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Policyholders: Your Lucky Charms

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Summary: Perhaps your best prospect list exists on your own mainframe. But even if you can access this file, what can you do with it? This panel shares how to overcome the obstacles presented by this tantalizing source of guaranteed success and then explores what might be in the future as nontraditional techniques are brought to bear to realize this "pot of gold."

Mr. Jay M. Jaffe: I'm not only taking Terry Dunn's place, but I'm also taking Nancy Church's place. But we will have a lot of fun anyway because this is more or less a repeat. I've been doing a lot of work in this area. I was asked to make a presentation for the Life Insurance Marketing and Research Association (LIMRA) last January. I know none of you were there, so this will not be a repeat to you and I hope you will find it fun and exciting. It is going to be directly on the topic. This is a very small group. I think there are only about 25 of us, therefore, please interrupt with questions, comments, challenges, etc. Do not wait till the end. Let's make it a participatory session and benefit from each other's thoughts and experience, since I'm only one speaker.

The topic that I am going to speak about, which is essentially the topic of the meeting is, policyholder marketing. I approached policyholder marketing in an agent company, but it doesn't have to be restricted to that. It could be in an agent company or a direct response company. It doesn't matter where it is.

Policyholder marketing has several benefits that I have seen and observed. For example, the first reason for policyholder marketing is you get a 5–20% increase in your sales when you do policyholder marketing and if you're an agent company. Now where else in your companies can you simply turn a button and increase your sales by 5%, maybe 10%, or as much as 20%? I know of no other place. Especially as companies are consolidating among themselves, having groups of companies or fleets of companies. This becomes even more powerful.

The second part about policyholder marketing is to reward your frequent flyers. You have got to think about that. Our frequent flyers should be our best customers. We also know always that our current customers, by definition and practice, are our best customers. Why not go after your best customers? There's just no reason not to. They are your best customers. Just to illustrate what's going on in the world about customer marketing or policyholder marketing, although these are not policyholders but frequent flyers, here are some of the brochures that I've pulled out of my files from what the airlines will send you on a monthly basis: buying equity funds, Hyatt Hotels, a golf subscription, and insurance for safe drivers. I could keep going on and on. Cruises, life insurance, casualty insurance. Why do you think these frequent flyers are in your brochures or your mileage statements, month after month after month? The obvious reason is that they sell. By the way, for those of you who are not aware, getting into these monthly mailings is very competitive and costly at times. You don't get in for nothing. If you were doing Visa or Mastercard, it's the same thing, or an oil company credit card. Getting into those monthly statements to the customers is something that requires planning, as well as what's in it for me, to the sponsor of the program.

The last reason for policyholder marketing is to use your advocates. This is a very important piece, especially in an agent's company.

There are some other policyholder marketing benefits as well that are very obvious. I think they need to be stated. First, increased policyholder persistency. When a customer has multiple relationships with your company, that individual has higher persistency, everything else being equal, as compared to a person who has only one relationship with your company. We can increase that level of persistency by some other things, once we have multiple relationships with that individual.

Second, is lower acquisition costs. Policyholder marketing is an area where you, if you're in the direct response business for example, will find that your response rates are enormous. If you're doing it through an agency system, you will find also that the number of people who buy into the offers that you make to them is enormous. On direct response you could easily see a 5% return, perhaps as high as a 25% return, meaning that one out of every four individuals, or your policyholders that receive an offer from you, accept that offer. If you do the mathematics, it doesn't take a rocket scientist to figure out that the cost of that offer is almost nothing. The acquisition cost is almost nothing. With such high response rates, acceptance rates if you want to call them that, you will find the cost of doing these programs very manageable.

Third, utilization of advocates, or the creation an advocate group. That's a very important segment of your policyholder marketing department, so to speak, and we will get to that in just a second. But first I want to talk to you about Pandora's box. You've all probably used that expression, right? To open a Pandora's box? OK, at least I have. I wondered what it was for a long while. To open a Pandora's box is to set in motion a connected series of misfortunes that can be neither controlled nor terminated. That's the real definition of a Pandora's box and the explanation for it. When you use that expression in the future, remember what it means—to set in motion a series of misfortunes that can neither be controlled nor terminated.

I have a simple marketing model that I want to engrain in you as marketers and/or actuaries, whichever discipline you're coming from. If you take nothing else away, this is the triangle that you should remember. We start in any market with suspects. In the U.S., for example, there are approximately 275 or 280 million suspects. The next thing we do is we break those people down into prospects. Basically, if we were selling to the over 65 market, the number of prospects would be people who are 65 plus. That would be maybe 50 or 60 million people instead of 280 million people.

