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PRODUCT ACTUARIES AS MARKETERS

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In today's environment actuaries are being asked to assume a wider range of responsibilities than in the past. This session will examine the role of product actuaries as marketers. Issues that will be covered include:

- Distinctions between marketing and sales
- Competitive analysis
  - Technical perspective
  - Agent input
- Market research
  - Focus groups
  - Conjoint analysis
- Defining client needs, marketing opportunities
- Statistical marketing methods
- Educational/professional mindset and requirements to perform the role effectively

MR. JOHN C. R. HELE: I think this topic is a great topic for the Society. It's a broadening of the profession and we hope to give you some real life examples and some things to think about when it comes to marketing. We're very pleased to have with us Don Guloien, who is vice president of U.S. individual insurance for Manufacturers Life Insurance Company. He is the general manager of the U.S. division, which serves the top 1% of individuals in the U.S. Don's marketing efforts and general management efforts cover 300,000 U.S. clients, with over $1 billion in premium. He was formerly marketing vice president of the U.S. Individual Division, which is why he's here on the panel. Don has a bachelor of commerce degree from the University of Toronto and is a Fellow of the Life Management Institute.

David Fishbaum is a fellow of the Society and is an Associate with William M. Mercer. David specializes in helping companies develop and implement strategic marketing plans. A recent example has been a study he completed for the Canadian Bankers Association, a study of life annuities and how they can be marketed through banks. He was formerly with Crown Life Insurance Company, where he did strategic planning and pricing and was a systems programmer at one point. David has an MBA from Northwestern University, with a specialization in marketing.

Steven Boger is a principal with QED Consulting Group. Steven has been with QED since January 1990, where he specializes in pricing, expense analysis and small-group medical, as well as long-term care. Prior to that he was with Allstate Insurance as a

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product development director for life insurance and annuities. He has a bachelor of actuarial science degree from the University of Illinois and is a member of the Society, as well as a member of the American Academy. Steven is our product actuary who has done marketing.

David, fresh with his MBA, will discuss classical marketing theory and how that can be applied to insurance pricing and marketing. Steven will then review marketing techniques and analysis, both quantitative and qualitative, that product actuaries need to understand and use in marketing. Finally, Don, who is a marketing executive and who has hired actuaries as marketing people, specifically product managers, will discuss his experience and views on our title of this session, "Product Actuaries As Marketers."

MR. DAVID J. FISHBAUM: If you want to be marketers, you should know what marketing is really about. Marketing is more than beating up on the actuary to lower premiums and then taking the salesman out to lunch. Marketing is a profession as much as actuarial science is. Let me start by explaining the difference between selling and marketing.

Selling is getting somebody to buy stuff from you. Marketing is getting the right product at the right price, using the right promotions, and being delivered by the right distribution system to the right customer. Marketing ensures that not only are you selling stuff today, but also in the future. You should also understand that marketing is probably as far as you can get from actuarial science. Whereas the work of actuarial science substitutes facts for appearances and demonstrations for impressions, marketing substitutes appearances for facts and impressions for demonstrations.

What are the functions that make up marketing? The first is people. There is an analytic function in understanding your market or, in better words, your customer. Stealing a line from the author, Tom Peters, a market never ever bought anything; only customers have.

The second function is to create a market position. Your market position is how your targeted customers view and appreciate what you're trying to sell, especially as it is relative to your competition. The marketer has four tools to create a market position. These tools are known as the famous four "Ps" -- product, price, place and promotion. The first is product. Is your product leading edge or is it vanilla term? Does it copy competitors, or does it add real value and something new to the market? The product must be consistent with your product position.

The next "P" is pricing. In classical consumer marketing, it's the marketer who sets the price, and I think marketers should be setting the price in insurance companies. I actually do mean they should be the ones setting e premium scales. Obviously, I'll talk more about this later.

The third "P" is place, which really means distribution; that is, getting your product to the customer. The majority of insurance is distributed either through a tied agency force or a brokered agency, but there are new distribution systems such as

telemarketing, direct mail, banks and savings and loans, and I hear even Wall Street is pushing insurance.

The last "P" is promotion. Promotion is what most of us think about when we think about marketing. It includes advertising and sales promotions such as conventions, and customer promotions such as coupons. It also includes direct selling, and a growing example is direct mail.

These four "Ps" are what is known as the company's marketing mix. You use your mix to create your market position, and your market position is targeted to one segment of the market. I'll go into each of the "Ps" in more depth and then discuss the role that the actuary plays, if it seems that the marketing person is doing the product development and pricing.

We'll start with people. The product your company offers is not right for every person who needs insurance. The goal of the marketer is to try to understand and to identify which customers would get the most value from the products you sell. If you're starting from scratch, this function would be to identify market segments and then target the segments you feel would gain the most from your products. To do this, the marketer would divide the total population into categories based on some classification system. The segmentation you use must be specific for your market and for your product line.

For individual life insurance, let me pick two major variables -- family life cycle and household income. We can further break family life cycle down by whether the person is married or single, if the household is young or old, and by the number of children. This is the standard breakdown for children: no children, under six being the youngest, the youngest being over six, or over 18. I've segmented the market in this manner because the insurance needs of these segments differ in that they require a different product, price, promotion, and distribution system.

If you consider your customers to be the insurance brokers, you'll have to segment that market as well. Suggested characteristics would be the experience, the type of customer they're serving, seniority with the company, and basically an overall evaluation of how good the agents are. You'll probably also have to do an end-user segmentation, so that you can better understand your customers, the brokers.

