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MAKING THE MOST OF YOUR NETWORK -- RELATIONSHIP MARKETING

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Sometimes I think that if our customers x-rayed our industry's service, we might come up a little empty. I'm absolutely amazed that we've come to a point in our industry where we have gradually developed what some people would call an adversarial relationship with our customer. Years ago when our industry began, our mission was quite simple. To protect people and their assets and to pay claims. I believe that's still our mission today. But unfortunately, too many of our customers think of us today as more interested in making a profit instead of trying to meet their needs. I believe if you were to poll most Americans today, they would probably tell you one of their greatest frustrations with their insurance company is a perceived lack of personal care in a personal working relationship, so we've got to change and I do believe we are changing. I think I see the future of this industry and the future begins with a change in the way we market and service our product. But first, let's look back about 30 years when our industry began to see a nontraditional approach to insurance marketing called direct response.

In the 1950s and the early 1960s, no one could have predicted how rapidly direct response would gain in popularity, nor could even the most astute actuary forecast how eventually a big percentage of the business written would be moved away from the traditional agent/company relationship approach. Prospects received a mailing, filled out an application, were sent a policy, filed a claim, and eventually received claim payment, all by mail. Occasionally there would be a need for problem resolution, but when the customer telephoned, the voice on the other end was most likely not familiar and almost certainly would be different with the next call. Direct response has not only been instrumental in the successful sale of traditional products, it has also let us service previously untapped market segments. Well that's the good news. The bad news, especially for those of us who are pioneers in this business, is that on the heels of success has come competition, intense competition. Direct response has in just 20 years gone from some kind of alien life form to a distribution system that even the largest among us can no longer afford to ignore. To understand this change, you've got to first understand the enormity of change taking place across our society.

Lifestyles, values, health considerations, work habits, family relationships, and almost any other aspect of life we choose are undergoing some sort of major change. Some 77 million baby boomers are spurring most of this change. I

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don't have to tell this audience that demography is destiny. By the year 2000, 30% of our population will be between the ages of 35 and 54. These baby boomers as they approach what some call the golden years will be the healthiest, the wealthiest and the best educated group of elderly ever. Yet all that is golden may not actually glitter. Many of these same baby boomers will find themselves more dependent upon family, friends, and society at large. Consider this, when the youngest of this baby boomer group turns 65 there will be 65 million Americans 65 and over, compared to just 29 million today. Families will decrease as the focal point of our traditional lifestyle. Baby boomers are having fewer children and accounting for an increasing number of divorces. It won't be uncommon for one of our 60-year-old workers to be responsible for a 78-year-old parent who still worries about his or her living parents. Some 70-year-olds will be faced with caring for 90-year-olds. These older people will likely see themselves as less affluent than they really are. So now that we have some idea of what's really coming, how do we get the consumers attention? Each of us is virtually bombarded with scores of sales messages every hour of every day. Consider this fact: in the United States alone in 1988 more than $100 billion will be invested in advertising and sales promotion. These marketing dollars support the news we read and write, the entertainment we enjoy from a network of 7,000 magazines, 850 commercial TV stations, 8,600 radio stations, 9,800 daily and weekly newspapers, 6,400 cable television systems, and half a million billboards. Today 98% of U.S. homes have a television set, and there's an average of nearly six radios per U.S. household, while well over 40 million of these households have at least one VCR. The average American, one recent study showed, could see the trademark of the world's leading soft drink more than 350 times during a 24-hour period and that's not even including the mail and the telephone. Adding to the avalanche of sales messages is the $30 billion direct response industry. One look at the cluttering in your mailbox or a telemarketing call during dinner tells it better than I can. We're all fighting for our share of the consumer's attention. As we lose ground to the promotional clutter around us, our cost of delivery goes up, and our profit margins decline, both of which usually push us to do more promotional activity. If we are to successfully compete, our messages must get through. And to get those messages through we've got to rely on computer and communications technology. During the 1970s and the 1980s, a direct marketer for example, could cost-effectively reach untold numbers of potential customers with offers that might or might not have appealed to each recipient. However, the costs of delivery were low enough compared to traditional forms of sale to enable direct response companies to compete effectively. As computer technology advanced and we became more sophisticated, we began to realize that tighter and tighter segmentation reduced our expenses and increased our return on dollars invested.

So let's look at this question of technology and segmentation from the point of view of the older age market. As actuaries you know that we are a people and a society in transition. As a group we're getting older but from a point of self-perception, we're getting younger. Numerous studies have concluded that our self-perception is about 10 to 15 years behind our real age. If we combine this marketplace perception with demographic statistics related to income, we can see how easy it is to be led astray. There are more than 30 million U.S. households headed by people who are 65 and older. That group represents nearly 30% of the discretionary income of the total U.S. population. On top of that, the most affluent group is the 55- to 64-year-old age group with the 65 plus market earning only slightly less in per capita income than the average American adult. As if that weren't enough, this elderly group has four times the buying power of the teenage market and double the spendable dollars of an average

30-year-old. To sum it up, people 65 and older feel younger than they are and the numbers tell us they have money to spend. It shouldn't be difficult to understand that once someone's income is reduced as it is at retirement, the perception of being in a financial squeeze is heightened.

