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Session 136IF
Building Bridges with Alternative Marketing Methods

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Summary: This interactive forum addresses alternative marketing methods that bridge buyers and sellers. Alternative marketing methods discussed are:

- *Work-site marketing*
- *Nontraditional marketing survey presentation*
- *Marketing through property and casualty agents*

Presenters lead participants through various aspects of new and existing marketing methods. Through an interactive exercise, participants/presenters discuss success of methods in use and ways to implement new methods in the near future.

Ms. Lori A. Truelove: Norman Hill is a Fellow of the SOA, a member of the Academy, and a certified public accountant. He is very active in the NAIC and actuarial organizations. Norm's going to cover work-site marketing.

Mr. Norman E. Hill: Work-site marketing, in general, is no longer a square peg in a round hole. Not too long ago work-site marketing was somewhat treated derisively or dismissed, but today this has changed. Work-site marketing is growing at a significant pace in terms of products sold and volume in force. More than that, it's increasing in terms of the number of insurers that have expressed interest in work-site marketing, that have actually gotten into it, and are talking about getting into it. This, in turn, leads to competition for agents, especially with the agents that have some type of proven track record, in selling work-site products successfully.

You may have seen a recent TV commercial by a large insurer that's known for cancer coverage. The commercial did talk about cancer products, but it was couched in terms of serving a work-site function. This really was a work-site

Note: Table 1 for this session can be found in the document 9sf136t1.pdf.

marketing commercial, and I think that is a significant trend that we're going to see.
What is work-site marketing? It combines features of traditional group and traditional individual marketing. It involves selling individual policies but retaining features from the group end in terms of semi-mass underwriting or mass underwriting. Work-site products are sold to employees, not to the employer. These are individual policies sold to the employee but relying on the employer's endorsement of the product and the insurance company. The employer endorsement gives the insurance company and the agent a foot in the door. The agents perform the solicitation to employees often at the employer's place of business. Depending on the situation, they may have the names of employees and follow up with visits to the employees' homes, but it's more efficient if you can do the solicitation and sign up employees all together in one place, at the employer's location.

The agents sometimes perform the solicitation. Sometimes it is done by enrollment specialists who may be employees of the home office or employees of the agent. But they also will participate in the enrollment process. Quite often the employees pay the entire premium on the work site. There are cases where the employer will pay a part of it. I can't remember any cases where the employer paid all of it, but that is possible, too, in theory.

Some of the work-site products we normally see are often called specialty products. You don't see much in the way of major medical insurance, but on the life side, term life is common. You can sell short-term disability, not too much long-term disability. Dental coverage is quite popular in work-site marketing as is cancer coverage of various types and hospital indemnity coverage. And there's a new situation evolving: Selling long-term-care insurance on a work-site basis. I have heard that universal life has been sold on a work-site basis, but I haven't seen much of it myself. I've also heard that it's diminishing in popularity, for whatever reasons, on a work-site basis.

Work-site products are often supplemental to the base group coverage, the coverage usually that we think of as major medical and group life. Work-site products usually are sold on top of that. The average premium per policy on work-site insurance can vary quite a bit. It can be $100 per month, but I've seen cases as low as $10 a month.

Some of the complaints that we've heard in the past usually are centered on inflexibility. This is because we have individual policies, so we have all the inflexibility of individual policies. If you sell policies to an employer, you can't cancel by employer and you can't change rates by employer, although usually you can change rates for health insurance by plan. The inflexibility sometimes gives rise to misunderstandings on the part of employees. Sometimes the complaint has been that work-site marketing is a ploy to force individual policies into a group setting and enable the agent to get the higher commissions that we associate with individual coverage.

In health insurance, rate increases can take place. They're not that common, but they can take place, especially with dental coverage, and this often causes problems. The employers may resist rate increases. If the employees are paying for the coverage through paycheck deductions, there's often a very negative reaction. They don't understand why their deduction has gone up because the premium has gone up due to a rate increase. In some cases, the employees may have signed a consent form for this payroll deduction and, depending on the legal situation in each jurisdiction, they may have to re-sign a consent form for this incremental premium.

One of the other key complaints about work-site marketing goes back to a company's lapse procedures. There are invariable lapse procedures for individual coverage. The legal limit is usually 30 days, but companies may keep a policy in suspended lapse for 45 days, or 60 days perhaps. When you have employers that are turning over premiums to the company, sometimes small employers may be slow in making payments. Other employers, just as a matter of course, pay all their bills to any vendor after 90 days. The insurer has to have some flexibility in terms of lapse procedures for handling work-site cases, and this has also led to complaints.

