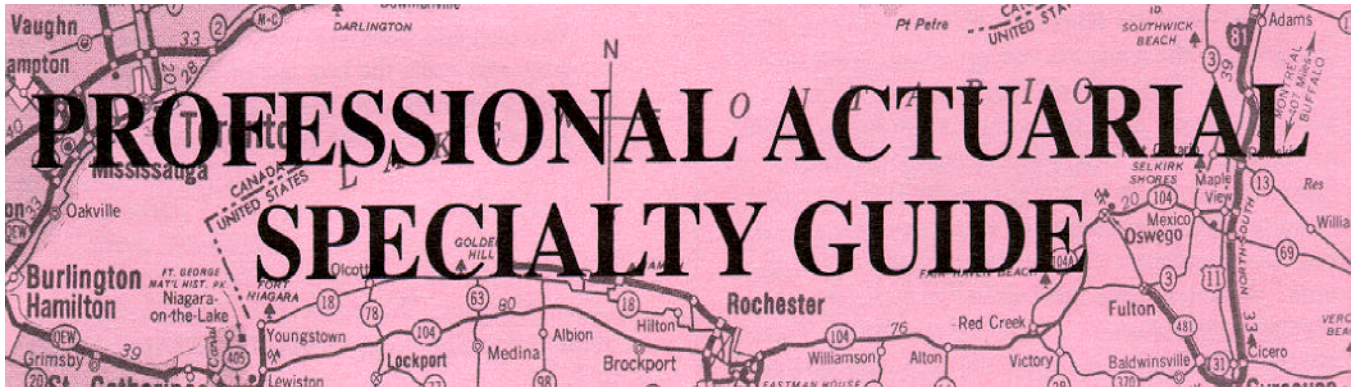


SOCIETY OF ACTUARIES



NONTRADITIONAL MARKETING

Overview

The scope of nontraditional marketing, as viewed by the Nontraditional Marketing Section of the Society, continues to expand. Originally, it encompassed direct response, credit insurance, and payroll deduction. Recent emphasis has added marketing through financial institutions and through pre-need funeral plans. The lack of traditional agent roles and the relaxation of traditional underwriting methods may be the only common themes. In recent years much has been written about the inefficiency of traditional life insurance distribution. The theme is usually the high cost. Most of these nontraditional distribution methods attempt to reach the customer directly or through a more efficient third party such as a bank. Some efforts still involve a traditional agent and attempt to make the agent more efficient by

Actuary's Role

Products and pricing assumptions must fit the distribution system and market. Nontraditional mortality and persistency may be expected. A great emphasis is placed on marketing expenses. The actuary must have a thorough understanding of the marketing expense structure and marketing efficiency. These comments also apply to GAAP accounting under which expense deferral will be nontraditional. Statutory reserving will follow traditional methods except for credit insurance. Cash-flow testing will involve the nontraditional assumptions used for

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Direct response marketing refers to offering products through the mail, via telemarketing, newspaper inserts, television with toll-free response, billing stuffers, and so on. It accounts for a small but growing percentage of total U.S. life and annuity premium. Direct response can be a highly quantified, scientific exercise. Each campaign can be an experiment that adds to the information available to guide future efforts. Actuaries have good skills for managing or otherwise contributing to such logical efforts. Products are typically simple, but great effort is made to determine what the customer wants.

An important source of information is the Direct Marketing Association, 11 West 42nd Street, New York, NY 10036, and its Direct Marketing Insurance Council, same address. Another important source is *NewsDirect*, the newsletter of the Nontraditional Marketing Section of the Society of Actuaries; specific articles from it are referenced below. Many others will also prove helpful. The journals, *Direct Marketing*, Holte Communications, Inc., and *Target Marketing*, North American Publishing Company, may also be helpful.

The New Direct Marketing, David Shepard Associates Inc. Homewood, Ill.: Business One Irwin, 1993.

This book emphasises database marketing and quantitative methods. Other basic textbooks on the subject are also good and may be obtained from the organizations noted above.

Level: Intermediate Pages: 533

Shumrak, H. Michael, "Pricing Direct Response Insurance Marketing Programs," *Society of Actuaries Study Note 441-39-93*. Schaumburg, Ill.: Society of Actuaries, 1993.

An excellent introduction to direct response, this new Study Note covers the history, current issues, and future possibilities of direct response insurance sales. After this thorough introduction, the various assumptions that must be made to price direct response programs are described.

