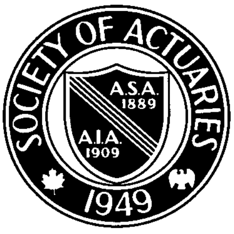

NEWSDIRECT

Newsletter of the Nontraditional Marketing Section

NUMBER 32 WINTER 1999-00

Direct/Tech: The Emerging Taxonomy of Insurance Distribution Channels

by Mark L. Trencher

Editor's Note: This article is reprinted with permission by the Conning Commentary. Mark L. Trencher is vice president, Conning & Company, Hartford, CT.

Insurers continue to struggle with the issue of distribution. While agents provide a level of advice and service that many customers demand, insurers are effectively using direct approaches—which may or may not involve an agent—in certain market segments to meet customer needs.

Some insurers view a combination of distribution channels—those aimed directly at the consumer, with less face-to-face involvement than traditional agent-based channels, and drawing upon sophisticated communications and data-based technology—as a way to attract consumers into a "virtual" and less costly buying environment than the traditional agent channel. We call this combination "Direct/Tech." It comprises a mix of old and new techniques, including direct marketing, the Internet (both online sales and offline sales following up on Internet-generated leads, with the latter currently representing the vast majority of total "Internet sales") and toll-free quote services.

Target markets for Direct/Tech channels include a hodgepodge of overlapping segments, based on demographic and attitudinal factors such as age, education, level of financial and technological sophistication, income and assets, price sensitivity (the extent to which people are "shoppers") and the extent to which agent channels are meeting their needs (e.g., the growing middle market gap for individual life insurance). These target markets are growing in size at the same time that the Direct/Tech distribution channels and their underlying techniques are coming into their own as legitimate ways to meet certain consumers' needs.

Conning's November 1998, survey of life insurance companies illustrates the scope of the current shifts in distribution. Our survey found that the largest insurers expect their

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Chairperson's Corner

Year in Review...

by Carl E. Meier

The Society of Actuaries Annual Meeting marks the start of a new year, not only for the SOA, but for all of the special interest Sections as well. As a result, Ed McKernan, who served so ably as chairperson of the NTM Section this past year, has moved on to other challenges, and I have inherited the reins. Luckily, I will have the support of an enthusiastic Section Council consisting of Vice-Chairperson Jim Smith, Secretary-Treasurer John Yanko, and Members-at-Large Mike Fix, Grant Hemphill, Nancy Manning, Steve Ostlund, Mike Presley, and Howell Pugh. In addition, Joe Brennan, who was editor of *NewsDirect* for the past year, will be staying on in that capacity for another year.

As I write this column, the level of Section activity continues to be strong. The sessions we sponsored at this year's annual meeting were both well-attended and well-received. Articles touching on aspects of several of these presentations will be included in the next issue of this newsletter.

Jim Smith is serving as our representative on the committee that is putting together next June's SOA meeting in San Diego, and he has a terrific program lined up. Besides a presentation on how the credit insurance business is likely to be affected by the passage of HR10, there will be five sessions devoted to different aspects of e-commerce as they apply to the life insurance business. You'll definitely want to mark your calendar for this one.

Mike Fix will be representing our Section on the planning committee for next fall's annual SOA meeting in Chicago. Now is the time to contact him if you have a particular topic you'd like to see covered in one of the sessions at that

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Chairperson's Corner
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meeting, or if you know someone who you think would make a good program participant, or if you'd like to volunteer to participate in a session yourself.

We are also in the early stages of planning two different seminars dealing with nontraditional marketing topics, one each in the spring and fall. We'll be telling you more about these as the agendas for each firm up.

Two final bits of information on what's upcoming from the NTM Section concern the *Product Channel Directory* that we published in August of last year. First, we will shortly be sending a follow-up mailing to all NTM Section members and survey participants listing the actuarial consultants who responded to the survey. Second, we are pleased to announce that the *Directory* will be available online at the SOA Website, beginning sometime during the first quarter of 2000.

Now I have a request of you, our readers. You will notice that this issue of *NewsDirect* is a bit on the slim side. And yet, with financial services integration, the evolution of e-commerce and the rise of other alternative distribution channels, to name just a few current developments, this is probably one of the most fascinating eras ever for someone interested in nontraditional marketing. Many of you are doing things every day that are new and different and reflective of a future that may be very different from today's products and distribution. Why not use that work as the basis for an article for *NewsDirect*? Or maybe you're not the one who is involved in the project; in that case, see if you can talk one of the people who is involved into writing an article. Finally, maybe you come across an article you think would be of interest to other NTM Section members in a publication that most of us don't see on a regular basis; just send a copy of the article, along with when and where it was published, to Joe Brennan, Jim Smith or me and we'll see if we can get permission to reprint it. It would only take a small fraction of the people who read this column to provide enough material to keep *NewsDirect* filled with useful information for all of us; won't you be a part of that effort, please?

Carl E. Meier, FSA, MAAA, is 2nd vice president & actuary at Pan-American Life Insurance Company in New Orleans, LA. He can be reached at cmeier@exchange.palic.com.