With all these negatives, you have to wonder why work-site marketing is becoming more attractive today. I would say it's not that work-site marketing has gotten better, necessarily, but that the other products have gotten worse. When I say worse, I'm speaking in terms of the government being at the back of the problem to a considerable extent with laws that have affected the more traditional individual and group coverage.

First of all, we had the Health Insurance Portability and Accessibility Act of 1996 (HIPAA). Especially for group coverage, it mandated portability. The NAIC employed small-group rating with restrictions on renewability. If you have the situation now on group where you have to have portability of coverage, then why not have individual policies? At least for small groups, if you have guaranteed renewability for group coverage, why not have individual policies? The trend between group and individual has narrowed, leading to the increase in popularity of work-site marketing.

Another key point, which I'll get into later, is that in work-site marketing, you still frequently have individual underwriting, and you don't usually see that in large groups. In small groups, that's also become guaranteed issue in most states. Another reason for the popularity of work-site marketing is that some employers have eliminated their basic group benefits and others have restricted them in certain ways. This has put the burden on the employees to make up for this differential in coverage to try and fill in the gaps that they now have to face.

I want to go over some of the basic procedures involved in work-site administration. The basic feature is the payroll deduction, and this is similar to group. The employer gets a list bill from the insurer, but instead of listing certificates, it has to list the premiums for all the policies. It has to list each covered employee, the premiums for that employee, the policy numbers for that employee, and a total premium. This is usually done monthly, but it's designed to correspond to the employer's payroll period, so it may be done weekly, biweekly, and so on. The employer, in turn, will deduct the employee's portion of the premium from his or her paycheck. The employer will determine one total premium, one total amount of money, and send that back to the insurance company.

Along the way, undoubtedly, the employer will look at the list of employees and cross out anybody who has terminated coverage in that month. The employer turns over one premium to the insurance company. Then the insurance company has to reallocate this mass of money that it receives, assign to each individual policy number, and keep track of the experience in terms of revenues and claims for that group. Even though you can't vary rates by case, for various reasons, you still want to look at the experience by case.

Complications arise when employees end coverage or they end employment. This is a problem. Of course, that's not a group feature, it's an individual feature. What do you do with that individual policy that still exists and there's no more payroll deduction? The insurance company will make an attempt, by direct contact with the employee, to convert from payroll deduction over to some kind of direct billing. If the payroll deduction has been on a monthly basis, it makes sense to try to convert to a monthly preauthorized check system (PAC) basis. Especially if the insurance company's mode of write-up from monthly to annual is consistent, then the employee has no discontinuity in premiums if he or she switches from a monthly payroll deduction over to a monthly PAC approach.

Many products sold on the work site automatically terminate at age 65 or 70, especially the health products and term life products. This makes it smoother, because retirement frequently takes place at those ages. But other products, just by their terms, continue for life. In this case, the insurance company should have automatic procedures to try and contact the employees directly when they retire and try to get them to sign onto a direct payment basis and continue the coverage.

One other feature to keep in mind is that many individual policies are still family policies. This is especially true for cancer coverage. Dependents are covered under these policies, and the insurance company needs to make sure that it has a list of all the dependents. When it sends those to the employer, it's best to have a list of the employee and the dependents to make sure that those are kept up to date.

Regarding expenses, in general, you'd expect administrative expenses to be less for work-site than traditional individual policies. This is because of the mass billing feature, which is intended to provide some economies of scale, but you still have startup expenses to keep in mind. If you just have a conventional individual billing system, it has to be modified. You have to be able to insert some type of a case code, not just a plan code; keep track of the case code; use that to get your monthly payroll deduction list of all the covered employees; and then send that to the employer and have the ability to take the money when it comes in and reallocate it. You have to blend some group features into the individual billing cycle.

I mentioned a suspended lapse problem. You have to have features set up to accommodate work-site lapses: when you'll finally lapse a case, when you're willing to reinstate a case, when the employer finally sends in that mass premium, and what your terms will be for reinstatement. Commissions to agents on work-site products are generally comparable to the traditional front-end load. I've seen commission rates that were 60–80% or more in the first year. Even so, the lapse experience on work-site coverage tends to be worse than on individual coverage. And for those policies that leave the work site due to employer termination but are still converted to an individual billing method, their persistency is still worse than for work-site coverage. You have individual, then work-site, then converted policies, and you have to take that into account.

This persistency differential is due to various features such as employees terminating coverage or retiring, but also due to the loss of the employer endorsement, which can come about for various reasons. The employers become dissatisfied with the service, and this can lead to the loss of endorsement.

Some employers as a matter of course, especially government work-site employers, send out coverage for bids frequently, maybe even annually, and, as a result, some insurers that have had experience in the work-site area tend to be a little leery and perhaps restrict their marketing emphasis to government sales. Some, in fact, have even gone so far as to restrict or vary their GAAP deferrals of commissions on the grounds that the persistency is not good. And the commissions are going to be written off so fast that you might as well defer them right at the start.