From the prospects we create customers. By definition, a customer is an individual who has purchased exactly one product or service from you or your company. Again, I say product or service. It doesn't necessarily have to be an insurance product. You could be doing anything to attract that person, and even in the agency environment you can wind up selling other products or services. A good example would be if you're selling mortgages. You would attract a customer by a mortgage. That customer could become a client. By definition a client is an individual who has purchased more than one product or service. A customer is somebody who has purchased exactly one product or service. Clients are those who have multiple products or services from your company. The last piece of the triangle are advocates.

Advocates are those groups of individuals, relatively small in number, who will tell others about your company. So, in a policyholder group, one of the hidden advantages of doing policyholder marketing is creating a larger advocacy group. Those are the people who will tell others about your products and services and your company, and that word-of-mouth advertising is priceless. You can't afford that. No way you're going to get it. Policyholder marketing will help you build this small, but very vocal and extremely important group of people called advocates.

Policyholder marketing programs. First of all, involve your company's database. I don't care whether you're doing this from an agency perspective or a direct response perspective. You can't do an effective policyholder marketing program without a database. If you can't find out who your policyholders are, how can you market to them? If you can't find out who your policyholders are in another division of the company, and you want to sell them products from your division, how are you going to do it? You must have the database, so you have to find out what your company's database is like. What's it doing? How is it working? What are it's parameters? What information is there? What information isn't there? How accessible is it? How often can you access it, etc.? That's the first step.

Second, you must have add-on riders. These are very, very common programs, especially if you're selling life insurance. People have not bought an accidental death. People have not bought waiver of premium. That's an example of an add-on rider. You will find very, very high response rates in certain segments of your market. Even when there is an agent involved, they may not have wanted to ask the question, "Do you want the accidental death benefit (ADB) rider? Do you want this rider? This benefit?" Assuming you find the right form, add-on riders are very, very easy to sell and very, very profitable as a result.

Policyholder marketing programs are just another word for a term conversion program. Those have been around for a very long time and in many companies they are very, very successful. If you're running an insurance company, pay very close attention to what noninsurance products or offers you can make to your customers. You have to distinguish between, in this environment, whether you are running a manufacturing facility or a distribution facility. In my mind, as an actuary, I know we're running a distribution facility. We're not running a manufacturing facility. Therefore, if your customers will buy from you a noninsurance product, rather than an insurance product, learn to sell them a noninsurance product as part of your policyholder marketing program.

Why do policyholder marketing programs fail? You must have data. The flip side of that is why do policyholder marketing programs fail? Lack of data. I once encountered a company that had three different products and three different programs on three different computer systems. They had life insurance, property and casualty (P&C) insurance, and a mutual fund. Each of those three divisions had their own computer system. Each of those computer systems could not communicate with the other. That's one example.

Sometimes the computer systems don't even have pertinent data on them. How many of your computer systems do not have current customer telephone numbers. I see a head nodding. If you happen to be in work site marketing, which is an agent distribution program, how many of those records contain the customer's current address? Many of them don't even have an address on the record for work site marketing. So, lack of data is central factor in why policyholder marketing programs fail.

Reason number two is conflicts between the agency force and the home office. What we're dealing with here is, who owns the customer? I think that there is no delineation in these markets between whom does what best. I think the agent does a lot of things better than the company, and the company potentially does a lot of things better than the agent but we don't all get together and say, "Let's split up the responsibility." So we have these conflicts. You won't touch my customer. All right? Without me involved, you won't touch my customer! When was the last time you talked to your customer? Well, six years ago. I had my P&C policies with a very large, well-known mutual company, I won't mention their name, but they used to sponsor Jack Benny and some other programs, if you remember who that was.

The point is, if my agent walked in the door today, I wouldn't know him. Physically, I don't remember the last time I saw this agent. When does he contact me? Not very often. I don't know whether he'd allow the home office to contact me directly.

The third reason the policyholder marketing programs fail, is very simply, you don't have products and you don't make offers. You don't have the right products and you don't make the right offers to people. You often have to create, I should say, special offers, tailored to these programs. Not all the time, but often you need to do that. So that's a third piece of it.

