TFA 41 (1987-1989) 444-541

MARKETING OF RETAIL FINANCIAL SERVICES

BY M. IQBAL, F.I.A., A.S.A.

[Presented to the Faculty on 17th October 1988 and the Institute on 28th March 1988]

1. INTRODUCTION

1.1 In recent years insurance companies have begun to employ marketing techniques in search of greater success in an increasingly competitive market place. Several companies have Marketing Departments. However, those who have used marketing techniques most efficiently are not necessarily those with the largest departments.

1.2 Too often marketing is confused with promotion which is but one facet of a multi-faceted discipline. Another common mistake is to regard marketing as a subset of selling. This is understandable because most senior marketing appointments in the insurance industry have gone to people with a sales background. Levitt in his classic article Marketing Myopia in *Harvard Business Review* said:

"Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

The selling concept starts with the company's existing products and calls for heavy promotion and selling to achieve profitable sales. The marketing concept is a customers' needs and wants orientation backed by integrated marketing effort aimed at generating customer satisfaction as a key to satisfying customer goals.

The determination of what is to be produced should not be in the hands of the companies but in the hands of the customers. The companies produce what the consumers want and in this way maximize consumer welfare and earn their profits."

1.3 Drucker[8] provides the following view:

"There will always be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally marketing should result in a customer who is willing to buy. All that should be needed then is to make the product or service available."

1.4 Although marketing as a systematic discipline is a twentieth century phenomenon, to quote Davidson[7]:

"The practice of marketing is almost as old as civilization . . . The oldest profession in the world used classic marketing techniques; it identified and satisfied a need; it created a market where a buyer and seller could meet, in the form of a brothel; and it turned a handsome profit on the operation."

1.5 In section 10 of this paper I give my reasons for believing that modern actuaries should familiarize themselves with marketing techniques. Lack of published papers on the application of marketing techniques to a life office encouraged me to write this paper. It is hoped that it will fill a gap in actuarial literature and give further instance of actuaries straying into Menzler's 'wider field'.

1.6 When I started to map out the preliminary draft it became obvious that it would be inappropriate to restrict it to a pure life office. For a variety of reasons the traditional boundaries have become blurred as each sector of the financial services industry encroached into others' territory. 'Marketing of Retail Financial Services' is therefore a more appropriate title. However, I shall view it from the perspective of an organization that historically was a life assurance company.

1.7 A marketing strategy can only be determined after the overall business strategy of the organization has been defined. This is so vital that I have considered it necessary to begin and end by discussing business strategy. Given such a wide brief, brevity of treatment was essential to keep the paper within manageable bounds.

1.8 Every discipline has its own collection of jargon. Although non-practitioners treat them with suspicion, they have the virtue of assigning specific meanings to words that could otherwise be ambiguous. This is particularly true in the field of marketing where everyday words such as markets, packaging, promotion, positioning, focussing, etc. have specific meanings. In this paper I have used jargon only when it is necessary to do so. I have also tried to leaven the text with examples from both financial and non-financial industries.

1.9 I have used the expression 'marketer' to describe someone who is practicing marketing management. It is an expression whose only virtue is that it is better than the alternative of 'marketeer'.

1.10 Finally, as the paper covers the purpose of an organization, its goals, aspirations, operational tactics, etc. it goes to the very roots of fundamental business issues. I must therefore point out that any views or prognostications expressed are mine and do not necessarily represent those of my current or previous employer or of the actuarial profession.

2. THE NATURE OF THE BUSINESS

"Business only contributes fully to society if it is efficient, successful, profitable and socially responsible"—Lord Sieff

2.1 Every organization must have a purpose, a mission, a reason for its existence. It is not sufficient to say that it is there to make profits for its shareholders. Other lines of business may make more profit. There must be a reason why they are in their present line and not in others. (Profit is merely a measure of how successfully they have met their financial objectives.)

2.2 Whatever the line, the current status quo must be under regular review no matter how well the organization is run. The best formulated strategies must be in a state of unstable equilibrium. The organization must ask itself 'Why are we in this business and not in another?' 'Why are we making these products and not others? Why are we in the market we are in and not in others?'

2.3 Ten years ago, the Chief Executive of a life assurance company may have been able to give sensible answers to these questions. Changes had been confined to a gradual evolution of products offered, to seeking new markets for existing products and to seeking new methods of distribution. What used to be the core product, protection against death and infirmity, may have become less important, as investment products (pension plans, low cost endowments and linked bonds) had come to dominate new business. Change had however been gradual.

2.4 Within the financial services industry the following generic business types may be identified:

Market making activities
Wholesale investment services
Packaged investment manufacturing
Retailing investments.

2.5 Within each category further subdivisions are possible. Life assurance, for example, is but one type of packaged investment. There are others such as unit trusts, investment trusts, Business Expansion Funds, Personal Equity Plans (PEPs) etc.

2.6 As Exhibit 1 and Appendix 1 show the recent removal of artificial entry barriers and 'levelling of the playing field' have dramatically altered the business environment. New forms of competition have arrived bringing with them their own competitive strengths. Life assurance is rapidly becoming a small niche in a big market.

2.7 What should the Chief Executive of a life assurance company do in these circumstances? Should he 'stick to his knitting' or diversify or even completely change the nature of the business? What is his business?

2.8 Not every Chief Executive today can give honest rational answers to the questions in § 2.2. However, if he does not consciously determine the direction of his company it will be set by default—by someone lower down the organization, by his sales outlets or even by his competitors—traditional or new.

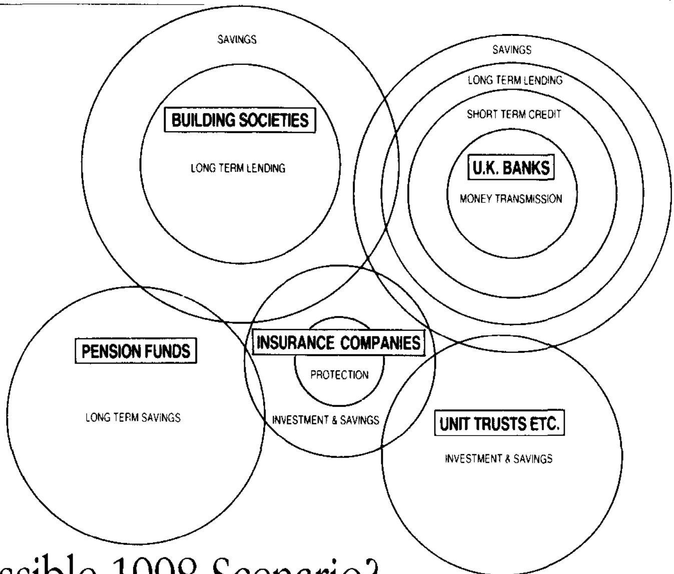
2.9 If we pursue the marketing concept outlined by Levitt,[(19)] the purpose of any business is to meet chosen customer needs. It must determine who its target customers are and what needs it will seek to satisfy. In doing so it should aim to meet its profit objectives. Davidson[(7)] defines marketing as:

"the process of balancing the company needs for profit against the benefit required by consumers, so as to maximize long term earnings per share."

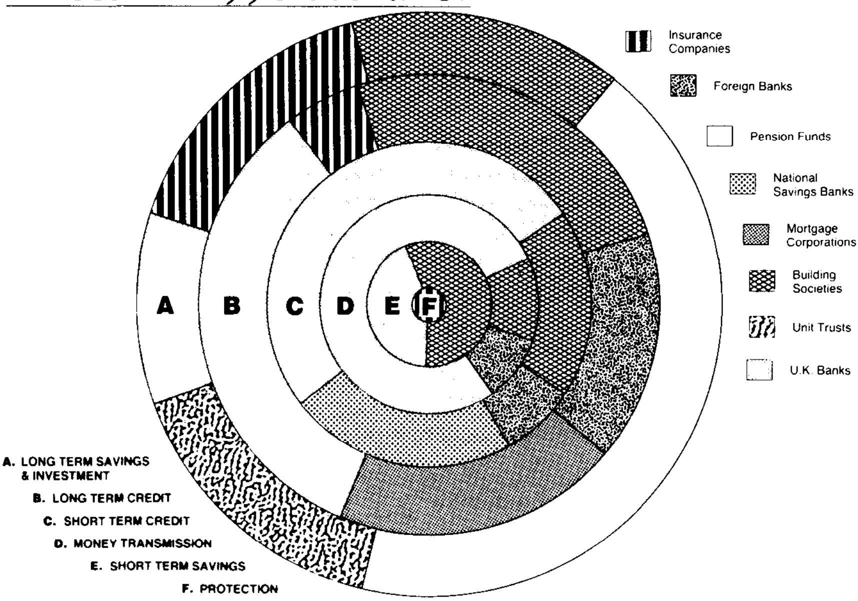
2.10 Any business is the sum total of the products it supplies and the market segments or customer groups it serves. In this paper I will examine these issues before returning to our Chief Executive in section 9.

A 1978 Scenario

EXHIBIT 1



A Possible 1998 Scenario?



2.11. *Who is The Customer?*

2.11.1 Strictly speaking the customer should be the person who is the user of the product that the company markets, i.e. the consumer.

2.11.2 This means that:

— Where business is sold direct to individuals (by mail, off the page or face to face by the company's salesmen) that individual is the customer.
— Where business (fund management) is sold to trustees/fund managers of a pension scheme, it is they who are the customers.

2.11.3 It is believed that there will be little disagreement with the above statements. However consider the following:

— Where business is obtained through an independent intermediary who has the primary claim to the policyholder? Who is the customer? If they are both customers who is the primary customer?
— Where a group pension scheme is sold direct, who is the customer? Is it reasonable to assume that it is the employer? Or is it the trustees?

In either case, what is the position in the future when a life company sets up group personal pensions on behalf of an employer? The employees are the clear beneficiaries but the link with the employer will be visible. Will they be customers too?

If so, who is the primary customer?

Where a group pension scheme is sold through an independent intermediary there is a hierarchy of customers. Who is the primary customer?

2.11.4 In every case, the answer, whichever it is, has a crucial bearing on the nature and focus of the company's service.

3. THE ROLE OF MARKETING

"Benjamin Franklin may have discovered electricity but it was the man who invented the meter who made the money"—Earl Wilson.

"Back the hearse up the drive and let her smell the flowers"—L.I.A. *Speaker on selling life assurance.*

3.1. *Marketing Management*

3.1.1 Marketing management must first identify their target customers and identify such of their needs, wants or demands as fall within the firm's chosen domain.

3.1.2 Next they must determine which of such needs or wants they will seek to satisfy i.e. their target markets.

3.1.3 Then they must influence the level, timing and composition of demand in a way that will help the organization achieve its objectives.

3.1.4 Subsequently, they must make decisions in each target market, on market positioning, product development, pricing, channel of distribution, communication and promotion.

3.2. *Needs, wants and demands*

3.2.1 It is necessary to define clearly three terms, need, want and demand. Kotler[17] defines them as follows:

"A human need is a state of felt deprivation of some basic satisfaction. Human wants are desires for specific satisfiers of these deeper ends. Demands are wants for specific products that are backed up by our ability and willingness to buy them."

3.2.2 Ultimately the purpose of marketing is to create demand for one's own products. Marketing may therefore be defined as demand management. However such a succinct statement conceals too much. The role of marketing in selling a company's products depends upon how far down the need-want-demand chain consumer perception has travelled.

3.2.3 Sometimes the need is latent, potential consumers being unaware of its existence. The task of marketing is then to create such an awareness.

3.2.4 In other instances, the existence of a need is not in dispute, but either consumer apathy or competition from generically different products is a barrier to success. The role of marketing is then to change the need into want.

3.2.5 Finally, there are cases where there is proven want. Marketing attention must focus on creating demand for one's own products, on persuading consumers to purchase it in preference to those of its competitors.

3.2.6 In all cases, even if the consumer has been persuaded that the product is worth purchasing and he needs to make a purchase, he will only do so if he perceives the product to be best value for money at the quoted price. The key is that it is his perception that counts. The bigger the gap between the perceived value of a product and its intrinsic cost, the greater the profit potential. A lot of consumer advertising is aimed at achieving such a gap by imputing intangible benefits.

3.2.7. Any best value for money assessment by a consumer is based upon a personal montage of objective criteria, emotional prejudices and impulsive reactions. Hardy[12] asserts that there are four key value attributes which apply to a large majority of consumers in a wide range of consumer goods and markets and possibly also industrial and service fields. These are:

— purpose
— performance
— presentation.
— price

3.3. *Markets*

3.3.1 Kotler[17] defines a market as

"the set of actual and potential buyers of a product".

In addition to sharing a common need or want they must have the ability to purchase a product that will satisfy it.

3.3.2 Distinction must be drawn between the potential, available, served and penetrated markets. The potential market in money terms for lump sum investments is the total of the private assets of people in the United Kingdom and

THE NEED-WANT-DEMAND CHAIN **EXHIBIT 2**

Latent Need

In such cases potential consumers are unaware of the need. Some recent examples are the challenges that faced the creators of Concorde, the first microcomputers, and 3M's Scot Post-It Note Pad. In each case they had to persuade potential customers that they had a need for the/an application of the product:

— in the case of Concorde, for fast intercontinental transportation;
— in the case of microcomputers for the ability to carry out rapid user-defined programming that bypasses mainstream DP departments;
— in the case of Post-It Note Pad's for the facility to leave messages or comments on correspondence without annotating them.

In the first case a latent need was awakened but people were not prepared to buy at the quoted price; in the second a latent need was successfully tapped; in the last case the need was so latent that it is not too unfanciful to say that it was created by skilful marketing.

Creating Want

In such cases potential customers have to be persuaded to want the type of product provided by the company and its direct competitors. Examples are:

— cricket: the challenge facing county cricket associations is to persuade people that watching cricket is a rewarding leisure activity that compares favourably with other forms of entertainment; it is the desire for instant gratification that has led to the growth of one-day cricket;
— life insurance: most people are aware of the need to protect their family against financial hardship caused by the death of the breadwinner, but few are prepared to take out insurance.

Managing Demand

Where there is proven want for a product, potential customers have to be persuaded to buy the company's own brand. Examples abound:

— the competitive advertisements for brands of detergents, chocolates, etc.;
— the competition between banks and building societies for retail deposits;
— the competition between holiday operators.

An interesting illustration of demand management is the practice of offering calculators/radios on the purchase of insurance products off the page. Such 'freebies' are designed to trip the waverers into a buying mode.

those people abroad who are able and interested in investing in the U.K. The available market for bonds and unit trusts is the total monies people in the U.K. and abroad are prepared to invest in pooled equity based investments. If a company chooses to market only managed bonds to U.K. citizens that is the market it serves. The number of customers who actually buy its product represents its market penetration.

3.4. *The Product*

3.4.1 Kotler(17) paraphrased defines a product as
"anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas".

3.4.2 The generic product is the intrinsic benefit, the core substance inherent in the product. It is what the consumer is really getting. In the case of a motor car, the generic product is sheet metal propelled by an internal combustion engine. The marketer's task is to identify the customer needs that the product can satisfy.

3.4.3 The motor car can, for example, provide transportation for which there is a genuine need. In order to make the product more saleable than competing products certain characteristics must be considered:

— quality level, in the case of the car this may mean reliability and durability;
— features, e.g. economy or performance etc.;
— styling, e.g. the Capri was substantially the same car as the Cortina but had a higher perceived value;
— brand name; and
— packaging.

These cover three of the four key value attributes referred to in §3.2.7.

3.4.4 All this leads to positioning i.e. the image that you wish the consumers to have of the product. A Porsche has now been positioned (by accident or by design) as the car associated with a 'young upwardly mobile person'. Positioning can of course apply to an organization as much as to a product; "the listening bank", the "never knowingly undersold" store, the "never make a drama out of a crisis" composite.

3.4.5 The marketer may offer additional benefits and services that may make up an augmented product. For example a motor manufacturer may offer high quality backup service through its dealers. The poor rate of repeat purchase of Leyland cars as a direct result of poor service by one of its major dealers demonstrates that many customers look at the augmented rather than the generic product.

3.4.6 The design of a successful augmented product can only be carried out after a thorough understanding has been obtained of consumers' total requirement. We need to know what their underlying wants are. Paying more attention to products than to the customer needs satisfied by them is a common and costly mistake.

3.4.7 With most products a potential customer can have a preview of what he is purchasing. A bar of soap can be held in one's hand. Its wrapping describes its fragrance. As its cost is small, a single purchase enables us to 'test' it. With more expensive products such as a motor car the dealer usually permits a potential buyer to examine the car closely and to test drive it.

3.4.8 Such products are tangible products, products that a potential customer can see, feel, hear, smell or touch before he purchases them. This is not to say that he always knows exactly what he is buying. The augmented product carries a promise of satisfaction that can only be reviewed by post purchase consumption.

3.5 *Intangible Products*

3.5.1 So far we have considered only tangible products. Several products are not tangible. Examples are insurance, consultancy services, estate agency, banking, motor repairs, restaurants, etc. In such cases it is not possible to sample or inspect the product prior to purchase.

3.5.2 When someone purchases a holding of unit trusts, he has great expectations but little certain knowledge of what he has purchased. He may have studied the antecedents of the trust and its investment manager but past is an uncertain guide to the future. If he retains his holding long enough he will receive dividends. He will also be able to follow the price movement. It is only when he finally divests of his holding that he knows what he has bought.

3.5.3 In the case of a pure life assurance policy the purchaser never lives to receive the sum assured. In fact, the true benefit is the security, the peace of mind, he enjoys whilst he is alive. That is not something that can readily be sampled. Also, it is a rare company that makes him aware of this benefit post purchase.

3.6. *Importance of Service*

3.6.1 The term 'service' is one that we all understand but none can describe. There can however be little argument that human involvement is an integral part of an intangible product.

3.6.2 If we take our car in for repair, we judge the quality of the product (i.e. the service) by the garage's record in rectifying the faults reported, diagnosing other faults, completing the repair on time, by the receptionist's ability to answer satisfactorily our questions when collecting the car, leaving the car in a clean state and by the price charged. All bar the last are people-related. Of these only the first two can be mechanized.

3.6.3 Levitt(19) makes the following point:

> "The customer usually doesn't know what he is getting until he doesn't. Only when he doesn't get what he bargained for does he become aware of what he bargained for. Only on dissatisfaction does he dwell. Satisfaction is mute. Its prior presence is affirmed only by its subsequent absence.
>
> And that is dangerous, because . . . it makes him terribly susceptible to the blandishments of competitive sellers."

3.6.4 The validity of Levitt can be reaffirmed from our own personal experiences. We remember not the consistently good service and food provided by the hotel we stayed in but the fact that the shower did not work. We remember not the several dubious claims on our contents insurance policy that we have been successful with but the one that was declined. British Rail has a reputation for poor time keeping—that is not justified by the facts. When a plumber does some work for us, we remember not his good plumbing but the high cost and the debris he left behind.

3.6.5 Hotels endeavour to overcome this tendency to selective retention by constantly but subtly reminding their customers of good service. The bathroom is made to look conspicuously clean, towels are laundered, soap renewed, the bed linen immaculate. Even the occasional 'request for assistance in routine research' is a subtle reminder of things they have done well. There is a great marketing opportunity for any firm of plumbers that undertakes to leave the premises clean and tidy after doing a good job.

3.6.6 In the case of financial products, certain aspects of service are an integral part of the generic product. To a customer who is being sold, say, a flexible whole life plan, advice regarding the premium/sum assured relationship, fund choice, whether or not to issue the policy in trust, etc., in other words personal financial planning, should be an integral part of the product. How much of this service is offered and how completely it is offered will greatly influence the customer's assessment of the product. Thus, the salesman himself is an integral part of the product.

4. CONSUMERS' BUYING BEHAVIOUR

"People matter. Not a lot, but they matter"—Maurice Carlisle.

"The consumer is not a moron—she is your wife."—David Ogilvy.

"If the batsman thinks that I am spinning them then I am spinning them."—Wilfred Rhodes (as per Cardus).

4.1. *Need for Consumer Research*

4.1.1 The old adage 'life assurance is sold not bought' implies that there is no great demand for the product. The salesman has to demonstrate the need before he can make a sale. It is the need to do this, case by case, that makes the total selling costs so high. If the life assurance industry is to fight off competition from other industries then it must seek to reduce its acquisition costs. One way that this can be achieved is by increasing the demand for the product, by making people want to buy.

