News Direct Newsletter

September 2003 – Issue No. 44

SOCIETY OF ACTUARIES

NEWSDIRECT

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

NUMBER 44 SEPTEMBER 2003

Would You Like Fries With That?

by Jason B. Holman

This classic but clichéd phrase refers to how McDonald's employees routinely ask customers if they want to order larger-sized drinks or other additions to go with their orders. Great salesmen understand and actively apply the technique, as do many successful financial institutions. In the insurance business, the benefits of cross-selling are numerous, especially for companies developing the huge, untapped potential[1] of the middle market. Why is this the case? And, what can insurance companies do right now to increase their cross-selling activities?

There is a universal recognition that the middle market is notoriously difficult and expensive to serve[2]. Using proven techniques, cross-selling can help insurers defray the costs of serving the middle market by lowering acquisition rates and increasing policyholder retention.

Cross-selling generates substantially lower acquisition costs for insurers because marketing costs tend to be fixed, and offers to existing policyholders typically generate very high response rates—surpassing 15 or 20 percent in most cases. Intuitively, the success of cross-selling makes sense. Once a customer buys a policy, it becomes much easier to convince a policyholder to buy again. The main reason for this is that secondary marketing efforts tend to fall into the realm of "servicing," creating a friendlier buying environment for the policyholder.

The financial savings of increasing the number of products held by policyholders using cross-selling can be dramatic. Many studies have shown that the retention of customers increases as the number of products they have with the same provider increases. This is equally true in the insurance business. Higher policyholder retention means substantially lower underwriting and policy-issue costs. Higher retention rates also mean that acquisition costs can be amortized over a longer period of time and generate higher rates of policyholder portfolio growth.

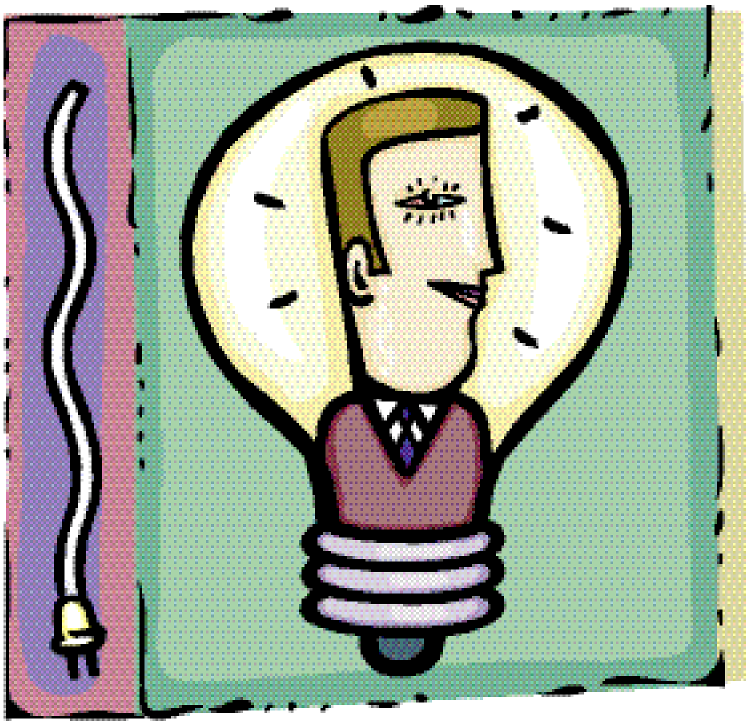
Statistics for policyholder retention by number of products held are scarce.

(continued on page 4)

1&2) Middle Market Internet Use for Insurance and Financial Services, Society of Actuaries, May 2003.

3) Working Smarter, State Farm Insurance, October 1989.

Features...



State Farm published its policyholder retention statistics in 1989[3], and these statistics revealed dramatic results. Policyholders with a single State Farm product had a retention rate of 61 percent at the end of five years. If a policyholder had two products with State Farm, their retention rate jumped to 70 percent after five years. Finally, if a policyholder had three or four products with State Farm, the five-year retention rate was 83 percent!

What can insurance companies do right now to boost cross-selling activities? And, equally important, how does the servicing agent or broker fit into the picture?

Based on our experience, cross-selling to policyholders using direct response techniques generally falls into two categories: offering more of the same or offering supplementary coverage. Offering more of the same takes the form of offering a simple upgrade of the policyholder's existing coverage. Offering supplementary coverage involves offering a simple, easy to understand additional insurance coverage such as accidental death insurance. The offer is positioned as a convenient way for the policyholder to supplement his or her existing coverage.

Upgrade and accidental death insurance cross-sell offers have proven to be extremely successful and well received. The consistent and reliable results are that between 10 and 25 percent of policyholders receiving these offers will purchase the coverage.

The role of the agent or broker is critical to the success of the cross-sell offer. Agents and brokers should be given an opportunity to opt out of cross-selling campaigns and have their clients removed from the prospect list. Our experience has shown that very few agents and brokers will choose to opt-out once they understand how the policyholder marketing programs work. Agents and brokers should also be given a commission on each sale in recognition of their relationship with the policyholder. In addition, they should be referenced in the direct marketing material and should be given credit for bringing this opportunity to their clients.

Not only do cross-selling campaigns generate virtually effortless commissions for brokers, a significant number of sales leads are created because policyholders often want to speak with their agent or broker to discuss the new offer and how it fits in to their existing coverage. Enterprising agents and brokers can also receive a list of their clients who will receive the cross-sell offer so they can follow the offer up with a telephone call, creating a potential sales opportunity.

So the next time you order a meal at your favorite fast food restaurant, pay attention to the subtle, but inevitable cross-sell sales pitch. Then take a long, hard look at how your organization could use these techniques to capitalize on cross-selling opportunities to increase policyholder retention, reduce expenses and boost profitability.

Jason Holman, BA Economics, FLMI, is Vice President, Marketing for Direct Insurance Marketing Inc. and specializes in developing direct marketing programs for insurance companies. He can be reached at jholman@directimi.com.