Probably the most important reason of the four, however, is that policyholder marketing programs need to be a line-of-business. From my experience, I don't know any company that actually has a department, a vice president of Marketing, or so forth, who is responsible for policyholder marketing programs. Unless and until that happens, most of the time you're not going to get optimal results and often you will fail. Policyholder marketing is just as important. It's a line of business. It's just as important as acquiring new customers. You will find with the mentality that exists in the insurance industry, that it will be very, very difficult for people who are not responsible for this activity, to devote themselves to this activity, without getting their efforts diluted and channeled into something else. I have a problem with this group or with that group. Policyholder marketing needs to be a line of business. If you get into this, make sure there's somebody in your company who is responsible for this line of business.

Here's another one you may have heard about. A Hobson's choice: A circumstance in which there is really no alternative. You're given a Hobson's choice sometimes, in which you have no option really. There's no good alternative and that is a Hobson's choice, so you can use that expression sometimes when you're feeling squeezed by the marketing department who wants the premiums lower for example.

Dealing with customer databases. There are three elements that you need to work with. First, identify the needed data. Every type of policyholder marketing program may have a piece of data that is slightly different from others. For example, age could be one factor. Sex, lifestyle, whatever it is, you're going to need to identify what you are intending to do.

It follows, therefore, that when you find a piece of data that is missing, you have to identify it. That's the second step, so don't compromise. You don't try to go out and do something with incomplete data. It's not going to work. You need good data. And the third thing is, consider enhancing your data for those elements that are missing. Anybody who doesn't understand what I mean by enhancing data? Adding data. In fact, going outside of your companies to find the data. If we're talking about telephone numbers, there are plenty of places outside of your company where you can find phone numbers, for example if you have an address or some other record locator on the person. You're not going to be 100% perfect, but you might be able to get 90–95% perfection. You're not going to get unlisted phone numbers, for example, and people who are not paying their phone bills. But you will be able to get a large number of the telephone numbers if you want and need them.

If you're dealing with policyholder marketing in an agency company there are several steps that I think you need to follow. First, you have to obtain the agent's volume. This has been my experience. You can't ram it down the throats of the agents. They will not accept it that way. The policyholder programs will fail if you do that. You must obtain their buy-in to the program. You must keep them informed. You must keep them involved. You don't go behind their backs. If you're sending out a mailing to one of their policyholders, make sure that they know that mailing is going out, and that they accept how your program is working.

Second, to ensure a successful program, test the programs. We don't know if it's always going to work. We're actuaries. We're quantitative people. We should be involved in the testing of these programs. Try them, find out which ones work, select, revise, edit, go back, and then try them again. To the agents now, you also have to convince them that these programs will develop additional revenue. I call that, as other people have, the WIIFM demonstration—What's In It For Me? You're going to pay the agent's commission. You are not going to do this if you have an agency company and simply ask the agent to bring you a customer, and then shut out that agent from the compensation stream afterwards. I don't think that's appropriate, or fair. Besides, the agents won't accept that.

You also need to demonstrate to the agents, not only are there dollars involved for them directly, because you're going to be paying commission, there will also be increased client activity. I will give you a short example of this.

Years ago, I did a project with a company that had as its symbol, the red umbrella. This is what we did. We sent out a mailing to agent's customers for a term-life policy. Essentially, you probably could have bought a term-life policy from the agent directly. It had some limitations to it. Of all of those mailings that were sent out, we observed that there was profitability from the mailing itself, and the agents received commission, and there was a very significant increase in activity among those customers who received the brochure in comparison to the agents' other customers who did not. It wasn't a controlled experiment. We don't know why this happened. We can guess. One of the reasons might be, the agent, knowing that the agent's client needed insurance, called up the client in advance and said, "This is coming, but you really don't want that. It's not $75,000 of life insurance that you need. We've been talking for a year about this $500,000 of coverage. Let's finish this up right now." It might have been the opposite. The customer received the phone call. What if the customer called up the agent and asked, "Is this a good deal for me?" The agent might have said, "Yes, it's a good deal for you," or, perhaps, the agent said, "No, it's not a good deal for you. Let's talk about the type of life insurance that you need." In any event, we had demonstrable increase in activity among the people who received the offer, in comparison to those people who did not.

I would advise you strongly that when you do the programs, that you allow your agents one chance to opt out of the program. Give them a card that says, "If you want to opt out of the program, sign on the back of this card, and we will not solicit your customers. You will not be part of the program." This was also part of our program back at the Travelers. I have the statistics on what percentage of the agents elected to opt out of the program. Let's take a guess here. Anybody have an idea of what percentage of the agents opted out of the program?

