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NON-TRADITIONAL MARKETING SECTION LUNCHEON

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MR. JACQUES CLOUTIER: First, I want to thank you for inviting me to speak to such an exclusive group. In the program, I was recorded as President-Elect of the Canadian Institute of Actuaries, but as David A. Wright told you, I also have another job on the side, which is Senior Vice-President of the Laurentian Mutual Assurance Company. It is as a member of the Laurentian Mutual and the Laurentian Group that I intend to talk to you today.

To help you understand where the Laurentian Group stands, please allow me to briefly describe our firm. The Laurentian Mutual was established in Quebec City in 1938. It has a network of 25 branches scattered throughout the province of Quebec regrouping more than 250 full-time agents and approximately 600 brokers. Apart from a few of our clients in Ontario and New Brunswick, 95% of our clientele is from Quebec and, probably, 99% is French-speaking. We have always wanted to expand outside of the province of Quebec into the rest of Canada and even outside of Canada, if there were interesting opportunities, both in life insurance and also in other financial services. Many Quebec companies have tried to do it directly with, I must say, not much success. At the Laurentian Mutual, we decided some 15 years ago, that we would increase our chances of success if we would go the subsidiaries route. We started our expansion first by acquiring two property & casualty insurance companies in Quebec. Then, in 1977, we acquired the Imperial Life in Toronto which was a national company doing business in all of Canada, the Bahamas and the United Kingdom. Imperial Life has since acquired Laurier Life in Canada and the Loyal American Life in Mobile, Alabama as well as Trident Life in the U.K. At the same time, both Laurentian Mutual and our subsidiaries were also acquiring major interests in a bank, the Montreal City and District Savings Bank, which is now known as the

Laurentian Bank of Canada. We were also investing in trust companies, in securities brokerages and in investment management firms.

The Laurentian Mutual is a Quebec chartered company. In 1984, the insurance law of the province of Quebec was changed, allowing, among other things, that a mutual insurance company could form a downstream holding company for the purpose of regrouping financial services. We took that opportunity to create the Laurentian Group Corporation which is now coordinating the work of all our subsidiaries in all types of what is commonly known as the four pillars of financial services. The Laurentian Group Corporation has in turn created holding companies in the U.K. and the U.S. to take care of our interests in those countries. The Laurentian Group is now listed on the Montreal, Toronto and New York Stock Exchanges and the Laurentian Mutual is still the controlling stockholder even as other major investors have joined the group in the last few years.

I guess that the way the Laurentian Group was developed is in itself a sort of non-traditional marketing. Starting from a small local company that had about $100 million in assets, we now control a group of companies in all types of financial services that have together approximately $11 billion in assets on a consolidated basis. And we did all that in a span of about 15 years.

The Laurentian Group Corporation is now taking care of all our subsidiaries. The Laurentian Mutual, as the principal shareholder, continues to play a major role in the development of the group. However, as an insurance company, it has to make sure of its own development in a world where competition is very tight.

At the same time as we were building the Laurentian Group in all types of financial services, we also acquired two Quebec-registered life companies that we merged into the Laurentian Mutual. We expect that total assets of the Mutual will be very close to $1 billion by the end of 1987. In fact, we expect to reach that $1 billion for our 50th Anniversary celebrations next year.

The Mutual is still devoted to traditional marketing, and the agency force, in the province of Quebec. However, we are trying to expand our agents' market by training them to become financial advisors able to offer all types of financial products available through other companies of the Laurentian Group. Already, more than 100 of our agents have studied and qualified to sell mutual funds that they can offer through the Eaton Funds Management which joined the Group last year. We are slowly developing our agencies into financial service offices by building multi-disciplinary teams. Some of our agencies already comprise stock brokers and trust representatives. We intend to accelerate the pace of this development if and when laws concerning the sharing of commissions and payments of referral fees are changed. We believe that it is very difficult for one individual to be a specialist in all types of financial services and that the only way to develop such integrated services is through multi-disciplinary teams that can share those commissions.

In the Group business, both insurance and pension, we are right now in the process of forming a joint venture with Imperial Life for the sale and administration of products. This joint venture gives us access to the total Canadian market in those lines of business since products are offered throughout Canada and both companies have 50/50 interest in the joint venture and are the underwriters of the business on a joint basis.