I must admit I've left out one important step in segmentation. Once you've identified the market segments, you must select the target segments you feel would gain the most value from the products you sell. In targeting young families with a midrange income stream, estate planning wouldn't be a big issue. Price would probably be more important.

You should realize that not every segment requires whole life. There is a bit of a chicken-and-egg problem here. Do you sell your current product to a new market segment, or do you deepen your customer relationship? There is no easy answer to this. A business case has to be done and the merits weighed. I, myself, am biased towards deepening current customer relationships, but experience shows it is difficult to successfully sell a whole range of financial service products. So, now you've

picked a target market, or you've inherited one. You have to determine a market position you want and can attain for your company in the marketplace.

Positioning is the act of designing the company's offer so that the segment's customers understand and appreciate what the company stands for in relation to competitors. Here's another definition from the book *Positioning: The Battle For Your Mind.* Positioning is not what you do to a product. "Positioning is what you do to the mind of the prospect; that is, you position the product in the mind of the prospect." Let me give you a quick and popular example. The American Express card is thought to be different than Visa or Mastercard. There is a higher value applied to the American Express card. The American Express card owners actually pay more for the card, but it has one major drawback: it's not even a credit card. Actually, American Express has quantifiable proof that its positioning is working. In the same establishment, American Express charges are always greater than Visa or Mastercard.

The outcome of the positioning function is a positioning statement. It gives everybody a clear idea of what you're trying to accomplish. Let me give you an example. We have a small life insurance company, XYZ Life, that has targeted new personal producing general agents (PPGAs) as its target market. It has to create some reason for these new PPGAs to sell XYZ Life policies, instead of policies from the 1,400 other insurance companies. XYZ has decided that its point of differentiation will be doing everything it can to make these new PPGAs a business success. Its positioning statement could read, "To new PPGAs, XYZ Life is the life insurance company that will make the PPGA a business success." New PPGAs are the target market. Life insurance company is the frame of reference. That's how its customers will view what XYZ Life is, and making the PPGA a business success is the point of distinction. That is why these new PPGAs are going to be selling XYZ policies, instead of other companies' policies.

You now have a market you want to sell to. You also have a concept that you want to sell to your target market. Now we have to implement. The tools of implementation are the marketing mix, or the four "Ps," as discussed before. I'll do each one separately. The first is product. As actuaries, when we think of an insurance product, we think of face amount, premiums, cash values, and maybe we even think of it in terms of contingencies. Let me suggest that a product actually has three levels. The first is the core product. That's what the buyer is really buying. In this case, it's the death benefit -- the amount of money that the estate or the beneficiary will get when the life insured passes on.

The marketer's job is to uncover the needs hiding under every product and sell the benefits, not the features. That said, we must turn the core product into a tangible product. Let's continue our example of XYZ Life and look at what makes a tangible product for the PPGAs. These are the things the PPGAs will be looking at when they are looking at the product. Obviously, it's the policy values and the flexibility, but the PPGAs are looking for a lot more. Issue: is a physical policy going to be out in a standard time, and does that standard time actually add value to the PPGAs? What about underwriting? Do we want to change the underwriting standards for the PPGAs and for this product? Finally, the illustration system makes the product easier to sell, which is what the PPGAs need, and the PPGAs here are your customers.

These components provide a tangible product that XYZ Life is marketing to its customers, the new PPGAs.

But there's also a third level of the product called the augmented product. Product augmentation leads a marketer to look at the buyer's total consumption system -- the way a purchaser of a product performs a total task of whatever it is that he or she is trying to accomplish when using the product. According to Theodore Leavitt, a "big name" in marketing circles, "the new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, financing, customer advice and other things that people value." As a marketer, you should also be worrying about what other things the brokers value from your company -- personal relationships, advance underwriting, the whole product portfolio, plus the administrative services, maybe business consulting and, probably more important now, company solvency.

In the introduction, I said it was the marketer who is responsible for setting the premium scale, and I really do believe this. But even in consumer product marketing, setting price is more art than science. One thing everybody does agree on is not to set the price as a function of cost, which is how actuaries have been doing it since time immemorial. Even when we started cutting our prices, we didn't say we were cutting our profit margins. We were lowering the conservatism of our assumptions because we couldn't lower the price without lowering the cost; that is, reducing our costs would be the only way we could lower the price.

Classical marketing theory says the price of a product should be a function of the value that product offers to the customer. That said, what process do I see insurance marketers using to set a premium scale for a life insurance product? The first thing you have to understand is that price should be part of the design criteria, not something that pops out at the end. *Fortune* magazine, in its August 12, 1991 issue, compared product design in an American firm versus a Japanese firm. The major difference was that before the Japanese start a product they determine what the price and what the desired profitability of the new product will be. This also means that they know what the target cost will be before they start the design of the product. But the question still stands. How would the marketer get the desired target price? Basically, by spreadsheeting the competition. This becomes a starting point, because if your price is too low, you probably will have a C-1 problem; and if it's too high, you're not going to sell anything.

When I say spreadsheet, I don't mean just check nonsmoker, male, 25, 35 and 45. I mean each age, band, smoker and gender. From here, from this standard, you start to add or subtract based on the value of your product. Let's go back to XYZ Life. Higher commissions add more value to your product for your customer, the PPGA. An easy illustration system, again, adds more value. Tough underwriting provides less value to your customer. A slow issue process also adds less value. Higher cash values provide some added value to your customer, the PPGA, but may not provide as much value as the cost of providing the higher cash value.

