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Quantitative Marketing for Actuaries

by Jay M. Jaffe

Approaching the marketing (of any product) from a quantitative perspective should be natural for actuaries because of our inherent abilities, background, and training.

Unfortunately, most actuaries in the insurance or related financial business are never exposed to the actual marketing of the products they develop or are not involved with product marketing on a daily basis, and so our quantitative marketing skills have either never been developed or probably have atrophied.

On November 11, 2000, the Nontraditional Marketing Section of the SOA sponsored a seminar in New York expressly for the purpose of either refreshing or providing actuaries with an exposure to "The New Direct Marketing." This type of marketing relies heavily on quantitative skills and thinking.

The session leader was David Shepard. David is a very articulate and entertaining speaker, so learning rather detailed subjects was very enjoyable. David was accompanied by one of his associates, Richard Deere, who is an expert in market segmentation.

Perhaps the most important general point which David made during his presentation was his description of the insurance business. From his perspective, insurance is not unique and resembles any other continuity program.

Probably the most famous continuity program is the Book-of-the-Month Club. The BOMC is very much like the insurance business because it markets an initial product (several books at very low cost) at a loss and relies on renewals to make it money. Similarly, in the insurance business, as any actuary knows, the initial premium payment doesn't pay for the cost of marketing and issuing a new policy, and so the company must rely on the renewal premiums to recover its initial outlays.

While it may reduce the glamour of insurance to think of insurance as simply another continuity marketing program, when viewed in this light, it may make it easier to apply the techniques used by other businesses to help improve insurance operations.

The broad topics covered at the meeting included:

- Predictive modeling
- Building response models
- Practical modeling issues
- Market segmentation

The materials covered by David and Richard are not just applicable to the front end or response facet of marketing. The techniques they presented at the meeting are just as applicable to retention and are used in other business expressly to predict which customers will continue.

Even in companies which do not use direct marketing, there are many other applications of the concepts presented at the seminar. For example, a company might use the types of predictive models presented by David to identify which insureds are most likely to lapse and take preemptive action to minimize the probablility of lapse. Such a program could also incorporate an evaluation of how much it is worth spending to retain each insured.

As a bonus for attending the meeting, everyone received a copy of the 3rd edition of *The New Direct Marketing* by David Shepard Associates (published by McGraw-Hill, $79.95). This book is a comprehensive review of direct marketing, data bases, modeling, and the economics of direct marketing including lifetime value. It is a must addition to the library of any actuary with an interest in marketing and, specifically, direct marketing.

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