NEWS DIRECT

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of the Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173

Phone: 847-706-3500 Fax: 847-706-3599 *www.soa.org*

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Newsletter Editor
Joseph E. Brennan
Prudential Insurance Co.
213 Washington, Tenth Floor
Newark, NJ 07102-2992
Phone: 973-367-1199, Fax: 973-367-8139
E-mail: *joseph.e.brennan@prudential.com*

Editorial Board
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DTP Coordinator
(*jadduci@soa.org*)
Lois Chinnock,
Section Coordinator
(*lchinnock@soa.org*)
Cecilia Green,
APR, CAE,
Director of Integrated Communications
(*cgreen@soa.org*)

Direct Tech: The Emerging Taxonomy of Insurance Distribution Channels

from page 1

Direct/Tech sales of individual life to grow from $4.4 billion in 1998 to $11.7 billion in 2003—an average annual rate of 21%, faster than any other channel.

On the other hand, while the agent channel shows the slowest growth on a percentage basis, agents will continue to represent 68% of individual life sales in 2003 (down from 79% in 1998). Our survey results forecast that this channel will grow by $11 billion during this period, a larger growth in dollars than any other channel.

But these agent numbers do not tell the whole story. These figures obscure the often-overlooked fact that many "non-agent" channels continue to include agents who are selling through these new platforms and technologies. This point was highlighted recently by an agent who had targeted business cards. He first handed out his insurance agency business cards. Later, he showed us his stock-brokerage and financial services business card. They all had e-mail and Internet addresses. This agent talks about his distribution channels as being "integrated"—not "alternative"—because he integrates other entities (stockbrokerage), platforms (worksite marketing) and technologies (the Internet and direct mail) into his insurance practice.

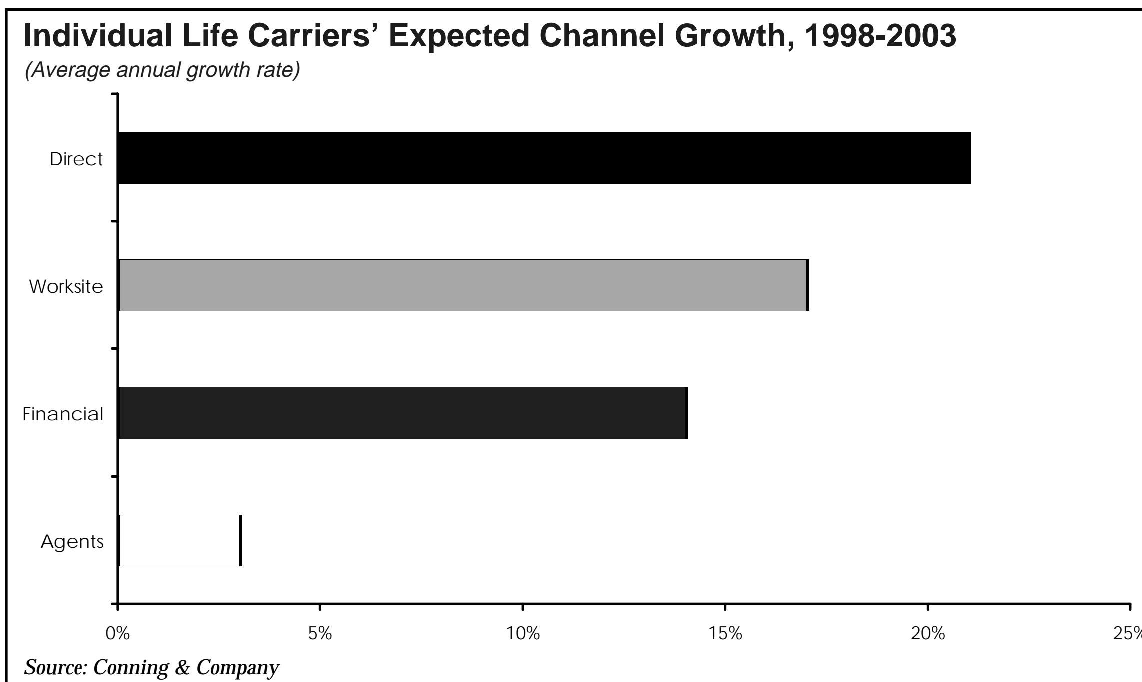
At a macro level, this implies that a significant but indeterminable portion of the growing Direct/Tech sales actually will be agent sales. For example, while some insurers are using their Internet sites, direct marketing and other approaches to sell direct (such as Progressive, which sells via the Internet but also uses its Internet presence to enhance branding for its agency force), others (such as Prudential) use the Internet to generate leads for agents, and still others (such as John Hancock) follow both approaches.

This also is true among the Internet "aggregators" (i.e., online insurance supermarkets or malls). The average consumer is unlikely to differentiate between the various Internet sites, but such sites have big differences in their underlying strategic approaches. Thus, while Quotesmith.com, Inc. is essentially an online insurance agency, which places publicly available rate filings on its site, InsWeb is a technology company that does not sell insurance at all, but simply generates leads for a limited number of carriers with which it has formal relationships and technology links to their back-office systems.