It's easy for us to get mislead by the real affluence of the older age group. We think they can afford our products when in reality, the self-perception is one of not being able to afford our products. Other recent research has shown that one of the additional overriding concerns of older people is that they not become a burden on their families. Accordingly, many are often more reluctant to part with disposable dollars than their 30-year-old offspring. They opt to hold onto these dollars for emergencies or for products or services that fit their unique circumstances.

Another frequently encountered misconception about older people is that they are incapable of making decisions or managing their own affairs. My experience has shown that while this is sometimes true, primarily among what we call the old-old group which is 75 and over, the number of people who fall into this category does not approach perceived levels. As younger people, we often question decisions of our aged parents and grandparents, from our own perspective, rather than seeing the question or issue from their point of view.

This market is as diverse in its characteristics as it is dynamic in its growth and that is why millions of dollars are wasted every year by people who misread this market. There's a mistake for example to lump older people into a single age category, as you might characterize the teen market. Teen years cover 84 months while the later years can stand upwards of 40 years. Consequently, successful marketers have found the key to reaching this market most effectively to be rigorous segmentation, understanding of self-perceptions and knowledge of needs. So we have just these three main things to consider, namely, the enormity of societal change, the growing competition for the consumer's attention, and the great technology strides that are giving us clout and at the same time making it tougher to stay competitive.

So where do we go from here? Well, let me tell you how we at National Liberty expect to stay competitive: by turning to, or should I say returning to, a relationship driven approach to our market. By way of background, National Liberty is a direct response insurance company and for years has been recognized as one of the innovators in this market. In the 1970s and 1980s, we had been very successfully mass marketing a limited number of insurance products. We started out with a single focus, selling one product to a nonsmoking religious-based group. Over the years, we expanded our reach and used newspaper inserts, magazines, mail and TV to reach broad population segments. As it was traditionally with most direct response insurers, our focus was on bringing in large numbers of new customers. To do this, we mailed out over 100 million sales kits annually. Our telemarketers get 1.3 million calls a year from our clients and they place another 4.2 million calls themselves.

Given the dynamics we face in the marketplace, we are taking a page out of Marketing 101 which tells us it's easier to sell to a currently satisfied customer than it is to find new ones. So how are we going to do this? Well by placing our customers first with excellence in service as a primary objective; by realizing that our employees are the key to our success and motivating them accordingly; by learning as much as we can about our customers, their desires, and their needs; by developing new products of value that fulfill these needs; by letting our customers know how important they are to us; and by building a relationship based upon personal attention wherever we can. We plan to use the tools of our trade, i.e., the telephone and the postal system, to develop a close personal working relationship with our customers. We're also examining our product portfolio and looking to our customers to help us determine what new products or services would be appropriate. As we develop a dialogue with them, we'll ask them questions related to their needs, their lifestyles, their families and so forth. Then we will feed their answers into our computer system and as our base of knowledge grows, we expect to be in a position to respond more rapidly and more efficiently; and as our service personnel can access more personal data, we expect the dialog to become even more relationship oriented. We will use our growing data base to fine tune the information flows between actuarial, marketing, claims and service personnel. This greater compilation utilization of information will also aid in improving segmentation and in ultimately lowering the cost of delivering our product to our customers. With our expanded data base, this kind of tracking and testing can be done more easily than ever before, but computer technology is only one facet of our relationship approach to policy owners. The ease of contact offered through the telephone has made it possible to give a degree of personalized service never before possible, or practical for a direct response company. But setting up a system of networking with your customers is a complex proposition. We don't see our policyholders face to face, and as a result, we've got to build our relationships through the mail and as voices over the telephone. While we're doing this, we're learning about the people we're serving and we're intent upon developing their trust but there is still a number of questions on the table for us.

What impact will this new approach have on our pricing assumptions? How will we bridge multiple products with this relationship approach? Will we allow the total relationship with the customer to determine our profit margins or must each product stand on its own? How will we organize to support the customer instead of the product or the company function? Will we consider a loss leader approach to develop relationships? As actuaries you are on the leading edge of this. Your greatest challenges in the future will be to provide new products and services that are focused on building enduring relationships with customers but not based upon just one product. At National Liberty, our move away from traditional direct response mass marketing toward customer driven marketing represents a radical departure, but I'm convinced it's our future, and possibly the future of the direct response industry as a whole. I remember my father giving me some good advice when I asked him to tell me the secret of his success, he told me instead of growing horns, grow antenna. In other words, my father was telling me to listen and today at National Liberty we're making it our business to listen to our customers, give them what they want and set up lifelong relationships with them. It's a tough job but I believe our future depends upon it. So from now on when we x-ray our service performance, I know National Liberty won't be coming up empty like that x-ray on Dizzy Dean's head. In fact, if we all listen to our customers, the future of our industry is a picture I think we can all be proud of.