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REGARDING YOUR DIRECT RESPONSE OFFER

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Companies use direct response as a low-cost way to reach middle-market consumers, but are direct methods truly successful at serving the middle market? In this article, we evaluate findings from a new LIMRA focus group consumer study that examines the decision-making process that consumers follow when buying life insurance (including their use of direct channels). Comments from the focus groups are compared with findings from a 2002 LIMRA study of companies' direct marketing practices — *Direct Response Marketing: Trends and Outlooks* — in order to explore gaps between companies' outlooks and consumers' preferences, and to identify barriers consumers face when using direct channels.

To set the stage, we will define some key terms: Direct response marketing is distribution in which an insurer makes product offers to consumers through methods other than face-to-face sales calls. In a direct response sales process, no agent or salesperson visits the customer, and no face-to-face interaction occurs between the customer and a representative of the insurer. Activities used to generate leads for the carrier's sales force are not considered as direct response distribution. In this article, we focus on three direct response methods: direct mail, the Internet and call centers.

LIMRA defines middle-market consumers as those with total household annual income between \$25,000 and \$85,000 (and up to \$100,000 in major urban settings). The focus groups consisted of middle-market consumers who had "shopped" for life insurance within the past two years, regardless of whether or not they had purchased any.



STARTING THE BUYING PROCESS

Focus group participants initiated the shopping and buying process by using one of two approaches. They either contacted a financial professional or insurance company with whom they had an established relationship or they researched life insurance products on their own. For most, a life event initiated the process, typically a recent marriage or birth of a child, and in several cases, the loss of a job. For a small group of younger participants, the call to action was due to a general feeling of obligation, that is, the desire to protect themselves and not be a burden to family. A few had seen firsthand the financial impact of a death on a friend's or family member's immediate family and wanted to avoid a repeat of the same situation.

For the majority of participants, receiving a direct offer did not start them thinking about buying life insurance. It did, however, provide a first step in the shopping process for some by serving as a catalyst for those who had already been considering buying life insurance but had not yet taken a first step. Direct channels, both mail and Internet, provide a method for them to gather information. It is not surprising that very few participants completed the buying process through direct means. A recent mail survey of middle-market consumers revealed that while the vast majority of (if not all) households receive some



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CONSUMER USE OF DIRECT RESPONSE METHODS

DIRECT OFFERS	OFFERED	RESPONDED	BOUGHT
Received in the mail	86%	6%	3%
Someone telephoned you to sell you life insurance over the phone	31	1	+
Saw an ad on television or heard on radio	64	2	+
Read in a newspaper or magazine	46	2	+
Received an insert with a bill, bank or insurance statement	61	3	1
Picked up a flyer or brochure	12	1	+
Saw an offer online through a personal computer	29	1	+
Did not respond to any of the above	NA	86	NA
Did not purchase through any of the above	NA	NA	94

+ Less than 1/2 of 1 percent

NA: Not applicable

Source: Middle Market Consumer Omnibus Study, LIMRA International, 2002

TABLE 1

DIRECT RESPONSE ... CONTINUED FROM PAGE 5 |

type of direct advertising, only a small percentage respond, and only a small proportion of those actually purchase life insurance directly (see Table 1).

Although only a portion of the overall population purchases through direct response distribution channels, the number of middle-market households that rely on these channels for some or all of the buying process makes it an indispensable distribution method. Each channel within direct response provides both specific conveniences and limitations for consumers. We will discuss some of the challenges our participants described and will also provide suggestions on how to overcome these barriers.

INTERNET

The Internet is playing an increasingly important role in the shopping process, but, as other LIMRA research has shown, its role as a buying method is minimal. Some focus group participants described their first step in the buying process as going onto the Internet and searching for information on life insurance. Some visited quote malls to compare quotes, while others conducted informational searches on life insurance in general.

Those seeking quotes often were gathering premium information in preparation for a face-to-face discussion. Just as they would with the purchase of a car, the participants wanted to prepare for the meeting with an agent. By knowing some basic price information, they felt more knowledgeable about the product for which they were shopping. They could then ask the agent about price differences between his or her quote and those found online.

Having a past relationship was a key consideration. The agent they were meeting with was often their property-casualty insurance agent and, if the premiums quoted by the agent were similar to (or even slightly higher than) those found online, they would buy through their agent.