Level: Intermediate Pages: 19

Bowman, Stephen E., "Direct Marketing: The Good News," *Best's Review, Life/Health Insurance Edition* Vol. 86, No. 6 (October 1985): p. 24.

Bowman addresses key ways in which a company can make the best use of direct marketing, from enhancing existing distribution methods to increasing present customer value.

Level: Basic Pages: 3

Lucci, MarySue, "Insurance and Telemarketing: A Solid Partnership," *NewsDirect* No. 7 (April 1989): p. 1.

This article advocates a role for telemarketing in direct sales, upgrades, cross-sales, appointment setting, conservation, and reactivation of accounts.

Level: Basic Pages: 4

Smith, Bradley M., "Direct Response: Striking a Balance," *Best's Review, Life/Health Insurance Edition* Vol. 87, No. 5 (Nov. 1986): p. 90.

Underwriting standards affect response rates, conversion rates, expenses, and mortality. In this article Smith discusses striking a balance between mortality expense and acquisition expense in such a way that expected profit can be maximized.

Level: Basic Pages: 3

"Mass Marketing of Individual Health Insurance," *Record of the Society of Actuaries* Vol. 15, No. 1 (1989): p. 443.

Although the title refers to health insurance, this panel discussion is of general interest. It covers what direct response means; why an insurer might decide to use it as part of the marketing strategy; product design; the correct sales message and technique for that product; and how to evaluate the results of a direct response effort.

Level: Intermediate Pages: 8

"What Are the New Niches in Direct Response Marketing?," *Record of the Society of Actuaries* Vol. 15, No. 2 (1989): p. 633.

This panel discusses direct response marketing in broader terms than direct mail. It discusses product ideas as well as relationship marketing.

Level: Intermediate Pages: 9

"Contrasting the Product Development Process Between Traditional and Nontraditional Marketing," *Record of the Society of Actuaries* Vol. 14, No. 2 (1988): p. 1023.

The panelists discuss such issues as persistency, increased mortality, antiselection, profit objectives, and back-end marketing. The importance of research and testing are discussed along with customization of products versus the simplicity often needed for a successful direct response effort.

Level: Intermediate Pages: 18

"Research Activities in Nontraditional Marketing," *Record of the Society of Actuaries* Vol. 14, No. 2 (1988): p. 681.

This panel discussion covers the structure and composition of research units, methods currently used to conduct research, and specific examples of research activities.

Level: Intermediate Pages: 20

Smith, Bradley M., "Direct Response Regulation," *News-Direct* No. 1 (Jan. 1987): p. 8; No. 7 (April 1989): p. 5.

A two-part series covers regulation of group versus individual coverage, limited time offers (Part I), advertising, credit card billing, telephone solicitation, and agent countersignatures (Part II). Regulations evolve, so some of this is outdated. The article is worthwhile for the clear discussion of some key issues.

Level: Intermediate Pages: 10

"Regulation of Direct Response Marketing," *Record of the Society of Actuaries* Vol. 12, No. 3 (1986): p. 1669.

In addition to topics covered in the article just above, risk selection and discrimination are discussed. Comments about regulations above apply here as well.

Level: Intermediate Pages: 28

Credit Insurance

Credit Insurance can be sold only in conjunction with a consumer debt—generally any debt except first mortgages. In its standard form, credit life insurance usually pays off the outstanding debt in the event of death. Credit disability insurance makes periodic monthly payments if the insured becomes disabled. Credit insurance is sold at the location at which debt is established. Involuntary unemployment (making the monthly payment when unemployed) is a relatively new credit product. Extended service contracts are closely related (by distribution system) casualty coverages. Credit insurance is highly regulated. The actuary involved in credit insurance has an unusual pricing and reserving role. Life reserves are well defined, but disability claim reserves will require considerable judgment. Premium rates are usually set by statute, so the pricing activity involves determining allowable compensation to lenders. An exception is the occasional filing for a rate deviation. Casualty loss ratio concepts are used. Experience monitoring of each lender and state is critical, and the actuary should be involved.

Fagg, Gary, *Credit Life and Disability Insurance*, Springfield, Ohio: CLICO Management, Inc., 1986.

This is the definitive textbook for the credit insurance industry. Its topics cover all aspects of the various products sold and a description of the insurance operations relating to the products.

Level: Intermediate Pages: 576

Payroll Deduction

Payroll deduction is a premium payment method offered by many traditional agent companies. As defined here, the concept is a total marketing strategy. The actuary involved with payroll deduction marketing deals with traditional products (usually) but with very specific and different assumptions for mortality, expenses, size, persistency, and field compensation.