What about the augmented product features? If your average relationship with your customer is a year and a half, don't expect to charge for this feature. If it's five to ten years, then maybe you have some room in your premium. An AAA company

should be able to charge more than a BB company, because you're adding more value; in this case, company solvency. The point being in all of this is -- don't look at the cost of manufacturing. Look at the value your product offers to the customer.

I want to skip over distribution and promotion, because they in themselves are topics for whole conferences. But the message for these two "Ps" is the same. They must be consistent with your market positioning.

Now you know what a professional marketer should be doing in an insurance company. What role is left for the actuary? I see two roles for the actuary. One is that of product engineer and the other is profit analyst. There is more to product development than determining premium scales. There is a creativity necessary to bring out new products; for example, universal life. There is a creativity to adjust the bells and whistles so that the product meets the target cost, and therefore the target profitability. Actuarial training also gives us the ability to understand risks inherent in the insurance products being sold; for example, reentry products. You can't assume the remaining insureds will have the same mortality as regular insureds. With lapse-supported products, we can't assume that the insureds will lapse, if it's in their interest to stay. These are the risks inherent in insurance products and only the actuary can understand them, recognize them, and determine the cost for them.

In Canada, there's also a need to design products that minimize the amount of capital that's required to back the products. Product design still needs creative actuaries.

The major function of the profit analyst is calculating what will be the expected profitability of new products and monitoring the profitability of in-force policies. The profit analyst is not responsible for the profitability. That's the responsibility of the marketer. The profit analyst is just the scorekeeper.

For those using GAAP, whether in Canada or the United States, the profit analyst is a fancy name for the valuation actuary. As part of determining reserves, the expected profitability of the products must be determined. In an environment where the marketers are setting the premium scales, a strong valuation actuary is required who understands solvency and evolving profits.

You're probably thinking I'm recommending giving the keys to the inmates. If we let the marketers set the premiums, we'll all go broke in a very short time. It's the actuary who makes sure that the company remains solvent. All the marketer cares about is sales. Well, let me make two points on this. The first is compensation. If we compensate our marketers on sales, we'll get more sales. If we compensate our marketers on more profitable sales, we'll get more profitable sales. The second is on recruitment. Marketers in insurance companies haven't earned our respect, and I think part of the reason is that the insurance companies haven't been hiring professional marketers.

What I've given you is classical marketing theory, but this theory provides very practical ways to turn your insurance companies into market-oriented companies. When you go back to work, don't say you heard a talk on applying classical marketing theories to insurance pricing and marketing. They'll think an actuary gave the talk. Instead, say you heard a talk on the "Ps" of insurance marketing.

MR. HELE: Steven will review marketing techniques and analysis, and give some of his experiences in using marketing research and applying it to insurance products.

MR. STEVEN BOGER: My specific topic is the competitive analysis and market research functions. You'll notice, though, that we're building on the classical model that David has described and we'll talk about product, place, and people. Price definitely comes into the equation. Competitive analysis and market research both factor very highly in the process of developing an effective strategy and products for your marketplace. In each case, my experience is that there are two ways to go about the process -- one being heavily quantitative and the other being more qualitative. Let's start with competitive analysis, which I'm defining to be the process of developing and maintaining an awareness of the strengths and weaknesses of products offered in the marketplace. I'm going to begin the competitive analysis section from a technical perspective.

Many or all of you will have performed technical, competitive analysis. It's common to nearly all companies. You gather rate sheets, illustrations, rate manuals, brochures, whatever sources of information are available to you, and you take them apart. You turn them inside out and analyze the workings of these products to figure out how they perform. Questions that are answered by this process include: How do the various products compare? When is your product most effective? Is it when interest rates are high or low, face amounts are big or small? Do dump-ins work well or do you prefer a term-oriented structure? When is your product least effective? Usually, of course, it is the reverse of where it's most effective. How do the results compare to results of prior surveys? Another way to ask that question, one that you may get from some of the other folks at the office, is, which way are we going? Are we going the right way or the wrong way? Are things getting better or worse? Finally, how does all of this compare to your marketing strategy and objectives?

As I said, nearly every company performs the competitive analysis function, and the reasons are simple enough. The product of the exercise is knowledge and, as a wise man once said, knowledge is power. Most clearly, you maintain a strong technical awareness of the market by going through the exercise of finding where your products rank in the market, and you clarify the trends of those rankings. Finally, I have always found it much easier to work with the marketing and field organizations when I have had a strong awareness of this information. Without that technical information, I had to give every phone call equal credence. With that information, I have been able to poke and probe and get at the real gist of what was causing the phone call.

Is competitive analysis perfect? No, no more than any other tool is perfect. Because the analysis is typically done from paper sources in the home office, it suffers an ivory tower feeling. It lacks vibrancy. Somewhat more subtly, it also implies that the customer is performing a similar analysis, and the sales decision is being based on a sheet of paper. In fact, sales are often based on more subjective factors. Finally, staying on top of the products of every major competitor, no matter which markets you're in, is expensive.

