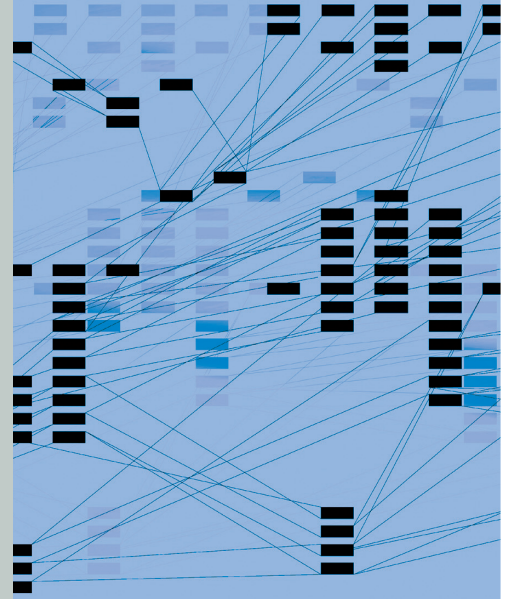


Marketing: The New Policy for Insurance

By Ian Turvill

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After years of strong gains, the insurance industry is entering a “soft market” where premium growth in most underwriting sectors is declining or negative. Marketers have a golden opportunity to help insurers address this challenge, but it will be tough. Actuaries and underwriters are naturally wary of adopting new customer strategies that perhaps conflict with well-established approaches.

The solution may be for marketers to demonstrate that their methods really aren’t all that different from existing analytical and decision-making approaches. Of course, they also need to tackle head-on any insurer’s biggest concern: risk.

In some respects, insurers are excellent marketers. Many of the decisions actuaries and underwriters must make equate to the actions of a “traditional” marketing organization. Unfortunately, too often insurers limit their use of customer data to standard actuarial and underwriting analyses. They may overlook, or even be dismissive of, other more innovative marketing-oriented applications.

For example, it is now common practice for banks to estimate lifetime value (LTV)—expected revenue less costs over the duration of the bank relationship, discounted to the present—,not just the current period profit of their customers. This allows marketers to demonstrate the value of initiatives that might not be thought attractive if they used only short-term measures of customer profitability.

Consider the hypothetical example of a bank marketer who wants budget approval for a special event to attract a new customer segment. Under traditional measures, this initiative may not be approved because current period costs are too high. However, if through small-scale tests the marketer can demonstrate that

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these new customers will maintain lasting relationships with the bank—and therefore have a far higher LTV than existing customers—then this promotion might win approval.

If you are an insurance marketer, ask yourself: Does my firm think about the likely length of relationships when selecting which customers to target through advertising? Does my firm set premium rates that may affect the longevity of customer relationships? In our experience, the answer typically is “no.”

Insurers have a natural resistance to new methods of managing customer relationships. The analytical skills used to calculate the loss potential and to establish premiums have served them well for centuries. However, if insurers are to survive, and in fact prosper in the impending soft market, they must incorporate new marketing methods that are already common in other industries.

The Challenge

Imagine you’re a marketer at an insurance firm, and you want your actuarial and underwriting colleagues to accept your newfangled techniques. How do you overcome their reluctance?

While the results may look a lot different, the dividing wall between the disciplines of marketing and insurance is actually quite low. If you can demonstrate the similarities in approach, your peers will be more prone to accept your recommendations.

Here are three elements you can emphasize when making your case.

Method 1:

Remember, there are lies, serious lies, and statistics.

Insurers have a natural love and admiration of statistics. For example, the typical life insurer can estimate with great confidence the probability that a 45-year-old nonsmoker will die before he reaches age 72. This data-driven capability is not that different from the techniques that should be used by an effective marketer.

Through test mailings and regression analysis, a marketer can establish the likelihood that a target customer will respond to a particular offer, and then use that insight to refine future campaigns, driving down expenses while increasing response rates.

Even though they have different results, insurance and data-driven marketing have the same statistical roots. Insurance marketers should use this to their advantage.

Method 2:

Consider the customer’s life cycle.

Actuaries in the life insurance business are very good at studying what’s going to happen over their customers’ lifetimes. In a similar vein, sometimes the highest return on marketing analysis comes from understanding how a decision in one part of the customer life cycle affects outcomes in another.

For example, how does product design influence the ability to attract lower risk customers? How does the design of marketing campaigns affect the average length of relationships with the company?

When winning support for new methods, illustrate the holistic view, just as a life underwriter would take the full course of its clients’ lives into account.

Method 3:

Treat each customer as an individual.

Underwriters make their decisions on a customer-by-customer basis. Marketers should demonstrate the same level of discipline.

Note how marketers at Progressive Insurance address customer retention, as outlined in a recent annual report: “Answering the question, ‘Are customers staying with Progressive longer?’ seems simple. It is not. An apparent increase in retention could represent selling proportionately more policies to a class of customers more likely to stay with us...meaningful information is only available through analysis at the detail level.”¹

When insurance marketers display the same level of rigor in customer-by-customer analysis as their actuarial and underwriting colleagues, they will win new respect and their role and stature in the firm will grow.

Insurance marketers may want to employ techniques that are foreign to the typical insurer. If presented in ways that make them appear as the natural evolution of existing methods, they are far more likely to be embraced.

Even if you have applied these techniques, you still may face opposition. Remember, you need to address risk, insurers’ fundamental concern.

While some of the methods we’ve touched on may not be commonplace in insurance, they have been in broader use for a long time, and many of the wrinkles have been ironed out. Within the insurance industry there exists a growing number of executives, consultants and service/technology providers who know how to make these techniques work.

Many insurers are excellent marketers. The decisions made by actuaries and underwriters often are similar to a marketing organization's actions.

Insurance Decision	Marketing Equivalent
What risk should we insure?	Product development
At what rate are we willing to carry that risk?	Pricing
Which customers are we willing to underwrite?	Customer selection
Which agents shall we use to distribute our insurance products?	Channel design
Should we pay this claim?	Customer service

Take Guardian Life Insurance, the country's fourth largest mutual life insurer. Three years ago it created a modeling and analytics group to improve its ability to cross-sell policies among in-force customers. To upgrade the group's decision-making capabilities, Guardian relied on direct-to-consumer campaign practices instead of direct insurance industry experience.

Using standard data mining techniques, which correlate the results of test mailings with demographic and transactional data, Guardian found it could predict good campaign targets with much greater accuracy. As a result, the firm increased marketing response rates by 200%. Simultaneously, its overall marketing expenses dropped and cross-sell and retention rates rose.²

Review this statement from Progressive Insurance, a leading proponent of advanced methods of marketing analysis and decision-making: "We believe the U.S. personal auto insurance market will continue to consolidate, with the top 15 or 20 players growing at the expense of smaller players."³

The implications are clear: Insurers of all types must deploy superior decision-making capabilities to be on the right side of a consolidation process that likely will occur across all lines of business.

Insurers may be resistant to new marketing approaches. However, the impending soft market means they must try any technique that can give them an edge, particularly those that have not already found widespread acceptance in the industry.

If marketers can demonstrate that their methods are similar to those used in actuarial analysis and underwriting decision-making, they may find far more opportunities to seize the moment and contribute substantially to a firm's overall performance.

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^{1,3} Progressive Insurance 2003 Annual Report

² Presentation at the Strategic Research Institute Insurance Technology symposium, February, 2005



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