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New Technology Helps Insurers Simplify Sales and Speed Issue:

Mid-Market Sales Now Feasible

by Maria N. Thomson

The survival of the vast majority of life insurers — more than 1,000 companies — will depend on their ability to sell protection products to the vast middle market that the giant companies have abandoned. There's a huge opportunity here, but only the companies that adopt new technology and processes will be able to thrive in this market.

Today just 20 conglomerates dominate the life insurance industry, writing more than 80% of new premium, according to LIMRA. These insurers sell investment products (annuities, mutual funds and single-premium life) to everybody and protection products (primarily life insurance) to the affluent.

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Chairperson's Corner

Displacing a Host of Hoary Apocrypha

by James B. Smith, Jr.

During the past year I changed jobs — more specifically, I changed industries! After thirty years of wearing suits and starched shirts while engaged in the life insurance profession, I found myself in a fortunate position that allowed me to purchase a significant interest in a commercial construction company. I was attracted to owning my own business, rather than any repulsion from my prior work or company.

You are likely asking yourself the question "why the change?" — given the apparent contrast between the actuarial skills as an employee of an insurance company and the non-actuarial skills as an owner of a construction company.

When I examined my skill set before changing industries, I felt that I possessed 25% of the knowledge necessary for running a successful construction company. The remaining 75% represented

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the esoteric knowledge of construction. To my pleasant surprise, I quickly discovered that the percentages should have been reversed. I had discovered that my business skills developed as an actuary are not confined to insurance.

In virtually every construction situation, I drew knowledge from my insurance experience. Here are some observations that displace a host of hoary apocrypha about the actuarial profession:

- **Distribution Channels:** During my early days in the construction industry, my partner and I had many discussions about the comparative effectiveness of independent and employee sales people. The need for selecting the optimal distribution channel was a major decision for us because the investment in an employee salesperson is very significant during the first year of employment. The decision was magnified because we were rapidly expanding our sales force due to the broadening of our sales territory. The numerous disc's-sions about alternative distribution channels while working in the insurance industry greatly aided our decision.

- **Capital Investments:** Another inter-industry comparison dealt with capital investments. For commercial construction, there is significant investment in equipment and buildings. The capital investments for insurance include policy acquisition costs for new policies. The capital expenditure is depreciated for construction, while amortized for insurance. Again there is a connection between the two industries.

- **Pro formas:** Given the significance of the preceding topics to the success of our construction company, we prepared a base pro forma of cash flows and earnings for the next several years. We also ran sensitivity tests using various levels of sales, expenses, and distribution channels. Again, I was reminded of the asset/liability testing and earnings projections in my life insurance days.

- **Marketing Tools:** To increase our construction sales, we needed some additional marketing tools. Consequently, we developed a training manual with construction specifications and photographs. We also decided to create an electronic database of suspects, prospects, customers and clients for thrice-a-year mailings of brochures. Although the brochures did not have the complexity of life in-

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surance brochures, I was again reminded of my efforts with the insurance marketing department in developing brochures, proposals, advertisements, and training materials.

- **Sales:** Construction sales consist of ground-up construction and the re-imaging of existing sites. These sales categories for construction have insurance counterparts — namely, genuine new sales (the counterpart to ground-up construction) and replacements (the counterpart to re-image construction).

- **Product Diversification:** We launched a new product after a year of market research. Although sales were low during the first year, there were some wonderful outcomes. The exposure of the new product in trade shows increased the sales of our established products! Further, we met new salespeople who subsequently joined our sales force. While considering product diversification for construction, I thought about insurers broadening their product portfolios by adding annuities to their product offering and banks to their distribution channels.

- **Product Pricing:** Another deja vu occurred while pricing the new product for our construction company. Although the pricing for construction was not nearly as complex as asset share calculations for insurance, there were many similarities. In particular, pricing assumptions that have low visibility but significant earnings impact may lead to an improper business decision. I recalled the impact of subtle, embedded assumptions in stochastic pricing studies for insurance.

- **Opportunism:** To optimize profitability, our construction company needed to be opportunistic. An insurer might look to acquisitions for expanded sales and reduced unit expenses. Our construction company had the unusual opportunity of increasing the quality and quantity of our construction by hiring personnel from a long-time company that had experienced financial hardships because it was resting on the laurels of its successful past. In the words of a recent best-selling book, somebody had moved their "cheese," and we were adapting to change.

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- **Suppliers:** During meetings with the vendors of construction materials, I was reminded of my experiences with reinsurers. As a construction company, we were purchasing near-commodity products, which was virtually similar to my reinsurance experiences.

- **Cash Flow:** The last similarity deals with a fundamental of all businesses — cash flow. For insurance companies, cash flow during the entire lifetime of a policy ultimately determines profitability. The same is true of a construction company, although the time horizon is much shorter. A friend familiar with multiple industries recently told me that "CF = CF" regardless of the type of business.

Whether an actuary works an entire career within the insurance circle or migrates to another industry, the experiences and knowledge of actuaries have broad applications if recognized and utilized.

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A final note — as I retire from the council of the Nontraditional Marketing Section, I would like to offer my heartfelt thanks for the hard work and accomplishments during the past year of my fellow council members — Mike Fix, Theresa Resnick, Tom Bakos, Steve Cooperstein, Steve Konnath, Steve Ostlund, Mike Presley and Howell Pugh.

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