Now I'd like to switch gears a little bit and talk about the more qualitative side of the coin. I call this an analysis of the emotional side of competing. Personally, my most

effective locations for getting a current sense of the market are agent conferences. Here you get a chance to talk to a number of producers and ask them what's going on in their market. "Hi, Bill! Good to see you again. What's hot right now?" "Dorothy, I haven't seen you in a while. What's new in your market? Who's hot? Who's competitive? What do you need to be competitive?" Basically, you're walking around the room and, in a variety of ways, asking generally "How do *you* feel about things right now?" While these comments usually match fairly well with my competitive analysis function, they don't always, and that's something that you don't know if you don't get out and talk to people.

This system, if you can call it a system, isn't perfect either. You get misinformation, as I'm sure a few of you have experienced, due to personal biases and exaggerations. Consequently, you may not feel you're very effective the first time out. You may get back to the office and find you were hoodwinked 50% of the time. Don't worry, you'll get better at it. You'll be more effective each time out. Part of that will be getting to know the agents as individuals. If you can separate the wheat from the chaff, you'll get some great intangibles. Maintain contact with the street. Sometimes what this tells you is that the features that you thought were making Competitor A hot are not. You don't get this information by being at your desk.

Another positive is that the field force is reminded that you think enough of their opinion to get out from behind your desk and get it. But the most important benefit of the process is to remind you, the actuary, that sales aren't always analytical. Lots of forces come together in the field and some of them are very tough to quantify.

Let's move now from product-based analysis to market-based research. I'll define market research as the process of developing and maintaining an awareness of the changing tastes of the marketplace. There are some strong similarities between the methods used to gather market information and those we just reviewed in the product area. As before, we'll cover both technical and emotional methods, starting this time with the emotional methods of gathering information.

The three methods that are used are focus groups of customers or potential customers, traditional surveys, and the one that I think is a little underused is feedback from your customer service department and what they're hearing from people over the phone. Particularly in the somewhat free-form focus group, this technique parallels gut-feel competitive analysis. You get a chance to ask the questions that are important to you, but the answers come back in their own words. These comments are often reactive to the presentation the group just saw and thus aren't always particularly analytical -- a lot like real life. You certainly do get some firm information, but you also get a lot of impressions, tendencies, and inclinations.

When focus groups and surveys work, they're very effective. What you find out first is that your customers are very different from all the home office people you've known for years. Consequently, their needs, wants and opinions are different, too, and I think that's good information for starters. Often the feedback you get is direct and powerful. I've heard, "What a stupid idea! Who dreamed this one up?" Thank goodness I've also heard, "This is great!" a few times along the way. Finally, when the group reaches a consensus, it's very meaningful. You know you're onto something.

Unfortunately, it doesn't always work that way. Sometimes one opinionated individual dominates the entire group session, and you end up paying eight or ten people and only get one person's opinion. Also, different groups come to different conclusions. Consequently, you have to repeat the process many times to make sure that you've really gotten a true sense of the feelings of your marketplace. Finally, conducting focus groups requires some special skills and I don't think you begin to appreciate that until you've seen it done effectively a few times. I, for one, could never facilitate a focus group. Worst of all, I've seen quite a few focus groups end up telling us no more than the fact that they liked everything they saw and they want it all.

To complete my discussion, I want to end with some technical market research. I think we've actually worked our way around from what we do most commonly to what we do the least. The technique I want to talk about is called conjoint analysis. This is a system of measuring the relative strengths of the consumer's preferences. In conjoint analysis, consumers are given a slate of choices from which to pick. They're also given a limited number of points or dollars with which to reflect their preferences. By allocating their points or votes among the options, the consumers tell you not only what they like, but just how much they like it. Best of all, with limited points to spend, you eliminate the I-want-it-all syndrome.

By gathering information about preferences this way, you get a firm measure of the relative value of the choices presented to the customer. This can be analyzed using the mathematics of conjoint analysis to measure the interrelationships of the various factors. Because of the ability of conjoint analysis to reflect interrelationships, you can frequently modify your original design without having to repeat the research process. Conjoint analysis predicts the reaction of your market to the new configuration. That saves time and money.

A few examples of some real-life uses of conjoint analysis might help to highlight this. One company that I know of has used conjoint analysis to help design its long-term care product, thereby skipping several of the generations of long-term care products that you may have heard about. Another company has used the system to measure agent reactions to various commission structures, thereby picking the most motivational system directly, rather than by trial and error. Finally, another company has used the system to measure the relative value of various internal reports versus the cost of producing each report. This has helped to stop producing reports that are no longer of value and shift resources towards reports that are highly valued.

In summary, the technique is suitable to almost any purchase situation. I use the term *purchase* loosely, as I think some of the above illustrations indicated. You don't always spend money; sometimes the better measure is time. The feedback from conjoint analysis is very factual and organizable, so it's easily shared with others, which isn't always true of focus groups. The system itself can't be gamed by voting yes for everything. Points must be allocated and they are limited, so that allocating more to one item requires thinking less of another item. As a result, you can make decisions from the information without being surprised. The response is predictable.

MR. HELE: Don is going to give some of his impressions and experiences in using actuaries in marketing roles.

PANEL DISCUSSION

MR. DONALD A. GULOIEN: We're going to break all stereotypes that anyone has about marketing people and actuaries. The actuaries have been talking about marketing principles that you need to understand, and I'm going to end my talk with a call to action to bring some sensibility into the pricing process that's taking place. So it's a total role reversal.