One additional consideration in looking at today's Direct/Tech options is that underlying technological capabilities are expanding rapidly and will have a profound impact in the not-too-distant future. Today's target market for Direct/Tech distribution is limited to those who are both tech-savvy and financial "do-it yourselfers." But, as technology in the form of expert systems and other artificial intelligence develops to the point where the Internet can present "cyberguidance"—high-level, customized interaction—the Direct/Tech market will expand to include a much greater proportion of the general population.

Today, insurers are struggling with not just the fundamental question of whether they should sell Direct/Tech, but—if they do—which approach they should use. To provide guidance for those faced with these critical decisions, Conning's new strategic study, Direct/Tech-Middle Market Distribution—Will It Close the Gap?, develops a taxonomy of the strategic approaches and options that are emerging for both the Internet and direct marketing.

(continued on page 4, column 1)



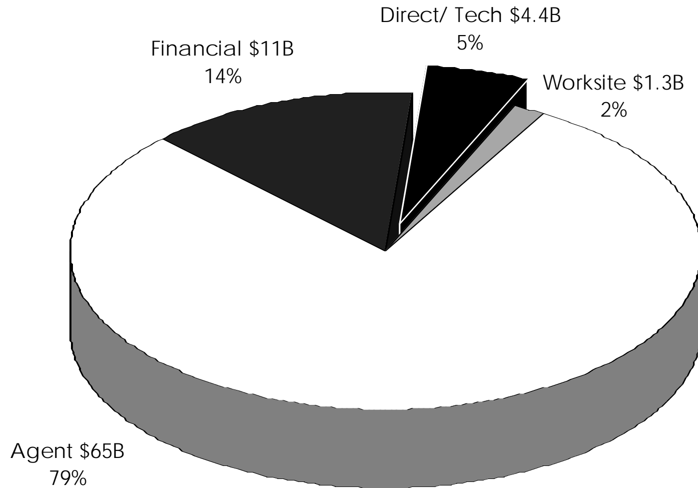
Direct Tech: The Emerging Taxonomy of Insurance Distribution Channels

from page 3

Projected Shifts in Individual Life Distribution Channels

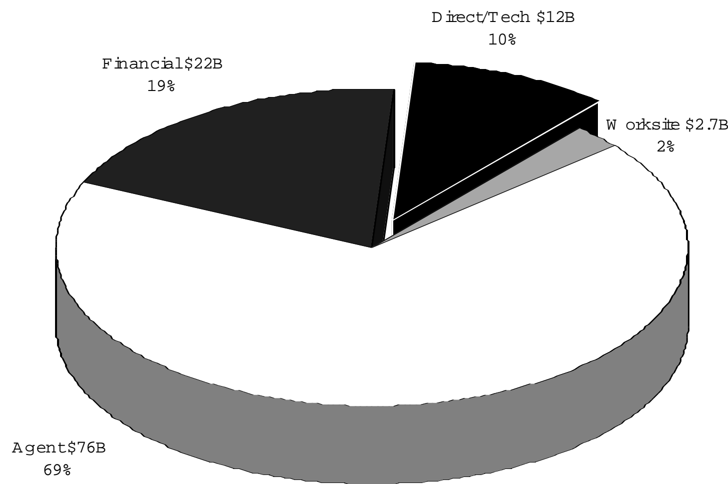
(For households with annual income of $35,000 or more)