From the Floor: Five percent.

Mr. Jaffe: Five percent. Anybody else want to guess?

From the Floor: Twenty percent.

Mr. Jaffe: Twenty percent.

From the Floor: Thirty percent.

Mr. Jaffe: You're wrong. When push came to shove, when the rubber hit the road, none of the agents opted out of the program. They had a onetime opportunity to get in, and a onetime opportunity to get out. I think we did a very good job of showing them that this was going to be successful and this was not the first time it had been done so that none or 0% opted out. Again that's how important this piece of it is.

Finally, coming back to what's in it for me. You will have to pay reasonable compensation, and you will have to explain that compensation to the agent. You don't have to pay them a full first year commission. That is not what we're saying. But you can't pay them a 1% commission. You will have to find something in between that's consistent with how the program is working, and what effort the agent is expending in this program. What we're doing is developing a program where the agent almost doesn't have to expend any effort to get commission. A 1% commission is just not something that the agents are used to. I think physically it just doesn't sound good, 1%.

The products and the offers that you put into your programs have to relate to your policyholder base. This is a ridiculous example, but I'll give it to you anyway. If you have a policyholder base of senior citizens, don't sell them a high limit YRT policy. It doesn't make sense. Similarly you have a group of young people don't try to sell them large amounts of universal life insurance with a high premium. It's not going to work. You must relate the base of your customers to the offers and products. They have to be consistent.

Second, if you're selling insurance products, wherever possible use riders. Don't create new policies. Why riders? Look, you already have the people who are paying you a premium—just add to their policy. It's much easier. Second, riders are much cheaper to issue. You don't have to issue all the paper; you can essentially turn back one or two pieces of paper to the customer and add this to your policy. There's less expense up front. Riders just work better than do entire policies.

Also, it's more continuity with what you've been doing. If the customer is sold on your first product, they'll just add the rider to it, which is much easier.

You will find that levels of response are inverse to the premiums. In other words, the higher the response the lower the premium you ask for. Conversely, the less premium you request the higher your response will be. A $2 a month additional premium will have a much greater response than a $200 a month additional premium. The economics may work in either case. I'm just saying that a smaller premium produces a higher response to any of these offers, whether it's to the agency system or the direct response system.

When I speak to nonactuarial groups, I think that they don't understand this. But I think you people will. Small extra premiums actually work. You can survive on additional premiums of $2–3 a month, $36 a year, $40 a year, and produce profitable business because you're going to do this a series of times. You're going to get people to buy perhaps two or three of these offers over time. I'll give you an example of this. But first, I'll tell you about the real McCoy.

There was a gentlemen by the name of Norman Silvi Kidd McCoy. He was a champion boxer, who was born in 1873 and died in 1940. He once decked the bar patron who didn't believe that McCoy was who he said he was. The crowd announced that he was the real McCoy. And that's how that expression came to be. It's not because there was a fight in the backwoods of Kentucky or Tennessee, it was because of this boxer Kidd McCoy.

This is an example of how small premiums can be very profitable. If you send out offers and get a 5% response, you'd sell 50 riders or policies. If the cost per offer was 80 cents, total cost would have been $800. The rider cost would have been $16 a rider, $36 annual premium. That's a marketing cost of 44% of the first-year annualized premium and most products can support that. The way we price that’s a fairly low acquisition cost. Obviously if the response rate is 10% instead of 5% that gets cut in half. How many areas of your business are there where you can acquire new business for 22% of first-year premium? I don't think there are many. Policyholder marketing is the area.

To make policyholder marketing a line of business perhaps one of you will become the vice president in charge of policyholder marketing for your companies when you go back. You have to set definite targets. You can't simply say, “we're going to do it.” It would be nice. What about setting targets such as a percentage of your existing customer base? If you had 500,000 customers, what if you said 5% of them this year will buy something extra from us? That means 25,000. That's a good way to do it. Set it as a percentage of your existing customer base. How many will buy something from you in a given period of time? You must set a target of some kind. If you don't have the target, it's not going to work.

You also need to assign a product champion. There has to be somebody who's vice president of policyholder marketing, or whatever you want to call that individual, who is actively involved in this process. I said it before and I'm saying it again. We need a product champion, a program champion of some kind. This is a line of business, just like every other line of business in your company.

