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Is "Direct" Where You Want To Be?

by David C. Florian

These days, you can buy just about anything "direct"—computers, furniture, even stocks. It's no surprise this craze has caught on in the life insurance industry. In fact, the distribution channel categorized as "direct" is one of the industry's fastest growing, increasing its marketshare from 3% in 1990 to 11% in 1997. (Term Life Distribution Segmentation," Braunegg, George, Society of Actuaries—*Product Development News*, September 1998.) Furthermore, this growth is expected to continue. Most every insurance company has considered the "direct" alternative. Some are actually making it happen.

Is "direct" where you want to be? That's a good question. In this article, we'll take a look at direct response marketing the associated costs, and the tools necessary to start building your company's presence in this developing market.

The direct market is actually not new. In fact, it's been around for quite some time. However, companies appear to be investigating alternate solutions for expanding and maximizing their production with increased fervor. Insurance companies and agencies alike share this passion. In the quest for new sources of business, both segments of the industry have begun to experiment with direct marketing. Of course, the strategic approaches might differ. Some insurers are marketing their own products directly to the consumer, while other companies and agencies perform direct mail campaigns. Many others are operating an in-bound call center or interactive web site to which consumers can directly respond to regional or national insurance advertising. Whatever the strategy, considerable challenges and potential rewards exist. Before the benefits may be appreciated, though, the groundwork for a successful operation must first be created.

What tools are necessary to try your hand at a direct response operation? For starters, you will need a telephone line, preferably with a toll-free listing. The telephone is the lifeline of a direct response agency. While some companies are experimenting with online insurance sales via their web site, this medium has yet to grow

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beyond infancy for insurance. No question, the Internet will eventually develop into a significant distribution channel. A web site is currently an excellent complement to your company, but the telephone is crucial.

Once the telephone lines are established, what is going to make them ring? Advertising, of course. Various options exist—radio, print, and/or television. Each advertising vehicle has pros and cons that should be analyzed and considered. Regardless of whether your decision is to select print or broadcast, it should be understood that advertising is not cheap. The price tag to establish company name recognition and to drive in calls should never be underestimated. However, money spent is money earned. The primary benefit of advertising in the broad-based market is the mass audience your message will reach. And, the key to a successful direct response operation is mass production.

The last essential tool for beginning a profitable execution is agents. The volume of incoming calls necessitates a staff of licensed agents. The responsibilities of a call center agent, however, vary significantly from those of a traditional agent. Customer service oriented individuals, rather than seasoned agents accustomed to prospecting, better fit the description of a call center agent. Fortunately, this individual is easier to recruit and eager to learn. Furthermore, because it is unusual for a traditional agent to possess licenses in each of the 50 states, the lack of any license truly makes little difference in the time required to bring your phone agents up to speed.

It is important to note that while this new breed of agent is critical to a direct response operation, neither the traditional agent nor the traditional distribution channel will be replaced. These two distinct distribution methods—direct response and traditional—can and will co-exist in the future. There is, in fact, little overlap in the consumers who purchase via each channel. There will always be an abundance of consumers who require the personal, hands-on attention and advanced insurance product knowledge that only a traditional agent can provide. Whether the consumer requires estate planning or universal life, the traditional agent is best equipped to facilitate this sales process. A direct response agency will be sought out by those “do-it-yourself” individuals able to conduct their insurance purchases without the face-to-face presence of an agent. These consumers desire a quick, simple purchase of a simple insurance product—the type of sale perfectly suited to a direct marketing organization.

The key word, obviously, is “simple.” Therefore, the product of choice by most direct marketing operations is term life insurance, typically a product only used as a last resort by traditional agencies due to its low premium and commission. Essentially, term life has become a commodity, with price being the product’s primary competitive feature. In this volatile market with prices decreasing, life insurance companies have slashed premiums by decreasing commissions in order to remain competitive. The obvious winner is the consumer who now has access to an easy-to-understand product with a miniscule price tag. Insurance companies and agencies also win in that these “low-load” products can be used to target the previously ignored and hard to reach middle and lower income markets.