1998



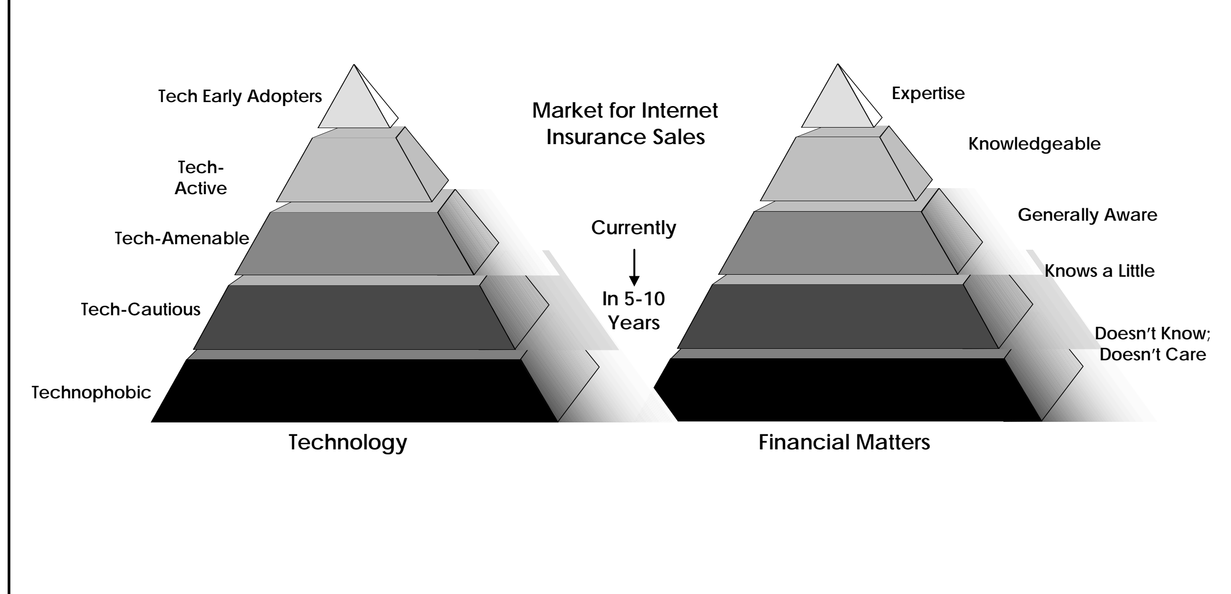
Source: Conning & Company

2003



Note: Direct/Tech channel includes direct marketing, Internet (both online sales and offline sales following up on Internet-generated leads), and sales developed via toll-free quote services. Financial channel includes banks, stock-brokers, financial planners, and other financial institutions or intermediaries.

Source: Conning & Company projection for 2003 based on Conning Life-Health Forecast & Analysis by Line of Business *and other sources; apportionment by distribution channels based on November 1998 survey.*



Exam Notes

Theresa Resnick of Combined Insurance in Chicago will be representing the Nontraditional Marketing Section on the Course 7 Advisory Group.

The Course 7 Working Group is planning 16 or 17 seminars in 2000 for a total of more than 400 students. Numbers similar to these are expected to be the norm in the years to come as well.

Each seminar will consist of two parts:

- One day-and a-half of common material including a number of brief case studies illustrating various aspects of the modeling process
- Another day featuring the presentation of a single comprehensive general or practice-specific (life, health, pensions, etc.) case study covering all aspects of the major components of the modeling process. On this final day, the students will also individually complete a project assignment, which is the means of evaluation for the seminar. The project will involve analysis of a practical modeling problem and writing a report.

The members of the Advisory Group have each been asked to involve themselves in two specific seminars, if possible. This work involves peer review and finalization of the general or practice-specific case study to be utilized for the final day of the seminar and, more importantly, of the individual projects to be assigned.

This work is important to the proper education of future actuaries, and it also gives us the chance to see that the content of the case studies and projects includes material that is relevant from a nontraditional marketing perspective where that is possible and appropriate.

Meeting Notes from San Francisco

Give Me Some Credit! The 50-Year History of Credit Regulation

by Bob Butler

Editor's Note: This lively panel discussion at the 1999 SOA Annual Meeting was sponsored by your Nontraditional Marketing Section. Attendance has been dropping at the SOA sessions on credit insurance in recent years, which coincides with the recent consolidation that has occurred in this segment of our industry. Our session was no exception, which was unfortunate because it was a very good session. Below are a few excerpts from the comments made by our three expert speakers. Their full presentations will be published in the* Record *on the SOA Website.

Gary Fagg, president of CreditRe Corp., began the discussion by recounting the history of credit insurance. It began with Arthur Morris, a lawyer who developed franchise banks in 1915 to lend money to people of good character and ability to pay. He became concerned about events that would prevent borrowers from repaying loans and asked Metropolitan Life Insurance Company and Prudential Insurance Company of America to insure the debtors. After being turned down, he founded the Morris Plan Insurance Society in New York in 1917 to protect against death and total and permanent disability.

One of the Morris franchise banks was in Springfield, Ohio. In 1917 they literally began protecting their borrowers through a shoebox. Whenever they made a loan, they deposited $1 into the shoebox. When there was a death of a borrower, they paid off the loan from the money in the shoebox. In 1926, a bank examiner noted the coverage was insurance and outside the authority of the bank. This led to the formation of Credit Life of Springfield. Isn't it ironic that this is in direct conflict with today's issue of debt cancellation and debt deferment?

A year later Prudential entered the credit insurance market by insuring the borrowers of General Motors Acceptance Corporation. For 30 or 40 years, this was the largest group contract in the world. Gary also discussed the pressure on profits from the producers, which has led to producer-owned captive insurance companies. This same evolution is occurring in other countries.

The Six Periods of Credit Insurance

Bill Burfeind, chief executive officer of the Consumer Credit Insurance Association (CCIA), split our history into six periods beginning with the "Awakening" from 1944 to 1954. During this period, the government began to see the need for regulation and the first credit laws were enacted. Also during this period, the CCIA was formed, and they too will celebrate their 50th anniversary soon.

The next period was from 1954 to 1964 that Bill named "Diplomacy" because of the negotiations between regulators and insurance people. During this period, the 50% loss ratio benchmark was established.

From 1965 to 1980 was the "Consumerism" period. The Truth in Lending Act was adopted, and the National Insurance Consumers Organization put in their first appearance.

The next period, 1981 to 1989, is named "Survival" because the recession (stagflation as I recall it) took its toll on lending.

Next came "Revelation" which lasted to 1995. Regulators moved away from merely setting a prima facie loss ratio. A consumer group filed action against the Illinois Insurance Department to enforce the prima facie loss ratio. Rather than fight the issue Illinois re-wrote the regulation to replace loss ratio with the earliest form of what has become known as component rating.

The last period is named "New Direction." We are in the midst of new product development and new direction in rate regulation.