Here's another expression you may have heard of—top dog or underdog or top notch or underdog. When logs were cut by hand the sawer was on top, and that was the person responsible for guiding the saw at the top notch. Logs used to be sawed over pits. There were two people saws. Obviously the dirty job was the worker underneath who became the underdog, and that's where all the sawdust would drip down. So you always wanted to be the top notch person, or the top dog. That's the best of the alternatives. You did not want to be the underdog, that person underneath.

Policyholder marketing increases a company's ROI. There are two ways to look at this. Perhaps the actuarial area would look at it as ROI, traditional actuarial measures. Again, I've shown you how policyholder marketing will be less expensive. Less expensive acquisition cost, translates into higher ROIs in your product. But I think, as many of my colleagues do, that there's another ROI to remember. This ROI is return on information. This is the pot of gold at the end of the rainbow. When you are capitalizing on the information in your company, we're really talking about something quite simple here. You have all of this data in your policyholder base and you're not using it. This is the best quality data your company has. The less speculations, the less marketing cost, etc. And it's not being used. Once you have that information this is how you maximize its value. So ROI is not only return on investment, but it's return on information.

We have one more for you. Blue jeans. This is interesting. I didn't know about this one until I did some research. Heavy toiled cotton fabric was originally made in Genoa in Italy, so it became known as Jean or Genoa. The blue came about after somebody dyed a lot of Jean blue and hence it became blue jeans. That's what Levi Strauss is famous for. So Genoa, Italy is the birthplace of blue jeans.

Mr. Robert A. Marks: One of the things that I've been a proponent of is the possibility of offering multiple policy discounts to our existing customers. Is this something that other companies are doing? I'm getting a little bit of flack from our legal people on this. And also, of course it's an administrative challenge. But I was wondering if other companies are doing this, under what grounds, and how they are doing it. Through multiple factors? How are they getting this through the states and so forth?

Mr. Jaffe: Is the silence because nobody is doing it?

Mr. James R. Thompson: When you say multiple policies, you mean if you sell a term to a man and a term policy to his spouse, you discount the policy fee? Is that it?

Mr. Marks: What I was referring to is one customer purchasing more than one policy for our company.

Mr. Thompson: So you're dealing with local policies to one person and not to the spouse. OK, I don't see what the legal problem is. But I don't have any comments on that subject. I deal with the spouse.

Mr. Jaffe: I don't believe that's unfair discrimination, if that's what your legal department is talking about. I think there's a price justification for it. You can send out one bill. So you're wondering if you can send out one bill?

Mr. Lawrence E. Engel: We used to do that years ago. We'd sell a life combination discount with life and disability insurance (DI) sold together and we discounted it differently. Depending on if they were sold at the same time, we waived the policy fee on DI policy. If they added a DI policy later to a life product, we just gave them a reduced mode factor discount. The justification was the expense savings. You got lower acquisition cost—one set of underwriting and one set of issues cost. Actually I issued two separate policies, giving them the same policy number on the system so that they were tied together. They haven't done that for a long time though.

From the Floor: Why didn't they continue it?

Mr. Engel: I am not sure. It got to be an administrative hassle I think. Different system changes and so on. Because your systems aren't talking to each other.

Mr. Jaffe: Think how you could even change that around a little bit. Improve the concept he's talking about, which is something that's not done in the U.S. but is done elsewhere, which is a bilateral contract agreement with your customer, not a unilateral. In fact, if we do this for you do you agree to have this policy inforce for at least five years? What would that do to your persistency rates?

Well, they have an obligation to you. They have a contract that they had signed. It's not that you can drop it any time you want. You have a legal obligation to pay the premiums, which in this case is five years. We'll give you a discount, but this is what you have to do. You can also reprice it because the people are hopefully more persistent.

From the Floor: Do you have any way to enforce the contract?

Mr. Jaffe: Well, nobody's doing it. Our culture in this country isn't like that. So we'll have to get an attorney and a couple of goons with baseball bats and then we'll enforce it.

Ms. Theresa M. Resnick: This concept you're talking about is pretty common on the P&C side. Is that due to rating classifications? I don't know how they do it on the P&C side.

Mr. Jaffe: I'm not sure either. Does anybody know what the justification is if we're talking about legal justification? Maybe it's just because they're set up this way with their systems being able to handle the multiple policies if you have your homeowner insurance and your life insurance, or if you have more than one car covered with us, or if your kid's car is covered by us even though they're under a different policy.

Who knows anything really interesting that they can share? Who's doing something not so interesting that they can share?

Mr. Thompson: I was wondering if we could go a into more depth on how to get useful information out of companies' databases, or what some companies may have in the databases that others don't.

