract as are appropriate for the classes of business that we write. We recognize, however, that we cannot promote all classes of business at once, simply because to do so would constitute too much of a strain on our capacity. Consequently, our best approach is to select among available opportunities those that appear to give us the greatest future return.

MR. DAVID M. WELSH: I would like to comment briefly on some of these product philosophy questions and their significance within a debit-agency-type company. Agency management can be an abundant source of new-product ideas and of pressure for ratebook revisions, excursions into new market areas, and so forth. This pressure generally follows from the view that sales will be stimulated if the field force is given some new products to sell. While new products are usually sold aggressively following their introduction, this can often have the undesired side effect that sales of other plans decline; the net result on premium income may be negligible. This suggests that it is not the new product itself or the expanded portfolio of contract types which allows the agent to sell more successfully; rather, it is the promotional activity associated with these changes that induces the salesman to higher production or serves to focus his sales activities around a particular product. Ignoring the matter of agent recruiting, for which an extensive product portfolio can be extremely important, I would suggest that active promotion from the home office of existing products can be more critical to marketing success than the number of contract types or product lines to be offered.

MR. ROBERT J. HESS: Smaller companies are missing a good bet by not making greater use of ratebook exchange. Most of us are in much the same boat as far as staff is concerned. Having access to the ratebooks of several other companies allows us to adapt some of their new-product ideas to our own company operations. They also frequently provide a rough, but relatively ready, answer to agency questions concerning the approximate price of a currently popular product. I feel that, if these two points are intelligently coupled with a knowledge of our own company's market, the cost of product failure can be greatly reduced.

MR. ROBERT M. ELDER: We have found that we are able to keep down the number of different contracts that we offer by withdrawing one or more "slow movers" when we introduce a new contract. For example, we are removing a ten-year term policy from our portfolio at the time that we are introducing a five-year renewable and convertible term policy.

In another case we were able to withdraw completely one of our other forms after determining from a computer file analysis that only a very few of our field representatives were selling this type of policy.

One of our objectives has been to keep our portfolio simple, and our field force seems to appreciate this.

IV. *Boosting Marketing Efficiency*

At the 1968 LIAMA meeting for the Agency Management Conference (AMC), smaller insurers were advised to "boost marketing efficiency." What is the relative "cost-benefit" marketing position of smaller insurers? What decisions might boost marketing efficiency?

MR. JOHN S. THOMPSON, JR.: I am in whole-hearted agreement with the objective of increased "marketing efficiency." This is a desirable goal for any company and especially for the smaller companies. By "marketing efficiency" I assume that we mean the objectives of (*a*) minimizing acquisition and other expense for each $1 of annualized premium put on the books, (*b*) improving the quality of the business obtained with due regard to maintenance of reasonable underwriting expense, and (*c*) attaining a reasonable competitive position in the marketplace.

I do not agree, however, with the concept that smaller companies are at a disadvantage in comparison with the larger companies in attaining a good position with respect to marketing efficiency. It is no doubt true that the LIAMA surveys have indicated that smaller companies appear to have higher lapse rates and a lower average-sized policy. Perhaps in other respects the LIAMA surveys suggest that, statistically, the smaller companies are behind the larger companies in quality of business and efficiency of operations. These indices, however, may all be spurious. For instance, there is a high degree of correlation between the smaller companies and the newer companies, and the high lapse rate among smaller companies may be a natural result that is to be expected and may therefore tell us nothing about the real quality of the business.

Every company should be expected to have its own strengths as well as its weaknesses. It is the responsibility of each company, large or small, to concentrate on its strengths. I believe that the smaller companies will be found to have a more favorable, and more easily controlled, expense rate. For one thing, it should be considerably easier for smaller companies to maintain control of and adhere to a budget, with the result that, as business grows, close correspondence can be maintained between expenses and the margins in premiums available for these expenses.

MR. LYLE H. BARNHART: We have set up what we call "financial security analysis." This is a device whereby the prospect furnishes the company with certain data about his income, and so forth, and the computer produces the amount of insurance that is necessary to fulfill his needs. We think that this is producing a significant volume of business.

We have gone the gamut of the document box, the sales talk using the film projector, and the like, only to find that the agency department lost interest eventually. Is this computer device merely another fad?