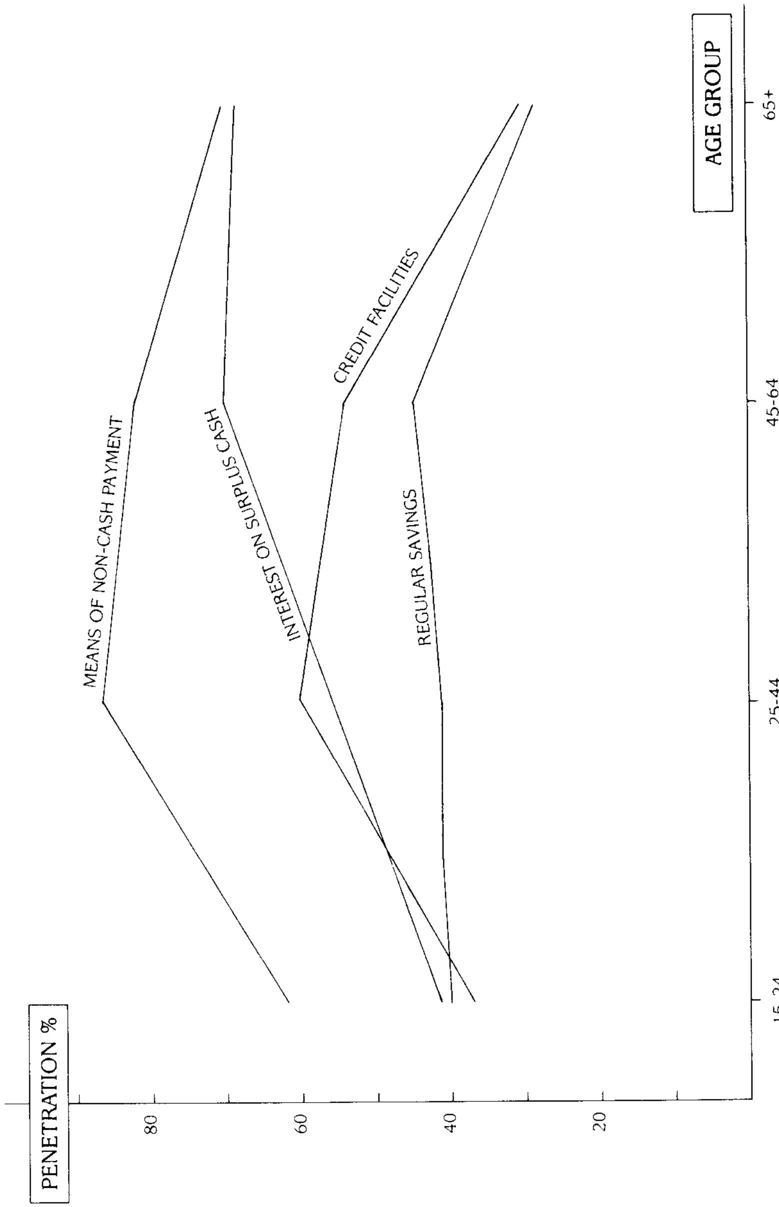
4.1.2 In order to do this it is essential to obtain an intimate understanding of customers' actual or potential behaviour.

4.1.3 The financial services industry has only recently recognized this. Anyone who is interested in studying consumer behaviour should follow up Chisnall[5] and Engel.[10] I must necessarily confine myself to an overview.

4.1.4 We need to know what reasons, emotions or impulses make customers purchase certain types of products and reject others. For example, why does

EXHIBIT 3

PENETRATION OF FINANCIAL PRODUCTS BY AGE GROUP



SOURCE: REFLEXIONS, FIRST RESEARCH ANALYSIS someone elect to put his investment in a building society and not in unit trusts. More fundamentally, why did he choose to invest and not to spend?

4.2. *Factors Influencing Consumer Behaviour*

4.2.1 There are several factors that influence buying behaviour—see Appendix 5.

4.2.2 *Cultural factors* are important. Take one example: two generations ago, personal borrowing was not very common. The accepted wisdom was to save in anticipation of purchase. The welfare state and the growth in home ownership and consumer goods, particularly the motorcar, has encouraged reliance on borrowing. This has had a direct effect on the composition of the financial services market.

4.2.3 *Social factors.* The difference between someone of the 'upper class' and one of the 'lower class' is not merely wealth or income. Their values, lifestyles, preferences are all different. The 'man from the Pru' would not command the same esteem in Knightsbridge or Mayfair as in Neasden or Mile End. There are also distinct differences between the Industrial North, and the South, between Scotland and England.

4.2.4 *Personal factors* in the final analysis are the most important, if only because they assimilate all the others.

Different stages in the lifecycle represent different needs, aspirations, spending power and wants. Lansing and Morgan segmented the lifecycle of United States of America families as follows:

1. Bachelor stage: young single people: 'fledglings'
2. Newly-married couples: young, no children: 'starters'
3. Young married couples with dependent children: 'full nestors'
4. Older married couples with dependent children: 'full nestors-II'
5. Older married couples with no children living with them: 'empty nestors'

It is easy to see that each segment will have quite distinct financial priorities. Exhibit 3 illustrates this point.

4.2.5 *Psychological factors.* A study of motivation is important because motive is the catalyst that initiates activity that leads to the fulfilment of a need. Maslow's hierarchy of needs is a useful basic concept that accords with intuition. Bob Geldof may have achieved empathy with the starving Ethiopians but he could not have sold them Boomtown Rat's LPs. The late sixties phenomenon of 'flower power' and flirtation with Eastern mysticism was a confused attempt at self actualization by a generation weaned on the welfare state who took for granted the fulfilment of the more basic needs.

4.3. *What Does a Consumer Buy?*

4.3.1 It is a fundamental truism of marketing that an individual purchases a product not for what it is but for the benefit it confers on him. A motor car's primary function is transportation. But cars have been around for several decades. There are other forms of transportation too. A motor manufacturer must appeal to a specific need. A typical family saloon may offer tranquility (by being reliable) but a Jaguar really sells an image of affluence and success (it is the car one likes to be seen in).

4.3.2 As money is seldom an end in itself, merely a means to it, marketing of financial products makes an interesting study.

4.3.3 Money transmission that underlies cheque book/cheque guarantee card activities hinges on expensive and complex technology. To consumers money

CAN WE IGNORE INTERMEDIARIES? **EXHIBIT 4**

Example 1

In the past Proctor & Gamble have appeared to take the view that the retailer is a distributor linking manufacturer and consumer, rather than a customer with specific needs. Consequently, Proctor & Gamble products tend to be designed solely with the ultimate consumer in mind. Proctor & Gamble feel confident that retailers will be forced to stock their new products because they offer good value for money and are heavily advertised and promoted.

As retailers have increasingly succeeded in developing their own brand identity and, especially in the U.S.A., found reliable ways to assess internal handling costs by product, Proctor & Gamble's traditional approach has become less tenable.

There are clear signs that Proctor & Gamble are now changing their position and starting to redesign products with retailers' needs in mind. For instance, in 1987, Ivory Liquid in the U.S.A. was redesigned to take up less shelf space and Tide was reformulated into a smaller box, allowing retailers to use their space more efficiently.

Source: Davidson(7)

Example 2

The philosophy of Liberty Life of South Africa is to regard as its customers not the 'public' but its wide network in the broking fraternity, its full time agents and the managers of its branches. It attaches by far the most importance to the brokers and agents from whom it obtains the greatest intelligence.

This approach coupled with a commitment to innovation has enabled the company (set up in the mid-fifties) to grow to be the largest proprietary office operating in the Republic. It has had an exceptional rate of growth in both premium income and dividends.

Source: P.A. Consulting Group(26)

transmission is simply a convenience that enables them to pursue their chosen lifestyle. It is now such an accepted part of everyday life that their perception of its intrinsic value is out of step with its underlying cost, making it an uneconomic product for banks to provide. The next development, electronic fund transfer at point of sale (EFTPOS) will exacerbate it. Banks may endeavour to overcome this by charging retailers rather than the purchaser. They would then need to treat the retailers not the purchasers as their customers.

4.3.4 Credit cards permit immediate gratification of desires. The Barclaycard commercials on television (with Alan Whicker saying "it is acceptable in more places than a certain other charge card") illustrate this.

4.3.5 As life assurance seeks to fulfil a basic need for safety or protection it should be an easy benefit to sell. In practice it suffers from three disadvantages:

— in a climate of affluence consumers do not perceive a need for this benefit;
— the purchaser does not see himself benefiting from the product;
— most people do not like to think of death.

4.4. *The Consumer and the Buying Decision Maker*

4.4.1 The consumer is not always the person who makes the crucial buying decision. That person may be the spouse or a 'friend in insurance' or the accountant or the intermediary or the salesman.

4.4.2 Generally the more complicated the product-offering the more likely is the potential customer to turn to an expert for advice. Thus:

— a company director may rely on his accountant's endorsement of a directors' pension plan recommended by an intermediary or a salesman;
— the trustee of a large pension fund may rely on the recommendation of the consulting actuary in selecting fund managers;
— a potential customer who does not have a clear idea of what his wants are would rely on the intermediary or salesman who approaches him, if he respects his judgement.

4.4.3 Whether such people actually make the buying decision for the client or merely have a major guiding influence is often a very fine distinction. Either way the company must seek to influence such people in order to get to the consumer.

4.5. *When is a Purchase Made?*

4.5.1 Generally, products are most likely to be purchased when a need arises. Thus investment plans are easiest to sell when a man comes into money, life assurance when there is an abrupt increase in potential liabilities—e.g. on marriage or the birth of a child.

4.5.2 In other circumstances, more persuasion is needed.

4.5.3 Owing to the nature of financial products, an effective way of inducing purchase is by selling the product as an ancillary to the real benefit the consumer is purchasing. Selling endowments or pension plans on the back of home-ownership is the classic example.

4.6. *Why is a Purchase Made?*

4.6.1 As an industry we do not know enough about why people buy our products and why they do not; why they buy some products but not others. There is not a great deal of research that is in the public domain. But we do know certain statistical truths.

4.6.2 A substantial proportion of the population (40%) is uninsured and most of the others are under-insured.

4.6.3 Several surveys carried out (for example by Dewe Rogerson and BMRB-Mintel) showed the proportion of the population who were share-owners to be in the range 13–17% in 1986, and as high as 23% in 1987. Even allowing for employee-share ownership schemes, this compares favourably with 4·5–6% who hold unit trusts.

4.6.4 Only an estimated 34% of the self-employed have pension plans.

4.6.5 Thus it is true to say that, most of the time, purchase is not made. A major reason for this is lack of awareness. It is an old truism of marketing that awareness must precede usage. Research has frequently shown that:

— Consumers do not have a clear idea of the suppliers of insurance and unit trust products. Unprompted name awareness of most companies is poor. This limits the ability of a company to induce purchase. Contrast this with the position of banks and building societies.
— Although personal contact is perceived to be important, there is suspicion of some sales approaches and methods. Relatively few people go to intermediaries.
— Consumers have limited ability to make informed judgement. There is little real evidence of increased financial sophistication.

5. MANAGEMENT INFORMATION SYSTEM & MARKETING RESEARCH

"There are five critical resources in the management of a business enterprise: money, materials, machines, men and information. Little attention has been paid to the last of these in the past."—Philip Kotler

"How far would Moses have gone if he had taken a poll in Egypt".—Harry S. Truman.

5.1 It has to be said that most insurance companies have very poor management information systems. Such information should comprise the following items:

5.2. *Market Data*

5.2.1 As part of its study of the marketing environment, marketers must constantly monitor all markets the company is involved in and adjacent markets that might impinge upon it. Long and short term prognosis must be obtained and periodically reviewed to ascertain which markets are rising and which are declining—see Appendices 1 and 2.

5.3. *Company Data*

5.3.1 Records have to be maintained of sales, surrenders, switches by product types, etc. The common practice within the industry is to collect statistics by product types. For example 'with profits deferred annuity—single premium' will cover single premium into individual pension arrangements and early leaver plans. 'With profits deferred annuity—regular premium' will cover individual pension arrangements and AVCs. 'Annual premium life business' will cover regular savings, mortgage endowments as well as policies which by virtue of being a funding arrangement are really a lump sum commitment by the client.

5.3.2 Such information is useless for making marketing decisions. What is needed is information by market types, produced with the speed necessary for it to be useful. In designing a system care must be taken to distinguish between what is nice to know and what must be known.

5.4. *Competitors' Data*

5.4.1 It is vital that the company's performance be monitored against that of its competitors. Is the growth (or decline) in new business a reflection of changes in the aggregate demand or of the company's intrinsic achievement? This can only be assessed by tracking changes in market share.

5.4.2 In this we are hampered by the imperfections in data already referred to. Nevertheless reasonable estimates can be made. One company has recently set up a system whereby information can be exchanged in a meaningful way but it suffers on two counts:

(i) Many companies, my own included, cannot always subdivide information in the desired manner.
(ii) Not all companies participate.

5.4.3 The Association of British Insurers (ABI) ought to be taking the lead in collecting and publishing meaningful data in much the same way as the Building Societies Association does.

5.4.4 Turning now to the wider financial services field, a major problem is the inconsistency in the way 'new business' is recorded by banks, building societies, unit trusts, fund managers and life assurance companies. The latter is alone in recording 'gross' figures ignoring surrenders. All others record net increase. In the case of unit trusts it is also necessary to exclude business derived from a sister life company.

5.4.5 The reason for the inconsistency between the life assurance industry and others lies in the fact that new annual premium business is more valuable than existing business. This is unlikely to change in the near future.

5.4.6. Ideally we should work towards measuring the value of business rather than revenue.

5.4.7 It is also necessary to set up a system to understand changes in the competitive environment. Which competitor is stealing a march and why? Is there evidence of new competitors entering the market?

5.4.8 Often such information is gathered from the financial and trade press and from the firm's sales force. It is valuable in tracing product trends. It is less reliable in assessing the views of retailers and consumers. For that we need better structured market research.

5.5. *Marketing Research*

5.5.1 Marketing research is a professional discipline, supervised in this country by the Market Research Society which has its own code of conduct. Research is undertaken to better understand a marketing problem. A company may for example wish to carry out a market survey, a product preference test or an advertising-effectiveness study.

5.5.2 *Defining the problem and research objectives.* The importance of this cannot be overemphasized. Some research is qualitative (e.g. to ascertain how valuable communication networks are to intermediaries), some quantitative (e.g. name awareness study). Whichever type it is, the problem must be carefully defined, neither too broadly nor too narrowly. A research plan to gather the information must then be developed. In some cases the information may already be available; in others it will be necessary to go and get it.

5.5.3 This would usually require a survey on the basis of a carefully constructed questionnaire. The form of the question can influence the response. Closed-ended questions include all the possible answers from which the respondent selects one. They are used in quantitative surveys. Open ended questions allow the respondent to answer in his or her own words. They often reveal more because the respondents are not restrained in their answers. They are used in qualitative research.

5.5.4 It is necessary to determine who is to be surveyed (the sampling unit), the sample size and the sampling procedure necessary to avoid bias. The survey may be carried out by telephone, mail or personal interview (individual or group).

5.5.5 Research provides data that will assist marketing management in finding solutions. They seldom provide ready made solutions. It is often alleged that research can be positively misleading when testing genuine innovations. (e.g. The Sony Walkman, the new Coca Cola, or even Scot's Post-It Note Pad). Whilst there is some truth in this assertion, it is often the case that it is the construction of the research that is faulty.

6. FORMULATING A MARKETING PLAN

6.1 Suppose that it has been decided that the company will seek a share of a specific market. It is then necessary to develop a Marketing Plan. A new product being developed for a market new to the company would require a detailed plan. For a modification of an existing product a brief plan will suffice.

6.2. *Selecting Market Coverage*

6.2.1 Most large markets are a non-homogenous collection of consumers and consumer preferences. Each subgroup that is reasonably homogenous is a segment with a specific need or want. Segmentation may be on demographic, psychographic (social class, lifestyle or personality), behavioural or any other rational basis. The company needs to decide whether to go for:

6.2.2 *Mass Marketing*. This means going for the whole market with a single product designed to appeal to most. In effect it means concentrating on what is common to most segments. Mass promotion is necessary. The classic example was Henry Ford with his Model T. The approach was outstandingly successful when cars were only a means of transportation and few people owned one; or

6.2.3 *Segmented Marketing*. This means operating in several segments and designing separate products for each. Both sales and costs will be higher. The objective must be to increase profit as well. The reason why General Motors took over market leadership from Ford in the twenties was because it recognized that with wider car ownership potential customers were looking for something more than mere transportation; or

6.2.4 *Niche Marketing*. This means selecting a limited number of segments in which it can secure a significant competitive advantage and going for a large market share. It is a very efficient and profitable approach but it is also a risky one, because the niches selected may become unfashionable.

6.3. *New Product Development*

6.3.1 A mature industry such as the life assurance industry has needed a steady flow of new product ideas to keep sales buoyant. Attention has usually been focussed upon product specification, price and commission. This is not satisfactory.

6.3.2 The inability to patent or copyright product specification, the absence of a 'secret Formula X' means that it is difficult to retain a competitive advantage for long.

6.3.3 Competing on the basis of price is the route to long term ruin—witness the plight of building societies.

6.3.4 Commission cannot be used as a discriminatory tool, once the Financial Services Act comes fully into force.

6.4. *The Marketing Mix*

6.4.1 There is a much wider range of variables in its market offering that the company can control and modify—the marketing mix. The popular four P's of the mix, product, price, promotion and place is not quite right for intangible service-related products. Cowell[6] lists the following:

6.4.2 *Product*. Quality is one of the major positioning tools:

— in the case of investment based products, investment performance is a major quality criterion. Reputation for good performance takes time to acquire and lingers even after achievement falters;
— in the case of life assurance products the quality of underwriting is another.

SEGMENTATION **EXHIBIT 5**

Consider the lump sum investment market. There are well over 29 million people in the U.K. with investments of one form or another (Building Societies Association estimates show that there are 29 million building society investors). The market is huge but heterogeneous. A company can attack it only by segmenting it. Segmentation may be by:

1. The investor's attitude to risk

Campbell Keegan, in conjunction with Consensus Research, recently carried out a qualitative study of 2000 adults. This was based on an earlier qualitative study by Campbell Keegan Ltd. These revealed five distinct attitudes to money:

Label	Proportion	Description
Traditionalist	26%	Savers rather than spenders. Conservative, financially comfortable, content. Loyal to institutions, suspicious of change.
Anxious	21%	Worriers about money. Regard institutions as threatening. Respond well to personal relationships.
Carefree	19%	Money is a means to an end. Tend to have uneasy relationship with bank manager. Interested in credit.
Connoisseurs	19%	Most informed and sophisticated group. Can be very demanding. Not necessarily in high finance bracket.
Pragmatist	14%	Confident about money matters taking a balanced and practical view.

A company launching a unit trust would concentrate primarily on the Connoisseurs and the Pragmatists.

This analysis is by number of people—it gives no idea of how much money they have.

2. The investor's net worth

This leads to a further segmentation by the investor's net worth. For example, many intermediaries concentrate on high net worth individuals. Having identified attitude to risk and net worth we need to know the investor's objectives. This leads to further segmentation by:

3. Whether or not he needs income, and
4. Whether or not he needs instant access.

Finally, further segmentation is possible by:

5. Life-cycle stage (see §4.2.4).
6. The investor's social class.

Such multidimensional segmentation sounds unnecessarily complex but reflects reality. The company's product offering would usually cover a range of segments.

6.4.3 It is the customers' (or the buying decision makers') perception of quality that is important.

6.4.4 Product features are a competitive tool for differentiating the product from competing products. Loanback on retirement annuities was an outstanding recent example.

6.4.5 Product branding can add perceived value to the product and must be regarded as an intrinsic part of the product strategy. Until recently only tangible products could be branded. Nevertheless the word of mouth endorsement of the Dover Plan in the late sixties when many people did not know what it was, but had heard that it was good, showed what branding could achieve.

6.4.6 The augmented product may include a level of back-up service. For example, in the past twenty years many offices have successfully sold group pensions through non-sophisticated intermediaries on the strength of their technical back up. There are other instances where service is provided to the consumer.

6.4.7 *Price.* In general consumers of financial products are not very price sensitive unless skilful marketing makes them so—as building societies have done. Where the sale is made via an intermediary, price becomes important and will become even more important once 'best advice' begins to bite. The setting of price is considered in greater detail in section 7.

6.4.8 *Promotion.* A Company's products will not be purchased unless its existence is communicated or promoted to potential customers. In order to do this the company needs to:

6.4.8.1 *Identify the target audience.* These may be the potential consumers but could also be intermediaries or other persons who influence the buying decision.

6.4.8.2 *Determine the objectives.* Is it to build awareness or to increase the target audience's knowledge of the product or to change the positioning of the product or to induce purchase.

6.4.8.3 *Design the message.* The message must have appeal, the one or unique selling proposition (USP) to get the desired response. The appeal can be rational, emotional or moral.

6.4.8.4 *Select the communication channels.* Mass media are aimed at large, often undifferentiated audiences; selective media are aimed at specialized audiences. Although personal communication is often more effective than mass communication, mass media may be the major way to stimulate personal communication.

6.4.8.5 *Establish the total promotion budget.* It is necessary to define the objectives, determine the tasks that are most likely to meet these objectives and estimate the costs of performing these tasks.

6.4.8.6 Just how much weight promotion should receive in the total marketing mix (as opposed to product improvement, low prices, more services and so on) depends on where the company's products are in their life cycles (see §6.6) whether they are highly differentiable, whether they are routinely needed or have to 'be sold' and other considerations.

6.4.9 *Place*. This is where the customer will make the purchase. In the case of financial products it can be home, at a branch, in an intermediary's premises or a store. Each implies a certain method (or methods) of delivering the product. This is covered later under Marketing Channels—section 8.