Today's 3 Challenges

Bruce Camacho, executive vice president and chief marketing officer of the Assurant Group spoke on the three main challenges facing us today.

The first issue we need to resolve is the current burdensome licensing laws. The lending industry is becoming global and new ways of marketing are evolving such as e-commerce. Licensing laws have not kept pace. The Texas Insurance Commissioner discovered his state had 64 different licenses, and he is trying to get this number down to seven. Florida has recognized their licensing laws needed changing and now require only an entity license for each location of a retailer. Any employee can procure credit insurance. This change will soon occur in Kentucky, California, and other states. The agents associations have come to realize we are not taking business away from them since this business does not come through them today.

The second issue is pricing. The credit insurers operate on slim margins. Much of the business is on credit cards that is sold through direct mail and telemarketing solicitation. Penetration rates are low. There are price points where the consumer will buy that keep the product we offer competitive. There are not the sales abuses we all hear about. The 1994 Purdue University study called "Rhetoric and Reality" showed that over 78% of the

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Meeting Notes from San Francisco

The 21st Century Insurance Market Panel at 50th SOA Meeting

by Jay M. Jaffe

The Nontraditional Marketing Section sponsored a session at SOA 50th Anniversary Meeting featuring a look into the marketing of insurance for the next 50 years. Realistically, the panelist's perspective is probably no more than the first 10 to 20 years of the 21st century because of the rapidity of change which is occurring in the financial services industry. Trying to predict just a few years into the future is difficult.

The three panelists each have extensive insurance background:

- John Andiletti is the chief marketing officer for Civil Service Employees Insurance Company which direct-markets personal lines P&C products.
- Walt Roder is a consultant who is developing insurance and noninsurance programs for financial institutions.
- Dan Snyder is a former insurance company executive, who is now president of Abacus, which is an organization providing marketing information to catalog marketers.

Being an informal session with active audience participation, the panel almost immediately was asked to discuss matters relating to the Internet and the distribution of insurance. Here are a few of the interesting topics covered in the discussion:

- Differentiation will be required to separate both products and companies on the Internet.
- Immediate interaction with Internet customers will be necessary to complete sales.
- Insurance auctions might even become possible on the Internet.
- Applicants who want to read detailed contract language will find the Internet an ideal distribution system.

Privacy will become a more important consideration as a factor pertaining to the sale of insurance and other financial services products. Privacy and data sharing will also be topics raised by individuals, consumer advocates, and legislators. The ability to know about customers and how to properly use this information will be an increasingly important skill in the next few years.

The increasing possibility of the delivery of insurance as an integral part of other transactions was raised. Just consider buying an automobile or a home and receiving several months of insurance automatically included in the purchase price. This insurance distribution method could easily become a reality in the next several years.

The probability of greater presence of manufacturers marketing insurance can be seen by the recent announcement by Ford Motor and Hartford of a joint agreement to market automobile insurance and General Motors ownership of a personal lines P&C company. If manufacturers were to become primary insurance marketers, it is likely that many consumers would opt for the convenience of continuing insurance once the initial coverage period has expired.

More banks are adopting "insurance" programs without the participation of insurance companies. Several banks have recently initiated debt deferment programs rather than use formal credit insurance programs. Debt deferment is a program that can be written by a bank as part of a customer loan transaction and provides essentially the same benefits as credit insurance. If banks become comfortable without insurance companies and there are no future regulatory barriers, it is possible that the insurance companies will no longer be considered as needed to provide insurance products for bank customers. In other words, bancassurance would be a reality but without the participation of traditional insurance companies.

With all the changes likely to occur in the distribution and marketing of insurance in the next several years, the role of the actuary will change. Our employers might change with more of us working for nontraditional employers such as banks, mutual funds, home builders, automobile manufacturers, and other employers yet to be named.

The role of actuaries might also change. We would need to interact with nontraditional users of our services. Are we prepared to address even the need to actively work with individuals who have immediate access to a company's actuary through the Internet?

Many thanks to all those who attended the session and the panelists. Your active participation in the program was appreciated.

Jay M. Jaffe, FSA, MAAA, is president of Actuarial Enterprises, Ltd. in Highland Park, IL and a former chairperson of the Nontraditional Marketing Section. He can be reached at **jayjaffe@compuserve.com.**

Give Me Some Credit!

from page 6

debtors when questioned would buy credit life insurance again.

The third issue is privacy. There is no problem when you use the loan information to extend credit insurance but when you try to cross-sell term life insurance, for example, you have a problem with privacy. To survive, however, Bruce noted you must cross-sell to your clients' customer base. The Assurant Group is looking into this privacy issue very carefully. Two future growth areas he identified are margin accounts and loans on 401(k) pension accounts.

Robert J. Butler, ASA, is chief actuary & appointed actuary of the Assurant Group in Miami, FL and a former member of the Nontraditional Marketing Section Council. He can be reached at **Bob_Butler@assurant.com.**

A Database Marketer's Dilemma: When To Stop Marketing?

by Jay M. Jaffe

Editor's Note: This article is reprinted with permission by the* Direct Marketing *magazine, August 1999.