Of course, the employer, even if he gets mad at the insurance company or takes away the endorsement, cannot force the employees to drop their individual coverage. The employees are the ones who have the policy, and they can keep it if they so choose. It's just that you have the complication of the possible loss of the payroll deduction billing mode.

Individual underwriting is usually, but not always, a part of work-site underwriting. The underwriting will normally be a simplified issue approach rather than the full underwriting we associate with individual coverage. It'll be most likely a short-form, special application for work-site policies. Because you have a large number of employees that have signed up, speed in underwriting all these people is imperative to try and get the case underway and keep the employer's timetable.

If you have a policy that's sold both to work-site and to individual coverage, you may have fewer rate bands for the work-site approach. They have to be filed with insurance departments. I've seen single age bands and two age bands, but it's probably less than on the individual direct bill cases. Guaranteed issue is sometimes applied in work-site situations. Again, you have group considerations, such as the number of the participating employees and the size of the case itself. Also, a variation on this is guaranteed-to–issue, where the insurer will guarantee that some types of coverage, even if it's more restricted coverage, will be issued to employees who would otherwise not be eligible.

Some traditional group underwriting approaches do carry over to the work site, and this would include a requirement that employees be actively at work. There are industry considerations, too. You cannot vary premiums by case, only by plan, but if you vary premiums for the whole plan by industry rating, that should not be any problem as long as you're consistent. You have another tricky question as to dependent coverage. Normally, if you have an individual policy but a family coverage, all the covered dependents, at least the adults, are supposed to sign the application. Often I've seen cases where the employee signs for all his or her dependents, and you have to consider what the requirements are in each jurisdiction before an insurer will take that approach.

I mentioned the fact there is significant startup cost for a company newly getting into the work-site arena, but it should be less than for managed care. Many companies have withdrawn from managed care in recent years. They were badly discouraged by the startup costs for that area. Another feature is that some companies want to use your existing individual products for work-site products. You may have separate rates that you have to file, but you may be able to use the same product. You have to consider pricing assumptions, of course. The lapse experience should be different for work-site products, and that needs to be taken into account if you want to use the same policy.

Most work-site products are indemnity type products. This is an advantage because they're exempt from many of the requirements of HIPAA. There's no requirement for community rating, for example. And, while rate increases can and do occur, work-site products are usually not the types that are subject to inflation risk.

In the time I have left, I want to talk about a subspecies of work-site insurance: long-term-care (LTC) insurance. There has been some recent interest in selling LTC on a work-site basis, usually aimed at executives who are actively at work. You usually associate LTC with retirement-type ages, but it can be sold to people who are still actively at work. LTC is a complex product. It is more difficult to sell than the traditional types I mentioned before, such as cancer and hospital indemnity, and it's expensive. Average premiums are quite a bit more than you normally see in a work-site situation.

Also, the underwriting is more likely to be close to the full insurer's underwriting that it would otherwise employ for LTC. You have to have special agent training for LTC. I've seen some situations where agents have called companies and talked about their track record in selling dental insurance to get into LTC, but it will not automatically happen unless there's some special training for the agent. Most LTC is guaranteed renewable for life. The insurer has to have some program in mind to emphasize post-retirement continuation of coverage, which is when you really need the nursing home feature on the LTC product to start with.

From the Floor: I wonder whether or not there are any articles about work-site marketing.

Mr. Hill: There's one in *Best's Review*, July 1999, Page 81, called "Critical Competition." I wrote an article for *Small Talk*, Oct. 15, 1998, on work-site marketing. There's one in the Life Insurance Marketing and Research Association (LIMRA) journal called "Work-site Marketing of Voluntary Products: Employer Perspective." It was in *LIMRA International*, Aug. 24, 1999, and I believe it was a survey.

From the Floor: In addition, the *National Underwriter* has an issue that comes out once a year devoted to that subject. Also, *Life Insurance Selling* magazine had something. And another magazine called *California Broker* has articles in there every month on work-site marketing. They're generally pretty good.

Ms. Truelove: Our next speaker, Bob Dreyer, has spent six years with a large eastern mutual, almost 20 years with a large national consulting firm, and 16 years as chief actuary. He is currently senior vice president, appointed actuary, illustration actuary at Erie Family Life. He has served on several professional committees, both for the SOA and the Academy. He's participated as moderator, panelist, and workshop leader on numerous occasions and cosponsored the Smaller Insurance Company Section, which he helped found. Bob will speak on selling life insurance through property/casualty agents.

