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TRENDS IN DIRECT RESPONSE MARKETING

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Direct response marketing has been an integral part of financial services distribution for many years. However, recent changes in the regulatory environment, advances in technology, and changing consumer preferences have caused direct writers to rethink their marketing and distribution strategies. LIMRA International and JCG Group, Ltd. recently joined forces to survey top direct response life and health insurance writers to explore these issues. This article summarizes some of the results.

Industry Trends

There are many industry trends that impact direct distribution. While some trends point to a more receptive market and enhanced business efficiencies, others present challenges to direct marketers. Most of the trends that will have a positive impact on direct distribution have a common theme—technology (Table 1). Technology will play a major role in the marketing and administration of business sold directly, generating cost-savings and building efficiencies for sales and service. Straight through processing—the electronic illustration, application, processing, scheduling and issuing of a policy with minimal human intervention—has the potential to streamline business processes and result in increased savings.

Many carriers feel that changing demographics will also have a positive impact on direct marketing. The aging population plays into the hands of direct marketers as older consumers are more likely to buy insurance products—especially life insurance products—through a direct response method. Changing lifestyles also make consumers more likely to consider a direct response approach. Consumers are strapped for time and it has become more difficult and less convenient for consumers to purchase insurance face-to-face "over the kitchen table." This is especially true of middle-market consumers as traditional distribution channels have focused their efforts on affluent markets, leaving a large underserved middle-income market. Direct methods provide the opportunity for these consumers to purchase the insurance coverage they need on their own terms.

The continued decline of the career agent channel is seen as providing more opportunities for other distribution methods. According to LIMRA research, sales of individual life insurance by affiliated agents now represent less than 40 percent of first-year premiums. While sales through affiliated channels have declined, sales through independent agents, securities reps, banks, worksite and direct response have increased. There has been a decline in the overall number of career agents and companies have exited career distribution in favor of other channels. Those still distributing through career agents now have a smaller field force under contract. These trends, therefore, provide an opening for direct response and other forms of distribution.

IMPACT OF VARIOUS TRENDS ON DIRECT DISTRIBUTION

POSITIVE TRENDS

	NUMBER OF COMPANIES CITING TREND	LEVEL OF IMPACT		
		MAJOR	MODERATE	MINIMUM
Straight through processing (STP)	19	7	10	2
Technological advances (marketing)	19	8	10	1
Technological advances (underwriting)	19	8	10	1
Technological advances (administrative)	18	4	10	4
Improvement of carrier Web sites	18*	5	4	8
Changing of U.S. population demographics	16	4	9	3
Continued decline of career agent force	16*	2	10	3

* One company did not specify the level of positive impact for this trend

TABLE 1

The trends that will impact the direct channel negatively are most often related to the regulatory environment. With the emergence of consumer privacy/ "opt-out" legislation, a National Do-Not-Call list in addition to a number of states' existing Do-Not-Call legislation, many feel that these regulatory issues will significantly impact the direct response industry. However, DNC has been a non-issue for many companies so far. Companies may have been ahead of the curve in anticipating legislation and have adjusted their practices accordingly. Many may have avoided using contact centers in their insurance distribution strategy, and instead focused on other methods of direct distribution. Therefore, DNC is not an issue for these carriers. Some feel that Do-Not-Call Legislation will actually enhance marketing efforts, providing a more focused list of prospects; outbound efforts would not be wasted calling consumers who do not wish to be solicited over the phone.

The Impact of Technology

Technology has played a major role in the marketing and distribution of financial services products. As mentioned earlier, advances in technology is the trend that many feel will have the greatest impact on the marketing and distribution of financial products directly. Two areas in particular—the Internet and straight through processing (STP)—are playing crucial roles in the direct efforts of many carriers.

The Internet

While the typical profile of an Internet user now reflects that of the general population, insurance purchased over the Internet has been slow to emerge. One of the great challenges in marketing directly is getting consumers to recognize the need for insurance. This issue clearly exists for Internet sales. Carriers marketing auto and homeowners insurance are having more success as these products are better understood by consumers. Products such as life insurance continue to be a struggle. LIMRA research shows that while consumers will use the Internet to research life insurance, at this time, they are reluctant to purchase life insurance over the Web. They see it as too important a decision to make without consulting a professional. Some carriers and aggregators however have found success in marketing life insurance to niche purchasers who are comfortable buying insurance without consulting a financial advisor. Some position simple offerings to supplement a consumer's existing coverages. This highlights a major challenge for direct carriers: how do you educate and inform consumers to the point where they are comfortable buying life insurance on the Internet without consulting an advisor? How do you get them to identify the need? The more they can learn without consulting an advisor, the more likely they will be to purchase online. Education therefore is an important part of any direct marketing approach. Despite their concerns, carriers are confident about the future of the Internet as both a marketing tool and as a source of sales (Table 2).