Database marketers spend considerable time and money to identify the most responsive market segments. They read countless articles and attend numerous seminars to learn how to find the prospect groups most likely to buy a particular product. The process which identifies the best prospects from the entire universe of prospects is referred to as modeling.

Modeling only indicates which market segments have the highest probability of responding to an offer; it cannot pinpoint whether any specific prospect will accept a particular offer. Modeling is a great asset to a database marketer because it helps reduce marketing costs by directing offers away from those prospects who have the least propensity to respond to an offer.

But models do not address one of the fundamental business decisions facing database marketers: should the marketer sell products until the point at which the cost of the NEXT sale exceeds the marketing allowance for the product or until the point at which the AVERAGE cost of all sales exceeds the marketing allowance for the product?

The two following tables demonstrate the difference between the cost of the next sale (sometimes referred to as the marginal cost) and the average cost of a sale. Table I calculates the cost of the next sale. The cost of the next sale is shown in Column (6).

TABLE I
CALCULATION OF COST OF NEXT SALE

(1) Decile "d"	(2) # in Decile (2)	(3) Marketing Cost (3)	(4) Probability of a sale (4)	(5) # Sales = (2) x (4) (5)	(6) Cost of NEXT sale =(3)(5) (6)
1	1,000	$1,000	0.1000	100	$10.00
2	1,000	1,000	0.0800	80	$12.50
3	1,000	1,000	0.0600	60	$16.67
4	1,000	1,000	0.0400	40	$25.00
5	1,000	1,000	0.0200	20	$50.00
6	1,000	1,000	0.0100	10	$100.00
7	1,000	1,000	0.0060	6	$166.67
8	1,000	1,000	0.0300	3	$333.33
9	1,000	1,000	0.0020	2	$500.00
10	1,000	1,000	0.0010	1	$1,000.00
	--------	--------		--------	
Total	10,000	$10,000		322	

Table II uses the same data from Table I to determine the average cost of a sale. The average cost is determined as the cummulative amount for deciles 1 though each other decile and is shown in Column (8):

TABLE II
CALCULATION OF COST OF AVERAGE SALE

(1) Decile "d"	(2) # in Decile	(3) Marketing Cost	(4) Probability of a sale	(5) # Sales = = (2) x (4)	(6) Marketing Cost thru decile "d" = sum Col (3)	(7) Sales thru decile "d" = sum Col (5)	(8) AVERAGE cost per sale = (6)/(7)
1	1,000	$1,000	0.10000	100	1,000	100	10.00
2	1,000	1,000	0.08000	80	2,000	180	11.11
3	1,000	1,000	0.06000	60	3,000	240	12.50
4	1,000	1,000	0.04000	40	4,000	280	14.29
5	1,000	1,000	0.02000	20	5,000	300	16.67
6	1,000	1,000	0.01000	10	6,000	310	19.35
7	1,000	1,000	0.00600	6	7,000	316	22.15
8	1,000	1,000	0.03000	3	8,000	319	25.08
9	1,000	1,000	0.00200	2	9,000	321	28.04
10	1,000	1,000	0.00100	1	10,000	322	31.06
	--------	--------		--------			
Total	10,000	$10,000		322			

If the marketing allowance for the product were $20.00 per sale, then only sales in the first 3 deciles should be made (because Column (6) of TABLE I exceeds $20.00 in the 4th decile) and be within the marketing allowance using the next sale cost criteria. However, if the average cost concept were acceptable, then sales within the first 6 deciles could be made (because the average cost in the 7th decile of TABLE II is $22.15, which is more than the $20.00 marketing allowance).

Clearly, using the next cost criteria produces fewer sales than when the average cost concept is used. In the example the difference is 240 sales from the first three deciles (next cost sales) as compared to 310 sales using the first six deciles and (average cost sales).

Is there a simple and correct answer as to whether the next versus average cost is the correct marketing criteria? Probably not. But there are reasons to follow one or the other position in a particular situation.

For example, marketing only up until the cost of the next sale exceeds the marketing allowance makes sense when:

- A company has many successful programs operating concurrently and can chose the more profitable programs,
- The company has a limited capital to invest in acquiring new sales and wants to its resources used as effectively as possible, or
- The company seeks to maximize its profit using ROI (return on investment) criteria.

When these circumstances occur, a company will optimize result by limiting marketing to the point at which the cost of the next sale exceeds the marketing allowance because each additional sale above this point will be less profitable than a sale from some other campaign. In short, a company gets "the biggest bang for its bucks" by marketing only until the cost of the next sale reaches the marketing allowance.

On the other hand, a company which is interested in expanding its customer base and considers the value of subsequent sales to new customers probably wants to add as many customer names as possible to its file and will prefer to use the average cost criteria as the point at which it stops marketing.

Another situation where the average cost approach is preferable is when more sales have an impact on non-marketing profit factors. In some database industries, such as insurance, there is a high fixed cost to service customers. In these situations adding more customers will help to lower administrative costs per unit of activity and, therefore, increase corporate profits.