My presentation is "Product Actuaries as Marketing Executives" and I think John asked me to speak perhaps for two reasons. Manufacturers Life is known as a good employer for actuaries, and we have put a lot of actuaries in very significant marketing roles, and also in very significant roles in managing business units. I think the other reason for inviting me is that he wanted an outsider's view and, although I've worked very, very closely with actuaries throughout my career in the life insurance business, I can bring a little bit of an outside opinion. I want to caution you that some of my comments, especially when I speak of the actuaries' weaknesses as marketing executives, are not necessarily my own personal feelings, but ones that I bring you from the field, or from other people who view actuaries as marketing executives.

I'll develop five themes in my presentation. First, I'll touch on the marketing roles that are played by actuaries at Manulife Financial. We use a number of terms and distinctions that are quite different from those used by most of the industry. Second, I'll talk about the advantages that actuaries bring to bear in terms of marketing roles. Third will be typical weaknesses (yes, there are a couple of weaknesses that I was able to identify). Fourth, I will make suggestions for actuaries who want to develop as marketing executives. Fifth, I'll talk about the actuary as an industry executive, and that's essentially my call to action.

In talking about marketing roles played by actuaries at Manulife Financial, I should explain that Manulife Financial is a highly decentralized company. We operate in the Far East. We operate in Europe. We operate in Canada and in the United States and also in the Caribbean/Atlantic. Virtually all of the activities related to each of those divisions has been decentralized, so essentially my division, U.S. individual, runs all aspects of its business, except for some investments. We do our own valuation, accounting, pricing, administration, field relations, etc. We essentially do it with a very small cadre of executives at the corporate level assisting us. I think that's important to keep in mind.

We also have, because of the nature of our decentralization, different organizational structures across the world that we operate in. Our organizational structure is a little bit different than that of my counterpart in the Canadian division, but I think most of what I talk about is transferrable.

I have chosen a pyramid to represent the different marketing roles played by actuaries at Manulife Financial, and I did that for two reasons. Number one, the pyramid shape generally reflects the number of people at each level. It also reflects the level, or hierarchy, or ranking of the terms that we use at Manufacturers Life. I want to caution you that in this triangle, I don't include a valuation actuary, an asset/liability specialist, or an accounting specialist. A number of very significant roles played by actuaries at Manufacturers Life would be off this pyramid; which is the marketing pyramid. I don't mean to imply that the role of the marketing executive is the highest

role you can achieve in the company. In fact, our marketing executive is going to be moving on very shortly to become our chief financial officer.

The foundation of the pyramid at Manufacturers Life is the pricing actuary who is typically a senior student or a fellow, who is responsible for the creation of the product, and the development of pricing programs and experience studies necessary to develop and maintain financially viable products. This person tends to be internally focused; that is, relying on other people to gather marketing input and make marketing judgments. So, the pricing actuary is at the base of the pyramid.

At some companies, the pricing actuary will actually have very little, if no exposure to the field. I've met people called pricing actuaries who have never met an agent. At Manufacturers, though, the pricing actuary has a great deal of experience in dealing with the field. That experience would start with special quotes and requests, and pricing and product design. The pricing actuary is a full member of our product design committee, along with members of the field and more senior managers.

At the next level is the marketing actuary, and I'm going to use that term two different ways. Here I'm referring to it as the Marketing actuary (note the capital M) with a specific notion in mind. Later in the presentation, I'm going to be talking about the marketing actuary as any actuary who's involved with marketing. At Manufacturers Life when we use the term *Marketing actuary*, we typically think of Fellows who have gathered a certain amount of field savvy. They have the ability to wheel and deal with agents and clients, and they are used typically in very specialized roles, such as at a rate desk for money products, or structured settlements or corporate-owned life insurance business. Essentially, these are roles where the art of the deal is often as important as any particular pricing assumption.

Because of the unique nature of the skills, and the tendency to use them essentially as a one-man operation, these people can develop and actually represent any number of levels in the organization. We have people we call Marketing actuaries who operate at the vice-president level, as well as people who are at a much more junior level, depending on the individual development of the person.

The guts of our organization is at the next level of the pyramid, and that is the product manager, a person who has the capability of managing a multiproduct portfolio, such as universal life products, group, life and health, or individual annuities. About 80% of the Manufacturers Life organization, and this is true of the Canadian division as well as the U.S., is aligned along product lines. So our administration areas, our systems areas, just about any significant area -- marketing, communications, etc. -- are divided up along product lines. The product manager in all cases is the strategic head for that product line and essentially determines the strategy. The product manager is the spiritual leader, if you will, for that product line, determining in what direction they'll go. Typically, the product manager does not have to fight with other product lines for resources.

At Manufacturers, resource allocation is a general management job. Some other companies use the word *product manager* to mean either one of two things: either a pricing actuary, or a marketing person who has some sort of product accountability. In our case it is a very senior general management job, and the people who do this

job have to possess the skills necessary to manage the full range of financial, marketing, administration and management elements having to do with their product line. The product manager's job requires the versatility to deal with issues as diverse as motivating computer programmers to work 24 hours a day in order to meet a missed deadline, reviewing marketing material to ensure that it is client friendly, assessing asset/liability management risks, managing marketing research, managing outside legal counsel, and selling their ideas to producers. It's one of the broadest, most interesting and most challenging jobs at the Manufacturers Life organization, and that's certainly where I got my start.

You can imagine my horror when I was interviewing an actuary for a product management job, and the actuary looked at the job description, talked to me for about two hours about it, and finally said, "Well, I guess you're essentially talking about a pricing actuary's job, but with some responsibility for creation of the glossies." I was horrified. I obviously hadn't done a good job of communicating what being a product manager entails.

