



SOCIETY OF ACTUARIES

Article from:

News Direct Newsletter

Summer 2001 – Issue No. 37



NEWSDIRECT

Newsletter of the Nontraditional Marketing Section



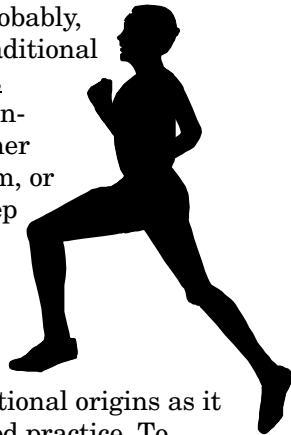
NUMBER 37

SUMMER 2001

Keeping Up With Nontraditional

by Tom Bakos

One dilemma that no one, probably, ever associates with nontraditional marketing is how one stays nontraditional. The fact is that a non-traditional marketing approach either succeeds, and enters the mainstream, or fails and disappears. In order to keep the nontraditional fires burning, more new ideas always need to be piled on. Like our youthful exploits, once brilliantly acted out signs of nonconformity, a marketing scheme is remembered only for its nontraditional origins as it takes on the gray hairs of established practice. To remain fresh, new, alive, and vibrant, the Nontraditional Marketing Section must wash off both the successes and the failures and dress in new clothes suited to a traveler in the wild, fringe territories it must explore to confront the ever changing nontraditional market.



One of these new territories is the Internet. The problem waiting to be solved there is how Internet consumers can click-shop for life insurance as easily as they click-shop for books, computer software, or airline tickets.

(continued on page 4)

Chairperson's Corner

What's Going On With NTM?

by James B. Smith

Several years ago during my consulting career, I was invited to participate in a discussion with the management team of a midwestern insurance company. The team consisted of senior personnel from all areas of the company. My role was to assist them in the development of a new product portfolio. We started the meeting by discussing product features, but the conversation quickly turned to target customer segments and distribution channels.

The discussion of customers and channels was vitally important so that the company's new products could be optimally designed. Such information is needed to increase the likelihood that products will be:

- Reasonably competitive — that is, not too expensive
- Priced properly with reasonable assumptions for persistency/mortality/expenses, and a profit margin that meets or exceeds the minimum hurdle

After twenty minutes of discussion, the investment officer said in a frustrated voice, "Why are we discussing all of this? I thought that we would simply tell you the product that we want, and you would price it out."

I could empathize with his frustration because I also have a bottom-line orientation. However, I had been down the path of prematurely starting the pricing work without a basic understanding of target customers and distribution channels. Except by accident or good fortune, a premature

(continued on page 2, top)

In This Issue

	page		page		page
Chairperson's Corner	1	Managing Non-Life Insured		Product Development	
by James B. Smith		Products Sold Through Auto		Considerations for the Bank	
Keeping Up With Nontraditional	1	Dealers - Part I - Vehicle Service		Market	12
by Tom Bakos		Contracts	7	by Maria N. Thomson	
Editor's Corner	3	by John H. Kerper		NTM Sessions in Toronto	14
by Julie Tani		"The Internet — How Can The		NTM Sessions in New Orleans	16
You've Sent Mail	3	NTM Section Use It To Better			
by Robert E. Winawer		Advantage?"	11		
		by Steve P. Cooperstein			

Chairperson's Corner from page 1

start results in (a) a poorly designed product or (b) the need for a second start after wasting time on the premature start.

I responded to the investment officer by saying, "I can do what you are asking, but I don't think that you want me to do that. Without understanding your target customers and distribution channels, the product portfolio will be sub-optimal to the policyholder, salesperson, and your company." Product development that solely focuses on product features cannot produce results that are as successful as a triangulated approach involving customer, product, and distribution.

In 1999, under the leadership of Ed McKernan and Carl Meier, the Nontraditional Marketing Section adopted a mission statement that includes language about facilitating "research and discussion regarding the relationship among customers, products, and distribution systems." The steps for optimizing this triangulation include:

- Identifying target customer segments
- Determining the financial needs of such customers
- Designing an insurance product with features that address the customers' needs
- Selecting (or confirming) the distribution channel that can link the target customers and insurance products

Product-development triangulation is especially important in nontraditional marketing because the knowledge of customer segments and distribution channels is usually more limited than in traditional markets.

Our Section is addressing triangulation in several ways. For the spring SOA meeting, council member Mike Presley is developing a track of several sessions on customer relationship management. These sessions will advance our understanding of the first step in triangulation.

Another activity sponsored by our Section is the development of the Product/Channel Directory, which can be found online at the SOA Web site.

The directory has a matrix showing the products and distribution channels for each company participating in the directory. For example, you can determine the names of companies selling variable deferred annuities via the Internet. For each company in the directory, there is a contact name and phone number that can be used as a source for market research. Although the directory does not address customer segments, I believe that it is the first SOA document that links products and channels for a large number of companies. Presently, council member Mike Fix is leading the effort to develop a second edition of the directory.

Triangulated product development may be complicated for the product actuary because it involves nontraditional skills. On the upside, triangulation expands the product actuary's skills by using a holistic approach for developing new products, as well as optimizing the impact of a product portfolio.

James B. Smith, Jr., FSA, MAAA, is chief financial officer at SEC, Inc. in Shelby, AL. He can be reached at jbsmithjr@worldnet.att.net.



Phone: 847-706-3500

NEWS DIRECT

Issue Number 37

Summer 2001

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

Fax: 847-706-3599

Web site: www.soa.org

This newsletter is free to Section members. A subscription is \$15.00 for nonmembers. Current-year issues are available from the Publications Orders Department. Back issues of Section newsletters have been placed in the Society library, and are on the SOA Web site, www.soa.org. Photocopies of back issues may be requested for a nominal fee.

Expressions of opinion stated herein are, unless expressly stated to the contrary, not the opinion or position of the Society of Actuaries, its Sections, its Committees, or the employers of the authors.

The Society assumes no responsibility for statements made or opinions expressed in the articles, criticisms, and discussions contained in this publication.

Copyright © 2001 Society of Actuaries.
All rights reserved.
Printed in the United States of America.

Newsletter Editor

Julie L. Tani, FSA
(Chief Editor for this issue)
Transamerica Occidental Life
T-28, 1150 South Olive Street
Los Angeles, CA 90015
Phone: (213) 742-2984
Fax: (213) 741-6592
E-mail: julie.tani@transamerica.com
Christopher H. Hause, FSA
Phone: (913) 685-2200

Officers

Chairperson
James B. Smith, FSA
Vice-Chairperson
Michael L. Fix, Jr., FSA
Secretary/Treasurer
Theresa M. Resnick, FSA

Council Members

Tom Bakos, FSA
Steve P. Cooperstein, FSA
Steven E. Konnath, FSA
Steven L. Ostlund, FSA
T. Michael Presley, FSA
W. Howell Pugh, FSA
Theresa M. Resnick, FSA

SOA Staff

Lois Chinnock, Section Coordinator
Phone: (847) 706-3524
E-mail: lchinnock@soa.org

Joe Adduci, DTP Coordinator
Phone: (847) 706-3548
Fax: (847) 273-8548
E-mail: jadduci@soa.org