Marketing executives may want to use the average cost criteria when it is necessary to meet new business sales targets because it achieves more sales or when the executives have an incentive

(continued on page 11, column 3)

Direct Marketing: Part 3

by H. Neil Lund

***Editor's Note: This article is reprinted from the Winter 1993-94 issue of* NewsDirect.**

Pragmatic Testing

While the professional follows the dictates of classical statistics when possible, he or she also recognizes there are times when a classic statistical approach cannot be used. What approaches can be used with small mailings or very limited budgets? Fortunately, there are three pragmatic "rules" for small test mailings.

The Rule of 50
Decisions should be based on at least 50 responses. Credible decisions cannot be made with less than 50 responses. Note that we are not directly interested in the size of the mailing, only in having the test cell(s) of sufficient size to generate at least 50 responses. Be cautioned that the implied error tolerance can be significant with only 50 responses.

The Rule of 5
If you are basing a rollout or subsequent test on a small initial test, the rollout should not be more than five times the mailing size of the prior test. That is, if the initial test mailing was 6,000 pieces, the subsequent mailing should not exceed 30,000 pieces. The initial test implicitly had a relatively large acceptable error tolerance; therefore caution needs to be exercised in any subsequent rollout. After all, we are trying to be pragmatic in our approach.

The Rule of Small/Large
Small-test mailings can be used to test for large differences. However, testing for small differences in responses still requires large tests. Clearly, the difference between 50 and 51 responses is not credible. Make sure you are being practical, not foolish.

These rules lead to two important corollaries:

- **Corollary 1:** You can structure tests so that any one cell is not credible, but by combining results, valid conclusions may be drawn. This is best illustrated by an example. A mailing of 18,000 names can be divided into 12 cells to test three lists and four creative packages. Each cell would mail to about 1,500 people, and conclusions can be drawn by combining the results for each list and each package. The table illustrates the results of such an approach and shows that packages B and C are better than the other two and that list 2 is inferior to lists 1 and 3. Again, caution should be exercised where the difference in results is not large.

- **Corollary 2:** Since small tests can only effectively test for large differences, only the major variables should be tested using small-scale mailings. That is, concentrate on testing lists, offers, and packages.

The answer to the questions about the size of test mailings noted in Part 2 of this series is that small test mailings can be used effectively. With these three rules, there is no excuse for not testing.

RESULTS OF MAILING TO TEST FOUR PACKAGES AND THREE LISTS

	List 1 Response		List 2 Response		List 3 Response		Total Response	
Package	Number	Percent	Number	Percent	Number	Percent	Number	Percent
A	20	1.33%	14	0.93%	22	1.47%	56	1.24%
B	24	1.60	15	1.00	28	1.87	67	1.49
C	26	1.73	19	1.27	25	1.67	70	1.56
D	13	0.87	10	0.67	18	1.20	41	0.91
	83	1.38%	58	0.97%	93	1.55%	234	1.30%

Management of the Solicitation Decision Process

We have covered some analytical techniques and rules that can be used in the study of direct mail solicitation. Now we cover the management of decisions in the solicitation process. Analysis alone is not important in a direct marketing organization. Rather, the making of appropriate decisions based on analysis is what is critical.

There are five key pieces to making the proper decisions:

1) Definition of goals
2) Delineation of the criteria
3) Communications
4) Timeliness
5) The discipline to act

The pieces are interrelated and each is important.

Every mailing—whether it is a test or a rollout—has at least one goal. That goal may be defined in terms of the TAP:MC ratio (as discussed in Part 1 of the series), converted response rate, or a comparison of "Package A" versus "Package B." The goal must be stated in writing prior to the mailing. Pragmatically the goal for rollout of a given product or family of products may be stated once a year. The goal of the test, however, must be stated as part of the test process. Only when goals are clearly stated (and are appropriate) can they be evaluated.

The criteria need to be clearly defined. The criteria include the form of analysis to be performed, such as those discussed in Part 1 of this series. But, beyond that, each piece of the analysis needs to be clearly defined. Such questions as "What is included in marketing cost?" or "How do we define converted?" need to be addressed. Most of the criteria will be agreed upon once (or were understood long ago) in the company, but it is valuable to review and reaffirm the criteria annually.

Communication is vital. There are many pieces that need to be coordinated, from postage to a print shop to sufficient fulfillment material. The area performing the analysis needs to be part of this information chain in order to properly set up and evaluate the solicitation. Problems such as delayed mailing or underwriting backlogs must be noted in solicitation. Problems do occur. The sooner they are noted and corrected, the less likely they are to have a negative impact on the solicitation and on the analysis.

In solicitation analysis and decision-making, timeliness may be as important as godliness. We all work with short time frames and the need to roll out products as quickly as we can. The analysis of each solicitation must be a high priority. The more up-to-date the information is, the better the decision will be. My preference is for weekly analysis updates of all active mailings. Weekly updates allow for the most current information to be available without having the clutter and overload of daily data. The complete analysis of each solicitation should take place as quickly as possible after the mailings drop.

Finally, the company needs the discipline to act. This means committing resources to what is working and hope on what is not working. This is often quite difficult to do because of personal biases. Personal biases often create the faith that the next test or the next change will make the product successful. I know of mailings that were done only because of prestige or because the president liked a particular mailing package. Losing money was "justified" on these bases. It is a common fault. But to be successful, the company must be willing to follow its criteria and measure whether the goals have been met. Actions and decisions must be based on fact and analysis, nor bias and hope. This task is possible only if the first four keys of this article are in place; that is, goals and criteria must be defined, open communication must exist, and all analysis must be timely.