Mr. Robert H. Dreyer: The bulk of what I'm going to be saying is really of historical interest, and my challenge is going to keep history from being dry. There have been very few, to my knowledge, new affiliations between a property/casualty and a life company in the last two decades. Your challenge, on the other hand, is to see if you can take lessons from using property/casualty agents into other fields, whether it be affiliations with banks, other financial service organizations, or maybe nonfinancial service organizations. Look for ways that you can expand your distribution system.

In recent years, it's been difficult to pick up a newspaper or a trade journal without hearing something about the trend toward the integration of financial services industry and mergers and acquisitions within and across service lines: banks wanting to sell insurance, insurance companies wanting to form banks or thrifts, government consideration of sanctioning things that they previously prohibited, and a renewed struggle between state and federal regulation coming out of all this. In the 1950s, a similar groundswell developed within the insurance industry as the property/casualty companies sought to leverage their client base by selling life insurance products through their property/casualty agents.

Aetna was one of the early ones, in 1954. Nationwide started in 1955, Allstate and Safeco in 1957. and State Farm in 1960. As the integration of marketing efforts began to bear fruit, smaller companies started to get into the act, and they wanted to form life subsidiaries of their own. Harleysville was one of the first in 1960. Auto Owners Life and Pekin Life followed in 1965, Erie Family Life in 1967, Cincinnati Life in 1973, and Auto Club Life in 1974. All of these companies are still operating successfully, with sales made primarily through the property/casualty agents of their parent company or an affiliated company.

Other companies were not so successful in selling through property/casualty agents. As recently as this decade, each of these companies was functioning with sales of life insurance products through the property/casualty agents, but today none of them fill the role that they were originally set up to fill. They've either been merged out of existence, closed up shop, or shifted to other lines. I think one of them is strictly in group coverage now. But the question is, why did some of these ventures succeed and others flounder and fade from the scene or had to throw in the towel?

As a consultant in 1960 through the 1970s, I worked with many small life insurance companies. Several of these clients were life affiliates of property/casualty companies and, based on that exposure, I have identified four keys to the successful use of a property/casualty agency force in selling life insurance. These keys reflect the activities of smaller insurance companies, but they may not always be applicable to the larger multiline groups. They are:

1. Develop a clearly defined mission statement.
2. Have an effective rapport with your agents.
3. Be willing to go with a limited product offering.
4. Start thinking out of the box.

In this day of mergers, megamergers, and strategic alliances, smaller companies must find niches to survive, whether it be a single product, a line of products, or a specific market type of agent. You must concentrate your efforts in order to get the biggest bang for your buck. Spreading yourself too thinly in an effort to reach too many markets will leave you applying less than 100% effort to your primary market. Determine what it is you seek to accomplish. Do you wish to broaden the product line of your property/casualty agents? Are you more interested in the growth of your life company or do you wish to improve overall profitability by realizing the synergies that are available in selling when one agent can sell all lines of insurance? A forthright evaluation of the answers to these and similar questions that may apply to your situation will lead to the development of a mission statement with well-defined goals.

The next step is to set up the strategies that will help you achieve these goals. As you plan your strategies, think in terms of developing benchmarks with which you can measure your progress. If your benchmarks are achieved with relatively little difficulty, the results should be reviewed periodically to make sure that your plan is working. Perhaps you are too pessimistic and not aggressive enough. Don't rest on your laurels, but continue to monitor your results while you go back and rethink your objectives. It's possible that you set your sights too low or overlooked a potential problem that has not yet surfaced. Always be monitoring.

While the old bromide, "If it ain't broke, don't fix it," is intended to prevent us from messing up a good thing, sometimes it can keep us from optimizing our results. When appropriate, some carefully planned fine-tuning can turn a successful program into an outstanding program. This can come as part of your learning process as you refine your methods and systems, but more often it arises out of the necessity to respond to a change in your environment. Failure to adapt to change can be just as deadly as too much tinkering.

Develop an effective rapport with your agents. Depending on how much control you have over your agents, the stick may be the best way for you to go, but if you want to develop an effective long-term relationship, I'll take the carrot every time. To start with, you need a compensation package that fits the unique needs of your agents and the way you expect them to be selling. If those property/casualty agents will be doing most of the selling themselves, then you probably want to think in terms of a personal-producing general agent (PPGA) contract, maybe another form of career agent. However, if you expect your property/casualty agent to hire a life specialist in his or her office to do most of the life selling, then you should be looking at some form of general agent contract. To the extent possible, if you can make the contract parallel or look like the contract that the agent has on the property/casualty side, he or she will feel more comfortable with the whole operation.