Finally, at the top of the pyramid is the marketing executive. The marketing executive always has responsibility for a large organization. He or she either manages a whole range of product managers, an example being our vice president responsible for all our insurance lines in the United States, or heads a business unit with direct responsibility for all facets of the organization, which is how our Canadian division is run.

Actuaries typically bring to bear four major advantages in functioning as marketing executives. The first is obvious and that is understanding the financials, but it bears repeating in today's environment. Marketing of all types bears risk. For a manufacturer, it is the risk of accumulating inventory that may remain unsold, or too much investment in a single product or production source. In our business we have those risks, as well as the intrinsic financial risk of the products that we sell. The nature of this risk is changing. Less and less it is measured by the data in an asset share program. More and more we study risk by (1) understanding the way that a product is sold; (2) understanding the way the cash flows are invested; and (3) exposure to antiselection in the way people sell, buy or withdraw from the product. It's hard for me to envision an individual becoming a successful marketer at a high level in our organization, without having an exceptionally strong grip on the financials. Obviously, actuaries have more than a leg up here.

The second advantage actuaries have is the ability to deal with complexity. Some would say that actuaries create complexity, but frankly I think that is a cheap shot. Sit in a short meeting with the investment people, where they're talking about nonparallel shifts of the yield curve. Or talk to market researchers about nonparametric conjoint analysis. Or look at an agent's bonus schedule, which is a three-dimensional matrix based on production in Year N, production in Year N plus i, where i equals one to 20, plus the dollar-weighted persistency featuring retroactivity under some circumstances and not in others. If you look at any of those things, you know that complexity is well enfranchised in our business. It is common to all aspects of the business, and it appears to be here to stay. Actuaries are very, very good at dealing with complexity. More important than understanding complex concepts, successful marketing actuaries are able to distill them to very simple concepts so that

others, at the least, can understand the principles, if not the details, that drive some of the more complex parts of our business.

The third advantage actuaries have is being accustomed to hard work, and marketing involves a lot of hard work -- long hours, tight deadlines, constant pressure, the risk of making a mistake, the horror of making a big mistake. It seems strange to be crediting an entire occupational class with a strong work ethic, and I know that isn't fair to do, but frankly I have not met too many lazy actuaries. The corollary to this is that marketing actuaries in our organization are hard working and have been great support for me personally, as well as for our company.

It isn't easy getting your Fellowship. You don't get it by charming your professors or presenting the best oral presentation of your business case, but by hard work and dogged determination, knowing the facts and determining how to apply them very well to the problem at hand. Truly successful actuaries, especially in marketing roles, learn to leverage those skills by managing other people to perform with the same dedication; I'll say more about that later.

The fourth and final advantage actuaries have is that through their studies, or through on-the-job development, most acquire a fair degree of cross-functional education. In other words, they understand what other parts of the company are doing and how it relates to, and possibly impacts, their job.

Well, enough of the advantages -- now I'll cover typical weaknesses. You can see that I've been dealing with actuaries long enough to know that I can afford to be blunt. If I was dealing with field people or with the systems people, I'd say "typical challenges."

I also want to point out that I have a bias. In my mind, the advantages far outweigh the weaknesses. It might come as no surprise to you to know that all but one of our product managers in our organization is an actuary. The head of marketing is an actuary and when he moves over to become the CFO, we will most likely hire another actuary to replace him.

The most significant weakness is a toss-up between two things -- the inability to delegate and underappreciation of nontechnical skills. I honestly can't decide which one is more significant. The inability to delegate is, by far, the most prevalent weakness. In order to get to be a product manager in our organization, individuals must effectively utilize their skills through a broad number of people. The typical difficulty that actuaries have in this or any other management role is the inability or, more correctly perhaps, reluctance, to delegate effectively. Delegation is an art, not a science, and not all people can be delegated to in the same way. It's a confusing business. Different techniques are brought to bear depending on the relative levels of the employees, their personalities, their functional area. You don't pass off a job to a junior level communications specialist the same way you would assign a problem to an ASA; nor would you reward them or discipline them in the same way.

You take a totally different approach when delegating to those who don't report to you directly. It's called management through influence. For those of you who would like management to be more of a science and not an art, I'd encourage you to pursue

literature or training in what they call the contingency theory of management, which deals with different management techniques required to deal with different types of people under different situations. It is only the theory, though, and the practice is what will make you a good manager or, more specifically, a good marketing manager.

The runner-up for the first place weakness is not the most prevalent, but it is the most dangerous for an actuary who would like to be a marketing executive or pursue a marketing career. I call it underappreciation of the nontechnical skill base. You've got your FSA. You've passed it with flying colors. You've never missed an exam. Now you're ready to put away the books, work hard at your job, and move up through the organization like a skyrocket. Wrong. Does anybody know what's wrong with that? You never ever put away the books! You can put away one set of books, but if you truly plan to be successful, you immediately open another set of books. You start to study field behavior, classical marketing theory, management, investments, and underwriting. Never take for granted what others bring to bear simply because they have a different skill set, are nonprofessional, are less analytical, or are less able to express their thoughts than you.

When a certain level is reached in our organization, our staff, including the actuaries, attend a course called "Exceptional Management Practices." When asked how they liked the course, two out of three will respond, "Well, it was just a bunch of fluff, organizational development stuff, you know." That's scary. Managing people and organizations is no more fluff than valuation or pricing. It is different. The good marketing actuary never assumes that the agent only wants higher commissions, lower rates and better values. He or she understands the agent is an expert at interpreting human needs and responding to those needs, and then taps into that expertise frequently.