The Laurentian Mutual still has the intention of being present in all of Canada in the individual lines of business as well. We think that to develop an agency force in the other provinces would be too costly and very risky, looking at results that other Quebec companies have had in the past.

Turning now to more traditional types of nontraditional marketing, about 4 years ago, the Laurentian Mutual decided to enter the direct marketing field. By studying the Canadian market, we estimated that there would certainly be some room for us in the mass marketing and direct response markets. Those types of marketing are relatively new in Canada and are certainly not used as much as in the United States. Because of the size of the Canadian market, it was agreed, within the Laurentian Group, that only one life company, the Mutual, would enter into that market.

We have noted that Canadian direct mail industry is active and growing, but that the consumers are far from being saturated with direct mail offers. According to Canadian post office statistics, few households receive more than one direct mail offer per month, and only a minimal number receive one or more per week.

This form of marketing has now been used for some 25 years in the U.S. The number of insurance companies which have tried this method of distribution and failed, far outnumbers the list of successes. Although it is impossible to generalize, it is clear that two factors played a major role for those achieving success:

1. Successful companies have treated direct response marketing as a major source of new business and not merely as a sideline. Appropriate efforts and resources were devoted to it.

2. Companies have focused on a target market such as senior citizens, professionals, veterans, bank customers, credit cardholders, and so on, which has resulted in a higher response rate that might otherwise have been possible.

Insurance is a near perfect direct response product to market because of the following reasons: (1) there is a need for it; (2) the selling price justifies the marketing risk; (3) it is inexpensive to pack and ship and it does not break; (4) there is no storage problem; (5) there are no returns because of failure to operate: (6) there are no leftover goods to liquidate; and (7) the customer always needs more of it.

Probably for all those reasons, direct response marketing of insurance has grown since 1970 to become the top product sold on that basis in the U.S., generating in excess of $6 billion of premium income in 1984 (Life, A+S and P+C). If the general rule of 10-1 between U.S. and Canada also applies to insurance, Canadian insurers should be collecting around $600 million of premiums per year. That figure was closer to $50 million in 1985. So there is certainly room for growth. But clearly, direct response marketing is becoming more fashionable and it is therefore likely that many other Canadian insurers will enter this arena in the years to come.

Even if the decision to develop a direct response division was in accordance with the company's objectives, I have to admit that people in the agency department showed a very conservative enthusiasm in this new line of business. However, the decision stood and the necessary resources were set up.

Because we had decided to write direct business in all of Canada, including Quebec, it is obvious that it caused some insecurity among our sales team. Was the Laurentian Mutual going to slip completely towards a direct response type of distribution and short-circuit its traditional network of sales? Was it not an unfair competition toward our representatives, when, at the same time, we were asking them to be loyal and place most of their business with us?

We had to act quickly and involve our sales force from the start. That's what we have done.

We had to be clear about our intentions. By means of direct response we wanted to reach a pan-Canadian clientele that was not accessible through our existing network of representatives, either because of the clientele itself or because of the types of products we intended to offer. Looking first at the clients, a large part of them would eventually be from outside Quebec where our existing network is virtually not present. Moreover, we wanted to reach the market of people having low to moderate income. The types of products offered would be mostly of the additional type, like accidental death insurance, hospital cash insurance, cancer or dread disease insurance. The premium for those types of contracts would generally be lower than $125 per year, a market not accessible to our representatives because of minimum policies.

So far, we have tried to keep our agents informed of our activities in direct response. For each mailing, they were informed of the target clientele and the nature of the product offered. If a mailing is addressed to our policyholders, our agents receive a commission for each policy sold to their customers and this, even if they did not have anything to do with the sale. I guess that I can safely say that our field force is now accepting the fact that we are also in the direct mail business and has learned to live with it. Our agents know that direct response in insurance is a method of distribution that is becoming more important. If we neglect this market, you can be sure that our competitors will take care of it.

In studying the experience of other companies that were already in the direct response business, we learned that the response rate was usually higher when the product offered was recommended by the organization providing the list. We thus decided that we would work with sponsors as much as we could.