Consumers conducting informational searches approached the quest in one of two ways. One approach was to type “life insurance” into a search engine and then click on the first or second item in the search result. These folks were often looking for descriptions of different types of products and trying to understand the characteristics of term and permanent life insurance. A few went directly to an insurance company’s Web site, usually that of a company with which they had already established a relationship. They wanted to know whether their

property-casualty carrier offered life products, and a few were assessing a company's stability and reputation.

Consumers are still cautious about the information they receive online. In the case of specific company sites, they question the objectivity of the information and think that companies are more interested in pushing a more profitable product regardless of its suitability. For general sites and quote malls, consumers are concerned with the viability and reputation of the companies providing quotes.

I guess I'm starting to wonder if, when you go on the Internet and you start pulling quotes off the Internet, if all those quotes are really reliable, because the fees are quite different for these huge policies and I'm just kind of leery of signing up and paying them money and not having them be around, but I don't know how to research that.

— Deanna, Minneapolis

Company Web sites might increase their credibility by including links to independent or nonaffiliated education sites. Sites such as that of the Life and Health Insurance Foundation for Education (www.life-line.org) provide nonbiased information specifically targeted to consumers. The challenge for companies, however, is to not lose that contact once consumers are directed from the company home page to the educational sites.



The ultimate decision to buy online or not is more a factor of the importance of the product than the quality of the information. Most of our participants did not want to buy online because they feel the purchase of life insurance is too important a decision to be made without either validating information or meeting someone in person to discuss their decision and answer their questions.

Simplifying and streamlining the buying process might encourage more consumers to buy online.

If a sale involves this amount of money and something that is this important . . . I want face-to-face. . . .

— Eric, Indianapolis

For the small minority who do buy online, the allure is the no-hassle, simple and efficient aspect of the sale. These consumers know what they want and they go for it. They do not want to waste time in face-to-face meetings or follow-up phone calls.

Simplifying and streamlining the buying process might encourage more consumers to buy online. An informal review of several quote malls and company Web sites revealed that in some cases consumers were forced to contact a call center to complete the application. Eliminating this requirement might ease concerns of those buyers who do not want to talk to a person and risk being pressured into buying something they do not want or fully understand. Similarly, the quote-request process could be simplified by eliminating questions about name, address and phone number. This information will be required when formally applying for coverage but is not needed for generating a quote. Some sites require the consumer to enter this personal information twice.

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| DIRECT RESPONSE ... CONTINUED FROM PAGE 7 |

The majority of focus group participants were not familiar with online calculators that are readily available for determining the appropriate amount of insurance needed. While some felt the calculators could be useful to get a rough estimate, more savvy consumers stated they would be reluctant to use them unless they understood the underlying algorithms used to calculate insurance coverage. These consumers are unsure whether the model could accurately capture their personal situation.

The better your company's Web site can provide answers to their questions, the more consumers will identify your company as a source of helpful, objective information. The next step in keeping consumers' interest is demonstrating how your company shares values similar to their own and can provide products that fit their specific needs.

Bear in mind that consumers will seek to verify the information you have on your Web site or in your promotional material. They may talk to friends or contact other companies (direct or through personal channels). Be sure the information on your Web site is accurate and verifiable, so consumers can trust your company.

Finally, make certain customers have easy access to your Web address. Surprisingly, a number of participants in the focus groups were not familiar with the Web addresses of their carriers. Some typed in better-known and recognizable companies in order to search for information or, as mentioned earlier, entered "life insurance" into a search engine. This reinforces the need for companies to plaster their Web addresses wherever possible to direct traffic to their Web sites. Toll-free telephone numbers are also important to include on Web sites and other marketing materials to allow consumers flexibility to navigate through an integrated direct response system. If sales over the Internet do not increase as hoped, at least consumers will have the means to complete a sale more easily if their buying process begins online.

DIRECT MAIL

According to the LIMRA Direct Response Marketing company study, direct mail is estimated to generate almost 40 percent of direct response sales. In the recent consumer focus groups, the few participants who bought direct as a result of receiving a mailer said they were attracted to the direct offers either because they were familiar with the company through brand recognition or an established relationship, or because of timing — an offer was received that coincided with a decision to shop for insurance.