The analysis of a solicitation is only as good as the actions taken because of the analysis. Put yourself and your company in the position that all decisions and actions are the right ones.

***H. Neil Lund, FSA, MAAA, is vice president & chief actuary at GEFA Partnership Marketing Group in Schaumburg, IL. He can be reached at* nlund@sigg.com.**

A Database Marketers Dilemma

from page 9

compensation plan which includes an element based on volume of new sales. Under these circumstances it is easily understandable that a database marketer feels that marketing should continue as long as the average cost of all sales is less than the marketing allowance.

Since there isn't a correct choice between using the next or average cost criteria, why should a database marketer be concerned about the next/average cost issue? It is precisely because there is no single answer to the dilemma that each databased marketer must know and understand the criteria on which their companies make marketing decisions. Not knowing whether to use the next or average criteria in a particular situation could result in a seemingly otherwise successful marketing campaign that turns out to be an unsuccessful marketing program when it is evaluated by senior company officials.

It is not necessary for a company to identify itself as a next or an average cost company sales target environment. Varying marketing criteria between next and average is acceptable providing the decision for a particular situation is made rationally. It takes a bit of planning to be certain that the choice of using the next or the average criteria is integrated into the normal marketing planning routine but this is not really a difficult task.

The easy way out for any company is to ignore the choice between NEXT and AVERAGE cost sales. This attitude is also a sure way to achieve less than optimal profits.

***Jay M. Jaffe, FSA, MAAA, is president of Actuarial Enterprises, Ltd. in Highland Park, IL. He can be reached at* jayjaffe@ compuserve.com.**

A Message from President-Elect...Think *NAAJ*

by Rob Brown

As the 1999-2000 president-elect, I recently chaired my first Council of Section Chairpersons. Even before this meeting, my impression of the Sections as the SOA leadership's main connection to the grassroots of this organization was that your contributions are vital to advancing the profession. And, I came away from the meeting even more impressed with the heavy lifting the Sections do. Your hand on the pulse of your practice area assures solid continuing education content for our meetings. Your focused publications and sponsorship of relevant research and other SOA projects are hitting the mark for our members.

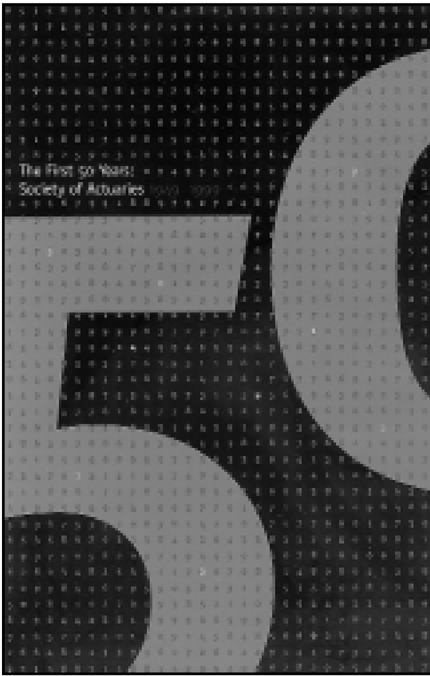
I am especially impressed with your publications. I receive — and read — copies of all the Section newsletters, plus the commemorative monographs produced by the Sections for the 50th Anniversary. What a volume of work, pertinent to so many practicing actuaries! My immediate thought was that much of this material is worthy of going to review for the *North American Actuarial Journal (NAAJ).*

WHY THE *NAAJ?*

The *NAAJ* is the premier publication of the Society of Actuaries and its only refereed journal. Two myths about the *NAAJ* are 1) that it is only seeking scientific research done by Ph.D.s, and 2) that if an article has already appeared in another publication it can't be published in the *NAAJ*. In fact, from the beginning, the *NAAJ* has hoped to have a mix of scholarly, scientific papers, articles practical for today's practicing actuary, and wider topics that would appeal to nonactuarial readers. The "Guidelines to Authors" in the *NAAJ* states that "In general, we are looking to publish papers in the *NAAJ* that provide a springboard for the further development of education, research or improved practice." Much of what I see in the Section newsletters certainly meets that criterion, and I believe would have a good chance of being accepted by the *NAAJ.* The only truth to the second myth is that you cannot submit an article that has appeared in another refereed journal or that is copyrighted by another organization. Articles in other SOA publications are certainly eligible.

Many practicing actuaries today have limited time to write articles and may think the *NAAJ* process is too daunting. But, I've been through the process, and it is relatively painless. Why not look through what you've written for Section newsletters or *The Actuary* and consider submitting your best work to the *NAAJ?* You can find guidelines on the SOA Web site under "Publications" or you can request them from Cheryl Enderlein at 847/706-3563.

Still reluctant? Give me a call at 519/888-4567, ext. 5503, or e-mail me at *rlbrown@math.uwaterloo.ca* and we'll talk. Let the profession share your valuable insights.



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