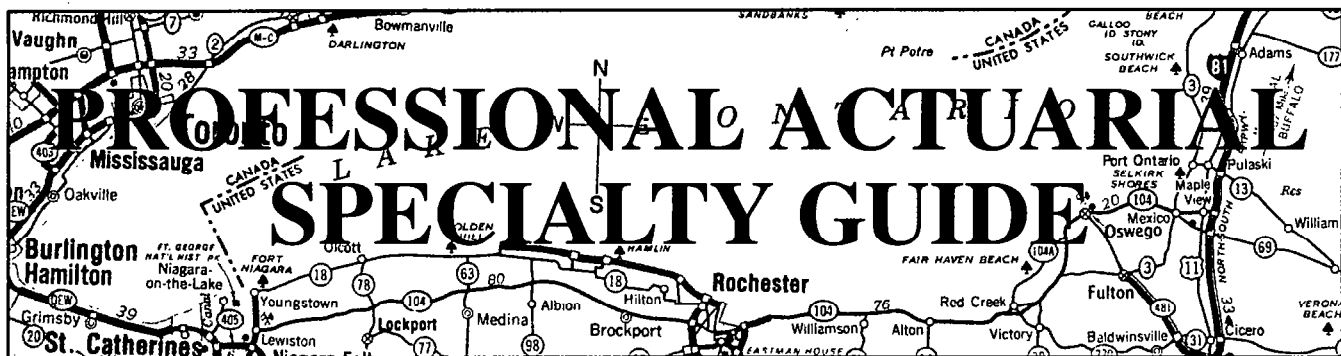


SOCIETY OF ACTUARIES



COMMITTEE ON CONTINUING EDUCATION

Traditional Marketing

Overview

Of the three major areas in a life insurance company, marketing, investment and administration, marketing is the largest in terms of personnel and costs. Effective marketing is critical to the well-being of a life insurance company.

This guide lists sources that the actuary may use to gain an understanding of marketing individual life insurance. It lists only a few of the many sources available on this topic and assists the reader with a starting point for enhancing his or her knowledge in this area. The emphasis of this guide is on marketing operations which use the agency distribution system although much of the material is applicable to direct response marketing.

Many of the articles or books should be readily available in an insurance company's library. References of a general nature can be found in college or university libraries. One reference frequently cited is *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition by Philip Kotler. This book is available from Prentice-Hall Inc., Englewood Cliffs, New Jersey, 07632. Several references are Life Insurance Marketing and Research Association (LIMRA) or Life Office Management Association (LOMA) publications. Their addresses are:

LIMRA
8 Farm Springs
Farmington CT 06032-2594

LOMA
5770 Powers-Ferry Road
Atlanta GA 30327

The Role of the Actuary

Frequently, actuaries identify marketing with selling or product distribution. However, both viewpoints are incomplete and will limit the actuary's ability to understand and effectively contribute to the marketing strategy and marketing operations of the company. Marketing involves needs assessment, research, product development and management, selling, advertising and distribution.

Actuaries should take an active role in understanding the marketing process and be involved with developing a consistent marketing strategy, encouraging marketing to be involved in product development, selecting a distribution method, managing the marketing effort and ensuring compliance with marketing regulations:

Understanding Marketing – the actuary must understand the market and product scope of the company and the company's methods of selling and distributing products.

Developing a Marketing Strategy – the actuary should be involved with formulating a marketing strategy and offer opinion on whether the marketing objectives are consistent with company objectives. In addition he or she can assist with market research. Many marketing research techniques use the same statistical skills already familiar to the actuary.

Selecting a Distribution Method – the industry uses a number of distribution systems for selling its product and services. An actuary should know about the systems his or her company uses and the systems other companies use.

Managing the Marketing Process – the actuary's strong financial skills will be needed to measure the financial performance of the marketing operations, assist with designing agent compensation plans, and assess the capabilities of the company's distribution systems.

Regulation of Marketing Operations – the actuary will be one of the persons who ensures that the company complies with state and federal regulation of marketing operations, particularly, in the areas of sales compensation and sales expense limitations.

The Professional Actuarial Specialty Guides Committee on Continuing Education of the Society of Actuaries provides these Specialty Guides to persons wishing to use them for continuing education purposes. They are intended to provide the user with a summary of representative sources of current general knowledge. Neither the Society of Actuaries nor the Committee intend or represent these Specialty Guides to be complete or their use necessarily required or sufficient for the purpose of meeting continuing education requirements or any other professional competency standards of any organization.