The buying process for respondents to direct mail does not seem as complex as it does for other buyers. It seems that many of the middle-market consumers responding to mail already knew which product they wanted and were simply searching for the best value; that is, the most coverage for the least premium (assuming a reputable and solvent company).

For these consumers, the latter issue is addressed through their existing relationship with or knowledge of the company. The only factor that remains is convincing them they are receiving a good value. At

this point in the shopping process, some consumers become confused because they cannot understand why premiums for the same amount of coverage differ from one company to another.

While an explanation of underwriting assumptions might be in order, this approach might often lead to glassy stares or discarded brochures. What is required is a simple explanation of the product's characteristics. Whether the product is a bare-bones renewable term policy, a term product with conversion riders or a children's whole life policy, consumers need basic descriptions of policies. They still have difficulty understanding the difference between permanent and term products. Once shoppers gain a stronger understanding, they can better understand differences in premium and can better assess the added value they receive with slightly more complex products.

Consumers are willing to pay more for a product if they believe better service is associated with it. Their belief can be affected by your company's branding efforts, word of mouth or personal experience. If customer satisfaction information is available, testimonials and examples of high-quality service can support a premium that is slightly higher than another company's. Consumers look for quick response to calls and inquiries, easy-to-read materials, personalized communications, and periodic follow-up while the policy is in force. They want to feel confident that any claims will be handled quickly.

For one recently married young woman, her request for information was never met. After calling a toll-free number to receive more information, she never received a packet and not only ended up buying through another company's direct channel, but also has since boycotted the first insurer.

Direct mail companies still compete against the constant barrage of direct mail that consumers receive. This applies to both stand-alone mail pieces and bill inserts. Those focus group participants who

had an established relationship with an organization sending the direct mail piece reported they were more likely to open it. However, many stated that bill inserts are more readily thrown out than specific mailings because consumers have become accustomed to receiving several inserts and simply throw the entire bunch away without examining them in closer detail.

You honestly can't differentiate. You can't go through and say, "This one will be fine. These 8 won't be fine." They just all get lumped together.

— Greg, Minneapolis

Even among insurance offerings, consumers have difficulty making sense of all the material they receive. Consumers complain that the majority of their mail is now what they consider junk mail and they do not have the time to read through it all. According to Don Jackson's *Insurance Direct Marketing* (2002), 36 percent of mailings are sent in the first quarter of the year, and 62 percent are sent before July. Perhaps carriers should wait until later in the year when there is less competition for the consumer's attention.

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The packaging itself might make a difference as well. According to the United States Postal Service (USPS) 2002 Household Diary Study, consumers are much more likely to respond to first-class insurance advertising than they are to pieces sent via standard mail. The study also reaffirms findings from the Direct Marketing Association's 2003 *Statistical Fact Book* that indicates consumers are much more likely to read immediately, find useful,

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set aside, and respond to standard mail from insurance companies with which they have a previous relationship. Creating a more targeted mailing list based on an internal client profitability measure could offset the more costly per-piece mailing.

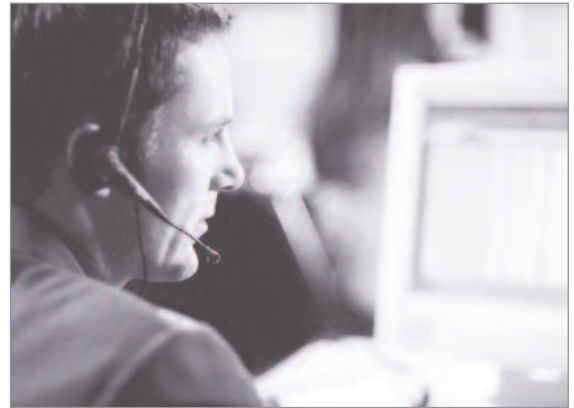
CALL CENTERS

Face-to-face contact with an agent is an important part of the sales process for many consumers. They use the meeting time as an opportunity to gauge the integrity, honesty and responsiveness of a producer, key elements in deciding with which agent or broker to work. Consumer judgments from these meetings then forge the relationship and build the trust that agents need to make recommendations that their clients will heed.