The third area of weakness is relying too much on analytical tools and approaches to the detriment of sensing; that is, gathering input from what you see and hear and feel in the heart, rather than in the head. Consider the great marketing successes of all time: About 45 years ago, the diamond was a very tough substance used in industrial processes, and some wonderful, smart people on Madison Avenue elevated it to become a status symbol that virtually everyone in this room has come into contact with. Think of the elevation of the running shoe to a $200 art form; the "Green" revolution; the appeal of a sleek and fast automobile. All of these were created by people who sense rather than analyze; who walk around, talk, see and feel rather than analyze data.

Steve has talked about gut-feel, about maintaining contact with the street, about active listening, about feedback. These are further examples of sensing-type processes. A good marketing actuary will go out and listen on his or her own, visit producers, talk with clients, listen to the complainers, in order to get inside how the product or service can be improved.

The fourth weakness is what I call the nine-decimal-place business objective, which is spending too much time on the numbers and not enough on the complex interrelationships and risks that will determine the numbers. Let me give you an example. This one bothers me more than most because my father was an engineer, and the number of significant digits, to an engineer, is very important. In our business, it's

less important. The pricing actuary says that this new product is now going to return better than a 14% return on investment. In fact, it's going to be 14.17% over the period, and that makes me feel really good. So I ask what the asset share rate is, and the answer is, "Well, we assume that the rate would be 9% for the next 40 years and then move to 6% forever." Now, given the likelihood that a 0.5% change in the asset share rate could eliminate most of the 14%, the assumption is pretty arbitrary. Does it make sense to express things to four significant digits? The answer is clearly no.

Other questions should be asked. Will you sell enough of this to recover your development costs, assuming a reasonable proportion of your product is no more than cannibalization of the existing product; that is, sales you would have had anyway? Is there anything about the design of this product or how it will be sold that will expose the company to more or less asset/liability mismatch risk? Is this going after new market, or is it attempting to penetrate what is already a highly saturated market and therefore expose the company to some form of hitherto unknown antiselection?

My point is not to make a statement about the number of significant digits, but more to say that as much time should be spent on analyzing the fundamental business issues as calculating the rates, values and product ROI. Another manifestation of the same problem is too much of a focus on the numbers, and a tendency to assume away other important variables. Examples include assuming, for instance, that 100% of a single-premium deferred annuity block will roll over for a second interest guarantee period, despite the fact the surrender charges are very low and the agent is being paid no compensation; that's just dumb; or assuming that none of your callable bonds will be called when interest rates drop; or assuming you can enter the brokerage market and still experience the same agent mortality.

Enough of the weaknesses. Here's how to address them whether they're there or not. I want to give you six suggestions on what an actuary should do to become a successful marketing executive. They range from the sublime to the tacky, but practical, and I'll leave you to guess which one is which.

The first is take some time to learn classical marketing theory, and then try to apply it to your own situation. If you're not familiar with the five "Ps" that David talked about, or some of the marketing research concepts that Steve talked about, take a night school course at a local college or read an introductory marketing textbook. Don't assume that it's fluff, or that you already know it because most of the principles are common sense.

Second, work hard to develop good, strong relations with the field. You know a great deal about how a product is created. When you go out in the field, they will attempt to ask you many questions. They do that for two reasons. They want answers to the questions, and they know that you have them. And the agents realize that 99% of the population likes to talk about themselves and things that they know, rather than ask other people questions. Turn the tables on them. Ask your agents about their last big case, about how they became attracted to the business, about how they prospect, or about the toughest questions that their clients ask.

Third, take a holistic view of our business and don't assume that the product is the be-all and end-all. Make it your job to know how your product will be underwritten, how the funds will be invested, how it will be launched to the sales force, and how the agents will react when they receive the information. Look for problems and opportunities in all of these processes. Try to determine gaps and inconsistencies.

Fourth, invest some time in learning to make effective presentations. There are courses that, for about $500 and one day of your time, will make you a more effective presenter. As you might guess, I haven't taken such a course yet, but plan to some day. For some of you, it may be a make-or-break proposition. If you don't take that course, you may never get my job or a product manager's job.

Fifth, and I'll give you a hint, this is the tacky one, dress the part. Appearance is important in our field, and in many marketing fields. Frankly, I think it's silly, but it's a fact of life. How many people do you see going on important interviews with their clients wearing tweed blazers?

Sixth, the marketing executive in all but a few industries, such as advertising and packaged goods, is inevitably a manager as well. Take some time to develop management skills and prepare to spend at least as much time managing people as you do managing numbers and ideas.

If you haven't yet figured out that I have a strong bias for the actuarial profession, I'll now make it clear. Actuaries of all disciplines form the backbone of our industry and will ensure that we keep the promises that we're making to our policyholders daily. Product and marketing actuaries, unlike other actuaries, are capable of understanding what is going on in virtually all parts of the modern insurance corporation. They're like quarterbacks, sensing what is going on all over the field and calling the plays that will inevitably move the team forward. As I mentioned earlier, with the growing complexity and growing need for financial rigor, product actuaries and marketing actuaries are uniquely qualified to quarterback companies through the 1990s.

