Small Talk Newsletter

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Collaborative Database Marketing

Using Technology to Know Your Prospects and Customers Intimately

by Wallace F. Dale

Insurance companies and agents are verbally accepting the challenge of this decade, "Thrive on Change," but as our industry strives to adapt to and adopt the new technologies, a legitimate question arises: "Are we really using these new tools that we and others develop to respond to our client's and our own best interests?"

> Will new technological tools change consumer insurance buying habits. . . and if so, what will we need to do to react and take advantage of these changes?
>
> Will these tools help the insurance delivery systems be more friendly, convenient and cost effective?
>
> As we attempt to meet the insurance needs of the public in a radically changed future, will we encounter an entirely different set of needs which we will be unprepared to service?

There is no question that technology will be coming at us faster than any of us can imagine. Technology will be able to respond to each of the issues raised in the questions above. The real issue is, "Will the insurance industry be prepared to respond to take advantage of technologies which are and will be available?" Unfortunately, unless drastic changes are made within the next couple of years, the answer is going to be a resounding "no."

When technology is not used properly or if it is abused, the results are not only counter-productive, they can be downright destructive with ineffective patterns repeated over and over again; junk mail that doesn't even get a second glance; telemarketers' calls that become an invasion of dinnertime privacy and our "cave" time to recharge our batteries, and now the Internet, increasingly laden with time wasters and spam. . . shortening all users' fuses.

The traditional industry standard formula for success: ten calls, to schedule three appointments, to make one sale still works in part. The three scheduled appointments resulting in one sale is still holding up well. The part that is becoming more and more difficult is the front end: the number of cold calls it takes to get a completed call made, due to factors such as voice mail, caller ID, growing regulatory restrictions, and "consumer's more fragmented schedules." Secondly, once contact is made, finding ten cold call prospects that are willing to listen to a telephone pitch is also getting much more difficult. The answer, of course, lies in making the ten calls to qualified prospects, preferably referrals, and more importantly in knowing something about each of these ten persons before a call is ever made, or being able to approach them on a favorable basis.

Not surprisingly, the LIMRA 1992 ownership study reported mounting evidence that consumers aren't overly thrilled with our delivery of life products:

- Only 39% of adults own individual life insurance.
- Only 55% of households have individual life insurance.
- In 1977, the percentage of people between the ages of 34–51 buying life insurance was 31.7%; in 1987 that had dropped to 29.5%; and in 1997, it was down to 15.8% (LIMRA 1977).
- The number of agents has decreased for five years consecutively, with retention in the field dropping from 73% after 6 months to 15% after three years.

And with record number of lawsuits filed both against agents and companies accusing both of not representing the products correctly or adequately, customer relations with both clients and prospects needs are not doing well.

Does all this mean there will no longer be the need for an agency force in the future that helps the customer navigate through the complexities of coverages and choices? My opinion is there will still be an agent involved who adds value by knowing and addressing each client's needs, desires and dreams. But, no longer will "mass-mail," "telemarketing," and "product driven strategies" dominate. Instead, through the proper use of technology, the agent of the future will be able to work much smarter and to know each customer "individually."

In the book, *One to One Future,* published by Doubleday, the authors, Peppers and Rodgers, state, "It won't be how much you know about all your customers, but how much you know about each of your customers." They also state, "The customer will direct and the marketer will respond, one customer at a time."

How do we start to build that friendly database where we know each customer intimately?

The first step is to communicate with a client in an organized way, so that we can educate, inform, present choices and help these clients navigate their financial future. The two most important categories to add to your database are voluntary information that the customer give to you and event data that triggers a change in their financial lives that creates new needs and presents new choices.

A service-oriented questionnaire that allows them to inform you would be the first step toward meeting the client's wants:

- What has been taken care of?
- What is not applicable?
- What is important?
- What is not important?
- What has changed?

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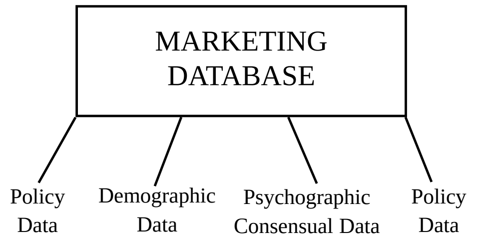
There are four legs to building the marketing database:



The key is being able to capture, store, analyze, and retrieve data for the purpose of communicating information to prospects that directly or indirectly results in sale. This communication needs to be supplied at the right time, through the right medium, at the most convenient place with the right solution. Short cut any of these and the effectiveness of the entire system is jeopardized.

The four levels of data are:

1. Operational Data or Policy Data
All information that all companies keep on name, address, policies in force, etc. This information is available, but it has to be accessible in marketing database so it can be merged with the other three legs to build the one-to-one relationships.

2. Demographic Data
Data that identifies location, income, lifestyle, age, children, and their perspective as a group. Segmenting the clients allows you to know characteristics of your database overall and where each customer fits into these segments, but it does not allow the one-to-one intimacy that the customer will expect in the future.

3. Psychographic and Consensual Data
This would include the individual wants, needs, dreams etc., that adds the intimacy that will allow the one-to-one marketing. The best way to get this is voluntarily through questionnaires, surveys, interviews, internet, faxes, e-mails. This also should include warm fuzzy value-added communications, such as newsletters, stickers, and giveaways.

4. Event Data
Marriages, births, deaths, new job, new residence, new retirement — all should trigger change in insurance needs. Much of this data can be obtained from third party vendors, but a consensual survey is still the most reliable, credible source. The event marketing is much more effective if the contact can be made prior to the event. The agent's ability to input to this system key data is crucial to the success of such a system.