You should also provide significant bonuses to reward exceptional results. This might take a form of higher commission rates based on the achievement of certain production levels or persistency goals or other incentive bonuses based on either short- or long-term performance targets. Contests that reward performance across line of business, that is, production on both the property/casualty side and the life side, can be extremely effective, and it helps to support the entire group, not just one company or the other. A poorly designed program, though, can cause more harm than good if it incents inappropriate behavior. Be careful when you say you're going to get so many points for doing this. Make sure that's what you want them to do. Because if those points are too easy to get, and it doesn't help you, you're going to get those points, and it's not going to work out the way you want. Finally, don't be afraid of paying out too large a bonus if and when it is earned.

My last two points may be the most overlooked or underrated. Remember, when it comes to life insurance sales from property/casualty agents, you are basically dealing with a part-time sales force. In my experience, few of them spend more than 10% or 15% of their time selling life insurance. It's not that much different from having a school teacher who sells some life insurance in the evening.

You will need to commit a significant effort to training and support. This is particularly true when you get beyond the bread-and-butter products, level term and whole life. Even universal life can be difficult for property/casualty agents to understand if they only sell five or six a year. They forget. If you're not doing it, you lose it. And you've all seen in the courts what they're doing to the companies whose policyholders didn't understand what they bought.

One way to overcome the problems arising from limited knowledge is to provide some form of home-office or field-office sales support. The broader your product line and the broader its potential applications, the more important this is. Your agents, particularly those with significant commercial accounts, may have many chances to use some very advanced concepts in their selling—split dollar, buy/sell agreements, and retirement programs—for their employees. To take advantage of this, though, they have to be up on the tax laws, product lines, and various changes that are continually taking place within our industry. If they don't have a life specialist in their office, they need to be able to call the home office or the local branch office and get support from a knowledgeable life insurance person. This will cover the gaps in their experience and increase the chances of their closing the deal.

Because you're dealing with a part-time field force, select your products carefully. With property/casualty agents, decreasing term and disability income geared to mortgages is a natural. A property/casualty agent who is not willing to learn how to use needs analysis software and develop a total program may still be able to relate to the need to cover a mortgage and can make sales in that area without a great deal of effort.

Similarly, agencies with commercial accounts are more likely to be interested in life insurance applications. And a small-scale work-site marketing program may prove to be very successful with property/casualty agents who have commercial accounts. I see a great underserved market with the smaller commercial accounts. Most of the companies are big into work-site marketing. They're looking at groups of 100 lives and up. I think our average-size commercial account has six lives or eight lives. It's very much an underserved market.

Complex products should be avoided, unless you are convinced that you have a significant group of knowledgeable agents who are willing to learn the product. Variable products are a good example. Very few property/casualty agents have the National Association of Securities Dealers (NASD) license. Even fewer are interested in learning something new like that. Equity-linked products sound like a great thing because you don't have to be NASD licensed, but they are so complex that I suspect many of the full-time life agents who are selling them don't understand the nuances. And this product could be the next one that drags us into court if the market ever has a 20% or 25% correction. You have to be careful there. A complex product needs a knowledgeable person to explain it.

Operating with limited resources and part-time agents does not normally put you in a position to make a profit in a field that is highly competitive. Today's low-cost term market is an excellent example of such a situation. A possible exception might be a product that your field force tells you we need to have this if you want them to sell life insurance for us. Under those circumstances, if you determine that it is a true need, you can always look for a TPA to help put you in that business. My caution there is, if you're dealing with a TPA, you are going to lose some of the services that you provide to your agents, and if service to your agent is important to you, look carefully before you sign on with a TPA. You have to weigh the negatives and positives.

Finally, the fewer the products you introduce and the simpler they are, the shorter your agents' learning curve will be. Start with the basics until you get a toehold in the marketplace. You may expand your portfolio as you go along, but be sure not to expand so rapidly that the agents lose sight of what they've been doing successfully and you kill the program that you're trying to expand.

There are cultural differences between life insurance operations and property/casualty operations. Also, you'll have to help the property casualty agents learn your terminology so that you can communicate with them effectively. Go out into the field and see how a successful property/casualty agent runs his office. We come to these meetings, and we make jokes about the order takers on the property/casualty side of the business. But nothing is further from the truth in a successful property/casualty operation, and if you want to relate to these people, you need to get out there and see what they're doing.

Look for ways to integrate the practices of the life and property/casualty lines so that agents feel more comfortable with what's going on. For example, you might set up your underwriters or underwriting teams by territory or district so that the property/casualty agents get to know their life underwriter, just as well as they know their property/casualty underwriter. In doing this they will learn more quickly what good apps and bad apps are, and you'll find, over the long haul, that the agents will do some field underwriting before they even send in an app.

