Direct Marketing for Life Insurance
Why Direct Marketing?

- Technology
- Database management
- Extra premium
- Communication with policyholders
- Improved marketing techniques
How Direct Marketing fits into the distribution strategy of life companies

<table>
<thead>
<tr>
<th>Customer Type</th>
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<tbody>
<tr>
<td></td>
<td>High Value</td>
<td>Low Value</td>
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<tr>
<td></td>
<td>Low Volume</td>
<td>High Volume</td>
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<tr>
<td><strong>Full Service</strong></td>
<td></td>
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<tr>
<td>Private Banking</td>
<td>Trustee/Custodial Services</td>
<td></td>
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<tr>
<td>Investment Advice</td>
<td>Financing</td>
<td></td>
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<tr>
<td>Estate Planning</td>
<td>Securities Broking</td>
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<tr>
<td><strong>Full Advice</strong></td>
<td></td>
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<tr>
<td>(Financial Adviser)</td>
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<tr>
<td>Investment Advice</td>
<td>Risk Management</td>
<td></td>
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<tr>
<td>Portfolio Analysis</td>
<td></td>
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<tr>
<td><strong>Limited Advice</strong></td>
<td></td>
<td></td>
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<tr>
<td>(Life Agent)</td>
<td></td>
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<tr>
<td>Life Insurance</td>
<td>Income Protection</td>
<td></td>
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<tr>
<td>Superannuation</td>
<td>General Insurance</td>
<td></td>
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<tr>
<td><strong>No Advice</strong></td>
<td></td>
<td></td>
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<tr>
<td>(Direct)</td>
<td></td>
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<tr>
<td>Commoditised Risk Product (Term Life, Accident)</td>
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</table>

Product Complexity

- Customised
- Commodity

Distribution - Value

- High
- Added
- Low
The ideal target customers for Direct Marketing

DM can generate between 5 to 10% of NB in mature markets.

Response Rates

Degree of Affinity to buy insurance

External / Third Party / Affinity Lists

Credit Card / Personal Loans / Sb accounts

Mortgage / Loan Customers

Policyholders
Typical Response Rates

- Response rates are highest with a policyholder list base
  - IN mature markets; DM generates a net response rate of about 2%; TM about 3 to 5%
  - In India – ADB type of benefits have generated significantly higher net response rates esp. from tier II cities (non metros)

- Next in order are bank list bases – typically in the following order for a market like India
  - Mortgages
  - Credit Cards
  - Personal Loans / Auto Loans
  - Bank Deposit account (Savings accounts and Fixed Deposits)
Key Metrics used to measure a campaign operationally

- Segmentation rate: Targeted base / Total database
- Gross response rate: % of targeted segment who respond
- Net completion rate: Policies sold / targeted base
- Propensity of the targeted segment to buy for a certain level of premium (affordability)
<table>
<thead>
<tr>
<th>What Products Are Best Suited?</th>
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<tbody>
<tr>
<td>■ Term Life</td>
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<tr>
<td>■ Death and Disability – Riders</td>
</tr>
<tr>
<td>■ Specific Credit &amp; Loan Protection Cover</td>
</tr>
<tr>
<td>– Targeted at existing customers who do not have any loan cover attached at inception</td>
</tr>
<tr>
<td>Product features</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>■ Simple products eg Accidental Death</td>
</tr>
<tr>
<td>■ Limited underwriting – usually a declaration of health basis</td>
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<tr>
<td>– In the UK market, companies use automated underwriting software integrated into the Point of Sale at the call center of the bank</td>
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<tr>
<td>■ Terms either fixed or to age e.g. 65</td>
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<tr>
<td>■ Level premium</td>
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<tr>
<td>■ No surrender value; but may incorporate a return of premium</td>
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</table>
DM in the India market

- Fulfillment: “Wet signature” requirements
  - Customer sign off on the proposal form prior to issue of policy
  - Results in a drop off between gross and net conversion rates of up to 50%

- No stand alone riders
  - require a base term policy
Pricing basis

Pricing basis will require assumptions / factors for:

- **Claim rates**
  - sex-specific (accident risk differs ++)
  - age-specific or assumption for rate of increase with age after entry
  - contingency margin
  - target market
- **Decrement**s
  - lapses
    - by duration until long-term rate appropriate
    - by distribution channel (TM > DM)
    - by product
  - all cause mortality
  - other claim decrements
  - terminal age
Pricing basis

contd. ...........

- Expenses
- Capital
- Portfolio assumptions
  - important, since generally no premium rating factors (ganteed acceptance at a unit premium rate)
    - distribution by age at entry and gender for SL and JL policies generally required
- Others
  - generally, as per typical risk premium business
Sensitivity analysis

- **Lapses**
  - early years
  - long-term rate
  - if lapses expected to be high & /or pricing is sensitive

- **Claim rates**
  - initial claim rate
  - slope by duration (age)
  - portfolio distribution

- **Marketing response rate**
  - net response rate
Case study 1 – Malaysia

Background

- **List:** Credit card & Retail customers of a bank
- **Product:** Accidental Death
- **Process:**
  - Customers receive mail pack – initial shot / reminder shot
  - SA Options of RM 50,000; RM 100,000; RM 200,000 and RM 300,000
  - Declaration of Health
  - Premium Payment By Credit Card / Standing Order
## Case study 1 – Malaysia

### Results

- **Quantity:** 150,000
- **Response Rate:** 3%
- **Average Premium:** RM 330
- **Total Premium:** RM 1.5 million
Case study 2 – Korea

Background

- List: Credit Card Company
- Product: Various Life, Health & Accident
- Process:
  - Customers receive “cold call”
  - Offer of Fixed Amount of Cover
  - Telephone Acceptance
  - Payment Authorised on Phone; debited to the credit card
<p>| | |</p>
<table>
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<tbody>
<tr>
<td><strong>Quantity:</strong></td>
<td>6 million</td>
</tr>
<tr>
<td><strong>Contact Rate:</strong></td>
<td>35%</td>
</tr>
<tr>
<td><strong>Net Quantity:</strong></td>
<td>2 million</td>
</tr>
<tr>
<td><strong>Conversion Rate:</strong></td>
<td>10%</td>
</tr>
<tr>
<td><strong>Average Premium:</strong></td>
<td>S$240</td>
</tr>
<tr>
<td><strong>Total Premium:</strong></td>
<td>S$48 million</td>
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</tbody>
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Direct Marketing for Life Insurance

Cathal Rabbitte
Head of Actuarial Services
Swiss Re Mumbai
August 2006