6.4.10 *People*. It is not only the marketing or sales personnel who provide service to customers. The telephonist, the clerk in premium administration or claims, indeed a very wide range of employees have customer contact. All areas, but in particular those involving higher frequency of contact need to be very carefully monitored. Quality standards must be set and actual performance monitored against it.

6.4.11 *Physical Evidence*. This includes the design and layout of the physical environment. For example the style and decor of a branch conveys a certain impression about the type of organization—staid, modern, etc.

6.5. *Designing an Optimal Mix*

6.5.1 Considerable research is required to do this successfully. A thorough understanding of the consumers' purchasing behaviour coupled with a little hunch or intuition is needed. The position in the product's life cycle also influences the decision.

6.5.2 *Back Office Considerations*. Having determined what is the right product mix one has to turn to the company's own problems. These can be divided into the following categories:

6.5.3 *Tooling and Servicing*. Considerable development costs may be incurred and these need to be quantified. Resource scheduling may be a problem in development or production or in the marketing channels. No product should be launched until the company is able to give the target level of service.

6.5.4 *Financing*. Modern regular premium unit linked products are designed to recover all the costs and the bulk of the profit within the first 2–3 years. Disclosure of surrender values is likely to put pressure to reduce profit or defer its incidence. If this is inevitable there will be: (i) a reduction in the overall profitability of the company's business, and (ii) a greater financing requirement. The first point may be overcome for example by increasing the annual charge but the second only by cutting overheads. Similar pressures exist also on with profit products.

6.5.5 *Explicit & Implicit Profit loading*. This is another critical issue that needs to be resolved.

6.5.6 One specific example where the company developed a Plan to expand its presence in a market it was weak in, is given in Exhibit 6. It will shed light on the issues involved.

6.6. *The Product Life Cycle*

6.6.1 A product's sales potential and profitability will change over time. The product life cycle is an attempt to recognize distinct stages in the sales history of the product.

SELF-EMPLOYED PENSIONS **EXHIBIT 6**

In 1984 Company X looked at ways in which it could improve its share of the self-employed pensions market. This market had expanded significantly since the Finance Act 1980 removed the monetary ceiling on contributions.

X had developed loanback facility as a USP only to find a major competitor launching a similar product two months earlier. It had developed a 'self-administered' version which succeeded in capturing over 80% of that market and nearly 16% of all unit-linked single premiums. However, as charges were explicit, profit margins were slim. X needed a bigger share of the more profitable annual premium business—their current share ·8% on with profits and 1·4% on unit-linked.

Desk research showed that:

1. The vast bulk of the custom of the non-professional self-employed was controlled by companies with a Home Service sales force.
2. Other business was in effect controlled by accountants. Such accountants had:
   (i) agencies with major mutual office(s) who got the bulk of the business on a with profits basis; or
   (ii) referred the enquirer to direct salesmen of major unit-linked offices; or
   (iii) referred them to intermediaries who completed them on either with profits or on a unit-linked basis depending upon their preference.
3. The bulk of the regular premium policies were taken out by clients under 45 years of age.
4. Intermediaries used with profits projections as an discriminatory tool.

Company X's own position was that:

1. Its direct sales force was geared to seeking investment business and could not be redirected in the short term.
2. It had no Home Service sales force.
3. Its links with accountants were inadequate.
4. In the with profits sector it was comfortably in the bottom quartile in terms of both past performance and future projections.
5. It did not wish to pay non-standard rates of commission.

The Marketing Division of X concluded that it should seek to concentrate upon business controlled by intermediaries. The intermediaries were regarded as their primary customers and the objective was to get them to regard X's products as the first choice for self-employed pensions. Market research commissioned by X in 1983 showed the production of new self-employed premium to be as follows:

	Number of Intermediary of Type:		
Total New Premium	National	Local Specialist 'Life'	Local General
Up to £50,000 p.a.	120	1080	3360
Over £50,000 p.a.	45	505	—

Exhibit 6 (*cont.*)

The high producers (over £50,000 p.a.) were likely to be high producers overall, one-quarter of them generating over £1 million of new premium income, 40% over £·5 m, 70% over £·25 m. Allowing for the upward drift in average premium, the number of local specialist intermediaries controlling over £50,000 p.a. new premium was likely to be 550–650 in 1985.

Attention was next focused upon product design. For intermediaries who prefer unit-linked products, features they consider important to their clients were all provided—i.e. facility to miss premiums, no penalty on paid-up, good fund performance, flexibility of retirement age, etc.

A new with profits series with single premium bonuses ('With Profits Fund') was designed. This significantly reduced the initial strain thereby making it easier to support a higher bonus in the early years. Secondly the terminal bonus was made a function of the term of the policy. In this way the projections for the under 45's was made substantially more competitive than under the previous design without increasing its cost.

One problem remained. The intermediaries' perception of X's competitiveness could not be changed overnight simply by clever design. It would take several years. Something needed to be done to concertina that time period.

The solution proposed was to offer a selected number of intermediaries a special package of benefits comprising:

— Special terms that only a limited number of similar intermediaries would be allowed to have. This would further improve an already competitive price.
— Personalized literature.
— Personalized quotation facility on a microcomputer to be supplied to them.

Research had shown that a good proportion of the intermediaries would welcome special terms provided that it did not limit their ability to place business elsewhere. By capturing their attention in this way it was hoped to quickly alter their perception of X's competitiveness.

One company was already known to have offered special terms for several years. In return they had expected the intermediary to do a lot of administration.

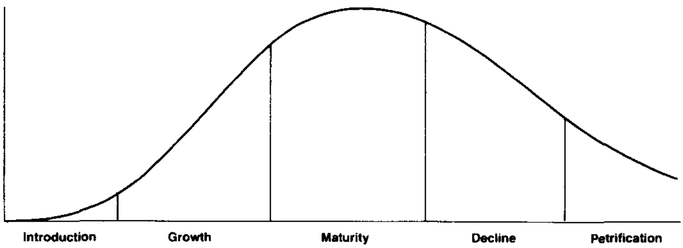
X decided to target for 80 intermediaries who would be 'expected' to produce £25,000 of new premium income every year—either with profits or unit-linked. Intermediaries would not be required to do any administration. There was a choice of two types of intermediaries:

1. those who have a proven record of production in excess of the target level (more likely to achieve target, greater scope for extending the concept to other products); or
2. those who currently do not write a great deal of this business but are capable of doing so (more likely to show longer term loyalty; strategy less likely to be affected by counter offensive from offices losing business; more likely to attach value to the special package).

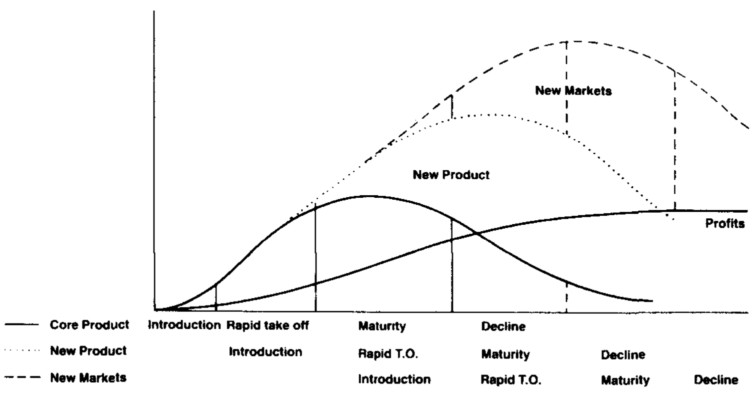
In the end it was decided to leave the selection to local branches.

The total target market share was set at a three-fold increase in the first year coupled with a 75% increase in profit and overhead contributions. The longer term aim was a 4% share.

EXHIBIT 7



The product life-cycle.



Exploiting the product life-cycle.

Source: Cannon (4)

6.6.2 The classic description of product life cycle (PLC) depicts a humped curve for the pattern of sales. The curve is segmented into stages as shown in the graph in Exhibit 7.

6.6.3 The PLC concept can be used to analyse a product category (director pension arrangements), or a product form (small self-administered pension schemes) or a brand (Suntrust). The first has the longest life cycle; the third the shortest.

6.6.4 Several writers have alluded to the limitations of the PLC concept; to the fact that it clearly does not apply to certain products—e.g. bread, steel, aluminium. Nevertheless the concept is a very useful marketing management tool if we regard its various stages as broad signposts and do not seek mathematical truth in the shape of the curve.

6.6.5 *Introduction Stage.* Surveys carried out by Taylor Nelson have shown that most new insurance products fail. In the main these are not new products at all but variations on known themes. The failure record of brand new products is high in all markets, financial and non-financial. In such cases the PLC curve is that described by a man who has fallen off a diving board.

6.6.6 With new products, demand has to be created. How long this will take (the slope and length of the first stage of the curve) will depend upon the location of consumer perception in the need-want-demand chain. Products would require heavy promotion to increase consumer awareness and stimulate a need or, where need exists to create a want or demand as appropriate. The purpose is to try to get him to try the product.

6.6.7 *Growth Stage.* When a product reaches this stage, imitators arrive on the scene with either 'me too' products or with product modifications. The marketing strategy will need to be reviewed. If the promotion during the Introduction stage was successful in identifying the product with the company then any attempt to expand the market will still be to its advantage. However, the main thrust of promotion will gradually shift from persuading consumers to try the product to getting him to prefer the company's brand.

6.6.8 During the latter part of the Growth Stage, increasing consumer acceptance and entry of new competitors will lead to the search for new outlets and price reduction (partly out of competitive necessity partly because newer entrants may have the benefit of modern processes).

6.6.9 *Maturity Stage.* When this stage is reached market penetration is as high as one can expect. New sales will be either replacement sales or as a result of new family formation. Price competition will increase. Rapid imitation of product differences will lead to minor differences being highlighted.

6.6.10 *Decline Stage.* When this stage is reached consumer loyalty gradually transfers to generically different products. Overcapacity leads to fierce competition with price cutting to increase market share. Only a handful can win in such a battle.

6.6.11 *Petrification Stage.* Cannon[4] has identified a fifth stage where sales level out to a low level of demand.

TABLE 1.

Product Type	PLC Stage Introduction	Growth	Maturity	Decline	Petrification
Temporary Assurance			√		
Non-Profit Endowment } Whole Life }					√
With-Profit Endowment			√		
With Profit Pensions			√		
Unit-linked Endowment			√		
Unit-linked Pensions		√			
Unit-linked Protection/Savings		√			
Unit-linked Bonds			√		
Unit Trusts		√			
PEPs	√				
Group Managed Funds			√		
Segregated Funds		√			

6.6.12 *Expanding The Life Cycle.* The shape of the PLC curve is not predetermined. It is possible to expand the life cycle:

— by extensive promotion during the maturity stage;
— by introducing product modifications that will enhance customer appeal;
— by finding new uses for the product.

6.7. *Application to Financial Products*

6.7.1 If we trace the development of products from the first whole life assurance in 1762 to the modern unit linked products, from endowment assurance with option to the modern pension plans it is quite clear that the product life cycle has become shorter and shorter. Today three years is the most one can wait without any product modification.

6.7.2 Table 1 sets out my view of where various generic products are in their life-cycle.

When contemplating a major product modification it is considered desirable to be able to cover a wide range of markets in order to make efficient use of the development costs.

7. PRICING

"Price is the only element in the marketing mix that produces revenue; other elements represent cost"— Philip Kotler.

7.1. *Current Approach to Pricing*

7.1.1 Life Companies have traditionally adopted a cost based approach to

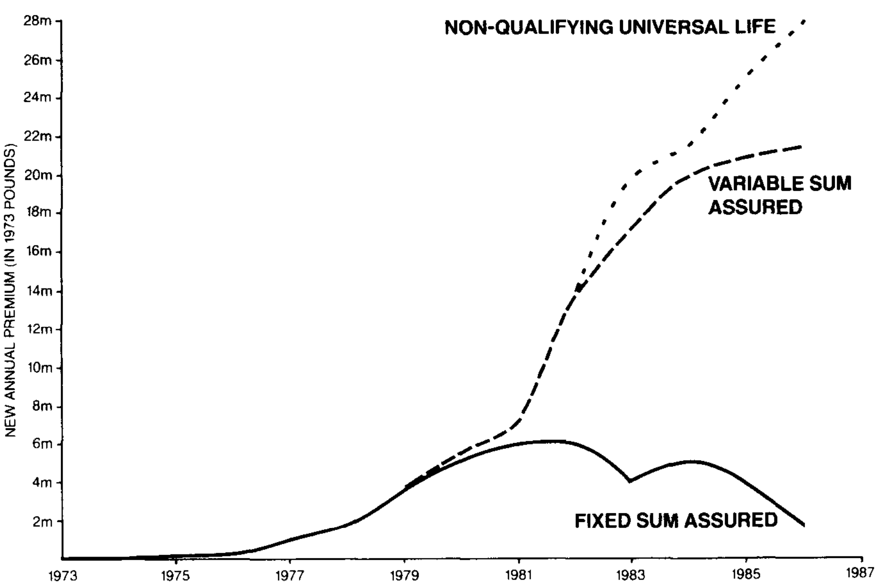
UNIT-LINKED WHOLE LIFE PLAN **EXHIBIT 8**

The first such policy ('Fair Share Whole Life') was introduced by a small unit-linked office in 1973. The volume of business was small. In 1977 the largest direct selling office introduced the same basic idea to form its primary non-pensions regular premium vehicle. The plan was a fixed sum assured unit-linked whole life plan. The premium was set assuming that growth rate would be 7·5% p.a. The premium was reviewed after ten years and periodically thereafter.

Sales were sluggish for twelve months but then started to pick up. By 1979/80 it had become a 'best seller'. Around that period a new 'broker-only' office introduced a variant under which the client could select the initial sum assured between a maximum and a minimum with an intermediate 'standard' level corresponding to a whole life sum assured. However its sales were modest because intermediaries had not yet accepted unit-linked whole life plans as readily as direct salesmen.

In 1982 the second largest direct selling company introduced a variable sum assured plan and the largest followed suit. The growth in fixed sum assured sales plateaued and then declined.

In 1984, immediately after the abolition of LAPR one company introduced a fully flexible non-qualifying 'Universal Life' type of plan. The timing of the launch and payment of high commission enabled them to make big penetration in the intermediary market. Currently, fixed sum assured plans have 'petrified' and non-qualifying policies account for over one-quarter of the market.



pricing. Products are loaded for initial and renewal costs including commission, as well as the cost of the risk. The attitude to profit loading varies by product type.

7.1.2 *'Non-Profit' Products.* The profit arises from margins implicit in the underyling assumptions. If competition is stiff the underlying assumptions are weakened.

7.1.3 *'With Profits' Products.* The premium basis incorporates a bonus loading which is grossed up for the proprietors' share. Typically this is 10% of the declared surplus. The interaction between the steering of the estate and the bonus earning power of current business has been discussed in several actuarial papers—one recent example is Bunch.[(3)]

7.1.4 *'Unit Linked' Products.* The practice is to load explicitly, in addition to administrative expenses, for selling costs and profit, typically each at the rate of 50% of initial commission assuming in addition a risk rate of return on capital employed.

7.2. *Limitations of Present Approach*

7.2.1 Such an approach to pricing is valid only if the level of competition and the volume of business are relatively stable from year to year. When the volume of sales can fluctuate widely, as can happen in the intermediary market, the method is not appropriate.

7.2.2 It is necessary to split out: (i) direct expenses that will necessarily be incurred in selling and administering a product and are volume related, and (ii) the residual expenses, call it Overheads. For most companies Overhead will be quite large. (In the case of one company it was as high as 62% of the total non-commission expenses in 1986.) It is not necessary that all products should contribute in the same proportion to its recovery (Iqbal[(13)]).

7.2.3 Similarly it is not necessary that all products should contribute the same profit loading. Certain markets will not tolerate a high margin product (e.g. annuities) whereas others will. It is often the case that it is necessary to be in a market, or to provide a core product, that is inadequately profitable. For example, most banks would say that there is no money in money transmission. It is however the core product that attracts customers.

7.3. *General Pricing Considerations*

7.3.1 Pricing is but one element of a product's marketing mix. It cannot therefore be set independently of the rest of the elements. If the company has selected its target market and market positioning carefully then selection of the relevant marketing mix, price being one element, is not difficult.

7.3.2 A company will usually have a portfolio of products, some of which will be viable alternatives to others. If so, it will seek to set prices that will maximize for the total product mix the profits, market share or whatever other criterion is selected.

7.3.3 For example, a company that markets term assurance, unit linked whole life plans and non-profit whole life must position each product carefully relative to the other two.

7.3.4 The following is a list of pricing bases available:

7.4. *Perceived-Value Pricing*

7.4.1 This is sometimes referred to as 'what the market will bear' basis of pricing. Having selected the market positioning carefully other elements of the marketing mix particularly promotion are used to achieve that level of perceived value in the purchasers mind. Examples of pricing on this basis are:

— the American Express Platinum Card;
— the Dover Plan, one of the earliest unit linked plans;
— 'no medical' life assurance (e.g. the Over Fifty Plan);
— rider benefits such as 'double accident benefit';
— Broker Managed Funds

7.4.2 Profit under this basis is the residual item obtained by deducting the anticipated costs from the gross revenue at target sales. If the profit is inadequate the company will need to decide whether or not to proceed.

7.4.3 Perceived-value pricing is common in several industries—e.g. cosmetics. If it is not often used in the insurance industry it is partly because we have seldom sought to position our products. Another is that such a basis works best when dealing direct with consumers. Where the intermediary controls the buying decision his perception of value is likely to be often close to the intrinsic worth of the product—often but not always.

7.5. *Cost-Plus Pricing*

7.5.1 This involves a standard mark up on the net cost of the product. This is the basis commonly used by insurance companies selling direct to consumers. Competitors's price offering is considered not to be relevant.

7.5.2 Such a basis will not lead to optimization of profits. In the new environment, with competition from new providers, I believe that the basis would need to be modified—as a minimum to different mark ups for different markets.

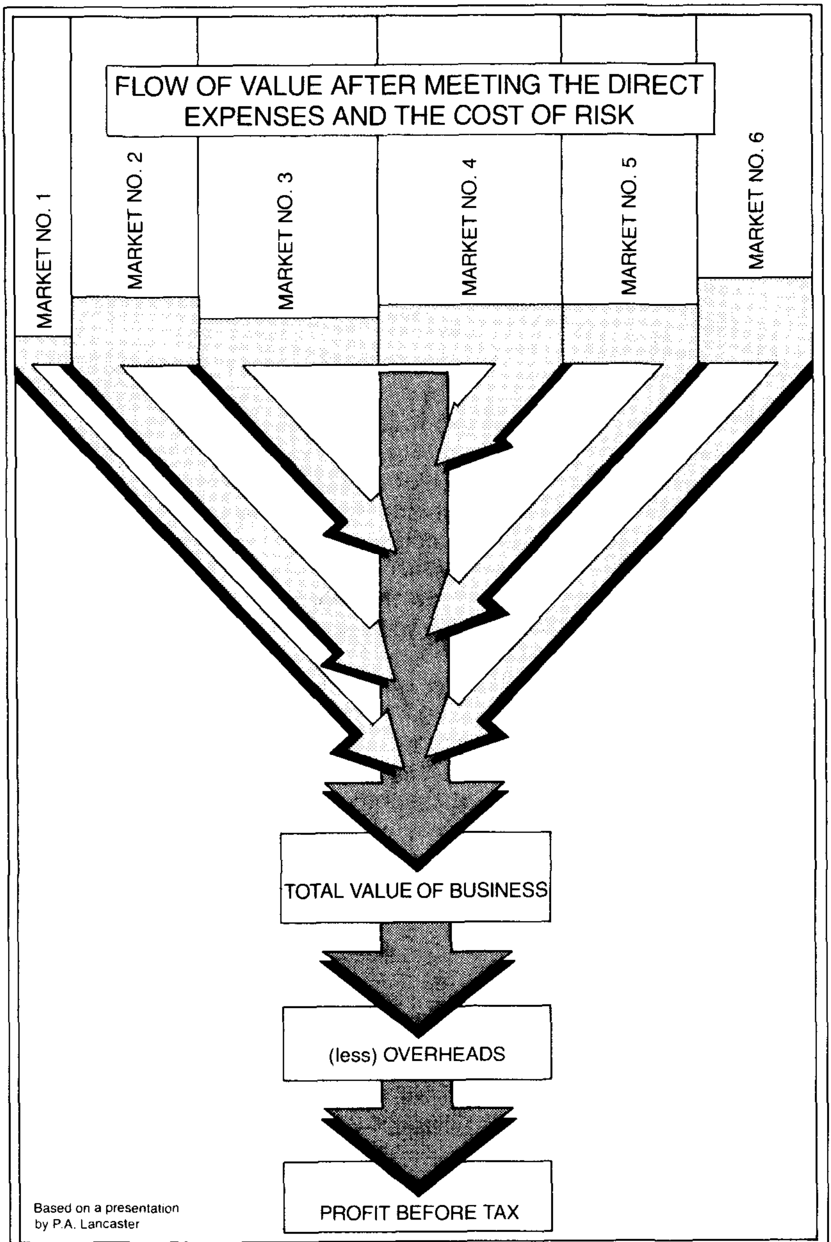
7.6. *Going-Rate Pricing*

7.6.1 This involves basing the price largely on competitors' prices with less attention to the company's own costs and likely sales volume. Such a basis is appropriate for 'commodity products' such as annuities and term assurance if the customer is likely to have information about what is available in the market. In general, this means when they are dealing through intermediaries.