Cross-marketing between the two lines not only results in additional sales, but also in overall higher profit margins. And, most important, there is a dramatic increase in client retention if an agent sells life insurance as well as homeowners and auto to the same family. I couldn't find the statistics on this but, if agents just sell one line over a five-year period, you may lose as many as 70% of those families. If they sell all three products over 10 years, you can retain 90%. You may lose products along the way and sell others, but the client retention is what's really important to these property/casualty salespeople.

Thinking outside the box can occasionally lead to some innovative ideas. There's nothing wrong with trying new things, but with limited resources it's extremely important that you investigate them and plan carefully before you institute them.

In addition to identifying the four keys to the successful operation, I've also noticed some potential pitfalls that you should avoid. One arises in a situation where you see something being done by somebody else that's really successful. Then you try and do it in your operation, fall flat on your face, scratch your head, and wonder why. For example, with a program that requires a big commitment on the part of the agents, if you don't have sufficient control (whether it be the stick or the carrot), over those agents, the program will fail while another company that has that control can double their sales with the same program. It has to fit your operation. If you want to treat your agents with kid gloves, you can't give them a program and say, "You've got to do this," because they won't do it, or you'll lose them.

Failure to provide proper training on life insurance products and sales methods can keep an otherwise sound product or program from ever getting off the ground. Most property/casualty field management people spend less than 10% of their time on life insurance, and if they don't understand the product, how can they communicate it to the agent? You can't rely on field managers unless you have an extensive continuing education program to keep them up to date on everything or provide the home-office support I mentioned before.

Your credibility in the eyes of your agents is paramount. If you follow through with everything you say you will do, you will have their loyalty and support, but you also need to be careful that you do not imply something that you did not mean. Should your agents experience situations where they feel that you have been less than honest and forthright, it will do irreparable harm to that relationship, and your credibility will go right down the drain.

My final word of caution is avoid the ostrich syndrome. You can do the best possible job of communicating to your agents and still strike out if you don't hear what they are trying to communicate to you. They are the ones in the trenches, and sometimes even the most innocuous comment from one of them can ring bells and flash lights and send you in a direction that proves to be a very successful venture. Similarly, you must keep attuned to the progress of your program by reading the internal reports and information concerning it as well as external information and reports concerning your environment. Once in place, a program will not run on pure momentum. It must be carefully nurtured to realize its fullest potential.

If you were to ask me to condense my points into a single suggestion, it would be: To succeed, know your agents. If you do not understand your agents and plan your program accordingly, no amount of coercing, cajoling, or even dumb luck will produce the results that you are seeking.

Ms. Truelove: Our final speaker for the day, Jim Smith, is the chief actuary for American General Life and Accident. His experience includes the strategic and technical development of insurance products, distribution channels, and customer segmentation for insurance companies and banks. Jim is a council member of the Nontraditional Marketing Section of the SOA and a member of the Annuity-Based Practices Committee of the Association of Banks and Insurance. He also is a Fellow of the Society of Actuaries and a member of the Academy. Jim will share the results of a nontraditional marketing survey on product channels and its finished product.

Mr. James B. Smith Jr.: Bob, I've dealt with banks seeking alternative marketing channels. It's very impressive to see what they are doing in the arena of property/casualty insurance, and they're looking for ways to link life insurance and property/casualty sales together. I know from speaking to many bankers that, often when they bring up the subject of insurance, they're not thinking life insurance and annuities. They are off on a completely different tangent with property/casualty. I think, with the growth of that particular channel, we're going to see more and more discussions about how we can best integrate the sale of life insurance and property/casualty insurance.

Regarding some work that we have done in the Nontraditional Marketing Section, I wanted to set the frame in this way. I'd like to mention what we call the market triangle, with the customer being one corner of that triangle, the product the second corner, and distribution the third. Naturally, the customer and customer needs feed the type of products that are needed, and then the distribution channel is selected that best matches the product and the customer segment.

Often, when an actuary is working on the development of a new product internally with actuarial people and also with marketing and others throughout the company, information about what competitors are doing in the way of new products is relatively easy to come by. It's not easy to come by, but compared to getting information on customer segmentation in channels, it's much easier. And understanding channels, or alternative channels in this case, is very important because the product features may vary substantially from one channel to the next. Features that may work with universal life that's sold through PPGAs may not work in the Internet market or with broker dealers, for example.

Given this concern of trying to understand not just products, but also channels, the Nontraditional Marketing Section, as part of its 50th anniversary project, decided to launch an effort to develop a product/channel directory that, hopefully, will be of value to you as you look at alternative marketing methods. It has been distributed to those people who responded and to the Nontraditional Marketing Section members. The directory is in hard-copy form. There are still about 100 copies that are in print that haven't yet been distributed. Furthermore, the directory will be on-line we think early next year so people can go to the SOA Web site and look at it. I want to talk about what's in the directory as it might serve as a market research source for you.