I. Understanding the Marketing Process

Marketing involves needs assessment, research, product development and management, selling, advertising and distribution.

Goodwin, Dennis W., *Life and Health Insurance Marketing*, LOMA, 1989. Chapters 1-3, 7, 16, 19.

Chapters 1 through 3 provide an introduction to marketing and discuss the marketing environment and consumer behavior. Chapter 7 describes the regulatory influences on marketing. Chapter 16 defines promotion and describes its three basic purposes. Chapter 19 describes the two major categories of sales promotion and commonly used sales promotion and publicity techniques.

Level: Basic

Pages: 121

Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition. Prentice-Hall, Englewood Cliffs, New Jersey, 1991. Chapters 5, 6, 8.

Chapters 5 and 6 discuss how companies monitor the changing environment and continuously adapt their business to their best opportunities. Chapter 8 describes how a company can identify their competitors and their strategies, objectives, strengths and weaknesses and how this information can be used to shape a marketing strategy.

Level: Intermediate

Pages: 77

II. Developing & Evaluating a Marketing Strategy

Strategic planning and marketing planning are methods companies use to guide their marketing effort. These planning efforts encourage systematic thinking ahead by management, better coordination of company efforts, performance standards for control, guiding objectives and policies, preparedness for sudden developments, and interaction between key operating areas of the company.

1. Market research

Stevens, Robert E., Loudon, David L., and Warren, William E., *Marketing Planning Guide*. New York: Haworth Press, 1991. Chapter 3.

This chapter provides a concise explanation of marketing research, its role in the decision making process, and the steps involved in a marketing research project.

Level: Basic

Pages: 16

Pope, Jeffrey, "Practical Marketing Research". *American Management Association*, 135 W. 50th Street, New York, 1981. Chapters 1-5, 9-20, 33-37.

Chapters 1-5 overview the importance of research in marketing planning. Also summarized are sources of research information as well as what types of research to conduct during various phases of the product life cycle. Chapters 9-20 examine each step of the marketing research process, including planning, preparation, field work, tabulation, and reporting. Chapters 33-37 look at the tools used by market researchers. Some of these topics include sampling methods, statistical measures, experimental designs, and analytical techniques.

Level: Intermediate

Pages: 125

Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition. Prentice-Hall, Englewood Cliffs, New Jersey, 1991. Chapter 4 (p. 95).

This chapter identifies four components of a well-designed market information system: internal reports, marketing intelligence, marketing research; and analytical marketing. Included is a review of the five steps in the marketing research process.

Level: Intermediate

Pages: 53

Zultowski, Walter, H., "Debunking the Myths About Starting a Research Department." *Marketfacts*, LIMRA, November/December 1989. pp 32-33, 47-48.

This article deals with the common myths held by insurance companies when organizing research operations. A review of these topics offers insight into the elements necessary to conduct effective research.

Level: Intermediate

Pages: 4

2. Product selection

Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition. Prentice-Hall, Englewood Cliffs, New Jersey, 1991. Chapters 14-15.

This section looks at the process of developing new products as well as managing existing product lines. It reviews the idea generation, concept development and testing, consumer market testing, product-line decisions, and individual product issues.

Level: Basic

Pages: 71

Zultowski, Walter H., "The New Product Revolution: Marketing to Consumers of the '90s." *Marketfacts*, LIMRA, July/August 1989, pp 24-26, 56.

This article considers changes in insurance product development resulting from consumer spending changes to guard against financial risks (i.e., premature death, disability, poor health, living too long). In particular, the potential packaging and marketing of existing products is discussed.

Level: Intermediate Pages: 3

3. Target marketing

Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition. Prentice-Hall, Englewood Cliffs, New Jersey, 1991. Chapter 10 (p. 261).

This chapter examines the elements of strategic marketing: segmenting, targeting, and positioning. Included is a review of the various methods of analyzing and evaluating targeted segments, and the impact that targeting specific segments has on positioning tactics.

Level: Basic Pages: 49

Norwood, Grover C., "Beat the Law of Large Numbers Through Target Marketing". *Managers Magazine*, LIMRA, March 1989, pp 8-13 ; 24.