Mr. Jaffe: We have a volunteer.

Ms. Barbara L. Snyder: I think most life insurance companies are finding out that they haven't done a very adequate job of gathering information in particular the reason for a purchase and getting agents to say, “The need that I was trying to meet was estate planning or whatever it is.” One of the ways that many companies, General American included, are going about this, is in the data warehouse. It's a huge technology project, but we're combining all the data we're looking at, the database warehouses and all the different places that you have information, and bringing it to a central database that you can then access and use, as you look at going forward. But you have got to do a lot of background work before you can get to the point that you have the information you need to do the policyholder marketing.

Mr. Jaffe: What do you do for example with respect to policyholder marketing when you have a customer inquiry into your policyholder service division?

Ms. Snyder: Well, obviously, we do have the automatic interfaces. But when you're looking to the policyholder data, the database warehouse is gathering information to make that easier so that the policyholder service person does not have to go to multiple sources to gather all of the information. As people have mentioned, when you have policyholders with multiple policies you have to be able to see what all the policies are that your policyholder has with your company—not just looking up a policy number for a policyholder, when they may in fact, have in their family four or five separate policies on different members of the family at the same address. That's part of the householding information and all of this comes together. But the information is obviously available. General American is getting a lot better at it, and we're pretty far along in the process. But it helps even in your policyholder service, so that people don't have to go to multiple sources for the information that they need.

Mr. Jaffe: What do you do when somebody's application is approved? Let's forget that they've ever had another policy with you.

Ms. Snyder: Well, we sell through agents. And that information goes back to the agent.

Mr. Jaffe: But pursue this for a minute. The very basic policyholder marketing program would be activated as soon as somebody is approved, and an offer is made.

Ms. Snyder: Sure. I guess many of the things you've talked about are things that General American is looking at. But we're still building the structure that allows us to do that effectively.

Mr. Jaffe: In my opinion, I don't think you have to wait till you build a structure. I think you can start with pieces today.

Ms. Snyder: And we have, yes.

Mr. Jaffe: OK.

Ms. Snyder: We have an area that is actually staffed by people who are licensed to sell insurance. Although they are not independent agents they are able to respond to questions, to give information about additional insurance, particularly for orphan policyholders, who call in with questions to further a potential sale, and to strengthen the contact and the relationship between the company and the policyholder directly. If there is an active agent involved, once a discussion is held that's referred back to the agent. If there, in fact, is no agent involved, which is truly an orphan policyholder, we've made offers to agents to say, “Would you like to have these orphan policyholders?” If the agent says, “No, I've got more people then I can handle now” they are truly orphaned. We continue that contact one on one.

Mr. Jaffe: If anybody has a group of orphan policyholders and you're not marketing any of those folks, you're missing a golden opportunity.

I'll tell you a quick story, I was involved with another company in Hartford, and they had a fairly substantial group of orphan policyholders, and they wanted to have a policyholder marketing program. I said before you do that, why don't you make some phone calls and find out how the people think about your company. Make sure that there's a relationship there. You want to prove it to yourself. The woman I was working with, Sandy, made 25 phone calls, and on 1 of the phone calls, the conversation went like this: "I'd like to speak to Dr. So and So." The woman who answered the phone said, "I'm sorry, the doctor isn't home. I'm his wife, why are you calling?" She said, "I'm calling from the ABC Life Insurance Company. This is not a sales call. You have a policy of ours, and I'd like to find out what you think about the company etc." And the woman said, "Gee, your call is very timely. We're thinking about revising our estate plan and nobody has contacted us for years." The long and the short of it, Sandy referred this woman and the doctor to one of the agents in the area. Six weeks later the first year premium on the policies came back. I think it was for about $55,000. One out of 25 phone calls. This is a very, very powerful opportunity.

Ms. Cheryl Ann Zurcher: Throughout your presentation you mentioned adding riders is a very profitable way to market to your policyholders. How do you adjust the Technical and Miscellaneous Revenue Act of 1988 (TAMRA) and modified endowment contract changes with respect to those material changes?

Mr. Jaffe: I think that's a fantastic question. If you were doing this to an existing life policy, the riders I was referring to might not fall under that. But again, some of them would. I don't have an answer for you. Does somebody have an answer? I think you'd have to be conscious of it and you would have to have some kind of algorithm to go through and make sure that the riders were not putting the policy in jeopardy. There's a big silence here so I guess we can't help you. But you would have to do an algorithm if it's that type of policy because you'd want to know which offer to make to which customer. That would be part of the algorithm that you would go through. If it's this type of policy with this type of rider, go over to this part of the program and check it out. Because right now, you have the same problem if it's not an add-on. If they called up and asked you, right?

