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News Direct Newsletter

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Editor's Corner

by Julie Tani

I am happy to be involved with the Nontraditional Marketing Section and look forward to my stint as co-editor of your newsletter. This is my first experience with direct involvement in an SOA Section, and I am greatly looking forward to it.

In the last edition, my colleague, Chris Hause, introduced himself to you. The two of us will try our best to continue the quality of this newsletter and provide timely, pertinent, and thought-provoking content.

I'd like to start by reiterating part of the mission statement of the Nontraditional Marketing Section: "to facilitate research and discussion regarding the relationship among customers, products, and distribution channels."

The focus of the Section is the exploration of two particular aspects of this relationship: methods of marketing financial products to potential customers other than through conventional channels, and specialty financial products particularly well-suited to alternative methods of distribution.

Basically, this covers niche products and/or new channels; think "emerging," cutting edge, yet in tune with stable channels. For example, a lesson many "dot-coms" have learned the hard way is that the Internet is a necessary but not sufficient ingredient in a successful business model. While direct Internet sales are not yet mainstream (and may not be for a while), many of you are finding ample ways to use the Web to enhance your current channel relationships and add more value to your customers than ever before.

As stated by Chris in the previous edition, our goals for your newsletter are to inform the Section membership of our council and member activities, and to provide quality articles for our NTM members. For example, the auto-dealer article in this edition is not a usual topic for this audience, yet the concepts transfer well from industry to industry. Also, Tom Bakos thinks "outside the box" in his article, "Keeping Up With Nontraditional."

We are always very grateful to our members who graciously provide us articles for your newsletter. We are open to short and long articles on a wide range of topics and can help with editing or not, as preferred by the author.

Julie Tani

We are also open to suggested topics; please send an e-mail, or contact either Chris or me with any suggestions. If you have ideas for an article or would like to contribute, please provide a draft to the editor-in-charge June 1 (Chris Hause for the September 2001 issue, and Julie Tani for the December 2001 issue).

I'd like to thank you for your membership, support, and articles. The more representation we receive from our audience, the more it is "your newsletter." I am looking forward to meeting and getting to know many of you. If you spot me at a conference, please stop by to introduce yourself and say hello.

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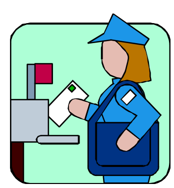
You've Sent Mail

by Robert E. Winawer

Editor's Note: the following is a summary of an essay written by Mr. Winawer. It will soon be available in its entirety on the SOA Web site.

Many insurance companies have found direct response to be an attractive alternative to traditional distribution because they gain control of the sales process and ownership of the customer. For these companies, the majority of their acquisition costs are spent before any policies are sold. Frequently, their greatest risk is that this expense will never be recovered. This essay shows how to take these advantages and risks into account when making financial decisions. Specifically, the essay shows how to allocate capital to maximize profit in relation to expense and other risks.



Microeconomics is applied to management of insurance solicitations in a hypothetical case example. By using Value New Business from Embedded Values to quantify marginal costs and revenue, risk-adjusted profits are maximized.

This essay answers the following questions:

1) Which costs should management consider when evaluating new ventures? For example, should management try to "cover overhead?"

2) How many times should management solicit prospective customers? Is it best to stop solicitations the first time that acquisition costs exceed the pricing allowable, when on average acquisition costs exceed the pricing allowable, or when the acquisition cost of the last policy sold exceeds the pricing allowable?

3) What is the value of a name? That is, what is the financial worth of the potential relationship with a policyholder including both initial and subsequent sales?

4) What is a simple and effective way to communicate the profitability of each sale to people who are not actuaries?

5) Why do cost-to-premium ratios, which are currently used by many direct response companies, prevent management from maximizing risk-adjusted profits?

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