About 260 companies, both insurance companies and consultants responded to the survey. Table 1 summarizes what the companies told us. Down the left side are the products we identified. These would be the major life, health, annuity, disability income, credit, and niche products that are generally in the market today. Across the top of the table are all the various distribution channels, from the more traditional channels of career and independent agents, moving to banks and broker dealers, direct marketing, telemarketing, Internet, work-site, etc.

Each company that responded was asked to fill in the squares in this matrix that it has been working with. A given company that may sell, for example, term insurance would mark the different channels through which it sells, no matter what category of term insurance is being sold. The idea is to understand not only what they're selling, but also how they're selling it. Ideally, we'd like to have a third dimension—customer segment—because it would be fascinating to know, for example, when selling term insurance through the Internet, what customer segments companies really are targeting as they do that. That dimension is not part of this because, realistically, we felt we could not get this information, but these two dimensions are still very beneficial.

Each company has one sheet, and multiple responses were allowed. There were about 24 responses, on average, from a given company. In the directory, there is one page for each company that identifies the company and includes a contact person and the telephone number. We were trying to make it easy for you to look for a specialty product and a certain channel and flip through this directory and identify a company that's selling in that product/channel area. Then you can call the contact person and talk about what they're doing without infringing on collusion. This page is a summary of the results to give you a flavor of what type of patterns have developed. I wouldn't characterize it as a representative sample because we didn't have very much control over who responded, although a pretty good percentage of the companies we approached did respond. Looking at the results, there weren't very many surprises. Statistically it may not fall under the definition of a truly representative sample, but it certainly does follow the pattern of that kind of thing.

From the Floor: Under the credit-union channel, does it specify whether it was face-to-face sales or just distributed through banks?

Mr. Smith: We had a lot of discussion about that because, within each of these channel categories, there are subchannels. We discussed how much to blow this up to avoid getting to the point where it might not be very meaningful. For that reason we decided, because it would have gotten very complex on a higher level, simply to identify that companies are selling through banks, thrifts, and credit unions without trying to go into the specifics of that. But you make a good point because, as an example, there are at least 20 different subchannels that banks are using. This is not a monolithic channel by any means. I'm as guilty as anyone of thinking that there's some predetermined path that all banks follow, but there really is not.

From the Floor: I noticed on the term insurance, for instance, that your direct mail number is almost identical to your bank and thrift numbers. Is there any overlap?

Mr. Smith: There is potential for overlap. This is not intended to be a complete analysis. It is intended to provide guidance, and I would suspect that, if you call somebody at one company, he or she might very well refer you to another company. But we feel that this was a great starting point. To my knowledge we have not seen anything that tried to combine products and distribution channels as closely as what we've attempted to do here.

For example, if there's an insurance company that's selling through banks and doing direct marketing, there may be some overlap. That's a good point. In theory, we would have liked to have exploded the banks to show the 20 different ways, for example, that banks are selling, but the same thing can apply to a lesser degree to broker dealers. Did that cover your point?

From the Floor: Yes, it did.

Mr. Smith: Look at the different distribution channels. At the bottom of the table are the percentages, and, again, one company could have multiple responses on this survey. When we look at the total number of product/channel combinations, you can see there were over 4,800 combinations coming from these insurance companies. But you can see by looking under career agents and independent agents that almost half of those product/channel combinations came from those traditional areas. By that I'm not implying that some of these other areas aren't becoming traditional, but I tend to think that career agents and independent agents are much more established channels.

Therefore, the other 50%, roughly, is in areas that we might generally characterize as nontraditional. The broker dealer column represents about 15% of the product/channel combinations and it's interesting that they have a greater selection of life products than they do annuity products. The sale of insurance through broker dealers is very much heavily oriented toward the annuities, and particularly the variable annuities, because they're licensed to distribute those products, but actually the greatest variety of products, not sales but just sheer variety, comes from the life side. That also tells me that, although they may not be producing the life volume that we might think they would get to some day, they're certainly looking at this line very hard, considering this high number of products that are being offered through the broker dealers.

The banks were at 11% and, as with the broker dealers, there's a huge number of life products, but, again, the sales are mostly in the annuity area. In fact, I was a little surprised that there weren't more annuities shown on this survey, which may be an indication that this is not quite representative, but, nevertheless, there is a broad variety of variable and fixed (that is, single-premium deferred) annuities being sold through the banks.

The next category in order of magnitude of responses was direct mail, which was at 8%, and work-site marketing came in at 9%. The two more emerging channels, telemarketing and the Internet, bring up the pack. The Internet having about 3% did not particularly surprise me. It's one channel I think is in the embryonic stage and we'll be seeing it used a lot more.