Ms. Zurcher: Right. In that situation you're at least talking to them and you can explain the window.

Mr. Jaffe: Well, we'd have to put in a positive spin to these people, but I think it can be worked out. I'm never afraid of that. Communication is not the problem.

Mr. Frederick S. Townsend, Jr.: In your presentation there were some points that I found interesting that I would endorse. I say that because we're doing work in this area. Number one, you said, reward your frequent flyers. Number two, create an advocate group, which I feel is very important. Number three, you mentioned noninsurance programs. Could you elaborate on that?

Mr. Jaffe: Sure, that's an easy one. A simple example would be prepaid programs, which I consider noninsurance programs. There's really no insurance involved, for example "legal insurance," dental and vision plans. You could come up with any variety of other programs. A great example of noninsurance programs that are offered to current customers is provided by USAA. We took the nontraditional marketing section there three, four years ago. This building is the second largest office building in the world next to the Pentagon. In this building, not only do they have their P&C and life insurance, but they have credit cards, a travel club, and other forms of noninsurance programs. I would say on this one it's your creativity and what your customers would like to buy from you. If you can sell widgets, sell them widgets. They're your customers.

The most interesting company that's been created, although it has recently stumbled, is Cendant. Are you all familiar with Cendant? Never heard of Cendant? They've heard of you. Ever hear of Avis Rent-A-Car or Howard Johnson? I don't have their whole litany of stuff. They own Howard Johnson, Avis, and they're building relationships with probably 120 or 130 million Americans. The number is staggering. By the way, they just bought American Bankers. Ever hear of American Bankers? Why did they buy American Bankers?

From the Floor: Specialty insurance.

Mr. Jaffe: They bought them because they're already in 8,000 banks, or whatever the number is. They already have the contacts. So Fred, you can sell these people whatever they want, we don't care. I don't care.

From the Floor: You touched a little bit on marketing to other divisions clients, and I was wondering if anyone has any experience with marketing to your group contract holders, and what pitfalls to avoid or just what you've learned in that area.

Mr. Jaffe: Anyone want to respond? I'll start it off by saying, I think you have different distribution channels. I think part of the problem that we have is structuring our companies. We often have a group division, an ordinary division, an annuity division, whatever. We have lines that are like this. We're on product. I think the problem you're going to run into is that distribution philosophy as opposed to they are a customer of my company. I think there should be one marketing department. The edict is that if you are a customer of my company you can be contacted by anybody here. Or we'll find a way to do it. So the biggest thing I would think is, how do you tell people in the group department that the ordinary department or the annuity department is going to go after their customers? It's very difficult to get that across without a single marketing concept in your company.

I would say the first thing that you have to do is, organize around the customer as opposed to around the product. Cendant is organized around the customer; they're not organized around products. Their stock stumbled because they were cooking the books. The stock went from about $30 down to about $20. It's going to be very interesting to see what happens, but they are customer oriented. The most important asset that you have is that policyholder essentially unnamed.

Ms. Resnick: The way I was viewing the discussion was in terms of the policyholders that we have right now, and how we can market to them. Can you discuss or elaborate on looking at it as that prospect walking in the door? What's the marketing opportunities with them as they go on?

Mr. Jaffe: Sure. The first obvious thing to do, Theresa, is when that customer walks in the door, you must have a variety of products and services to offer them. They don't always respond to the first offer. So the first thing I would suggest is that you must have a tree to go through. If you don't respond to this you may go to one of these two or these three. The second thing is, if you do respond to an offer, for example if there is underwriting, or even if there isn't underwriting, you will find the upgrade-at-time-of-issue offer. Powerful again, the numbers are staggering. Probably 20–25% of the people will accept an upgrade offer. Anybody doing this? Yes, you are. Am I right or wrong on that 20–25%?

Can you believe that? You call people and say, "instead of $50,000 you've been approved for $75,000." What's the difference in the underwriting? Nothing. No difference in the underwriting. So that's another classic up-front example.

I also think that you need to begin to condition these people to the fact that they are your customers. Guess what? They are going to be getting these offers from you on a regular basis. It's not bad to give them these offers. Let them know somehow that there's going to be more coming from you. Condition them to expect this, and they will respond. Those are three examples of what I would do.

