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LOOKING AHEAD — THE FUTURISM SECTION

By David S. Williams

The Futurism Section was formed in 1982 to encourage and facilitate the professional development of its members in the field of futurism. A number of actuaries are keenly interested in futures research and its application to their business and personal lives. But the majority of our colleagues are too preoccupied with the management of today's problems to pay much attention to the longer term, particularly when the uncertainties involved are by nature not easily quantified.

The other special interest sections are addressing today's problems in their respective fields, and on occasion are taking a look at tomorrow's problems, at least those with near-term implications. Our Section's sphere of interest is broader and not as urgent, and accordingly, our role is a more difficult one. However, Section membership is currently hovering about the 1,000 level, so while many of our members may not be thoroughly conversant with current activities in the field, they find futures perspectives sufficiently stimulating that they at least want to keep in touch.

As our 1985 Annual Report indicates, we are well into the process of organizing a scanning network for the purpose of identifying and monitoring emerging issues of particular actuarial significance. A lending library of pertinent futures literature is being accumulated in the Society offices under the care of the Director of Research, Mark Doherty. The Section's Issues Committee has completed an in-depth study of a major report on the 20-year strategic outlook for the life & health insurance industry, carried out by the Center for Futures

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OUR YESTERDAYS

Jack Moorhead, former editor of this newsletter and now Chairman of the Comprehensive History Task Force, has sent a letter to the some 750 actuaries thought to be retired. With Jack's permission, *The Actuary* hereby publishes this letter, with the thought that active members, as well as those retired, may have something to contribute to this project.

THE LEGION OF ACTUARIAL HISTORY CONTRIBUTORS

ACTUARIAL HISTORY is on many minds as 1989, our centenary, approaches.

To place on record, via a book provisionally entitled "Our Yesterdays", the absorbing story of how we actuaries came to be what we are today, it's essential that we have access to documents, photographs, artifacts, reminiscences of past events. Retired actuaries as a group are by far the most likely to have some of these, or to know where they lie, treasured or forgotten.

How To Enroll

Any member of any branch of our profession who furnishes any document, any useable anecdote or any guidance to this history project will automatically become a member of the Legion of Actuarial History Contributors. Legionnaires will be entitled to receive progress reports as the work moves along, and who knows what recognition and commendation at the celebration three-and-a-half years hence.

And if you reply to this letter BEFORE JAN. 31, 1986 with your
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THE MARKETING OF INSURANCE THROUGH BANKS

By Harold G. Ingraham, Jr.

Over the past two years, as deregulation has lurched forward, banks and thrifts as well as insurance agencies and marketing organizations have been examining the viability of joint ventures involving the sale of insurance through depository institutions. Such joint ventures have been described as not marriages — but rather the "mating of porcupines".

What is a joint venture? The partners could include a bank, an insurance company, and a local agency. The insurance company has sometimes been missing, with joint ventures established between banks and independent agencies.

Why are banks willing and eager to participate in joint ventures? It helps the bank to defray costs by spreading over a larger base the costs of maintaining their branches. Also, it fills out their financial services product line, has synergy with other bank products, gives the bank opportunity for greater client control, and helps the bank to expand its customer base.

Why are insurance companies willing to participate in joint ventures? It takes advantage of an in-place distribution system, with a larger customer base, with more efficient customer access, and which has strong customer relationships. Established companies see them as supplemental distribution systems. And to some companies it's a defensive strategy.

There are several variations to these joint ventures:

- The bank solicits its clients via direct mail or telemarketing to sell the insurance company's products. Instead of using the insurance company's sales

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Insurance through Banks

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force, outside specialists or consultants are hired on fixed salaries.

- The bank leases space to independent agents who are compensated by the insurance company on a commission basis.

- The bank has an agency contract with the insurance company.

- The bank clients' names are sold to insurance agents. They can be used for outside solicitations or used in conjunction with a leasing arrangement to develop a full-fledged direct mail or telemarketing program. The bank earns fee income from rent and from the sale of the list.

- The insurance company agents are housed in the lobby of the bank, or directly adjacent to it. The insurance company pays the bank a flat rental fee or a percentage of the volume generated (depending on what is allowed in the particular jurisdiction involved).