Norwood, Grover C., "A Target Marketing Primer." *Managers Magazine*, LIMRA, April 1989, pp 11-14; 20.

Norwood, Grover C., "Plan the Flight and Fly the Plan". *Managers Magazine*, LIMRA, May 1989, pp 19-23; 32.

Norwood, Grover C., "The Manager as Target Marketing Consultant." *Managers Magazine*, LIMRA, August 1989, pp 8-15.

In a series of four articles, the author offers a straightforward presentation on the concept of target marketing. The articles examine the impact of target marketing at the agency office level, including a discussion of why to conduct target marketing, steps involved in the narrowing process, how to create and evaluate a marketing strategy, and the role of management as consultant in the process.

Level: Intermediate Pages: 23

4. Market segmentation

Townsend, Bickley, "Psychographic Glitter and Gold". *American Demographics*, American Demographics, Inc., 108 North Cayuga Street, Ithaca, NY, November 1985, pp 22-29.

This article considers the use of psychographics, in addition to demographics, to define market segments in the face of shifting patterns of expected consumer behavior and consumption. It also reviews the use of VALS (Values and Lifestyle) research as part of this process.

Level: Advanced Pages: 8

Weinstein, Art, *Market Segmentation*. Chicago: Probus Publishing Company, 1987. Chapters 1-3, 8-9.

Chapters 1-3 of this book describe market segmentation. These chapters overview the segmentation process, establish its role in the overall marketing plan, and describe the components of the analysis. Chapters 8 and 9 of this book examine results from the segmentation process. Included is a review of how segmentation impacts the target markets selected, and how segmentation affects tactical and strategic decision-making.

Level: Advanced Pages: 86

Weinstein, Art and Nesbit, Margin, "How to Size Up Your Customers". *American Demographics*, American Demographics, Inc., Ithaca, NY, July 1986, pp 34-37.

This article reviews the important interrelationship between demographics and the criteria used in segmenting a market.

Level: Intermediate Pages: 4

III. Role of Marketing In Product Development

Marketing officers need to communicate effectively with the pricing actuary. They need an overall understanding of the pricing function and product development process and how marketing affects it.

Shapiro, R.D., "The Process of Premium Formulation", *Transactions of the Society of Actuaries*, XXXIV, (1982), p 435.

This article sets the task of pricing insurance products in the larger framework of company planning and management. It presents a generalized description of the pricing function.

Level: Basic Pages: 14

Genest, Francois, "Product Development: Easy As Pi", *Marketfacts*, LIMRA, June 1983, pp 7.

This article describes the seven-steps product development process used by this actuary's company. It also describes the various roles field and home office associates play.

Level: Basic Pages: 6

IV. Selecting a Distribution System

The life insurance industry uses numerous methods of product distribution. The major distributions include career agency (managerial and general agent), home service, brokerage, multiple-line exclusive, personal producing general agent, and direct response.

LIMRA, *Marketing for Actuaries*, 1992, Chapters 8, 10, and 11.

Chapter 8 describes the major distribution systems companies use to sell and service their products. Chapter 10 describes how field management is compensated and Chapter 11 provides an overview of agent compensation.

Level: Intermediate

Pages: 51

LIMRA, *The Individual Life Sales Doldrums*, 1990.

The purpose of this paper is to stimulate discussion. It asks the reader to choose between whether the industry has declining demand (consumer perception of the role of life insurance meeting financial needs) or inadequate supply (the industry's ability to bring its products to market).

Level: Intermediate

Pages: 13

LIMRA, *Distribution System Costs*, 1991.

These reports are published annually and provide information on distribution system costs for career agency systems, home service, multiple-line exclusive, brokerage, and personal producing general agent companies.

Level: Advanced

Pages: 60

V. Managing The Marketing Effort

Managing the marketing effort entails evaluating actual sales results against expected results, measuring the financial performance of marketing operations, designing field compensation plans, preparing budgets and plans and assessing quality assurance.

Goodwin, Dennis W., *Life and Health Insurance Marketing*, LOMA, 1989, Chapter 22 (p. 445).

This chapter discusses different ways of organizing the marketing function, implementing strategies and controlling activities.