IMPACT OF THE INTERNET ON DIRECT RESPONSE MARKETING

	NUMBER OF COMPANIES	
	AS A MARKETING TOOL	AS A SALES SOURCE
Major impact	11	8
Moderate impact	6	8
Minor impact	2	3
No impact	0	0

TABLE 2

CONTINUED ON PAGE 6

| TRENDS ... CONTINUED FROM PAGE 5 |

Straight-Through Processing

Straight-through processing (STP) is the electronic illustration, application, processing, scheduling and issuing of a policy with minimal human intervention. The securities and banking industries are ahead of the curve when it comes to STP due to the transactional nature of their business. Insurance carriers are looking at and have implemented STP to some degree, implementing some, but not all of the individual components of STP (Table 3). Companies have focused on the tail ends of the process: on the front end electronic application, validation and transmission of the application; and on the back end submission for processing and having a status report. Carriers are currently working toward the more advanced components—those involving the application service provider.

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From a product perspective, most companies start slowly implementing STP, focusing on their simplest products—such as term life—those that require little underwriting. More complex products can be added once the system is established. In this study, all but one company is at least considering STP, with many having a pilot system in place. Some have already gone "live."

Many challenges surround the implementation of an STP system. Working with carriers' legacy systems makes it difficult to fully integrate STP technology. Resource availability within companies—both financial and technical—is another issue. STP requires coordination among several areas of the company, and this presents a challenge as well. Consumer adoption is a concern, as STP requires the consumer to

STRAIGHT-THROUGH PROCESSING STEPS IMPLEMENTED

	NUMBER OF COMPANIES	
	HAVE IMPLEMENTED	UNDER CONSTRUCTION
Application	11	1
Validation	10	1
Transmission	8	2
Request for EFT	7	2
Background check	4	4
Screening	5	4
Submission	8	2
Status	7	1

TABLE 3

complete the application process electronically. Companies also need to see a measurable return. Technology was oversold in the '90s, and as a result companies now need to see a real measurable benefit before an investment of this magnitude will be taken on. How will STP contribute to the bottom line? Companies need to answer that before moving forward. The current status of e-signatures also presents a challenge. From a regulatory perspective, there is still ambiguity regarding the validity of e-signatures. Many companies do not accept e-signatures at this time, and are waiting until the rules become clearer before implementing e-signature technology.

Conclusion

Direct response marketing will continue to play a major role in insurance distribution. Environmental, industry and other trends point to direct response as a key distribution channel for several product lines. Technology will play a major role in building efficiencies in direct distribution, particularly as it relates to leveraging the Internet and straight-through processing. But technology will also be a challenge as companies struggle with incorporating new processing with existing systems. And those methods that leverage technology will play an increasingly important role in direct distribution. Despite these challenges, direct response will continue to play a key distribution role in the future.

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SOA INTER-COMPANY EXPENSE STUDY:

We're looking for participation from companies focused on nontraditional products and/or nontraditional distribution too!

The Society of Actuaries' Committee on Life Insurance Company Expenses is continuing its series on inter-company studies of expenses. This series of studies began with a study of 2001 insurer expenses for individual life insurance and annuities, subdivided by type of product and distribution channel. A copy of past studies can be downloaded from the Experience Studies part of the Research & Publications section of the SOA Web site.

Its objectives include the development of publicly available inter-company expense benchmarks. We are interested in obtaining expense contributions in several areas of interest to members of the nontraditional marketing section, including those associated with direct response marketing for life insurance and annuities and specialty channels for annuities, including stockbrokers and financial institutions. Only through adequate contributions can these studies provide meaningful information.

We are now seeking contributions for the 2004 calendar year. You can find the description of and data templates for contributions on the Experience Studies part of the Research & Publications section of the SOA's Web site. If you have questions about this study, please call Steve Siegel at the SOA's office or send him an e-mail at *ssiegel@soa.org*. We welcome additional contributions.

Sam Gutterman
co-chair, SOA's Committee on Life Insurance Company Expenses