7.7. *Tender Pricing*

7.7.1 An intermediary who controls a large account will often invite companies to make a tender for a business specification. Each company would

EXHIBIT 9


FLOW OF VALUE AFTER MEETING THE DIRECT EXPENSES AND THE COST OF RISK
MARKET NO. 1
MARKET NO. 2
MARKET NO. 3
MARKET NO. 4
MARKET NO. 5
MARKET NO. 6
TOTAL VALUE OF BUSINESS
(less) OVERHEADS
PROFIT BEFORE TAX
Based on a presentation by P.A. Lancaster

often know which other companies they are competing against. It would determine the price at which it is likely to secure the business having regard to: (a) any scope for product differentiation (e.g. in terms of service), and (b) the likely price offering of its competitors. It would then need to decide whether the likely volume of business is worth obtaining at that price.

7.7.2 Such a basis is quite common in the group pensions field where consulting actuaries or pension consultants invite firms to tender for large 'bulk buy-outs' (deferred annuities on wind-up), industry wide schemes or group AVC or personal pension arrangements. To be successful it is essential to know ones own strengths as well as those of the competitors.

7.7.3 There is clear evidence of tender pricing spreading to the individual sector particularly amongst bank/building society intermediaries.

7.8. *Future Pricing Considerations*

7.8.1 *Integrated Approach.* In Appendix 1 I refer to the fact that pressure on profit margins is likely to be a key issue facing Chief Executives in the future. Companies may also diversify into the provision of other financial products subject to quite different pricing disciplines. Thus an integrated and dynamic approach is necessary, one that can be applied to all markets. This is illustrated diagrammatically in Exhibit 9.

7.8.2 The important point is that by ruthlessly stripping out non-direct expenses we obtain a better insight into the underlying dynamics of product costs.

7.8.3 For example, when considering whether to provide a Personal Equity Plan or a rebate only Personal Pension Plan vehicle a much clearer picture of the marginal value of the business (positive or negative) is obtained by this method.

7.8.4 In a fast changing environment the ultimate responsibility for pricing must rest with the Chief Executive—if only because the consequence of an error can be a big loss in profits or market share. However, if within a group several different pricing disciplines have to be adopted, a case can be made for delegating decisions (within guidelines) to those most directly involved in running each such sub-business.

8. MARKETING CHANNELS

8.1. *Overview*

8.1.1 All companies have to deliver their product (whether tangible or intangible) to the ultimate consumer. To do that they must be induced to make a purchase. Without that the company cannot be in business. The process linking manufacture to delivery is known as the Marketing Channel. Several types are possible. The simplest is where the company deals direct with the ultimate consumer. In other cases they may deal via an intermediary; often with a wholesaler in between.

8.1.2 Intermediaries can be either:

— Middlemen (distributors, franchisees, retailers) who purchase the goods (from a wholesaler or the manufacturer) that they will sell to the ultimate consumer.
— Agents who do not acquire title to goods. They usually work on a fee or commission basis.

8.1.3 There are several outstanding examples of firms selling direct to consumers—Avon Cosmetics, Everest Double Glazing, etc. In the main however the sale is made through intermediaries. This is usually due to any one or more of the following reasons:

— the firm's skills may lie in manufacturing products not in distributing them;
— it may lack the financial resources to deliver the products to customers;
— it may lack complementary products that are necessary to achieve distribution economies;
— the firm may earn a lower marginal return on distribution than on manufacturing.

8.1.4 Each unit in the Marketing Channel is a separate business entity seeking to maximize its own profit sometimes to the detriment of the total profit overall. This has led to the development of Vertical Marketing Systems (VMS) whereby the manufacturer, wholesaler and retailer are linked and operate in unison—one of the three dominating. VMS is very common in consumer marketing.

8.1.5 Another channel development is known as Horizontal Marketing Systems. Two or more companies join together to exploit a marketing opportunity that they cannot do singly.

8.2. *Retail Financial Services*

8.2.1 There are instances of a middleman acquiring title to a product that he will sell to the ultimate consumer. Unit trusts are an example. In the main however, a middleman cannot acquire title to the product and is therefore an agent if the previous definition is used.

8.2.2 I shall however use the definition apposite to the Financial Services Act 1986. This envisages two types of 'middlemen':

— an independent intermediary whose principal is the ultimate consumer. He has a duty to give him 'best advice' taking into account all products available in the market. The life company is in effect a 'wholesaler';
— an appointed representative, a firm or an individual who can sell the products of one company and one company alone.

8.2.3 The crucial difference between financial products and consumer goods is that the former is not complete or manufactured until it is delivered to the consumer. The cluster of benefits such as financial advice and pick'n'mixing of product features is an integral part of the product itself.

8.2.4 Selecting the right method of distribution is another subject worthy of a paper in its own right. Most companies adapt what they have already got. However, the business environment has changed so radically that each company must ask of itself 'If we were starting out now what would we do today?'

8.2.5 It must be noted that certain types of consumer may be approached by some channels but not by others.

8.3. *Intermediary Channel*

8.3.1 If a company uses an intermediary to sell its products it is making the latter's role an integral part of the product. The risk the company runs is that the consumer's loyalty will be to the intermediary. This means that:

— the company will have no access to consumer data that the intermediary will have collected;
— the company cannot control the final offering;
— there will be no feedback from potential consumers on why a sale was or was not made;
— the opportunity for sale of other products will be severely limited.

8.3.2 The Financial Services Act 1986 has reminded intermediaries of the need to give best advice to their client. This is likely to further weaken the link between the company and their policyholders.

8.3.3 Nevertheless the fact remains that a majority of business (as measured by premium income) is currently obtained via intermediaries (see §8.10). Companies who wish to use this channel need to understand the intermediaries, their needs and their target markets. The following broad categories need to be distinguished:

8.3.4 *Key Account Intermediaries*. Large national firms with a centralized decision making process. Examples are Natwest Insurance Services, Halifax and Abbey National Building Societies, AA Insurance Services, Hogg Robinson and Towry Law. The building societies are naturally strong in the mortgage market. Other firms are strong in individual pensions and in lump sum business (bonds, unit trusts, funding arrangements). AA of course specialize in direct response marketing.

8.3.5 Such firms currently deal mainly with individual rather than corporate clients.

8.3.6 In the main price competitiveness is extremely important. Increasingly firms will oblige companies to provide products to their specification which may include underwriting, access to client data, etc. for high volume conveyor belt business.

8.3.7 *Other National Intermediaries*. Large national firms with considerable local autonomy. Examples are Barclays Insurance Services, Noble Lowndes and Parkdale. Although price competitiveness is important, there is greater scope to influence the local salesmen of such firms.

8.3.8 *Specialist Employee Benefit Consultancies* with a substantial portfolio of group pension clients, who give corporate customers advice on scheme design and administration and actuarial advice on funding—e.g. Noble Lowndes, MPA, Watsons, Bacon & Woodrow, etc. In some cases they may already be classified as National or Key Account. Nevertheless their group pension side may be considered as a separate entity for all practical purposes.

8.3.9 Often such firms are direct competitors for products and services that life companies provide—administrative and actuarial services. Little new business has been written in recent years attention being mainly focused on managing or switching existing arrangements. With the onset of the Social Security Act 1986, such firms are in a pivotal position to influence the choice of employees of current employer client who are not in the current scheme. Most firms work on a fee basis.

8.3.10 *Local Specialist Life & Pension Intermediaries*. Business is obtained by the directors and, possibly, one or two salesmen. Examples are Professional Assurance Services, Joe Nelson, Cambridge Investments. They may do a certain amount of non-life business but they are predominantly 'life' producers.

8.3.11 One subset of this group specializes in investment advice, others in individual pensions or mortgages. A few are jacks of all trades.

8.3.12 Such firms would deal with 3–4 companies in any market and no more than perhaps ten overall. It is therefore important to compete for their attention.

8.3.13 *Direct Selling Intermediaries*. They are a variation on the previous one, the firm obtaining its business through its own sales force. Examples are Art Green, Investors Planning Associates and the Porchester Group. High initial commission is fundamental to their solvency.

8.3.14 *General Brokers*. Mainly local, they place a certain amount of life business—usually to composite offices. Business is mainly protection or mortgage related.

8.3.15 *Relationship Management*. Because of the crucial role of the intermediary in the buying decision of several consumers, most companies nominate for each intermediary an individual whose duty it is to service him. Bankers call such individuals relationship managers. Life companies call them inspectors or consultants. Usually they would be attached to a sales branch but not always so. For example, with Key Account firms and Specialist Employee Benefit Consultancies it is desirable to have a Head Office nominee.

8.3.16 Pareto's 80/20 rule usually applies to business obtained via intermediaries. One company's research showed that 80% of the names on their agent's file produced no business (in 1983). The next 17% were low producers (less than £10,000 of new premium income (NPI)) generating 12% of the industry's NPI. The residual 3% produced 88% of the industry's NPI. This pattern was reflected in the company itself, 80% producing no businesss at all and 3·4%, 89% of the company's NPI.

8.3.17 Similarly, an analysis by the same company to ascertain the minimum number of products to cover 80% of an inspector's production showed that no one needed more than 8 products, the most common being 5 or 6.

8.4. *Direct Sales Channel*

8.4.1 Marketing direct to consumers using a salesman has the advantage that the company is better able to control the final offering and establish its name and image with the client. Control of its own salesmen enables the company to better execute its marketing strategy. The major disadvantage is one of cost.

8.4.2 The quality of the salesman is of paramount importance. He is synonymous with the company in the consumer's eyes. The consumer's primary loyalty is usually to the salesman. Therein lies a potential risk to the company. It must, in all its communications remind the consumers of the company but in such a way as will not diminish the standing of the salesmen.

8.4.3 Direct salesmen come in various shapes and forms, most of which are comparable to some kind of local specialist intermediary or the other. For example, there are:

— Specialist Investment salesmen, generally relying on retirement, redundancy and general financial counselling. They used to sell primarily bonds. Increasingly they are selling unit trusts too.
— Pension salesmen specializing in director and self employed pensions.
— Protection salesmen who concentrate mainly on unit linked whole life plans.
— Mortgage and simple savings salesmen.
— Life and Pension specialists who have mature client bases and do not rely exclusively on any particular type of product.

8.4.4 Competitiveness of products has not been very important. The package of benefits for the salesmen (remuneration, sales support, marketing back up, etc.) is important. Acquisition costs are therefore high.

8.4.5 There are currently around 18,000 direct salesmen.

8.4.6 Pareto's law applies here too. A small proportion produce a majority of the business. It is highly profitable but vulnerable. The rump of the salesmen provide the stability. The lowest layer is frequently turned over but a few rise to be high producers.

8.4.7 One of the greatest challenges facing sales management is in retaining and motivating the high producers.

8.5. *Home Service Channel*

8.5.1 This is really another form of direct selling that is characteristic of IB offices. In the ordinary (as distinct from the industrial) branch they are strong in regular premium conventional assurances and are becoming important in bonds.

8.5.2 There are currently around 35,000 Home Service Agents.

8.6. *Estate Agents*

8.6.1 A sale is easiest to make at the client's time of need. Selling insurance as a vehicle for repaying a mortgage is a proven method of sale. These days (see Appendix 2, § 2.2) it is the firm that finds the potential homeowners that has the best opportunity to make a sale. Attention has therefore been focused on estate agents. Lloyds Bank started the trend but the current leaders are Prudential, Hambro Countrywide, Nationwide Anglia, Royal and General Accident.

8.7. *Direct Response Marketing*

8.7.1 Business is solicited direct by mail or by advertising. This has the disadvantages of:

— reaching the customer when it suits us, not at their time of need;
— not providing bespoke financial advice;
— unless specifically targeted (an infrequent event) runs the risk of alienating the silent majority who do not buy;
— unless specifically targeted, acquisition costs are very high.

8.7.2 As against that:

— once a relationship is established the method can reinforce existing sales and give scope for making repeat sales and selling other products;
— it can be used to create a high perceived value for products;
— it can be used to sell products a salesman or intermediary may not consider worthwhile;
— it offers great scope for testing on a small scale and then repeating successes on known expense levels.

8.7.3 More recently other forms of direct marketing have been tried successfully in the U.S.A. and are being experimented with in the U.K.—telephone selling, cable TV, Prestel, etc.

8.8. *Other Channels*

8.8.1 In the past many companies have obtained significant volumes of business from part time intermediaries. These are firms which have access to consumers but do not themselves have relevant expertise. Accountants are a principal example. Often they have introduced the customer to an intermediary or a company salesman who completes the sale and gives the introducer a share of the commission. In other cases, the introducer is paid full commission by the life company, the sale being credited to him.

8.8.2 Several retailers of fast moving consumer goods are currently testing the sale of financial products (Next, Mothercare, Marks & Spencer, etc.).

8.9. *Customers Reached by Each Channel*

8.9.1 The largest IB office has succeeded in making some penetration in the socio-economic groups B and C1. In the main however, the Home Service agents reach the C2, D and E's. A high proportion of C2's are self employed.

8.9.2 Most Key Account local specialist intermediaries and direct salesmen reach A, B and C1's. They tend to concentrate on the higher net worth individuals.

8.9.3 Building Societies (and TSB) reach a much wider cross section of consumers.

8.9.4 Direct response has generally been more successful with C1, C2 looking for protection or savings.

8.10. *Prognosis*

8.10.1 The issues facing marketing channels are considered in Appendix 1.

8.10.2 The full impact of the Financial Services Act will take a little while to take effect. It is possible to speculate on what these changes are likely to be.

8.10.3 *Independent Intermediary*. The extent to which the intermediary must know his customer will not be known until it is tested in the courts. A Know Your Customer questionnaire can be a powerful tool for establishing a relationship that can be reinforced by subsequent calls which in turn will lead to repeat business. However, a potential customer may be reluctant to divulge personal financial data unless he is dealing with either a well known firm or an individual who commands his trust.

8.10.4 This leads me to believe that firms must be prepared to invest in finding new customers, possibly by providing advice that does not necessarily lead to a high commission.

8.10.5 As only large firms will be able to finance such an approach I believe that the number of firms of independent intermediaries will sharply decrease. Those that remain can, however, increase their market share. Umbrella firms are likely to grow.

8.10.6 The practice of charging a fee for advice is likely to spread, firms charging annual 'retainers' for ongoing advice.

8.10.7 *Direct Sales*. It is likely that some of the highly productive 'quasi tied' salesmen may opt for the independent route. Ultimately, however, the long term persistency of salesmen is likely to improve.

8.10.8 Many firms which have access to customers at the time of purchase of financial products are likely to either set up their own companies or be tied to a single company. This will increase the proportion of the total market controlled by 'direct sales forces'—although in some cases they will expand the overall market.

8.10.9 *One Stop Financial Shopping*. The financial press frequently speculates on the likely development of financial supermarkets where a single firm makes available both money (short term and long term) and investment opportunities.

8.10.10 The argument runs that every consumer represents £X of profit arising from the financial transactions that he will carry out during his lifetime. If a firm can get consumers to regard them as the natural provider of financial products and approach them for it then they can receive all of the profit.

8.10.11 I find it difficult to assess whether such a concept will work in this country. Will a customer buy all his products from one supplier?

8.10.12 It is worth bearing in mind that neither supermarkets nor stores such as Sears Roebuck and John Lewis act as suppliers at all. They may have certain own brand labels but they really act as buyers for their customers. They stock a range of goods from different suppliers using their purchasing power to get a good deal for their customers.

8.10.13 In recent times we have also seen the development of focused retailing whereby shops concentrate on a single product (Tie Rack, Sock Shop, etc.).

8.10.14 It is my view that if One Stop Financial Shopping is to work then it must be multi-supplier based. Either it must be an independent intermediary or a collection of product companies who operate from a single location. In saying this I do not rule out entirely the possibility of limited cross-selling by a single supplier. Nor does the intermediary necessarily have to be independent in the Financial Services Act sense of the word.

8.10.15 *Direct Response Business.* Several companies have obtained a lot of business this way but their very success has led to problems.

8.10.16 Too many companies are now advertising off the page. Whilst repeated impact of similar messages may improve the overall penetration of the industry, individual response rates have declined and costs have risen as a result.

8.10.17 Too much untargeted direct mail, not just by financial institutions, has given the industry a bad name. It is understood that the Royal Mail are endeavouring to do something about it. The Financial Services Act has also put a constraint on the sales message—we cannot imply it is the right product unless we know the customer.

8.10.18 One area that has attracted a lot of interest is telephone marketing. However, any plans in this direction must not lose sight of the longer term customer aims of the company. What image of itself does the company wish to project to the customer?

8.10.19 For all these reasons I believe that one-step direct response business will decline in importance. Increasingly direct response will be coupled with personal selling.

8.10.20 Table 2 shows one company's estimate of the proportion of business controlled by various channels and my own forecast for 1990.

8.10.21 The forecast was built up on the following assumptions:

— that a sizeable proportion of specialist life and pension intermediaries would either join direct sales forces or be absorbed by nationals but in the main these would not be the highly productive ones;
— virtually all productive 'direct selling intermediaries' will join direct sales forces;
— many other such firms would coalesce to form larger specialist intermediaries;
— accountants would mainly opt for the independent intermediary route (either in their own right or by introducing business to independents);
— some of the top direct salesmen would opt to stay independent';
— all major building societies and banks will stick to their currently stated decisions.

TABLE 2.

	Market Share New Premium Income Non-group business		Market Share of Total Premium Income Group Pensions	
	1985	1990	1985	1990
	%	%	%	%
Key accounts & Nationals (incl. Banks and Building Societies)	33	35–25	7	15–10
Specialist pension consultancies			70	50–60
Local specialist life and pensions	11	12–15	12	15– 5
Direct selling intermediaries	5	—	1	—
Local general brokers	9	3	5	5–10
Part-time intermediaries	8	0	1	—
Independent Intermediaries	66	50–40	96	80–85
Direct Sales forces	24	25–30	4	10– 5
'Tied' Banks/Building Societies etc.	—	10–20	—	10– 5
Home Service	8	10– 8		5
Direct Marketing	2	4	—	1
Other tied channels (stores etc.)	—	1– 4	—	—
Captive channels	34	50–60	4	20–15

8.10.22 Inevitably forecasting is quite speculative in a fluid environment. What is more certain is that the five clearing banks, the four major building societies, the major Home Service Office and the two largest direct selling companies will control 50–60% of the non-group business. Two-thirds of this will go to the life companies the sales forces are tied to, the rest will be broked with little profit to the suppliers.

8.10.23 Where does this leave the other life companies? Where will they be if all major building societies (and banks) have their own product companies.

9. THE CHIEF EXECUTIVE'S CHOICE

"You are dealing with an enormous range of variables and you are always trying to make decisions on inadequate information and you're always trying to make them against time."—Christopher Hogg

"Captaincy is 90% luck and 10% skill but for God's sake don't try it without the 10%.'—Richie Benaud

9.1. *Introduction*

9.1.1 This is a paper on marketing. Nevertheless we must briefly return to the

Chief Executive Officer (CEO) who was grappling with the basic question 'What business Are We In?' Even if he is able to answer it satisfactorily he needs then to ask three further questions:

— What business should we be in?
— What markets should we be in?
— What products should we make?

9.1.2 So that he may arrive at rational answers the CEO needs to review the following aspects.

9.2. *The Business Environment*

9.2.1 This is considered in Appendix 1.

9.3. *The Key Market Characteristics*

9.3.1 This is considered in Appendix 2.

9.4. *Marketing Audit of the Company*

9.4.1 A thorough analysis of the company's business needs to be carried out. This is considered briefly in Appendix 3. Business organisations are not immune to Maslow. Before addressing more lofty issues the CEO must ask himself whether his company can survive alone in the new environment.

9.4.2 Each company will have a set of key issues that are specific to itself and may not apply in its entirety to others. For the sake of this paper it is convenient to divide companies into two camps, those that have control of their own marketing channels and those that do not.

9.5. *Company with Control of Marketing Channel*

9.5.1 The CEO needs to decide whether it is the consumers of the company's products or the company's salesmen who are to be regarded as their customers. If it is the former the company's service must be geared towards establishing a lasting relationship with them.

9.5.2 Either way, the company needs to have a clear idea of the type of consumer they are targeting at.

9.5.3 The size and quality of their salesforce is crucial to the success of the firm. Selection, training and motivation are important. So is the need for an office culture that recognizes the importance of salesmen, whether or not they are regarded as the primary customer.

9.5.4 The company needs to make sure that their salesmen have a range of products sufficiently wide to keep poaching competitors at bay. The starting point is of course the identification of those consumer needs that the company will satisfy.