Besides the following references, many articles concerning group universal life, employee benefits, and cafeteria plans (Internal Revenue Code, Section 125) will be pertinent.

Podgurski, Walter, *Payroll Deduction: The Delivery System of the 90's*, 2nd ed. Cincinnati, Ohio: National Underwriter Co., 1991.

This book covers most aspects of the sales process for payroll deduction cases.

Level: Basic Pages: 233

Chapman, Peter and Harold Ingraham, "Individual Policies Issued Without Individual Underwriting," *Society of Actuaries Study Note 340-23-81*. Chicago, Ill.: Society of Actuaries, 1981.

This note covers issue rules typical for employee marketing and gives some indication of expected mortality.

Level: Intermediate Pages: 10

Marketing Through Financial Institutions

Financial institutions include banks, savings and loans, credit unions, and stockbrokers. Tremendous amounts of annuity premium have been placed through these channels in recent years. In addition to the following references, a periodical, *Banks in Insurance*

"Individual Insurance Products-Banks/Stockbrokers," *Record of the Society of Actuaries* Vol. 17, No.1 (1991): p. 285.

The panelists discuss the market potential and motivation of banks and stockbrokers in insurance.

Level: Intermediate Pages: 25

Ploss, Harry, "Sales of Annuities Through Savings and Loans," *Product Development News* No. 24 (April 1990): p. 11.

Much information is packed in this short article. It presents an overview of the history, regulation, products, and pricing assumptions for deferred annuities sold through savings and loans.

Level: Basic Pages: 2

Pre-Need Funeral Plans

The pre-need funeral business was once funded mostly by trusts, but a 1986 change in federal tax law caused life insurance and annuities to become more attractive funding vehicles. Demographics will ensure growth of this field. Policies are small but inflation-indexed. Usually they are single- or limited-payment plans. Underwriting is very limited. Issue ages are relatively high. Persistency is excellent.

The actuary involved in pre-need funeral planning, using insurance products, is involved in a newly recognized specialty and must often work from first principles. Regulations vary widely by state. Product cre-

Hulme, Richard W. and Robert M. Beuerlein, "Actuarial Guideline ZZ," *The Financial Reporter* No. 13 (February 1990): p. 20.

The article covers special valuation and nonforfeiture proposals for increasing benefit policies. Most such plans are pre-need funeral policies.

Level: Basic Pages: 2

Hulme, Richard W. and Robert M. Beuerlein, "Burial Insurance," *Product Development News* No. 22 (September 1989): p. 10.

The same authors provide a brief introduction to the market, pricing assumptions, and regulation.

Level: Basic Pages: 2

Publishing and Ordering Information

For the following publications, please contact the publishers directly for books or reprints of articles.

Banks in Insurance Report

Executive Enterprises Publications, Inc.
22 West 21st Street
New York, NY 10010-6990
Attn: John Evans
Phone: (800) 332-8804
FAX: (212) 645-7880

Best's Review, Life/Health Insurance Edition

A.M. Best Company, Inc.
Ambest Road
Oldwick, NJ 08858
Phone: (908) 439-2200
FAX: (908) 439-3363

Credit Life and Disability Insurance

CLICO Management, INC
c/o Gary Fagg, FSA
CreditRE Corp
4107 Greenway Court
Colleyville, TX 76034
Phone: (817) 788-8121
FAX: (817) 788-8123

Direct Marketing

Holte Communications, Inc.
224 Seventh Avenue
Garden City, NY 11530
Phone: (800) 229-5700
FAX: (516)294-8141

The New Direct Marketing

Business One Irwin
1818 Ridge Road
Homewood, IL 60430
Phone: (800) 634-3966
FAX: (708)798-1490

Payroll Deduction: The Delivery System of the 90's

National Underwriter Company
505 Gest Street
Cincinnati, OH 45203
Phone: (513) 721-2140
FAX: (800) 543-0871

Target Marketing

North American Publishing Company
401 N. Broad Street
Philadelphia, PA 19108
Phone: (215) 238-5300
FAX: (215) 238-5457

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Society of Actuaries Library
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173
Phone: (847) 706-3538
FAX: (847) 706-3599

This Actuarial Specialty Guide was developed under the auspices of the Professional Actuarial Specialty Guides Committee on Nontraditional Marketing by:

A. Grant Hemphill, III, Editor

and reviewed by:

Richard L. Bergstrom
Jay M. Jaffe
H. Michael Shumrak
Bradley M. Smith