Many of our companies are running off the field today. If you're taking the role of a marketing actuary or a marketing executive, I have to ask, are you doing your job? If your company is illustrating rates and values that you truly know to be unsustainable, are you doing your job as an industry executive? If your company is illustrating with very limited or perhaps no disclosure of risk in terms a client can relate to, are you doing your job as an industry executive? If you have moved your company into markets such as the older age substandard market, without totally revising your underwriting, are you doing your job? If your illustrations are suddenly beating the competition and you can't logically explain why that is happening, and you're using those illustrations to sell your product, are you doing your job? If you have never met your expense assumptions and continue to forward-price based on some economy-of-scale argument, ignoring the fact that industry sales are flat and likely will be for some time, are you doing your job? If you're selling a lapse-supported product and are assuming that clients will lapse at normal lapse rates, rather than the 1-2% that is typical of these products, are you doing your job?

We have seen the results of investment-driven errors in judgment in our industry. It is hurting all of us. In fact, opinion polls show that confidence in our industry is eroding

very quickly, to the level of banks and savings and loans. Yet we see examples daily of irrational pricing that are misleading at best and financially damaging at worst. I'm hoping that marketing actuaries will play a more influential role in ensuring that these excesses do not take place to the detriment of the policyholder in the short term, and ultimately to our industry as well.

If we focus too heavily on the problems facing the asset side of our collective balance sheet, it is easy to start ignoring the risk and fundamentals of the liability side. As I said, you are the backbone of our industry. Let's make sure that you are developing as marketing executives, but are also playing a part in ensuring that our industry manages prudently into the future.

MR. HELE: I'd like to thank all of the panelists for spending a great deal of time in presenting short, concise presentations. That's exactly what marketing is all about. It's spending a great deal of time preparing and delivering a very clear message. I think there are two concepts that I heard that I'd like to leave you with. The most important one is that price is determined by the market. The key is knowing what it is you're marketing and what the price is that the market will bear. Price is not determined by actuaries.

The other key principle is that perception is reality. If you want to think about it a little more, think about Nike and Reebok. Are they marketing running shoes, or are they marketing the opportunity for a young kid to be a better basketball or football player? If that's what it is they're marketing, then what is the price that a person is willing to pay for that? How much do you think it costs to make Air Jordans in Taiwan? If you were cost-base pricing, I don't think people would be spending $150 and $200 for a pair of running shoes with clear plexiglass on the bottom. You have to think about that very carefully because there are many examples in everyday life. The insurance industry needs to, I believe, work on marketing and work on marketing trust, because trust is really what we are selling.

MR. STEPEHN L. KOSSMAN: I'd like to revisit the recommendation of giving the keys to the inmates. I think that it may make a big difference who the inmates are. If you're dealing with a market in the higher socioeconomic group, where customers are well aware of their need for insurance, where they look at different companies and maybe even seek insurance, you typically will find very knowledgeable agents. In that case, much of what was said today makes sense to me.

However, my company deals with debit agents and average-size policies of, in some cases, around $25,000. The typical policyholders don't understand the concept of why they should pay premiums while they are living, if they are going to be dead by the time any benefits come around. There's very little competition. The agent may have been selling encyclopedias last year and may be selling vacuum cleaners next year. If we're going to leave it up to the agents to decide what the premiums should be, I don't think they would even know where to start. I can see them providing valuable input as far as what amount of sales there could be at different premium levels, perhaps more because of affordability than because of competition, but not necessarily knowing the number of sales that will maximize profits. My question to the panelists is, would you agree that perhaps these recommendations are more applicable in some markets than in others?

MR. HELE: What's critically important here is to understand the difference between marketing and sales. Many insurance companies I've seen have not had what's considered to be a traditional marketing department.

MR. FISHBAUM: That would be my comment, too. I didn't say the agents should be setting the premium scale. I said it was the marketing department, and I think the marketing department has as much interest in your company, as well as the customer base, as the actuaries do.

MR. GULOIEN: I would agree with you, that if your distributors are, and I don't want to put words in your mouth, as ill-educated as you describe, much more of the work in determining marketing strategies has to be done at the home office level. That's quite akin, I suppose, to what a bank does or perhaps to direct marketing -- essentially, lower level staff pushing the product and marketing decisions being made at the home office.

MR. ROLAND R. ROSE: A few years ago, especially in the late 1980s, the perception of how much the value added to the cost seemed to be distorted. It seemed as though the marketing department said that you must provide this, you must provide that, and we cannot sell any of it unless you provide for no expenses, or something like that. How do you respond to that?

MR. HELE: Well, I think every business is faced with wanting it all. The key is what you can afford, and can you differentiate yourselves to get the most price you possibly can? Marketing should be getting the price that the market will bear, not what the price is that you can offer it at. Sometimes we look at it as what price we can afford. If you can't afford it, you shouldn't be marketing the product. That's the key. Redefine your market, redefine what it is you're selling, and come at it a different way. You have to differentiate.

MR. FISHBAUM: The other thing I'd like to say concerns the earlier comment about compensation. If all your marketer is doing is selling, and all of the comparison is on volume versus profitability, you'll get more volume. You have to compensate on profitability.

MR. HELE: Maybe Steven can talk about how technical market research can help in that regard.

MR. BOGER: Well, the function of conjoint analysis is to determine which things are of what value to people, and the marketing executive who's allowed to say that all of these things are needed, without saying which ones are needed more, and which ones are more worthwhile, is being allowed to run around the end of the entire system. It comes back to what David said. There's not enough responsibility being given to that individual when he or she takes the floor. I vote for changing the responsibility that goes with stating the opinion. That was very easily said, and if you can achieve it, it is the key to success.