For several years, the proposed XXX regulation has loomed over the term industry like a black cloud. Should the majority of states adopt this regulation, the direct segment of the market would definitely be impacted. How much of an impact? The answer to this question is somewhat uncertain since several new XXX proposals are currently in front of the NAIC.

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If or until this regulation is adopted, direct marketers will have their hands full complying with the myriad of other state insurance regulations and newly created IMSA guidelines. Direct or not, this is no easy feat for any insurance agency.

One advantage that a direct response organization possesses over the traditional “field” agency is greater control over the agents. With an in-bound call center structure, each of the direct marketer’s agents are located in-house, rather than in the field. Agents are immediately notified of new and pending state regulations. Established internal procedures verify that insurance transactions are always in compliance. Telephone calls are recorded to document the accuracy of conversations. Regardless of what internal programs you establish, the result is clear—greater control, lesser market conduct, and compliance worries.

It is a sure bet that nearly every insurance company has contemplated building an in-house direct marketing operation. Some insurers, such as Zurich Direct and Fidelity, have succeeded in their direct-to-the consumer marketing efforts. The majority of insurance companies, however, have not yet attempted this

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Is "Direct" Where You Want To Be?

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of isolating the existing field force or perhaps disinterest in creating a back-office for the business, many insureers have avoided the risk of direct marketing. There is an alternative to completing the operation entirely in the home office. Through third party marketing arrangements (TPMs), you can create perception in the consumer's mind that you are direct marketing your insurance products. This model promotes efficiencies as the insurer completes what they do best—underwriting, policy issue, and assumption risk—while the agency focuses on their strengths—advertising and selling.

The direct marketing distribution channel may be small in relation to the older, more mature channels, but it is growing. And, it's growing fast. Is "direct" where you want to be? If your answer is yes, move quickly. Make decisions. Build an in-house direct marketing operation. Market through a direct response independent brokerage. Or, contract with a Third Party Marketers to market direct to the consumer.

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Market Potential for Preneed

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TABLE 1
Percentage Contacted About:

	Age			
	Under 45	45—59	60—74	75 and over
Planning	14%	29%	40%	36%
Prepaying	12%	27%	40%	33%

TABLE 2
Who Contacted You?

	Planning	Prepaying
Funeral home representative	62%	61%
Cemetary representative	33%	30%
Life insurance agent	10%	9%
Clergy	2%	NA
Other	12%	11%

Interest

Overall, 31% of consumers said that planning and prepaying for their own funeral is something they would be interested in. Interest does not vary significantly by age of the respondent, but gradually declines with increasing income (see Chart 1, page 6).

Current Arrangements

Seven percent of the sample already have signed contracts with funeral homes specifying their own funeral arrangements. As expected, the incidence rises sharply with age (see Chart 2, page 6). It also varies by income, but to a lesser degree (9% of respondents with household income less than $25,000 vs. 4% with household incomes greater than $50,000).

Widows/widowers are much more likely to have a signed contract with a funeral home (19%) than are consumers who are married (6%), divorced, separated, or single (5%). This is not surprising since the widowed are more likely to have built a relationship with a funeral home while arranging their spouse's funeral.

The percentage of consumers who have a signed contract with a funeral home is much greater for those who had been contacted about planning and prepaying; than for those who had not more than 20% of those contacted now have a contract versus only 2% among those who were not contacted. Less than 10% of consumers contacted about planning only (not prepaying) have a contract. This is a clear indication that contacting consumers does result in policy sales but that discussing prepayment options in addition to planning increases sales significantly.

Thirty-six percent of the respondents who currently have a contract with a funeral home indicated they bought an insurance policy to pay for the funeral at the same time they made the arrangements. Fifty-five percent

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