For direct marketers, call centers provide the closest substitute. The sales representative or tele-agent can answer questions that arise from reading mail brochures or fulfillment kits. However, they still face certain challenges not present in face-to-face meetings. During a face-to-face meeting, the consumer knows that he or she has the agent's undivided attention and that the agent is not multitasking. Clients can read the agent's body language and nonverbal cues to gauge the agent's sincerity and responsiveness.

Successful call center staff must compensate for the lack of nonverbal communication by building trust through the information they provide, how they provide it, and how often they provide it. For example, they should listen carefully to the questions a consumer asks so they can accurately understand their client's personal goals and needs. They should be well versed in the proper probing questions to ask so that the client feels the tele-agent is adequately assessing their own situation. The call center staff should also be educated in the challenges consumers typically face so their questions can be addressed proactively.

Call center staff need to be particularly sensitive to how their speech is perceived over the phone. The



rep should sound focused and not as if he or she is reading from a script. Detected script reading diminishes any consumer perception of personalized service and conveys a lack of the representative's expertise. Call centers also need to provide quick turnaround of requests and inquiries. The expectations that consumers have of their agents (typically one business day turnaround for answers to questions or requests for information, according to focus group participants) should hold true for call centers as well. These are all actions that focus group participants felt a trustworthy agent would do.

Consumers in the focus group study also described their preferences for future contact. Many would like to have someone check in on them from time to time to assess their satisfaction with their current coverage and determine whether other needs have arisen. Most seemed to agree that an annual call would be acceptable, provided it was from a person or company they had already established a relationship with. Cold calls continue to be panned by all consumers and are also now more of a challenge with the recent federal Do Not Call legislation.

In LIMRA's study of direct response marketing companies, call centers are among the various direct response methods believed to have the strongest growth potential for life (and health) products. This method provides a reasonable alternative to more expensive personal methods yet provides a degree of personal touch not offered through other direct channels. That level of personal touch might be

enough to build the confidence and trust of middle-market consumers and encourage them to buy.

THE FUTURE OF DIRECT RESPONSE

Throughout our discussion of each direct response channel, it was difficult not to mention other channels, indication that a truly successful direct response marketing effort includes an integrated multi-channel approach to marketing. It also demonstrates that many consumers already expect to be able to transition between mail, phone and Internet contacts. What might be a barrier in one channel might be overcome by use of another channel.

Convenience continues to be a popular characteristic of the direct response channel. Consumers can proceed at their own pace in conducting research, reviewing materials and making decisions. In fact, consumers prefer to be left alone until they need to ask questions or are ready to proceed with the application.

Privacy continues to be a concern for consumers buying direct, more so than some companies expect. Many consumers who resist direct sales worry about the credibility of the organization with which they're dealing. They don't want to give out their personal information over the phone, through the mail or electronically without verifying the identity of the other party.

One consistent challenge for all channels is providing consumers with a manageable amount of relevant information. Despite their efforts to gather information, consumers still reported difficulty in understanding several important aspects of insurance. Specifically, they wanted to know:

- What is the difference between term and permanent insurance?
- What is solvency, and how can I tell a company is sound?
- Why do premiums differ across companies?
- How do I determine how much life insurance coverage I need?
- How can I tell if I'm getting the best value for my money?

The degree to which a company can provide consumers with understandable answers to these questions will dramatically impact future sales of life insurance products. The more that consumers can learn and understand without having to confer with an agent, the more successful direct channels will become. Several focus group participants reported that they became bogged down in their buying process simply because they felt overwhelmed by the amount and complexity of information they received. They identified the need, and they started shopping but did not complete the buying process. More effective direct response marketing efforts have the potential to reach these consumers, to overcome the obstacles, and to close the sale. ■

SPECIAL EDITOR'S NOTE

NewsDirect gratefully acknowledges the contributions of authors who have made presentations or have been published previously. Our September issue should have included the following information about the strategic alliances article by Richard Katz.

Why Strategic Alliances?

By Richard S. Katz, CLU, ChFC,

American Direct Marketing Resources, Inc.

This article is based on a presentation made by Richard S. Katz, CLU, ChFC, at the 30th Annual Meeting of the Professional Insurance Marketing Association (PIMA). Mr. Katz has been involved in insurance and financial services for almost 30 years. He is vice president of American Direct Marketing Resources, Inc., a full service turnkey direct response marketing agency. Mr. Katz can be reached at (636) 532-7703 or via e-mail at rkatz@admr.com. ■