9.5.5 Diversification into other products/markets can be an acceptable strategy so long as it is consistent with the chosen customer needs.

9.5.6 It may sometimes be necessary to make available certain product lines as a loss leader. This is an acceptable tactic so long as the overall product portfolio is profitable. Although price competitiveness is not critical, overall profitability depends upon the quality of the salesforce and their business.

9.6. *Company Operating Through Intermediaries*

9.6.1 The CEO needs to decide who the primary customer is. It is a crucial decision that affects the entire company culture.

9.6.2 The Financial Services Act points to the intermediary being regarded as the customer. The life company is merely a supplier or wholesaler. However, in the era of best advice whilst this may enable the intermediary to be more effective in his business, it is not likely to bring commensurate rewards to the company.

9.6.3 Thus the company cannot ignore the ultimate user of the product. If he is predisposed towards the company (because of consumer advertising or satisfaction with an existing purchase or whatever) he is more likely to make a repeat purchase of its product via the intermediary. Ideally the company must mobilize demand and get consumers to approach intermediaries for their products.

9.6.4 As there will in the future be fewer but more powerful intermediaries seeking to give best advice, the CEO must concentrate on his company's strengths and resist diversification for its own sake.

9.6.5 If it is decided to compete in a given market (current or new), it will need to have a clear strategy of either:

— high volume/low cost products; or
— product differentiation.

9.6.6 The choice need not be the same for all markets. Where the latter is chosen great care must be given to product augmentation.

9.6.7 Loss leaders will not directly lead to other business in the future in the intermediary market.

9.6.8 The role of the company inspector will need to be reviewed as the shape and composition of intermediaries changes. With a number of companies competing for a share of the intermediaries' attention, this is a very crucial area.

9.7. *Company Operating Through Captive and Independent Channels*

9.7.1 A company should have the flexibility to merchandise products having regard to the needs of the consumer and price them according to their perceived value. Ideally each channel should be considered separately. At the time of writing LAUTRO's draft rules seem to inhibit companies from doing so.

9.7.2 In the extreme companies may be forced to abandon one of the two channels. At the very least it substantially limits the scope for effective marketing management.

9.8. *The Driving Force*

9.8.1 Armed with such detailed information the CEO will have to answer the four fundamental questions in § 9.1. In this he may be faced with making a choice between various alternatives. He may have a range of criteria for this purpose. Of these one criteria must be pre-eminent.

9.8.2 Tregoe & Zimmerman[32] refer to this as the Driving Force. Possible Driving Forces are listed in Table 3.

TABLE 3.

Products Offered Market Needs	Products/Market
Technology Production Capability Method of Sale Method of Distribution	Key Capabilities
Size/Growth Return/Profit	Results

9.8.3 A company's Driving Force determines the type of organization it is. Examples are given in Exhibit 10. Further details are given in Appendix 4.

9.9. *Company Mission and Image*

9.9.1 Having determined what business it will be in and what customer needs it will seek to satisfy the CEO needs to imbue the organization with a sense of corporate mission and give the company an image that is consistent with it.

9.10. *Profit*

9.10.1 Finally, to what accountant's refer to as the bottom line. The CEO will need to ascertain whether the chosen course of action will lead to profits that are acceptable to the company's owner, both as to its amount and to the timing of its emergence.

9.10.2 In the case of a proprietary company the judges are in effect the stockmarket. Excessive deferment of profits (see § 6.5.4) could lead to a reduction in dividend and a consequent reduction in stockmarket rating making the company vulnerable to predators.

9.10.3 A with profits proprietary office usually has a very high price-earnings ratio reflecting the inherent robustness of the flow of surplus. The profit flow of a unit-linked company is more volatile and a unit trust management company even more so. A with profits office anticipating a major shift in its product line would need to manage the change carefully.

9.10.4 A mutual company needs to strike the correct balance between the number of new owners (i.e. new with-profits policyholders) it accepts and the volume of other business it must transact to enable it to sustain the expectations of its owners.

THE DRIVING FORCE IN ACTION **EXHIBIT 10**

The following examples based loosely upon real companies illustrate the relationship between the Driving Force and the other dimensions of the Strategic Framework.

Example 1

Consider a long established company with a Products Offered Driving Force. It sold primarily whole life and endowment assurances through its Key Capability, its Home Service sales force. The customer loyalty to this sales force was perceived to be high. Most of the customers belonged to the C2, D soci-economic group.

Research showed that whilst customer loyalty to the sales force was very high amongst the older generations, it was tenuous amongst the younger generation. Changes in employment pattern and lifestyle were threatening to undermine the Key Capability of the company.

The company decided that henceforth its Driving Force will be its Method of Sale, the Home Service sales force. A critical issue will be Market Needs. For the younger potential customers, home ownership was perceived to be a greater need than protection. This lead to a reorientation of the products offered and the acquisition of estate agencies.

Example 2

Consider another company with a Products Offered Driving Force. It sold primarily unit linked based investment and protection products through its Key Capability, its direct sales force. The same products were also offered to intermediaries. The customers were drawn from socio-economic groups ABC1 and their loyalty to the salesman was average. The company reviewed its position in the light of changes but reaffirmed the faith in its current Driving Force. However it recognized the need for a wider product range.

Example 3

Consider a third company which is a merchant bank that has life insurance and unit trust subsidiaries. Its Driving Force was Profit. It would enter into any business within the financial services sector if it gave the return that it desired. Following the big bang the company reviewed its position. It decided to concentrate on its market making and wholesaling activities. Its Driving Force was changed to Products Offered. Its retail arms of life assurance and unit trusts no longer fitted and were sold off.

9.10.5 If the answers are not satisfactory then a major rethink of the future direction of the firm is necessary.

10. THE ROLE OF THE ACTUARY

10.1. *Why Us?*

10.1.1 Why do I consider it important that actuaries be familiar with marketing? The main reason is that the sheer complexity of the financial services industry makes it necessary to bring new skills to bear. These are the skills of strategic planning and business management in a changing environment. This can be done effectively only if the organization has a thorough understanding of marketing principles.

10.1.2 Actuaries need to adapt if they are to be regarded as businessmen and not mere technicians. It is a challenge that they should be able to respond to but only if they recognize it. In certain areas their analytical background will be an assistance, in other it may be a handicap.

10.1.3 Even if he is cast in the appointed actuary's traditional wet blanket role, he needs to understand the modern environment to judge the actions of his live wire colleagues.

10.1.4 The following is a list of areas where actuaries may be expected to make a contribution.

10.2. *Financial Management*

10.2.1 Many organizations have now diversified and include one or more Unit Trusts, estate agencies, banks and intermediaries within their group. The financial dynamics (the capital requirement and risk characteristics, the flow of revenue, and the expenses and profit contribution philosophy) are quite different in each of these organizations.

10.2.2 The actuary, if he is the Chief Financial Officer will need to have an intimate understanding of such dynamics not only for his firm but that of his competitors. In an environment where neither the volume of new business nor the margins inherent in it can be predicted with any confidence he needs to know how and where future business will come from. That leads to:

10.3. *Forecasting Demand*

10.3.1 He cannot forecast demand for any product until he knows the strategies likely to be adopted by his competitors, not just other life companies but also newer forms of competition. If unit profitability were to decline the only way to ensure survival is by increasing market shares at an acceptable level of profit in some markets, vacating others where this is not possible and reducing surplus overheads.

10.3.2 In order to do this it is important to clearly appreciate the difference between high volume/low margins and low volume/high margins products. It is necessary to decide which markets to compete in and which not to. The company's own strengths relative to its competitors must be identified and translated into products and services the potential customers want. This leads to:

10.4. *Understanding the Consumer*

10.4.1 Actuaries have a long history of acting as the custodians of policyholders' interest. They have always sought to give what is best for the individual they perceived to be the customer. It is only with the diminution of their power in the past decade that their sales/marketing colleagues have often sought to put the intermediaries' and salesmen's interest first.

10.4.2 Where the actuaries have been wrong is in imposing their own opinions as to who is the customer and what is best for them rather than asking them what they really want.

10.4.3 Value for money is a consumer perception rather than a mathematical fact. Neither are purchasing decisions always rational—some are emotional or intuitive or impulsive.

10.4.4 Modern computers have given us the ability to develop clever and complex products. We have developed clever and complex products. Product life cycles are getting shorter. Many products fail.

10.4.5 We need to start at the other end. We need to ascertain what it is that consumers and others who influence the buying decision really want. Only then should we design and develop products. Which then leads to:

10.5. *Distribution of Products*

10.5.1 It is important to understand what is the best method of getting the product to the consumer. Certain products may be purchased without human intervention, others will require personal contact, yet others will be purchased only if endorsed by a third party the client trusts, a broker, the accountant, or the spouse. Each method involves different costs. Some permit opportunities for cross-selling but others do not.

10.6. *Meeting Defined Business Objectives*

10.6.1 Having identified all this the new business strategy selected must be consistent with the business strategy. We return to Davidson's definition of marketing:

"The process of balancing the company needs for profit against the benefit required by consumers so as to maximize the long term earnings per share".

10.6.2 Suppose that the company is in business to provide packaged investment products to individual consumers and has the ability to deliver a wide range of such products direct to them. It would be more sensible for them to market individual or group personal pensions than company sponsored money purchase schemes. The former would permit greater direct contact with the employees and opportunities for cross-selling. Mathematically the latter might give a better deal to the employees but yet not be the best augmented product. The task of marketing is to persuade individuals that the former ('privatized pensions') is what he should really have.

10.6.3 The actuary would need to assess how successful such a message would be before he can estimate volume of sales.

ACKNOWLEDGMENTS

I would like to thank City Research Associates, Campbell Keegan, British Market Research Bureau, Mintel, Building Societies Association, First Research, Taylor Nelson, Dewe Rogerson, but above all Sun Life for the permission to use some of their research findings. A colleague, Anne McLaughlin, supplied several of the figures. Several other colleagues have made helpful comments as have the Institute's anonymous scrutineers whose always trenchant, but sometimes conflicting, comments were invaluable. All errors and opinions are, however, mine and mine alone.

BIBLIOGRAPHY

To crib from one source may be plagiary but to crib from many is research. This is therefore an erudite paper. As will be obvious from the text I have drawn on Kotler, Levitt, Cowell, Cannon, Davidson, and Tregoe & Zimmerman. There are several others whose works I have read and whose ideas I may unconsciously have regurgitated in this paper. Many statistics have come from publications of the Central Statistical Office, the Building Societies Association, the Government Actuary's Department, the Association of British Insurers, the exchange of information arranged by the Prudential Assurance Company and Philips & Drew.

For the record, here is a full list. Much of the text of Levitt(19) originally appeared in the Harvard Business Review. There are, no doubt, several other good books, but I have not read them recently.

1. ANDERSON, R. & DYER, N. (eds) *Marketing Insurance*. City Financial/Kluwer.
2. ANSOFF, H. I. *Corporate Strategy*. Penguin Books.
3. BUNCH, T. S. *The Valuation of With Profits Business and the Estate*. Institute of Actuaries Students' Society Paper.
4. CANNON, T. *Basic Marketing, Principles and Practices*. Holt, Rinehart & Winston.
5. CHISNALL, P. F. *Marketing, A Behavioural Analysis*. McGraw Hill.
6. COWELL, D. *The Marketing of Services*. William Heinemann.
7. DAVIDSON, H. *Offensive Marketing*. Penguin Books.
8. DRUCKER, P. F. *Management, Tasks, Responsibilities, Practices*. Harper & Row.
9. DRUCKER, P. F. *The Practice of Management*. William Heinemann.
10. ENGEL, J. F., BLACKWELL, R. D. & MINIARD, P. W. *Consumer Behaviour*. Dryden Press.
11. FORREST, P. *Sold on Service*. Carlson Marketing Group International.
12. HARDY, L. *Successful Business Strategy*. Kogan Page.
13. IQBAL, M. *Actuarial Management of a Unit Linked Office*. Institute of Actuaries Students' Society Paper.
14. IQBAL, M. & SHORT, E. *Promises Promises*. Institute of Actuaries Students' Society Paper.
15. JOHNSON, G. & SCHOLES, K. *Exploring Corporate Strategy*. Prentice Hall International.
16. KOTLER, P. *Principles of Marketing*. Prentice Hall International.
17. KOTLER, P. *Marketing Management, Analysis, Planning and Control*. Prentice Hall International.
18. LESSEM, R. *The Roots of Excellence*. Fontana/Collins.

19. LEVITT, T. *The Marketing Imagination*. The Free Press.
20. LIMRA. *Marketing for Actuaries*. Education & Examination Committee of the Society of Actuaries.
21. MCBURNIE, T. & CLUTTERBUCK, D. *The Marketing Edge*. Weindenfeld & Nicolson.
22. MORITA, A. (with REINGOLD, E. M. & SHIMOMURA, M.). *Made in Japan*. Collins.
23. OGILVY, D. *Ogilvy on Advertising*. Pan Books.
24. OLLINS, W. *The Corporate Personality (out of print)*. The Design Council.
25. OHMAE, K. *The Mind of the Strategist*. Penguin Books.
26. P. A. CONSULTANCY GROUP. *Innovative Success in the Retail Financial Market*. Lafferty Publications Ltd.
27. PASCALE, F. T. & ATHOS, A. G. *The Art of Japanese Management*. Allen Lane.
28. PETERS, T. J. & WATERMAN, R. H. *In Search of Excellence*. Harper & Row.
29. PORTER, M. E. *Competitive Strategy*. Free Press.
30. SASSER, W. EARL., OLSEN, R. PAUL. & WYCKOFF, D. DARLY. *Management of Service Operations*. Allen & Bacon.
31. STONE, M. *Product Planning*. MacMillan.
32. TREGOE, B. & ZIMMERMAN, J. *Top Management Strategy*. Copyright Kepner Tregoe Inc.
33. WATKINS, T. & WRIGHT, M. *Marketing Financial Services*. Butterworths & Co.
34. WINKLER, J. *Pricing for Results*. William Heinemann.
35. WINKLER, J. *Winkler on Marketing Planning*. Associated Business Programmes.
36. Occupational Pension Schemes 1983. Seventh Survey by the Government Actuary.

Several copyright owners have asked me to show their addresses. Rather than extend this paper unnecessarily, I warrant to supply this information to anyone who contacts me.

APPENDIX 1

THE BUSINESS ENVIRONMENT

1.1. *The New Environment*

1.1.1 Twenty years ago we lived in a pre-Copernicus world in which the insurance industry was at the centre of its own little universe; and banks, building societies and unit trusts were at the centre of theirs. Not so today. All of us are convinced that we can do the others' jobs better than they can themselves.

1.1.2 Underlying this development there are four market characteristics:

(i) *Information Technology*. Modern computers and telecommunications have brought New York, London and Tokyo into close proximity.
(ii) *Deregulation*. As a result the investment markets of all the developed countries have become truly international. Local interest rates are determined by the international investment community's perception of the relative state of the local economy. Interest rates and share prices are therefore likely to become more volatile than in the past.
(iii) *Mega-Market Makers*. As a result we have seen the development of large international market makers. Their activities have now extended to the U.K. as a result of the Financial Services Act 1986.
(iv) *Consumerism*. The growth of consumer lobbies and the enactment of legislation such as FSA 1986 and Consumer Credit Act 1975 seeking to protect the investor.

1.1.3 The financial services sector can be split into the activities of a market-making nature and those of manufacturing or retailing packaged investment products. This paper is about the latter. The former is relevant only to the extent that market-makers are suppliers of raw materials used by the latter.

1.1.4 Table 4 shows the changes in the share of the personal sector assets held by various types of institution. Much of the huge growth in the share of Insurance and Pension Funds is attributable to pension business; including the pension business fund of life offices it accounted for three-quarters of the 1985 share of 43·7%. The reasons are three-fold: growth in contributions following Social Security Pensions Act 1975, the high investment returns of the past decade and the gross build-up of funds.

1.1.5 In the circumstances building societies with only a net build-up have done well to maintain their overall share. They have done so at the expense of bank deposits and private share ownership.

1.2. *Financial Services Act*

1.2.1 Several implications for the marketing of retail financial products arise from the Financial Services Act:

1.2.2 *Polarization*. Will force salesmen to be completely tied to one firm as an

TABLE 4.

Personal Sector Financial Assets

Year	Insurance & Pension Funds %	Building Societies %	Shares and Debentures %	Cash & Bank dep. (inc TSB) %	National Savings %	Unit Trusts %	Public Sector Debt %	Overseas Asset %	Other %	Total £bn
1975	25·1	16·3	17·6	19·4	5·8	1·3	5·2	1·3	8·1	138
1980	33·8	16·9	13·6	17·5	4·8	1·0	4·7	1·2	6·5	294
1981	34·6	17·1	12·6	17·1	5·5	1·0	4·5	1·3	6·3	332
1982	37·3	16·6	12·4	15·1	5·4	1·1	5·0	1·5	5·6	404
1983	39·3	16·3	13·1	13·7	5·2	1·4	4·1	1·6	5·3	473
1984	39·9	15·9	14·3	12·2	4·7	1·5	4·6	1·8	5·1	551
1985	43·7	16·6	10·7	11·9	4·9	1·6	3·7	1·0	5·9	623

	Personal Sector Financial Assets			Personal Sector Borrowing	
Year	Deposit type Assets £bn	Public Sector Debt £bn	Shares & Debentures £bn	Loans for House Purchase £bn	Other Borrowing £bn
1975	57·3	24·3	7·2		
1980	115·2	40·0	14·1	52·3	11·4
1981	131·8	41·9	14·9	62·0	13·4
1982	149·9	50·1	20·2	76·3	16·1
1983	167·9	62·0	19·4	91·4	18·9
1984	180·7	78·8	25·3	108·4	22·0
1985	208·1	66·7	23·1	127·4	25·8

Source: Financial Statistics (CSO)

appointed or company representative or to be a completely independent intermediary.

1.2.3 *Hard disclosure of commission.* This can only be avoided if the company whose product is being sold subscribes to an industrywide commission agreement. Although there are considerable differences overall the terms are of the same order as the last industry wide scale ('LOA scale'). Overriders are banned. In effect this makes brokerages that recruit and train their own salesmen to sell products financially non-viable; and companies that relied on their custom vulnerable.

1.2.4 *Know your customer.* This rule requires that the salesman should know enough about the client's financial circumstances to make sure that the advice offered, i.e. the product recommended, is correct for him.

1.2.5 *Best advice.* This rule requires that once a particular product has been identified as appropriate to a client, the salesmen must recommend the best of that type. In the case of the company salesmen the selection must be from within the company's range. An intermediary must however survey all products of all companies. For non-profit policies this is relatively easy. For investment products (including with profits) it is far from easy. It is easier to say when bad advice is being given. As sanctions are quite severe, I suspect that any company that is in the bottom half of the relevant performance table will get negligible business unless it can build in non-price product differentation that will have strong customer appeal.

1.3. *Unbundling*

1.3.1 A major development of recent years has been the trend towards unbundling the components of a packaged investment product. It is alleged that as the same provider cannot be equally efficient/competitive in all components, the customer's interest are best secured if each is separately broked.

1.3.2 This first occurred in the field of large group pension schemes. Once the market had been saturated, intermediaries unbundled it into:

— investment management;
— scheme administration;
— insurance; and
— financial counselling.

1.3.3 The motives were largely commercial. Nevertheless the development has provided worthwhile benefit to the consumer particularly so in the case of investment management. Today unbundling extends to small self administered schemes.

1.3.4 Life assurance companies have developed unbundled savings/protection policies that enables the client to see how much he is paying for each component of the package, although he is seldom shown it. In itself it is no more than a technical development. I am not at all sure that the consumer really wants it. One company has however taken advantage of it to offer the client a combination of what it is good at (product design and administration) with alternative customer choice for what it is not good at (investment management). A very wide range of other companies funds is offered. Broker Managed Funds is another example.

1.3.5 More recently the North American practice of unbundling mortgages has reached the U.K. Mortgages are being split into:

— origination i.e. finding the client;
— funding i.e. finding the finance; and
— administration.

1.3.6 In commercial banking the trend is towards charging explicitly for each service provided. In personal banking too, I have no doubt that this will come, the current practice of free banking being a temporary phenomenon caused by firms competing for market share—witness for example Midland Bank's Vector.

1.3.7 Inevitably, unbundling will force firms to concentrate on what it is good at and abandon aspirations in markets it cannot effectively compete in.

1.4. *Clearing Banks*

1.4.1 Their corporate policy during the seventies was to concentrate on corporate customers as they were deemed to be more profitable (TSB being an exception). They are now being forced to woo individual customers as well.

1.4.2 They face the following threats/challenges:

— corporate treasurers can now look worldwide for whoever provides the best service at the keenest price;
— the bull market of recent years has increased equity finance as a popular form of borrowing;
— the demand for traditional corporate bank loan is as a result declining;
— the growth of wholesalers has driven the cost of obtaining money (as measured by the cost of commercial paper less the cost of interest on deposits less adjustment to reserves) to a very low level—understood to be negative in the U.S.A.;
— the high cost of their branch network and general overheads makes retail borrowing expensive. One bank for example has over 3,300 branches in the U.K. and over 100,000 employees in all;
— not perceived by customers as providers of investment products.