Several types of products are being marketed through banks — auto, homeowners, hospital indemnity, life and annuity. As far as life and annuity products are concerned, conceptually it is helpful to distinguish between protection products and financial products. The protection products involve no competition with currently offered bank products. These include term, mortgage insurance, immediate annuities, and IRA completion insurance.

However, financial products involving fund accumulations might be considered by the banks as competing with their depository instruments. Such products might include universal life, SPDA's, mutual funds, and tax shelters.

There are a number of legal, marketing, and corporate issues to consider in starting a bank/insurance company joint venture. The bank's endorsement of the insurance company at some point may so involve the bank in the insurance sales process as to potentially raise questions as to whether some bank employees should be licensed as agents under state law. Also, there are concerns relating to confidentiality of bank customer data, and the possible allegation that "credit-leverage" is being used by the bank with respect to sales of insurance.

A proper marketing plan must be developed. This might first include

Waterloo Seminars

University of Waterloo faculty will present one-week seminars for Parts 4, 5, 6, 8 and 10 (all options) during the period April 19 to May 10. For details, contact F.G. Reynolds at his *Yearbook* address.

Problem Workshop - EA-1-Exam

An intensive three-day workshop for the EA-1 exam (Part 7P(US)) will be given by Actuarial Study Materials in New York City, May 2, 3, 4. For details, write ASM, PO Box 522, Merrick, NY 11566.

direct mail solicitations using bank customer lists, telemarketing with respect to identified insurance prospects — and then later, face-to-face sales situations involving agents in a bank retail area or elsewhere.

Agents will have a modified role from that in the usual career shop. Here, they are trained in sales closing rather than prospecting. Compensation is often based on salary plus bonus, with persistency incentives. Also, in a bank/insurance company joint venture, the clients are owned by the banking relationship — not the agent.

Product decisions need to be made by the insurance company: not only what life products to market — such as term, universal life or annuities — but also, whether to use existing shelf products or specially-priced products reflecting different assumed experience factors and marketed through a subsidiary of the insurance company.

If the joint venture is piloted during the initial phase, criteria need to be established to determine whether "roll-out" of the program should later take place. The guideline factors might include:

- The number of direct mail responses,
- The sales conversion rate as a percentage of the response, and
- The number of policies sold and the proportion that were permanent policies.

The issue of exclusivity must also be addressed. For example, the insurance company would agree not to become involved in another similar relationship —

NOTICE TO PART 8 CANDIDATES

Candidates planning to write the Part 8 examination in May 1986 should obtain the *Seventh Edition* of *Managerial Finance*, by Weston & Brigham. It appears there are a sufficient number of copies available to fill the demand for Part 8 (May only) candidates. Candidates planning to write in May should order the book, specifying *Seventh Edition*, as quickly as possible from one of the book distributors or from the publisher, CBS College Publications/Division of Holt, Rinehart and Winston, Inc. (212) 872-2613. Candidates who encounter difficulty in obtaining a copy of the *Seventh Edition* should contact the Society office for assistance; the office will make every effort to locate copies for those candidates.

Candidates planning to write the Part 8 examination in November 1986 should obtain the *Eighth Edition* of *Managerial Finance* by Weston & Copeland. Candidates should encounter no difficulty in obtaining a copy of the *Eighth Edition*. □

and to use good faith efforts to preclude its agents from doing so either — in any of the states involved in the joint venture. The bank would similarly agree.

The insurance company should ask itself: is it merely an expedient vehicle to get the bank into the insurance business? In the event of total deregulation, will it be replaced by bank-owned entities both on the manufacturing and distribution ends?

Successful relationships between banks and insurance companies will be founded on:

- A long-term commitment by both,
- Careful customer segmentation,
- The proper fit of products to distribution system, and
- Products with streamlined policies and procedures that are complementary to existing bank programs.

I see both industries working toward a balance between competition and cooperation through various networking arrangements. Each will seek to use the other's specialized abilities, develop economies of scale, share costs and risks, and take advantage of cross-selling. And, most banks and insurance companies will prosper in their new cooperative ventures. □