Level: Basic

Pages: 22

Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 7th Edition. Prentice-Hall, Englewood Cliffs, New Jersey, 1991. Chapters 24–26

This textbook is on the syllabus for SOA I-540. It provides a comprehensive analysis of numerous marketing concepts. Chapter 24 covers principles for designing and managing the salesforce. Chapter 25 discusses issues involving organizing and implementing marketing programs (including relations with other departments). Finally, Chapter 26 examines principles for evaluating and controlling the marketing performance.

Level: Intermediate

Pages: 77

Agency Expenses and Performance Study, LIMRA, 1992.

This annually produced report provides industry data to allow for competitive benchmarking of agency productivity and a methodology for assessing agency performance. Branch office and general agent distribution systems are reviewed, and agency size and geographic factors are considered.

Level: Advanced

Pages: 30

VI. Regulation of Marketing and Sales Promotion

The protection of the insuring public is the most important objective of regulation. Regulation seeks to obtain this objective by focusing on (1) product quality (2) sales practices and, (3) ability of company to meet its obligations.

Goodwin, Dennis W., *Life and Health Insurance Marketing*, LOMA, 1989, Chapter 7 (p. 141).

Chapter 7 of this book provides an excellent overall summary of state and federal regulation on marketing in the U.S. and Canada. Included are discussions regarding organization and licensing of insurers, expense limitations, rate regulation, policy forms, agent regulation, and advertising regulation. While regulation can constrict some markets and practices, this chapter illustrates how regulation can also create marketing opportunities.

Level: Intermediate

Pages: 19

Society of Actuaries Study Note 455-21-76, "The Legal Aspects of Marketing Individual Life and Health Insurance In The U.S."

This study note provides a basic introduction into regulation relating to policy cost comparisons and disclosure, the 10-day free look requirement, advertising, sales promotion, replacement of insurance policies, agent licensing and conduct, and rebating.

Level: Basic

Pages: 10

The Record, Society of Actuaries, Vol. 15, (1989), No. 3A, "Does Regulation of the Insurance Industry Benefit Consumers?", pp 1381-1396.

In this session panelists discuss the impact of insurance regulation on the market, and the effect on consumers. Included in the discussion is the effect of product filing and approval on market innovation and disclosure requirements.

Level: Basic

Pages: 16

Society of Actuaries Study Note 440-61-88, "Legislative and Regulatory Constraints Relating to the Marketing of Life Insurance (And Related Lines)".

Regulation in Canada relating to licensing of agents, rebating, point-of-sale disclosure, and replacement of insurance policies is discussed in this study note. It includes federal as well as provincial regulation covering life, annuity variable, and accident and sickness contracts.

Level: Intermediate

Pages: 71

Society of Actuaries, "Final Report of the Task Force for Research on Life Insurance Sales Illustrations under the Auspices of the Committee for Research on Social Concerns", 1992

The Task Force for Research on Life Insurance Sales Illustrations was formed in recognition of the declining level of consumer confidence in the life insurance industry and to investigate how sales illustrations practices can add to, or detract from, consumer confidence. Their report presents summaries of current practices and alternatives to current practices.

Level: Intermediate

Pages: 42

LIMRA, *Marketing for Actuaries*, 1992, Chapter XVII - "Expense Limitations Under Section 4228 of the New York State Insurance Regulation".

This chapter provides an overview of the expense limitations Section 4228 places on the entire operations of life insurers that do business in New York. It is presented from the point of view of the actuarial staff or advisors of a subject insurer. The chapter categorizes the various aspects important to such an actuary.

Level: Advanced

Pages: 17

MacAvoy, Paul W., *Federal-State Regulation of the Pricing and Marketing of Insurance*, American Enterprise Institute, 1150 17th Street NW, Washington, DC., 1977

This book was prepared for the Department of Justice under the Ford Administration to help answer the question of whether existing state regulation and federal antitrust immunity were in the public interest. State and federal regulation are discussed as they relate to property-liability insurance, primarily, and also to individual life insurance.

Level: Advanced

Pages: 103

This Actuarial Speciality Guide on Traditional Marketing was developed under the auspices of the Professional Actuarial Speciality Guides Committee on Continuing Education by:

Lucian J. Lombardi, Editor
Patricia L. Cesaro
Gene L. Lunman
Steven J. Putterman
Wayne Woodworth, PhD*

and reviewed by:

John D. Harrison
Paul D. Laporte

*Dr. Woodworth is not a member of the Society and is director, field support at Principal Mutual Life Insurance Company