1.4.3 As against this they have the following advantages:

— high name awareness;
— large customer bases and the ability to approach them direct;
— a monopoly on money transmission services;
— access to information that enables them to make offerings at the consumers' time of need.

1.4.4 Banks must be regarded as competitors of life companies. With one exception banks have their own life companies. They have the ability to provide all the financial products.

1.5. *Building Societies*

1.5.1 They are in a very vulnerable position as they have been outmanoeuvred by their competitors largely through their (societies) own mistakes:

— they cannot make any money on deposits generated through their retail branches;
— they are close to the permitted limit of 20% for wholesale moneys;
— the more lucrative larger loans have been captured, to a significant extent, by other lenders;
— 75% of their management expenses lies in their branch network.
— To reduce this significantly (other than by merger) will threaten their contact with customers;
— Overall, they are not making adequate money on their core activity of borrowing and lending money;
— Management weened on the traditional building society culture of philanthropy and unused to a profit ethos.

1.5.2 As against that:

— they have a friendly image;
— very large customer base;
— been regarded as the natural provider of mortgages;
— the wider powers available under Building Societies Act will enable many to earn extra profit e.g. through insurance broking, estate agency and unsecured lending.

1.5.3 I expect the top ten societies to survive, the top two or three becoming PLCs and acting as clearing banks. The next fifteen are vulnerable and mergers may be expected. The remainder have assets of under £·5 billion and may find niches or merge. Societies that set up PLCs will ultimately set up their own life companies and will then be competitors to the insurance companies.

1.6. *Unit Trusts*

1.6.1 They have come out of the doldrums in the 1980s with major tax concessions and abolition of LAPR being coupled with a prolonged bull market. Their advantages are:

— most efficient form of pooled equity investment;
— wider investment powers (including money market funds); and
— a rapidly increasing number of intermediaries recommending the product

1.6.2 As against that:

— the proportion of adults holding unit trusts has not changed for several years and is largely confined to socio-economic groups A & B;
— they have limited ability to distribute their products direct to customers;
— business has generally been cyclical (and profits with it);

— their business culture is that of a wholesaler, little attention having been given to augmenting their core product with personalised service;
— lack of proper customer data base (indeed of any historic data).

1.6.3 Unit trusts are a potential threat. However, life companies are able to set up their own. With better service and distribution they can capture significant share of the business.

1.7. *National Savings*

1.7.1 This is the retail end of government funding. Although it is an expensive way of obtaining funds, it has an important role to play:

Year	PSBR (£m)	Net Money Flow into National Savings (£m)
1974	6387	−11
1978	8335	1525
1980	11817	1377
1983	11536	2955
1986	2250	2606

Source: Financial Statistics (CSO)

1.7.2 National Savings Bank has positioned itself as a direct competitor to building societies and sought to attract regular or lump sum investment money from the empty-nesters. It often targets at higher rate tax payers.

1.7.3 Its competitive advantages are:

— tax advantages the Government can choose to give it;
— over 21,000 outlets.

As against that:
— they have no electronic money transmission services.

1.8. *Overview*

1.8.1 It is my view that the next decade will see several mergers, the three primary reasons being:

(i) Consumerism, Financial Services Act and greater cross-industry competition will lead to a reduction in unit profitability. This is best overcome by limiting the number of players in an overcrowded game.
(ii) The immense capital cost of providing new products and services is best spread over as wide a base as possible.
(iii) The internationalisation of the financial services industry makes it necessary to multinationalise.

1.8.2 Market forces if left unfettered will lead to the following categories of players emerging in it:

(i) Manufacturers. These are firms that provide the financial products that will be delivered to potential consumers by other firms.
(ii) Retailers. These are firms who have the ability to attract consumers but do not themselves manufacture any product.

1.8.3 For any organization that is only a manufacturer, this is a potentially dangerous development. Retailers will be the dominant link in the marketing channel with the power to drive down the manufacturers margins. There will be excessive concentration on price. If the manufacturer is not price competitive he will have to fight to stay in the market. They may find a non-price sensitive niche but must recognize that a niche-player cannot become large.

1.8.4 One alternative for a manufacturer is to develop a vertical marketing system by acquiring control of retail outlets. The prime examples of firms with VMS are building societies, banks and insurance companies with direct or home service sales force. Such firms have the opportunity for cross-selling other financial products if they can establish the right degree of rapport with their clients and develop the ability to approach them at their time of need. Many such firms have acquired or set up estate agencies.

1.8.5 The concept of polarization will force banks/building societies to decide whether their high street outlets will sell only their products or act as an independent intermediary. The former will generate greater aggregate profit per sale. They need to set against that the likely loss of business if they did not offer product choice. Most major banks appear to have opted for the former. Most major building societies have opted for the latter. In their case there is the added complication that they cannot own a life company until they become a public limited company.

1.8.6 Other manufacturers will be operating through independent intermediaries.

1.9. *Life Companies*

1.9.1 Against this background life companies need to ask 'What competitive advantages do we have?'

1.9.2 As their products are not readily bought, life companies have better quality salesmen than most other financial institutions.

1.9.3 Although they are not very highly rated for service to the consumer, they are far better than their unit trust counterparts. Nor do the latter appear to have the cultural will or resources to catch up.

1.9.4 The life assurance industry has two unique products that should not be lightly abandoned.

1.9.5 The first provides protection benefits. As Appendix 2.3 shows the market is underpenetrated. Why abandon a captive market?

1.9.6 The second is an investment vehicle that combines security plus asset-backed return, by means of with profits products. Faced with competition from unit linked products companies have tried to get with profits products to mimic their unit linked counterparts. As a result they have come perilously close to exhausting their internal working capital.

1.9.7 The with profits product needs to be carefully repositioned by marketing management in consultation with the Actuary.

1.9.8 Similarly, the unit linked and unit trust products need to be carefully positioned by their risk content (see, for example Iqbal & Short[(14)]).

1.9.9 Because of the nature of the industry and because there are very few big players in it, they are not as well known as banks and building societies.

1.9.10 This can be put right only by consumer advertising. To successfully compete for consumers attention the advertising spend needs to be large as those of banks and building societies. That can only be justified if companies were much larger than they presently are.

1.9.11 A major threat is that of banks/building societies capturing consumers very young with Personal Pensions and obtaining their savings and mortgage business in due course. Home ownership, savings and money transmission—what will be left for life companies?

1.10 *Summary*

1.10.1 I am led to conclude that if any industry is likely to decline relative to others it is the building society movement (only partly due to a redrawing of boundaries, the big ones becoming PLC). They will fail in spite of having many advantages in the eyes of the consumer simply because they cannot make money.

1.10.2 Life companies have few marketing advantages and a contraction of the number of companies is likely.

1.10.3 A more important conclusion is that every industry will have spectacular winners and losers.

1.10.4 The successful ones will be those who correctly address the issues involved and take appropriate action.

1.10.5 It is instructive to look at how other industries that have had overcapacity problems have adapted. The motor car industry now has three or four major players in each country. Most of these are multinationals. There are a few niche players but they seek international markets for survival—national niches are not viable. In steel and shipping there has been severe contraction and several hitherto powerful firms are major losers. The textile industry is however one example of an industry where the players have sought survival by successful niching.

APPENDIX 2

KEY MARKET CHARACTERISTICS

In this Appendix I will examine briefly the key characteristics of various markets. It is necessary to estimate their sizes but reliable data is not always available, and when they are, they are often not compatible. Where figures have been estimated they bear the legend of a parenthetic (e). Some sections are too brief. My defence is that the paper is already too long.

2.1. *Individual Investments*

Target Customers

1. Individuals with capital or savings set aside that is not earmarked for immediate consumption.
2. Individuals with capital that provides supplementary income.

Customer Profile

With the abolition of exchange controls, could be U.K. or non-U.K. resident. They cover a spectrum of attitudes ranging from very cautious to very speculative.

	Percentage of Adults who have			
Adult Type	Building Society Deposits	Unit Trusts	BT Shares	Any Share
All	61	6	7	13
Male	62	8	8	15
Female	60	5	5	12
Age:				
16–19	52	1	2	4
20–24	67	2	3	5
30–34	68	5	4	13
35–54	61	9	7	16
55–64	63	8	14	21
65+	53	7	7	13
Social Grade:				
AB	77	19	16	34
C1	70	7	8	19
C2	62	4	5	10
DE	47	3	2	4

Source: BSA/BMRB, 1986 survey

See also Exhibit 5.

Market Size

See the Table 4 in Appendix 1. The figures for building societies and bank deposits should be reduced to exclude short term monies. Similarly, Insurance and Pension

Funds should be reduced to include only bonds and annuities.

Annual Inflow

	1985	1986
Building Societies (net receipts)	£7·5bn	£6·6bn
Unit Trusts (net sales)	£2·5bn	£5·2bn
Stocks and shares (gross)	n/a	£17·0bn
Bonds, annuities etc (gross)	£2·9bn	£4·8bn

(net sales for stocks and shares is not available but is likely to be substantially lower.)

Prognosis

The long term accretion of wealth depends partly upon Governments' fiscal policy. However, inherited wealth, largely arising from increased property values is likely to see the available market grow in real terms.

Profitability

Pooled equity based investments are currently more profitable than deposit based ones and are likely to remain so in the forseeable future.

Distribution

Virtually all deposit based investment is purchased direct by customers; 60% (e) of unit trust business and 45% (e) of bonds/annuities was purchased/sold direct.

Market Characteristics

1. The risksafe deposit end of the market is highly concentrated, four building societies and five banks control over 90% of the market.
2. In the U.S.A. moneymarket mutual funds have captured a significant share of the deposit market. We will have similar vehicles here shortly.
3. The pooled equity based end is more fragmented. The largest unit trust group has 8·5% of funds, but the top twelve only 55%. Besides the composition of the top twelve is changing rapidly.

There is a trend towards provision of the added value of advice on unit trusts and bonds.

Key Competitors

1. Unit Trusts who compete for the same type of investor. However, they cannot match the distribution systems or service standards of life companies. The latter can therefore more successfully market this product.
2. If the market open to life companies is to be expanded it must be at the expense of building societies by attracting the risk averse investor.

Marketing Challenge

1. To segment the market carefully by need and risk preference and develop products geared to target markets that are consistent with the overall image and mission of the company.
2. To position unit trusts as the natural providers of pooled equity based investments.
3. To create demand for life company's unit trusts.
4. To position the with profits bond as the product that combines security with the opportunity to benefit from returns on asset-backed investments, and to create a demand for it.
5. To provide guaranteed return products for risk averse investors.
6. To provide the means of transferring assets to chosen beneficiaries with minimal leakage through taxation.
7. To use Personal Equity Plans to build customer relationships.

2.2. *House Purchase*

Target Customers — Individuals who are seeking home-ownership.

Customer Profile — Statistics provided by BSA show for 1986:

	Percentage of Number of Loans Granted		
Age	First-Time Buyers	Former Owner Occupiers	All Buyers
⩽20	5	—	3
21–24	27	6	16
25–34	41	42	41
35–44	16	32	24
45–54	7	14	10
⩾55	4	6	5
Price			
<£10,000	5	1	3
<£15,000	12	2	7
<£20,000	18	5	11
<£25,000	17	9	13
<£40,000	34	35	35
<£50,000	8	18	13
⩾£50,000	6	30	8

Former owners clearly trade up when moving.

Although statistics are not available, it is known that banks and other lenders concentrate on larger loans.

A wealth of other information is available.

Current Annual Flow of Loans — Net advance of £26 bn (£40 bn gross) in 1986.

Future Trends in Demand for Finance	Level of owner occupation is currently around 64%. It is not expected to rise much higher. However, growth in demand for funds is expected to come from: — further extension of home-ownership e.g. by transfer from public sector; — changes in life-style for example growth in single person family units; — the need to refurbish and improve existing housing stock; — the demand from existing mortgagors for higher personal gearing; — real increase in house prices. The Gibbs report on 'Housing Finance into the 1990s' commissioned by BSA estimated the demand to be around £100 bn p.a. by the year 2000.
Future Trends in Fund Provision	The financial services industry as a whole has identified the mortgage market as *the* market for the initial capture of clients for cross selling purposes. European and Japanese banks, particularly the latter, are likely to become major players within five years. Thus, no shortage of funds is foreseen.
Profitability	Profitable low risk source of lending. However, excess of supply will reduce profitability until the imbalance is righted.
Market Characteristics	1. Major restructuring of market is taking place—unbundling of mortgages, growth of secondary markets. 2. The market is becoming highly segmented (by type of customer and type of product/service) as suppliers seek niches that profitably capitalize on their strengths. 3. Building societies share of new advances has reduced from 94% in 1977 to 79% in 1985 to 60% in the first half 1987. 4. With an oversupply of funds, it is firms that can attract potential home-owners who will be able to grant loans. Estate agents are thus in a pivotal position.
Opportunity for Insurance Products	Repayment or protection vehicles can be sold by organizations through whom the house purchase transaction is carried out—estate agent, financial intermedi-

	ary or building society. Such products can be highly profitable if sold by ones own outlets. Sales controlled by Key Account intermediaries have low margins but volume sales may be expected.
Key Competitors	For the provision of funds to customers of life companies own outlets: 1. Building societies/banks who can reach the same customers. 2. Mortgage corporations who can reach upmarket clients direct. For the sale of insurance products, other life companies who have better products or captive distribution systems.
Marketing Challenge	1. to acquire control of a marketing channel that potential customers are likely to approach at the time of need; or 2. Develop product that Key Account intermediaries will accept.

2.3. *Protection*

Target Customers	Individuals who wish to maintain the standard of living of their families in the event of premature death or infirmity. (The latter is ignored in this section.)
Market Size	If fifteen years earnings is taken as a measure of the capital required to replace income on death, the potential market may be estimated as £4 thousand bn. (4×10^{12} i.e. 26 m earners $\times$ (NAE) $\times$ 15). Actual coverage (in 1986) was of the order of £350–£400 bn, £295 bn of which was insured, the remainder is an estimate of pension scheme cover that was left in the fund. This represents an average of £13,000 per household.
Annual Contribution Inflow	Total contribution towards protection against death is £1 bn (guesstimate). New annual contribution to life companies is £375 m (e).
Profitability	Quite profitable but persistency and AIDS are potential threats.
Distribution	Virtually all business is *sold* by company salesmen or intermediaries.

There is a small niche of proven demand for low level 'no questions' life assurance.

Market Characteristics

1. Product is unique to the life assurance industry as no one else can manufacture it.
2. A substantial proportion of coverage is via employer sponsored pension schemes (£225–£275 bn (e)): £75 bn (e) of coverage is purchased alongside mortgages. A mere £50 bn (e) was purchased 'voluntarily'.
3. Forty percent (e) of the adult population is uninsured.
4. Low demand means that the product needs to be sold. Business is therefore controlled by firms with outlets. The lucrative unit linked whole life market is dominated by direct sales forces.

Prognosis

Potential market has grown in real terms with increasing national prosperity. Actual market has also grown in real terms in recent years. However, whilst penetration is high coverage is low. The industry's promotional activity will determine future growth of the market.

Key Competitors

1. Banks, who may be better placed to tap such demand as exists.
2. Leisure and investment businesses who compete for consumers' marginal discretionary income.

Marketing Challenge

1. To create greater consumer awareness for the need for protection. Next to create a want.
2. To get existing buyers to make repeat purchases.
3. To get non-buyers to make a purchase.

2.4. *Individual Savings*

Target Customers

Individuals who have future need which requires some deferment of current consumption in order to generate future necessary financial resources.

Customer Segmentation

The market segments into various groups each with a distinct need. Each is considered in turn below although the same individual may fall in more than one segment.

2.4.1 *Adult Employees*

Target Customers

Adult employees who wish to increase their likely standard of living in retirement by augmenting (any) pension from their employer or the state.

Market Size

(Government Actuary's seventh survey of Occupational Pension schemes based on information collected in 1983 is the source of most of the data shown here.)

Pension Scheme Coverage in U.K. (1983)

	Men		Women		Total	
	Employees	Members	Employees	Members	Employees	Members
	m	m	m	m	m	m
Private sector	8·5	4·4	5·8	1·4	14·3	5·8
Public sector	3·3	3·1	3·2	1·9	6·5	5·0
HM Forces	·3	·3	—	—	·3	·3
Totals	12·1	7·8	9·0	3·3	21·1	11·1

Of the 10 m who were not in schemes, 6 m worked for employers who did not have a scheme (2·8 m and 1·4 m of men and women in full time employment, ·2 m and 1·6 m in part time). A further 3 m either opted out of a discretionary scheme or were not covered by it (1·8 m of them were female part-timers).

	Contracted-Out Scheme	Contracted-In Scheme	Total
Private Sector	m	m	m
Men	3·4	1·0	4·4
Women	1·1	·3	1·4
	4·5	1·3	5·8
Public Sector			
Men	3·4	—	3·4
Women	1·9	—	1·9
	5·3	—	5·3

240,000 members are in money purchase schemes. Others in defined-benefit schemes.

The potential market in money terms is the contribution required to augment their income to the requisite level (or the Revenue maximum if less).

Current Annual Inflow

The volume of voluntary pension contribution being made by employees to insured schemes is estimated to be around £100 m per annum. A further £75–£100 m (e) bypasses insurance companies.

Prognosis

The Government's campaign to privatize pensions provides a great opportunity to convert needs into purchasing decisions. Thus penetration can increase significantly.

I believe that within a decade the bulk of voluntary savings will be through personal pensions and AVCs. A variety of schemes will be developed to provide temporary access to capital.

Longer term, the tax status of pension schemes cannot continue on the present basis.

Profitability

In the past the market has been quite profitable. This is likely to change significantly with greater disclosure of charges and wider competition.

Market Characteristics

1. There is a tendency to delay making provisions until retirement is on the horizon.
2. Where a good pension scheme already exists, the consulting actuary/pension consultant plays a pivotal role in selecting the vehicle for AVCs.
3. A good proportion of those not in pension scheme work for an employer who has a scheme in force for his other employees. The consulting actuary/pension consultant and the employer have a strong role.
4. A good proportion of the remainder (not in scheme) are housewives earning modest income to supplement current consumption.
5. Awareness of insurance companies as a provider of pensions is not high.
6. The Banks and building societies are seen by the unpensioned blue collar workers as the natural home for their investments.
7. A specific niche available to life companies is to provide deferred pensions to early leavers.

Distribution

1. Via intermediaries (including consulting actuaries).
2. Via salesmen direct to employees.
3. By salesmen via employers.

In the past the split has been heavily weighted in favour of the first two but this will change.

Competitors

1. Consulting actuaries/pensions consultants who may devise their own vehicles.
2. Banks/building societies.
3. Leisure businesses that compete for customers marginal discretionary income.

Vehicles

1. Personal Pensions (individual or group).
2. AVCs (free standing or fitted).
3. Section 32 annuities.

Marketing Challenges

1. To position life companies as the natural providers of pensions.

2. To position banks/building societies as repositories of short term moneys.
3. To capitalize on the Governments' campaign and increase penetration.
4. To find a means of pre-empting the likely attempt by banks and building societies to capture new people coming into the employment market.

2.4.2 *Self Employed*

Individuals who are self employed and are looking to maintain the standard of living of their family after they have retired or after their death. Vehicle: pension plans and key man insurance.

Market Size

The total number of self-employed is estimated to be 2·5 m. Of this the professional category may be estimated as ·25m.

Doctors/Dentists offer only a limited opportunity because of existing state provisions. Other professionals represent significant prospects.

The non-professional self employed represent the mass-market although disclosed taxable income is often lower than actual income. Only one-third of the self employed have pension plans. Both penetration and coverage are low.

Current Annual Inflow

In 1986, a 'freak year';
Total premium income £1,900m
New annual premium income £327m
New single premium £554m

In the first half of 1987;
New annual premium income £205m
New single premium £451m

Profitability

The top end is generally sold on a single premiums basis—with lower unit profitability but much higher average premium size.

If packaged as a regular premium plan, it is highly profitable. However, this is under threat because of the Financial Services Act and Personal Pensions.

Key Market Characteristics

1. Hard sell is needed to persuade people to defer present consumption to provide an adequate retirement income.
2. In the case of high earners, the accountant plays a crucial role in the buying decision, whether or not he is the intermediary.

3. The market is split two-thirds with profits and one-third unit linked but this is largely a reflection of products offered rather than consumer choice.
4. The market is less fragmented than the Individual Investment market. The top four in the 'annual premium market' have shares of 12%, 10%, 9% and 8% whilst the top four in the 'single premium market' have 5·9%, 5·6% 4·4% and 4·1% (1986).
5. The planned publicity for Government's privatization of pensions is likely to increase penetration as well as coverage but new providers are a threat.

Distribution

1. Predominately a direct sales market accounting for well over 50% of customers and profit (e) and well over 40% of new premiums.
2. If accountants choose to opt for the intermediary route in preference to being tied to a single company (highly likely), the 'direct sales' share of the market will decline.