In the right-hand column, look at the split among the various products. If you add those percentages, a little over half came from the life products. The next biggest category as we were looking at these product/channel combinations was in the arena of health insurance, which has a pretty broad range of products and represented about 20%. Annuities came in third with about 13% of the product/channel combinations.

Let me give you a very exotic example. For example, if you were looking for a niche area, one company is manufacturing pet insurance. You could go to this directory and identify that company that is selling this type of insurance through independent producers and then have someone to bounce ideas off of. I know that's a little extreme, but if you look at the health category, vision care is a type of insurance that we've all acquainted with, but personally I'm not that familiar with who is selling the product. Again, you could flip through this directory fairly quickly and identify companies that are selling vision care and see the different channels they're distributing it through and at least do some research either directly or indirectly through some of your channel sources.

Some of the greatest varieties of product/channel combinations came about in the arena of term insurance. Again, I don't think that is a total surprise, but it was

pretty striking to see the variety of different annual-renewable term and level-premium term being sold, compared to some of these other product categories. That just emphasizes to me that this survey is somewhat representative because that would be my expectation.
I would encourage you to either go on-line at the beginning of the year or maybe order this directory through the Society. It's not very expensive and it's something that I hope people will find is a helpful marketing research tool. We are contemplating updating the directory every other year, with the hope that, if it's used, we'll have even a lot more companies participating.

From the Floor: I know there's a lot of expanded products now. Does the dreaded disease category include cancer insurance?

Mr. Smith: Yes. There was a lot of judgment coming into play because people would often put in footnotes. We tried to characterize it as best we could. In this case, if it appeared to be primarily a cancer product, it would fall into that category. However, to help the reader out we also put in footnotes on each page. If you run across one where you have a question, hopefully the footnote will clarify it, but whenever a company provided an explanation we tried to include it. But there was some judgment involved. Again, I would say this directory could be an end point, because you might identify exactly the right company you want to talk to, but it also might be the starting point for further research. But that's a very valid point.

From the Floor: Did you gather information on the number of policies sold or the premiums and the annualized premiums issued, etc.?

Mr. Smith: That's another very valid question. We talked about it, but felt that sort of information would have been much more difficult to collect because companies don't always have it segmented by both product and channel. And we felt that, in doing it that way, the response rate would be so low that we wouldn't have enough data to make the directory worthwhile. Ideally, that would be great because then we could do some weightings and give more weight to the larger-size companies, but we just felt it was too much to ask for. We did ask for overall premium issued from all sources, products, and channels, but, we decided not to include that either because things just didn't make sense. Again, if we could have also captured the customer segments, that would have painted the complete picture for this market triangle, but there's such a variety of customer segments that classifications would be extremely difficult.

Mr. Hill: Someone asked a question about universal life. I alluded to what I think was a decline in work-site sales for that. I would put it down partly to the complexity of universal life, by itself, and to the generally lower interest rates today compared to what they were, say, 10 years ago. I think it's a combination of features like that. In general, universal life probably has stabilized. It's not the real hot seller that it was 10 years ago.

From the Floor: On the work-site policies, do agents collect the initial premium at the time of issue?

Mr. Hill: I'm not sure there's any norm. I think in general, they'll try to collect an initial premium at solicitation, and then, if there is underwriting, it depends. They may have to refund the money if it's a decline. If it's a guaranteed issue, they may have to offer an alternative. It varies.

From the Floor: Because it's a paper production-type payment, it takes a certain cycle for it to go through. Hopefully, the policy will have been issued by that point and then it would go into the payroll deduction cycle. I've also seen the situations where there's no premium collected because it all goes through payroll deduction.

From the Floor: In our program, which is only about three months old, as soon as the application and payroll deduction authorization is signed, the next payroll the deductions start. By the time the policy is issued and the first bill gets there, they already have money to cover that first period. Again, I think practices vary substantially. We've come out simply with a whole life product and a 20-year term. And the one most common comment we've heard is, "When are you going to add universal life to the product line?" Again, it's a function of the markets that the people are dealing in.

From the Floor: Norm, I have a question. At the end of your talk you mentioned selling LTC on a work-site basis. It is of a permanent nature and perhaps going to be around for a while. How do you handle the requirement to have continuing service? Do you levelize commissions and intend to pay a higher renewal rate? Do you see that happening?

Mr. Hill: I've heard it talked about but, in general, it's still been the front-end commission. There have been some cases where the premium would be 10% less, but it's still a front-end commission scale. Again, the argument is the agent has to be trained to do a real job of selling. He or she has to make a difficult sale to get that person to sign on, especially if the employee is paying all the premiums, which is usually the case.