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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

(continued on page 3, column 1)

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

(continued on page 2, column 1)

In This Issue

page	page
Direct/Tech: The Emerging Taxonomy of Insurance Distribution Channels.....1 by Mark L. Trencher	The 21st Century Insurance Market Panel at 50th SOA Meeting7 by Jay M. Jaffe
Chairperson’s Corner1 by Carl E. Meier	A Database Marketers Dilemma: When to Stop Marketing?8 by Jay M. Jaffe
Exam Notes.....5	Direct Marketing: Part 310 by H. Neil Lund
Give Me Some Credit! The 50-Year History of Credit Regulation6 by Robert J. Butler	A Message from President-Elect: Think NAAJ.....12 by Rob Brown

Chairperson's Corner*from page 1*

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?

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