Prognosis

The market may be expected to grow in real terms as the planned publicity for Government's privatization of pensions is likely to increase both penetration as well as coverage.

However, the unit profitability of the business is under threat particularly at the top end.

Key Competitors

1. Banks (and building societies) who may be better placed to cater for the risk averse.
2. Unit trusts who can provide vehicles for the risk-takers (but they suffer from lack of relevant channels).
3. Leisure and other activities that compete for customers' marginal discretionary income.

Marketing Challenge

1. To capitalize on Government's publicity and create greater consumer recognition of the importance of sacrificing marginal current consumption in order to secure it for the future.
2. To position life companies as the natural providers of pensions.

2.4.3 *Directors of Small Companies*

Target Customers

Directors of private limited companies who are looking for a tax efficient means of augmenting and releasing their companies net worth Vehicle: pension plans and keyman insurance.

Market Size

There were 900,000 private limited companies in Great Britain in 1986. The number is broadly constant from year to year. Many of these do not pay sufficient taxes for life companies to make a worthwhile contribution. The potential market is probably 500,000 firms. Penetration is low but growing. A high proportion of the target customers are high net worth individuals. In 1986 the Prudential estimated that these were 12,500 small self administered schemes (including 5000 hybrids) with a market value in excess of £2·6 bn but this is likely to be an underestimate.

Current Annual Inflow

The annual inflow of new premiums insured individual pensions arrangements is estimated to be about £500 m. A majority (perhaps three quarters) relates to directors. Including the contributions of non-insured schemes, the annual contribution is estimated to be around £1·2 bn.

Profitability

The insured (or partially insured) version is highly profitable. This will reduce in the future but not alarmingly.

Market Characteristics

1. The accountant plays a crucial role in the buying decision, whether or not he is the intermediary.
2. At the top end the market is dominated by small self-administered schemes (SSAS). This niche is divided into schemes run by consulting actuaries and hybrids provided by insurance companies.
3. There is evidence of actuaries successfully attacking large hybrids on grounds of high charges.
4. There is evidence of full SSAS funds not being adequately managed.
5. Small consultants are finding SFO constraints and the administration of a growing portfolio problem.
6. A core market exists for directors who simply want to make tax efficient pension provision without concern for the existing advantages of a SSAS.
7. Progressive reductions in corporation tax and the new rules on cash commutation may encourage greater immediate consumption.

Distribution

The market is controlled by accountants. The business is placed with the insurance company salesman or intermediary they are connected with. In the future, as they swing towards the latter, the intermediary share of the market will rise to 50% (e).

Prognosis: The potential market may not rise as fast as in the past. However, penetration is likely to increase. The actual market will therefore grow in real terms.

Key Competitors:
1. Consulting Actuaries/Pension consultants.
2. (Financial environment that makes it more worthwhile to build up the net worth of a firm to seek a USM listing.)

Marketing Challenge:
1. To increase demand generally.
2. To position hybrids as the vehicle that combines security with flexibility.
3. To position individual pension arrangements as the vehicle that gives the best long term investment return.

2.4.4 *Individuals Savings for a Specific Need*

Target Customers: Any individual who is saving for a specific need or to discharge a specific liability (excluding repayment of house purchase loan). A good example is that of school fees provision. Customer profile and market size needs to be estimated for each such need.

Marketing Challenge: To create want or to convert the want into demand for the company's offering.

2.4.5 *Individual Savings For a Rainy Day*

Target Customers: Individuals who are deferring current consumption to create greater future flexibility.

Marketing Characteristic: Ease of access is likely to be important.

2.5. Corporate Customers

2.5.1 *Employers*

Target Customers:
1. Employers who currently have no pension scheme
2. Employers who currently have an inadequate scheme

Number of Private Sector Schemes (1983)

No. of members in scheme	Contracted-Out Schemes 000s	Contracted-Out Members 000s	Contracted-In Schemes 000s	Contracted-In Members 000s	Total Schemes 000s	Total Members 000s
1– 12	7,400	50	63,400	390	70,800	440
13– 99	8,250	460	7,500	280	15,750	740
100–999	2,320	960	470	180	2,790	1,140
1000+	530	3,020	130	450	660	3,470
	18,500	4,490	71,500	1,300	90,000	5,790

	The total number of registered companies in 1983 were 850,000. Most of those without schemes are small employers.
Current Annual Inflow	Total premium income into insured scheme £2640 m(e) p.a. in 1986. The total contribution into all schemes is estimated as £12.8 bn p.a. (e) in 1983—perhaps £12–20 bn in 1986.
Market Characteristics	1. The vast majority employers (when measured by contribution) have opted for fully self-administered schemes and the threshold at which this is considered appropriate has gradually reduced. 2. That market is controlled by consulting actuaries pension consultants working primarily on a fee basis. 3. The potential insured market is therefore for small employers. 4. A sporadic but major opportunity for cannibalism arises when an existing scheme is being wound up—recent major examples were precursers to privatization or management buyouts.
Marketing Challenge	1. To capitalize on the opportunity provided by Social Security Act 1986 in a way consistent with the business objectives of the Company (see also Appendix 2.4.1). 2. To minimize the likely penetration of the new providers. 3. If consistent with the company's objectives, to persuade employers that a company sponsored scheme is better than a series of individual pensions. 4. If consistent with the company's objectives, to persuade those employers who already have a final salary scheme with the company that it should retain it.

2.5.2 *Pension Fund Management*

Target Customers	Trustees of medium to large pension schemes
Customer Profile	Elected or nominated individuals who act as custodians of the Pension Fund and have a duty to invest moneys for the benefit of the members. The trustee may be lay or professional.
Market Size	Philips & Drew estimate the value of assets held by British Pension Funds as at 30 June 1986 to be £182 bn.

At end 1987, this is likely to be over £200 bn. Including medium-larger insured schemes but excluding double counting the figure is likely to be £220–£240 bn (e).

Some of this money is managed by in-house management. However, some large private schemes are placing greater proportions with outside professional investment management.

The total funds available to outside management is £100–£150 bn (e)

Current Annual Inflow

£30–£35 bn (including reinvested income) (e).

Customer Attitudes

(Much of this section is based upon City Research Associate's 1986 Survey of Pension Fund Managers.)

1. In the spectrum of choice from insured to pooled to self invested to segregated, the trend is to change to the next one in the spectrum.

Method of Investment	1984	1986
	%	%
Segregated only	43	47
Pooled only	14	16
Insured only	19	16
Self administered only	16	14
Split method	7	6

2. Once a method of investment and an investment manager (firm) have been selected, the trustees are likely to stick with them for a period of three or more years.
3. The calibre of people from the firm and the degree of individual attention given is important, particularly in retaining an account.
4. The smaller insured funds, when they switch, look for better yield. They are dissatisfied with the method rather than the manager.
5. The large self-administered funds are moving back to segregated mainly because of the costs of in-house management. They are looking to change managers rather than the method.
6. Investment management companies and merchant banks are still the institutions preferred overall. However the former and insurance companies are

attracting increasing support at the expense of merchant banks—perceived to be independent.

Profitability	Can be profitable provided that funds under management are of an adequate size. However returns are quite volatile as accounts can be switched.
Prognosis	The market will continue to grow in real terms for the next decade. Total funds under management is on course to exceed the size of the U.K. stockmarket. Longer term, political uncertainty is thus certain.
Market Characteristics	1. Fiercely competitive beauty parades. 2. The market is scattered amongst many suppliers but usually with one or two with large shares.

	1986 Largest Market Share	
	By no. of funds	By value
	%	%
Managed Fund	19	10
Segregated Fund	15	6

Distribution	Pension Consultants and consulting actuaries have a strong advisory role. Distribution can be either through them or direct to trustees.
Competitors	1. Independent investment management companies. 2. Merchant banks 3. Stockbrokers
Marketing Challenge	1. To position ourselves in the eyes of consulting actuaries/pension consultants/trustees as an independent investment house. 2. To make them aware of conflicts of interest in conglomerates. 3. To find niches of specialization that are undersupplied.

APPENDIX 3

A MARKETING AUDIT OF THE COMPANY

3.1 A thorough analysis of the company's business needs to be carried out. Davidson[7] identifies five headings.

3.1.1 *Knowledge.* Does the company obtain marketing data in the right format and have the ability to use it effectively?

3.1.2 *Performance.* Is the company winning or losing market share? Why?

3.1.3 *Attitudes.* Where are the company leading and where are they following?

3.1.4 *Strategy.* Does the company have clear and consistent strategies? Are they working?

3.1.5 *Execution.* How quickly can the company respond to change?

3.2. *Competitor Analysis*

3.2.1 In each market identify the major competitors and direct competitors. Understand thoroughly their actions and strategies and likely future changes. As far as I am aware this is not often carried out.

3.3. *SWOT Analysis*

3.3.1 Assess the strengths & weaknesses of the company. Review the opportunities and threats it faces. The following are some of the key issues to be considered:

3.3.2 *Access to Consumers.* Is the company able to deliver products direct to its consumers? If they can, what is the size and quality of their sales force? Is its product wide enough to cover all the financial needs of a customer? Should it be wide enough?

3.3.3 *Dealing via Intermediaries.* Will its product range stand up to the rigours of best advice? Was the company over-reliant on a small number of intermediaries or on paying high commission? Are there any markets that it is strong in? Is it able to compete on price?

3.3.4 *Market Share.* What is the company's current market share? What is it likely to be if current strategy is maintained. Is it large enough to survive as an independent? Are the markets it is strong in growing or contracting?

3.3.5 *Competitive Advantage.* What feature or features gives the company competitive advantage over its competitors? Image? Price? Perceived Quality? Sales force? Service? Systems?

3.3.6 *Understanding Customers.* Does the company know who its customers are? Does it understand them? Does it know what they want? Does it give them the opportunity to purchase such products or services?

3.3.7 *Adequate Capitalisation.* Does the company have adequate internal capital to finance its business plans?

3.3.8 *Bonus Rate Catch 22.* If the company is heavily reliant on with-profits business can it get out of the catch 22 of maintaining bonuses and running out of capital or reducing them and lose market share?

3.3.9 *Internationalisation.*

APPENDIX 4

THE DRIVING FORCE

4.1. *What Drives the Company.*

4.1.1 In business one will frequently come across situations where it is necessary to choose between alternative courses of action. If an organization is well run then there will be a range of criteria that is used to make these choices. Above all it must have one criterion, the most important, that will determine which of two alternative products, markets or businesses to select.

4.1.2 Tregoe & Zimmerman[32] refer to this pre-eminent criterion as the Driving Force. The Driving Force and the product and market scope it suggests provide the basis for defining the other choices in the strategic profile. It will define the Key Capabilities required to support it. It will provide size/growth guidelines; return/profit guidelines; business unit mission statements as a guide to resource allocation.

4.1.3 The following are possible Driving Forces:

Products Offered Market Needs	Products/Markets
Technology Production Capability Method of Sale Method of Distribution	Key Capabilities
Size/Growth Return/Profit	Results

4.1.4 Let us look at the implication of each Driving Force:

4.2 *Products Offered.* Such an organization will continue to produce and deliver products similar to those it has. It will focus on higher penetration of its current geographic markets and the particular market segments or customer groups it serves and seek out new ones. It will constantly seek to improve or extend these products. Its capabilities will be directed towards the effective development, production, promotion, sale, delivery and servicing of these products or services.

4.3 *Market Needs.* Such an organization will provide a range of products to fill current and emerging needs in the market segments or customer groups it serves. It will be constantly looking for (a) alternative ways to fill the needs it is currently filling and (b) new or emerging needs in the segments of the markets it serves. It develops or acquires new and different products to meet the needs in its market segments. Significant resources will be directed to functions such as needs analysis and market research. Timely development and offering of new products is critical.

4.4 *Technology.* Such an organization will offer only products or services that emanate from or capitalize on its technological capability. It will usually strive to be the technological and innovative leader in its field although not necessarily always as the initiator of technological breakthroughs.

4.5 *Production Capability.* Such an organization will offer only those products that can be made or developed using its production know-how, processes, systems and equipment.

4.6 *Method of Sale.* Such an organization may seek other sales approaches that arise similar to or compatible with its current method of sale. Its other capabilities, particularly method of distribution, will be developed to support the method of sale. It may sell products from other organizations to gain maximum advantage from its Method of Sale.

4.7 *Method of Distribution.* Such an organization will determine the products it sells, the customers it sells them to, and its geographic scope on the basis of those kinds of products and services and customers that can be handled through its established distribution channels. It may distribute products from other organizations to gain maximum advantage from its distribution channels.

4.8 *Size/Growth.* Size/growth is a Driving Force only if the desire to grow leads to change in the product or market scope. The organization will set levels of size and growth significantly different from its current level of performance. It will push into new and unrelated products or markets. Size/Growth is unlikely to be a long term Driving Force, rather for a limited period to enable them to move towards another.

4.9 *Return/Profit.* Return/profit is the Driving Force only if a change is made in the Product or Market scope in order to achieve its return/profit requirements. The organization may seek a variety of unrelated products over time or it may change from one line of related products to a different line of related products.

APPENDIX 5

MAJOR FACTORS INFLUENCING CONSUMER BEHAVIOUR

5.1 Consumers' purchasing decisions are influenced by cultural, social, personal and psychological factors.

5.2 *Cultural Factors.* Cultural factors exert the broadest and deepest influence on consumer behaviour:

— Culture. All of us have a basic set of values and beliefs that we imbibed from the precepts and examples of our family, church, school and other key institutions. These shape our ideas, attitudes and behaviour around the core values of the society.
— Subculture. Nationality groups, religious groups, racial groups and geographical groups will all exhibit significant attitudinal and behavioural differences. For example, Jewish and Asian societies still have strong family bonds.
— Social Class.

5.3 *Social Factors*

— Reference groups. Family, friends, neighbours, etc. are primary groups; religious organizations, professional associations, business colleagues and trade unions are secondary groups.
— Roles and statuses.

5.4 *Personal Factors*

— Age and life-cycle stage.
— Occupation.
— Economic circumstances.
— Lifestyle.
— Personality and self-concept.

5.5 *Psychological Factors*
A person's buying choices are also influenced by four major psychological factors:

— Motivation. Maslow's hierarchy of needs states that needs, in order of importance are:
  — physiological (hunger, thirst, sex);
  — safety (shelter and protection for physical and psychological loss);
  — belongingness and love (affection and love, sense of belonging to a group);

  — esteem (prestige and accolade from peers and superiors);
  — self-actualization (personal fulfilment, self-realization).

Herzberg's theory of motivation (two-factor theory which distinguishes between dissatisfiers and satisfiers).

— Perception. Why do people have different perceptions of the same situation? Because of three perceptual processes: selective exposure (People are more likely to notice stimuli that relate to a current need or stimuli that they anticipate or stimuli whose deviations are large in relation to normal stimuli); selective distortion (the tendency of people to twist information into personal meanings); selective retention (tendency to retain information that supports their attitudes and beliefs).
— Learning.
— Beliefs and Attitudes.

DISCUSSION

Mr M. Iqbal, introducing the paper, said: Ten years ago, shortly after he presented his seminal paper on Profit-Testing to the other actuarial body in Great Britain, I asked Chris Smart what made him write the paper. After all the technique he was describing was one that many of us with a unit-linked background were using extensively at that time. He said to me that he was overcome by a desire to burst into print. When presenting his paper he had stated that by choosing a subject that a number of actuaries were very familiar with but others not at all he ran the risk of pleasing nobody. Both these thoughts are very much in my mind today. This is a very long paper, indeed it is two or three times the recommended length for a paper that the Institute in London normally accepts but most marketing practitioners would say that it only scratches the surface.

The paper was drafted in the main in February-May of last year and updated in November. In the subsequent 12 months the business environment has moved on significantly and in many ways really the paper needs an update but when I was first invited to present it here I was advised that it would be acceptable to present it unaltered. It is nevertheless useful to touch upon some of the changes that have taken place since then because the environment is very fluid indeed.

Perhaps the most important change is in the area of marketing channels. In paragraph 8.10.21 of the paper I gave a forecast of the proportion of business that will be controlled by independent intermediaries. This is a highly sensitive area particularly as at the time when I was drafting the paper I was working for a company which drew most of its business primarily from that source and I chose to make the assumption that the then stated intention of major building societies and clearing banks would hold. However I went on to pose the question "where does this leave other life companies, where will they be if all major building societies and banks have their own product companies?" Edinburgh, of course, is the bastion of CAMIFA but in the relative security of this Hall I can today, twelve months on, be a little more bold.

Much as I value the abstract concept of independence I have seen little evidence of consumers' desire for it. Obviously if you carry out market research and you ask them "who would you like to buy an insurance policy from, an insurance company salesman or an independent intermediary?", you would only get one answer, but that is a bit like asking somebody "do you want £5 or £3?" If you ask them an unprompted question, I have seen little evidence of any strong demand for independent advice. Most consumer durables are obtained from single manufacturer dealers (motor cars and things like that) or from stores who simply stock a range of goods, caveat emptor applying. I believe that by 1992 which is five years since the paper was drafted, rather than the European 1992 which is more likely to be a moveable feast, all clearing banks will be selling their own company products. the top ten building societies would account for 95% of the movement as measured by fund size and they would all be tied or selling own company products. The independent sector would account for less than 25% of the total business and most of these firms would be specialists, a high proportion accountant driven, and many of them would be fee based. If this statement does not get an interesting debate, nothing will.

I have followed with great interest the CAMIFA campaign. It takes an enormous amount of advertising to permanently change consumer perception. Take the case of Cornhill's sponsorship of cricket. They have been doing it for eleven years now, since 1977 when they started, the year Kerry Packer changed the face of the game. Their name awareness was very low at that time. During each summer during the cricket season the name awareness rose appreciably from something like 4% to 12%-17% but then fell right back during the winter when media coverage ceased and as a result their net gain over the eleven years has been of the order of 1% per year. If increasing the awareness of a tangible name is so slow how effective can an ephemeral promotion of an abstract concept be? I fear that CAMIFA is doomed to fail. I say this with regret because I have spent several years of my life promoting independence. The unfortunate thing is that consumerist legislation often leads to a reduction in choice.

Moving on to one or two other things, a number of companies have now started to advertise, particularly on television. This is extremely helpful in reinforcing the company salesman's message. It also assists a third party's recommendation of a company's product. However the human mind's capacity for retention is limited to perhaps six or eight names. A ninth company can capture attention only by pushing someone else out of the memory window. Thus only a handful of big players can survive, particularly if they are dealing solely through independent intermediaries. With the imminent disclosure of charges the biggest marketing challenge facing the industry is to persuade consumers that the advice provided by company salesmen and independent advisers has a value over and above the insurance or investment benefit provided under the policy. Only if we do that can we explain the charges inherent in the policy. If we fail to do so I fear that we shall surely fail. Thirteen months after Black Monday it is instructive to note that the Unit Trust industry is in the doldrums. The spate of privatisation and the bull market has created only an ephemeral change in buying habits, not a permanent shift. Unit Trust companies have had no strategy for building a meaningful long-term relationship with their clients. They have really tapped the same type of customer as before. I am sure there is a lesson there for us.

I have not researched the past copies of the Transactions but this could well be the first paper on marketing that the Faculty has accepted. Indeed it is strange to see a group of actuaries discussing marketing techniques. I hope that the fact the next paper is Edward Johnston's on the Appointed Actuary is not a careful juxtaposition by the Faculty Sessional Meeting's Committee.

In the final section of my paper I have endeavoured to explain why it is essential for actuaries to be familiar with marketing principles. It is not a discipline we take to naturally. By training we are cautious people. We treat every opportunity as a problem in disguise. We have the eye of an ant rather than the eye of an eagle. I do not think the fault is in our genes. It is in our professional upbringing. The basic analytical skills we already have. All we need is a change in outlook.

Mr R P Knowles, opening the discussion, said: Although I am sure it is a sign of the times we live in that we are today discussing marketing at the Faculty, it is also a recognition of the quality of the paper we have in front of us. This is no simple introduction or beginners' guide to marketing. Prior to reading the paper I had a few ideas which I thought would be suitable for opening the discussion, and it has been somewhat alarming as I read through the paper to have to tick them off one by one as having been covered. That said, it has been a particular pleasure to read a paper on marketing which directly relates to marketing of a service industry and doubly so when the examples relate to our very own industry.

I was going to start by saying that it is obvious that some of the examples, some of the data and some of the developments have been superseded. I do not intend to list the major changes that have taken place since the paper was written, as I would imagine that they are familiar to you all. If they are not, then I suggest they should be, for as the author says in section 10 on the role of the actuary, actuaries need to adapt and to understand the modern environment if they are to be regarded as businessmen and not mere technicians.

The author starts straight off in paragraph 1.1 with the statement that those who use marketing techniques most efficiently are not necessarily those with the largest marketing departments. This may be partly because I very much doubt if there is any consistency between what the roles of the marketing department are from one company to another, and indeed the fact that there is not even a marketing department at all need not be a disadvantage if marketing techniques are practised elsewhere in the organisation. I shall come back to this point later.