Questions we should pose are:

1. Where should the database reside, when should it be updated and how can we use it to maximize the company, agent, client relationship?
2. Can we build models that we can measure and predict the success of these database marketing efforts?
3. Will this give us the answer to agent productivity and at the same time build customer intimacy?

The new technology can become the tools required to solve much of the prospecting and client unhappiness that exists today.

A recent Wharton School study suggests that less than one-third of insurance companies have studied relational databases. Now is the time to merge technology, marketing and customer service to change our current image. There is a vacuum in our insurance delivery system, and it will be filled as new systems emerge. We are moving into turbulent times and some companies will cause dust and some agents and companies will eat dust. Successful merging of technology and delivery systems, will determine who those companies are.

Some provocative questions we should ask ourselves include:

1. Are we ahead or behind the other financial services providers (banks and investment houses) in terms of technology?
2. Will other financial services or non-financial service players become serious competitors in the future?
3. Is this information revolution real, and should we be concerned?
4. What is the public's perception of our service now, and could we possibly be as vulnerable as AT&T was when long-distance service was deregulated?
5. What effect will voluntary relationship database usage have on the traditional insurance marketing approach?

For many agents and general agents, many of these ideas could be beyond their present technology acceptance level. If they wanted to know what to do to prepare for this future, the answer would be:

- Help the General Agent and his/her staff become computer literate as soon as possible.
- Start working to automate the entire Agency office operation.
- Get on the Internet and be able to communicate to your policyholders who are already there.
- Get to know your clients as intimately as possible by recording the pertinent data in a database that can be retained, recalled, massaged, and effectively manipulated.
- Help agents use this database so they can see the right prospects at the right time, conveniently, with the right products.

The insurance companies that help their agents and general agent master this process will have no trouble marketing, because the productivity and the success rate will speak for themselves. It is definitely easier to plow a field with a high-tech tractor than a mule, and technology will be just as important as the tractor as soon as we learn how to use it.

Many people reading this article will make the false assumption that because they are small and don't have the volume of customers that a major company might have, that this database marketing is not for them. There is no doubt that cost will definitely be a driving factor, but much of this work can be outsourced or handled on a local or agency basis.

The first step is obtaining hardware and software that will accommodate the data you wish to use. Almost all the software packages that I have worked with

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have the ability to customize the fields to meet your needs. The second step is to have your technology people or a data management company clean the data — correct name and addresses, and then populate it with outside information so you can profile your customers.

Based on that profile design, a collaborative service-based questionnaire should be distributed, to see which customers wish to "raise their hands," to ask for information and service. It is important to be sensitive to life cycle events that could trigger a desire on the customer's part to review their current choices. An in-house or outsourced team of database account verification representatives can call (having been invited) to discuss the questionnaire and choices available.

Normally, if we are working with an orphan database that hasn't had contact in five years, we can achieve 30% response on questionnaires and 10% new transaction purchases. The cost versus benefit analysis varies from company to company and product to product. In most cases outsourcing this work for a pilot makes the most sense unless you already have the service in place. Once the pilot is complete, it will be an easy decision to ramp up the process up or decide it doesn't work for you.

Also, since we are doing a large portion of the pre-qualification work an agent is paid to do, we often can charge them for these leads. In most cases, that charge varies between $10 and $25 per lead, and if the process is designed well they will consider this a bargain.

Benefits of a well-designed process include:

- Taking the drudgery out of the delivery of financial services
- Increasing productivity
- Reducing turnover using technology to get to know your customer one to one
- Efficiently using technology to build relationships with customers

Anticipating their expectations for the future will help position you to be the carrier or agency of choice with your present customers, and also will return to profitability the acquisition of new customers.

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decided to eliminate the state of domicile plus disclosure. The feeling is that it would be very difficult to track all the state variations.

Larry Gorski suggested another possible approach. He pointed out that a regulator can use flexibility in accepting state of domicile. If a foreign company sells a negligible amount in Illinois, an opinion based on their state of domicile is acceptable. But if that company sells a lot in Illinois, and if their home state has a lower reserve requirement than an Illinois domestic, it will get a competitive advantage. In such a case, an opinion based on the state of filing would be required. Should there be some guidance on what additional considerations would affect which opinion would be acceptable? There will be a further report on this. There should be further discussion at the December meeting. We should all be following this to see what may happen.

If you have any opinions, let LHATF know. Contact Leslie Jones at the South Carolina Department of Insurance.

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Worksite Marketing

by Norman E. Hill

The field of worksite marketing is growing at a fairly significant pace. More insurance companies are entering the field, and competition for agents and brokers with experience in these types of sales is becoming more intense. Worksite marketing combines features of traditional group and individual lines of business.

Definitions

In worksite, individual life and health products are sold to employees with the help of employer endorsements. At the employer's place of business, insurer representatives attempt to enroll employees for voluntary coverage. Sometimes, agents perform the solicitation themselves. On other occasions, enrollment specialists handle the process. These latter specialists may be agents receiving commissions or salaried representatives. Usually, employees pay the entire premium, although some employer contributions are possible.

Products in worksite include:

- term life
- short-term disability
- dental
- cancer
- hospital indemnity

Because this coverage is often supplemental to base group coverage, premiums per policy are usually no more than $100 per month. Lately, there has been some interest in selling long-term-care coverage on a worksite basis. For ages under 65, premiums for this coverage are significantly less than for higher issue ages.

Background

In the past, one complaint against the worksite concept was its inflexibility in employer situations. It was sometimes called a square peg in a round hole, i.e., an attempt to force individual products into group situations, while still paying higher rates of individual commissions to agents.

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