At the beginning, it seemed normal to approach a more accessible market and we turned to our partners of the Laurentian Group. This is how we realized our first test through the customers of the Montreal City and District Savings Bank, now the Laurentian Bank. The bank has 125 branches and about 500,000 clients. We also sent offers to the Laurentian mutual policyholders and to members of some other affinity groups very close to the Laurentian Group.

When we look at the response rate, our results show that we obtain close to 1% which is much higher than the 0.3%-0.5% that are obtained in the States. It is probably true, however, that the mailings in the United States are addressed to much larger groups so that acquisition expenses can be spread over a larger number of issued policies. Studies have also shown that the response rate is higher in the province of Quebec than the rest of Canada and our experience up to date is in accordance with that. This is probably because the Laurentian Mutual and the Laurentian Group are much more known in Quebec than in the rest of Canada.

Up to now, we did only one test outside the Laurentian Group clientele and I must admit that the success was not up to our expectation. In fact, we decided not to go ahead with the total mailing after looking at the response rates of the test mailing. But we learned a lot from that experience. Our consultant had told us at the time that the product offered did not have enough appeal and warned us that the results might not be good. We did not listen and went ahead with the test anyway. We now know that we have to put much care in the design of the product if we want to attain success.

In the course of 1986, the Laurentian Group associated itself with Eaton Financial Services, which was then a subsidiary of Eaton of Canada, the chain of department stores. Eaton Financial Services is present in all types of financial services, except banking. Eaton Life, one of the subsidiaries of Eaton Financial Services, is selling life and accident and health products through the financial centers in the Eaton stores and is also selling direct response products mailed through the Eaton credit cardholders. Eaton Life has been very successful with that method of distribution in the last few years.

In the reorganization of the Laurentian Group that is now going on, Eaton Life is in the process of being merged with Imperial Life.

As I told you earlier, it was decided a few years ago that the Laurentian Mutual would be the only life insurer of the group in the direct response business. Because of that, Laurentian Mutual now intends to buy all the direct written business of Eaton/Imperial as soon as all legal and fiscal problems will be cleared. When that transaction will be completed (we expect this to happen somewhere in the middle of 1988), we think that the Laurentian Mutual will then be the most important Canadian life insurer in the field of direct mail business. We expect to have close to $20 million of premium income by the end of 1988. Since the Eaton's business is coming from all over Canada, the Laurentian Mutual will then be present directly in all provinces of Canada in the individual lines of business.

Currently, we are also in the process of buying a small New England life insurance company which is exclusively in the direct written business through television advertising. We expect to use that company to expand in the direct written business in the United States in the future.

There is also another form of non-traditional marketing in which we have been experiencing in the last year or so. This is the sale of insurance in bank branches.

Because of our association with the Laurentian Bank, last year, we set up sales offices in three branches, staffed with salaried employees. The products offered are the same types as those offered through mass mailings.

I must admit that the results of selling in bank branches up to now are not very encouraging and we will certainly have to question our strategy in that method of distribution. Criticisms from agents and brokers have been stronger than in the case of direct mail business even though the results are not as interesting. The type of products might probably be responsible for the lack of success, but we are not sure that life products are the best type to be sold in bank branches. It is quite possible that property and casualty products, which are more of the "pull" type instead of the "push" type, would be more appropriate for this form of distribution. I guess that our Property and Casualty associates will have to look at that market as well as the reaction of brokers who are certainly strongly opposed to such a form of distribution.

There are all kinds of legal aspects that are not settled in Canada regarding the distribution of insurance products in banks and the integration of financial services. The Inspector General of Banks in Canada is watching the developments in this field very closely. For that reason, we intend to move slowly and see what happens.

As an insurance company, we have to explore new markets and widen our products and services. We have to innovate in the marketing business. When it becomes possible to subscribe to an insurance plan through our bank or our credit card, companies that persist to ignore this phenomenon have to be careful. The years to come may be difficult for those who adopt a negative attitude toward changes. Direct response in insurance is part of the changes. It is a relatively new market but it corresponds perfectly to the consumers' new habits. Our intention, at the Laurentian Mutual, is to continue to be present in those markets without, however, neglecting the more traditional forms of marketing.