Mr. Townsend, Jr: In response to all those little flyers you're holding in your hand, this deals with an indirect method we've been using for some insurance companies.

Essentially, one group sends a package out to beneficiaries, another one to orphan policyholders, and another one to a test group of regular policyholders, where they're still agents of record.

But they're sending them the package that says, "Thanks for being a loyal policyholder etc. Here's something which may help you with your everyday family needs." The idea is not only to penetrate the customer base but get through to the family by offering a bunch of noninsurance products. They are not attempting to sell them a company product. No agent is going to call. It's not a matter of trusting the insurance company to buy something from us because we say it's good. And so, the package includes all sorts of noninsurance services. Whether it's counseling or you need to pick a daycare center or a school for your child. Somebody is out of a job. You're going through a divorce. Someone in the family has a chemical dependency problem. You have teenage drivers. You need help in getting a credit card or repairing a credit card record. If you want to refinance a home, buy or lease a car, travel, acquire a free ATM service, pay your bills by mail for free, etc.

They encourage them, if you use our services to call our 800 number and let us know if it was a favorable or unfavorable experience. It's an indirect method of getting back to your policyholder base and to members of the family, and overcoming the trust issue because they think there's often a problem where you're trying to market products directly to your existing customers. There's no third party intermediary. You're often foisting an agent on them, like the Met Life advice program etc.

It's a different approach that deals with the noninsurance offering.

Mr. Jaffe: One of the other things about these programs is, I look at them as annuities. They're not regulated the way we have insurance. This is where the fun comes in. It's a lot more fun to market this stuff than it is to market insurance in the sense that we don't have to deal with the regulatory bodies that generate fee income. You need to be interested in fee income, just as you listen to the bank assurance program. They say, "The banks want fee income." Well, what's different about insurance companies? Why shouldn't insurance companies want fee income from outside sources? OK, it's a great source of income.

Ms. Debra S. Liebeskind: This is a great idea that will undoubtedly take some of the resources that you currently have devoted to product development. What experiences have you had in terms of convincing the agents that it's worth doing that?

Mr. Jaffe: I don't think there are a lot of resources necessary. I think your resources are limited. I acknowledge that. But I think what I would do is start with people outside of the company that are skilled in this and let them develop your systems for you and work with you on some test programs to prove that it works. Then I think you can convince the agents that the programs are valuable for them. At the appropriate time bring these functions in house, if ever. In some cases, you don't ever want to bring these functions in house, depending on the volume you're doing, the level of sophistication, the data quality etc. I think these programs can be very elementary and successful. They don't have to require huge amounts of resource.

Ms. Liebeskind: I agree with that, in terms of doing the mailings and products other than your insurance products. But I wouldn't want to underestimate the cost of the administration of the life insurance products that you might be doing where you're doing an add-on, or you're doing something with a lower policy constant. That takes those same systems resources away from their other insurance products.

Mr. Jaffe: Sure it does. But I think part of the challenge is to get organized in such a way that your systems are flexible. This is just one of the flexible needs. It illustrates one of the flexible needs of the systems. The companies that are going to survive in the future are those that can adapt. There's a great new book out called, *Sense and Respond*. I don't remember the names of the authors. How are you going to be marketing in the future with advanced electronic media? They make it very, very that clear if you can't respond quickly and inexpensively to your customers, you're not going to be around. It's that simple in an electronic age.

Which financial service type organizations are most likely to survive between the investment community, the banking community, and the insurance community? Which one do you think it is? And why?

I'll eliminate one. It's not the insurance industry. I'll eliminate two. It's not the banking industry. I'll eliminate three. It's not traditional brokers. It is the discount brokers because they have the cheapest per-transaction distribution system of any of the financial services organizations. That's where the rubber hits the road. They are going to be able to bury us with cost savings if we're not careful. That's part of what it's going to take to survive in an Internet era. It's low per-transaction costs. And the insurance industry doesn't have it. Great book, *Sense and Respond*. It's a compilation of 14 or 15 chapters written by other people besides the editors. You can get it very easily through Amazon.com.

There's going to be a meeting of the Direct Marketing Associations (DMA) insurance and financial services council in October 1998. I know a similar topic will be dealing with policyholder lifetime value, which is really nothing more than a different twist on this. It's going to be in San Francisco in early October. I'm going to put on a presentation that will be different than this one. Some of the same things might be covered. Hopefully I've recruited somebody from Fidelity Fund, which is an organization that is really expert in doing this as well.