After this first paragraph, the author goes straight into the difference between selling and marketing. The quotation in paragraph 1.3, that the aim of marketing is to make selling superfluous, can be relied upon to draw spontaneous response from any life assurance salesman. And here I must admit that I see the point of the salesman because the majority of our products do require to be sold, and Exhibit 2 gives precisely the reasons why. In the paragraph of this Exhibit, Creating Want, the author makes the point that most people are aware of the need to protect their family. However this is a passive need; it is a fact that such a need is often only satisfied because it is triggered into action as a result of the call of a salesman. Having said that, if the need is there then it should not be necessary to "back the hearse up the drive and let her smell the flowers" as one of the quotations suggested.

Section 2 of the paper, The Nature of the Business, stresses that every organisation needs its purpose or mission. If you do not have this then you cannot work out whether or not you are being successful. The problems facing Chief Executives are spelt out in this section, and in particular, the reference to removals of artificial entry barriers and levelling of playing fields. It does seem to me that all the arguments about whether we are being marketing driven or sales led are beginning to pale into insignificance compared with whether or not we are being legislationshoved because it appears that at the present time we are unable to plan with any certainty more than a month or two ahead without the revelation that a new bombshell is going to be dropped on us. I suspect that one reason for our being made to work very hard to protect our own corner is that some of the strategies we have employed as an industry in order to create new business have not endeared themselves to either the authorities or the consumerist lobbies. Research which shows that consumers do not in general trust salesmen of life assurance must be perceived by us as bad news in view of the fact that the vast majority of salesmen are performing a thoroughly professional service for their clients.

Section 2 concludes with the question: who is the customer? I am sure this question causes more problems and difficulties amongst marketers than virtually any other. As the author says at the end of this section, whatever the answer is it has a bearing on the nature and focus of the company's service. I am not absolutely sure that the author is entirely consistent in his approach, because in section 2 he states that there will be little disagreement with the statement that where business is sold direct to individuals face to face by a company salesman then that individual is the customer. However much later on, in section 9.5, when dealing with the role of the Chief Executive Officer, he explains the need of a decision on whether it is the consumers of a company's product or the company's salesmen who are to be regarded as the customers. In other words there is an option here, and the example in Exhibit 4 on the South African life company shows that it is quite legitimate to treat agents as your customer. Personally I am convinced that the real customer is the one who hands the money over at the end of the day. In approaching this consumer by regarding salesmen or independent financial advisers as the customer, you are relying on the latter's knowledge of the former to provide you with the information which will meet the end consumers' needs. This may well be so but it is not necessarily so. In the example on self-employed pensions (Exhibit 6) the product was already tested and known to be acceptable to consumers of a certain type. It then succeeded because special effort was paid to the needs of the intermediary.

Paragraph 2.9 contains a quotation defining marketing as the process of balancing the company needs for profit against the benefits required by consumers, so as to maximise long-term earnings per share. Here I would stress that the important word is long-term. Marketing must by its nature be looking ahead and not just to the immediate furture. It is a bit like playing chess. A sudden capture of a substantial piece belonging to the enemy may look good for a couple of moves but can lead to resignation fairly quickly after that if you have not seen ahead. I think this is where the difference between marketing and selling is most pronounced, for there are examples of cases where sales successes have turned into marketing disasters, in that the very nature of the sales success has meant that the marketing plan for a company has been completely altered in order to cope, typically with a salvaging operation to cover up the problems caused by the very sales success. Marketing is dependent on knowing the nature of the business and being able to gear all marketing efforts towards its support over the longer term. But for proprietary companies, immediate profit as explained in paragraph 9.10 is important since the judges of the success of a proprietary company are in effect the stock market. As the author points out, excessive deferment of profits could lead to a reduction in dividend and a consequent reduction in stock market rating. When it comes to the mutual company the author states that we need to strike the correct balance between a number of new owners, i.e. new with-profits policyholders, and the volume of other business it must transact to enable it to sustain the expectation of its owners. I think it is interesting that there is no mention of timescale for a mutual; the conclusion could be drawn that true marketing is easier for a mutual than for a proprietary company.

Section 3 of the paper is on the role of marketing and contains a statement that any best value for money assessment by a consumer is based upon a personal montage of objective criteria, emotional prejudices and impulsive actions. I think it is absolutely essential that in our profession we do appreciate that buying decisions are not reached in what we would necessarily consider to be a logical fashion. Towards the end of this paper, explaining the role of the actuary, the author has an interesting section on understanding the consumer. He states that where actuaries have been wrong is in imposing their own opinions as to who is the customer and what is best for them, rather than asking them what they really want. I think that rather than calling this section "Understanding the Consumer" the author could have called it "Understanding the Actuary". Interestingly, the role of market research which the author stresses as being so important, a view

I certainly agree with, is one where the actuary could be involved in view of his statistical background in assessing whether samples were of sufficient size and free from bias. However the role of market research is one which I am sure most actuaries would gladly leave for others, but it is essential that we do approach with an open mind the findings when they are presented to us.

The paper quotes Hardy's assertion that the four key value attributes which apply to a large majority of consumers in a wide range of consumer goods and markets and possibly also industrial and service fields are purpose, performance, presentation and price. When it comes to purpose essentially a financial service product is meeting a need. Performance is something different and there may be more than one criterion on which the purchaser is basing his expectations. It can range from protection to long-term growth to speculation, and it is important to make sure your product is geared to the right level of expectation. Presentation can certainly create a warm feeling particularly if the company name is known to the customer. Price I will come back to later on.

In his Exhibit 2, the author refers to the interesting illustration of demand management in the practice of offering calculators/radios on the purchase of insurance products off the page. Such freebies are designed to trip the waverers into a buying mood. I have often wondered what would be the effect of offering a camera with free life assurance thrown in and to an extent this was tried recently by newspapers offering free one-year accident cover to their readers. When the glossy package arrived, the free policy was entirely dwarfed by a mass of literature describing a savings plan which ironically had an offer of a free camera. What is more the insurance policy required cut-out stamps from the newspaper to be stuck on it every month in order to keep it in force. One can only wonder what the quality of the list of applicants generated by the offer was like.

Section 3 ends with the description of products, intangible products and the importance of service. I can only reinforce the author's paragraph 3.4.6 where he states that a thorough understanding of consumers' requirements is required and paying more attention to products than to the consumer needs satisfied by them is a common and costly mistake. The section on importance of service ends up with the sentence "thus, the salesman himself is an integral part of the product". This is certainly true: the salesman is very much what the customer sees as the most tangible proof of what he has bought. One of the most interesting aspects of this at the present time, where as a result of polarisation there is a distinction between those agents who are tied to one company and those who are obliged to research the entire market, is whether this distinction is getting through to the customer at all. Market research seems to come to different conclusions according to who did the research. The channel of distribution is incorporated in the products as the more efficient the channel, the greater the profit potential. Control of channels of distribution is going to be crucial in the near future. It is not beyond the realm of possibility that the current channels of distribution could be dramatically altered over the next few years.

Section 4 goes into consumers' buying behaviour which as I already commented on is not always logical. It is refreshing to read the last two sentences of this section. I am hearing continually that consumers are suddenly being able to make much more informed judgements and have got increased financial sophistication. The author's research indicates that this just is not true and given the nature of ever-changing markets I think this is likely to remain the position for quite some time.

Section 5 talks about data and marketing research, and this is followed by section 6, a major section on the formulation of a marketing plan. The Exhibit 5 on segmentation carries results of recent research which divides adults into five distinct attitudes to money. I am very interested by the author's statement that a company launching a unit trust will concentrate primarily on connoisseurs and pragmatists. I would be very interested to find out if these were the most successful areas in the recent unit trust launch by Marks & Spencer. Buried away in the section on marketing mix is one little paragraph which I think is so important that I will leave it to the end.

Section 7 covers pricing policy and here I believe that whereas consumers pay little attention to pricing, except to see whether they can afford it, intermediaries are very price influenced. The reason for the lack of consumer interest is that, despite the fact that illustrations under the rules imposed by LAUTRO give smaller numbers than we have been used to seeing, they still look pretty enormous compared to the premiums being charged and the majority of customers will think they were getting a good deal. On the other hand intermediaries in the realm of best advice are naturally concerned about pricing. However, in the section on tender pricing the author appears to omit a sinister trend coming through that not only does the intermediary stipulate what the insurance company should charge but then takes over the name of the product under his own brand name. This appears to be going down the road of the retail industry where in certain sections it does appear that the retailer is all powerful and the supplier is like putty in his hands.

Section 8 deals with marketing channels and I have already mentioned the changes thrown up primarily because of the Financial Services Act. One of the interesting things about direct response marketing is that the customer has to make up his own mind. Having made up his own mind, the last thing he wants to do is to be seen to be wrong. Therefore persistency levels of this business can be high, and there is evidence that it is not price sensitive at all. However I hope very much that no company tries to use this marketing channel, charging what are by marketing standards very expensive premiums, as this type of practice only leads to the entire industry getting a poor name. The one beauty of direct marketing is that it gives you the ability to test. It has been found generally that methods which work with restricted mailings or off the page advertisements are highly reliable in predicting results for a major mailing or advertising campaign. Despite the Financial Services Act seemingly trying to make direct mailing less attractive I have not noticed any fall-off in the amount of letters I receive through the post. Most of the details must be entirely incomprehensible to average members of the public and I assume for this reason that sales are holding up although I myself have no information on this.

The final section, section 10, covers the role of the actuary and I have already mentioned this a couple of times in my remarks. The author asks whether the actuaries' analytical background is a hindrance or a help. The point is surely that actuaries have special skills and other people in separate fields have different particular capabilities. The success of any organisation is making sure that they all work together and this brings me back to the section tucked away in paragraph 6.4.10 of the marketing mix where the author mentions people. He says it is not only the marketing or sales personnel who provide service to customers but the telephonist, clerk in premium administration, and so on. In a service industry it is people that count; people are essential for bringing that extra ingredient which is the accessibility of the product to the consumer. Drawing on the special skills of everybody is absolutely essential but they need guidance right from the very top in order that everybody appreciates the marketing requirements of their function. This is why the author is quite correct in his initial statement right at the start that those companies who use marketing techniques most efficiently are not necessarily those with the largest marketing departments. In effect the entire organisation is a marketing department, and those organisations which appreciate this most effectively will be the most successful.

I think the author has performed a service to the actuarial profession in preparing this paper with the list of bibliography for those who are interested further. I found this a most refreshing paper to read. I enjoyed the quotations at the start of each section and if I have not disagreed with much of what is said it is because I believe that marketing is essentially common sense and that this paper is also common sense. We are indebted to the author for his preparation and presentation.

Mr R. J. H. Milne said: I stand here tonight wearing a different hat as a representative of the newly formed Faculty of Actuaries Marketing Research Group. This allows me to adopt an Antipodean stance to the author who says "all errors and opinions are his and his alone". I can say that the following comments are not necessarily my own but those of the twelve Fellows who make up our Research Group.

I believe it is an old joke that if you ask any two actuaries for an opinion you will receive three different answers. This was brought home to me after suggesting that each Research Group member should set down a list of points he would like raised tonight. I am sure the author will be pleased to know that we have whittled down the resulting 137 different comments or queries to the following contribution.

First I would like to join with Mr Knowles in thanking the author for an extensive and detailed paper. The Research Group agrees with Mr Iqbal's comment in section 1.5 that there is a gap in actuarial literature on this subject and this paper takes a good first step towards filling it.

In section 10.1 the author states that he feels it important that actuaries be familiar with marketing. We would like to endorse this wholeheartedly; indeed, an ever-increasing proportion of actuaries are straying into the marketing areas but we feel this could usefully be advanced much further. A straw poll of five Scottish life offices, for example, revealed that only 9% of the actuaries employed by those offices worked within the marketing area together with 8% of students. We wonder if the author knows how these figures compare with English offices and if there are any statistics to show how these percentages have moved over the years.

In section 2.1 the author states "every organisation must have a purpose, a mission, a reason for existence. It is not sufficient to say that it is there to make profits for its shareholders. Other lines of business may make more profit. There must be a reason why they are in their present line and not in others." This statement is very clear if applied to a proprietary company where shareholders exist who can easily determine the purpose, the mission or the reason for the life office's existence—namely to serve them. The situation is, however, more complex when dealing with mutuals and we felt it might be interesting to hear how the purpose and mission of a mutual might differ from a proprietary company and how this might impact on its marketing strategy.

There are several possible missions for a mutual life office. These include maximising market share, maintaining the estate at a certain size, for example, the current size, or maximising "profit", or maximising the estate.

A strategy for a mutual life office which attempts to maximise its market share must in isolation be dangerous, as it may ignore the costs of doing so. Simple mathematics indicates that in the long run a mutual cannot grow faster than the internal rate of return earned on its new business, otherwise it will run out of estate. Maximising market share as a strategy can lead to problems of equity between generations; if a with-profits mutual today decides to sell a lot of back-end loaded unit-linked pension plans then this could easily suppress the bonuses for a whole generation of with-profit policyholders.

However, if you decide to maintain the estate at a certain size, say the current size, then the question must be asked—why that size? The size of the estate today is purely an accident of history. Why not twice as much? The choice is arbitrary. Moreover, it avoids the issue of margins versus expenses. Maintaining the estate at a certain level could permit a high margin, high expense strategy to be adopted and this seems clearly inappropriate for a mutual life office where the board of directors and management have a fiduciary responsibility.

The final strategy suggested of maximising the firm's profits or estate is also dangerous in isolation. If for some reason, the market becomes less competitive for a number of years, then this could enable a company to sell policies with higher margins which could lead to inequity between generations. It is also important to recognise the difference between profit and surplus—maximising profit could easily lead to a strategy where the company has insufficient surplus.

It is possible to view the estate of a mutual as being in some ways equivalent to shareholders' capital. The opener has already mentioned the definition of marketing in section 2.9 as "the process of balancing the needs for profit against the benefit required by consumers, so as to maximise long-term earnings per share". For a mutual this could be amended to "the process of balancing the company's needs to maintain its estate against the policy benefits required by the current generation of consumers, so as to maximise benefits for all generations of policyholders". However, the balancing act is more difficult than for a proprietary office because of the lack of recourse to future capital which means a mutual cannot afford to be too generous with current bonus rates at the expense of future financing. So any mission statement must balance the conflicting requirements of maximising benefits for current policyholders, maintenance of estate and future financing needs.

This must be reflected in the company's marketing strategy if abrupt changes, such as have recently taken place, are to be avoided. This could pose interesting questions for the marketing of a life insurance company which the Halifax Building Society chooses to tie to, (or is it "chooses to tie") should it so choose in the future.

In section 2.11.3 the crucial question of who is the customer is raised. This is certainly a very difficult question as far as selling through independent financial advisers is concerned and is probably not even obvious for direct sales operations. Another way of looking at this is to consider who in the distribution chain actually makes the decision to buy, i.e. what is the client base of the company. It will often be the Independent Financial Adviser for an intermediary office and the salesman for a direct sales office. To recognise this fact means that the main emphasis in marketing should be to ensure that these people are provided with products and support that gives them the incentive to sell and the back-up that convinces them that the end customer is receiving something that he also wants.

The Group found section 3 of the paper particularly interesting although they felt that more examples of how the theory can be applied to insurance and other financial products would have been helpful. We believe that service is a vital ingredient in the products insurance companies offer—from the service that the intermediary and salesman provide to the end consumer at the point of sale right through the early provision of easily understood documentation by the life office, prompt treatment of all queries during the lifetime of the product and efficient handling of claims settlement. A life office must work hard to maximise the effectiveness of its service, since this is an aspect under its own control and can help reduce the office's reliance on the whims of salesmen and IFAs. The ultimate service will almost sell the contracts itself!

In section 5.4 the author correctly identifies the lack of industry statistics on new business. The Group supports his plea for the ABI to take a stronger lead in collecting and publishing meaningful data across the entire range of new business activities. Group pensions in particular is an area where there is almost a complete lack of meaningful industry figures. We must, however, tread carefully since such statistics will also be used by our competitors (particularly competing industries and non-U.K. organisations) to assess the attractiveness of our market. European companies, for instance, are well behind the U.K. in producing industry statistics and we would like to see moves from them to address the balance. Another danger with statistics is that they can be used by the legislators for purposes other than those for which they were originally intended—to beat us over the head with. The ABI expenses survey is one obvious example where some would now like to see this form the basis for disclosure of expenses to policyholders.

In section 6.4 the author outlines the various elements of the marketing mix. The Group considers that one element of product packaging that is achieving ever-increasing prominence is proposal forms. The extra complexities involved with new-style Personal Pensions mean that the office that produces the most straightforward and easily completed application form will achieve considerable competitive advantage. This scenario is likely to be repeated as the Access to Medical Records Act is implemented in 1989.

It is interesting to speculate what effect the FSA will have on product cycles. Will the disclosure requirements mean that all products come together with relatively little differentiation and therefore much longer product cycles? Or will competition force companies to update contracts constantly, ever trying to keep one step ahead of (or one less step behind) their competitors, thus greatly reducing product cycles? We would welcome the author's views.

In paragraph 9.6.2 we read "The Financial Services Act points to the intermediary being regarded as the customer. The life company is merely a supplier or wholesaler. However, in the era of best advice whilst this may enable the intermediary to be more effective in his business, it is not likely to bring commensurate rewards to the company." While the Group recognises that each life company operating through independent financial advisers could in theory end up selling only "loss-leading" products on which margins are particularly thin, since different offices could "loss-lead" on different products, we see this as an additional challenge to Appointed Actuaries to ensure that all their products are priced profitably leaving the offices' marketing departments to ensure that they convince IFAs of these products merits. We do not believe the independent market is sufficiently sophisticated to capitalise on every pricing anomoly that appears. We thus believe that a well-run intermediary office will still reap rewards from sales through independent financial advisers.

The very next section in the paper says "ideally the company must mobilise demand and get consumers to approach intermediaries for their products". We would venture to suggest that this is extremely unlikely to happen in practice and that the best scenario one could hope for is that once the intermediary has reached a face-to-face stage with the client then the client mentions a company name or product without prompting.

Within the chapter on the role of the actuary the Group was a little uneasy about section 10.4. The author appears to ignore the increasing trend of actuaries becoming involved in sales and marketing and gives an image of actuaries as old-fashioned custodians of policyholders' interests. We think things have changed rapidly in recent years and changed for the better. I am not saying that we have started "at the other end" as the author requests ascertaining what it is that consumers really want. The life industry should undoubtedly increase its market research activities but this will only be worthwhile if marketing management agree in advance to heed the findings. We are concerned that all too often when research is currently undertaken, research that produces answers that support previously held views is regarded as a waste of time, while if differing views are suggested the survey is regarded as unrepresentative, or otherwise flawed and therefore ignored.

Lastly in paragraph 1.9.7 of Appendix 1 the author says that the with-profits product needs to be carefully repositioned by marketing management in consultation with the actuary and I wonder if he could explain his ideas on this repositioning a little further. Does the author believe, for instance, that the existing with-profits contracts require to be repositioned or is it that the with-profits concept needs to be incorporated in new products in a new way?

It remains for me to thank the author once again for a comprehensive paper on a subject which is becoming increasingly important to the actuarial profession. The world is changing too quickly to allow actuaries to remain aloof of day-to-day business activities like marketing unless they are happy to be relegated to glorified book-keepers rather than playing a full part in the management and direction of financial services organisations. It is clear that the author has devoted a significant amount of time and energy to this paper and our Group thanks him for his efforts.

Mr R. W. Gibson said: I would like to congratulate the author on an interesting piece of marketing he himself has used in presenting this paper, and that is by introducing Exhibit 1.

Having clearly identified the target customers, that is the actuarial profession, for his product, that is the paper, he has clearly played to our own customer behaviour pattern of a liking for complicated mathematical problems by introducing a technical concept to an otherwise non-techinal paper. This presentation style I would suggest has helped him reach an audience he might not otherwise have interested. I am sure anyone reading the paper would have studied this Exhibit and indeed tried to improvise on it. The only improvisation I could think of was to introduce something in 3-dimensions to reflect the multi-discipline financial service groups which are currently being built up although in this type of approach I feel there is some benefit in understanding which background the company is coming from.

Section 4 of the paper covers Consumers' Buying Behaviour. I would like to comment in particular on the relationship between the Independent Financial Adviser and his client.

You mention the adage life assurance is sold and not bought. I would add, except, that is, when it is a mortgage product where I would suggest the individual is really only interested in buying a house. The source of the mortgage fund and the cost of the mortgage are the more important ingredients in the package. The life assurance product costs are being outstripped probably in the ratio 5 or 6 to 1 by the mortgage interest costs and the availability of the motgage package and its total cost are uppermost in the client's mind. Hence the value of independent advice on the life assurance part is diminished. I would suggest this is why building societies and many mortgage brokers are at the moment examining the need to give independent advice in this area as I am sure they understand they can maintain their share of the mortgage market but substantially increase their commission revenue by a tied agency agreement. They apparently feel there is no additional market share to be gained through being independent. Therefore the financial benefits of a tied arrangement could be lucrative.

This brings me on to the Financial Services Act which, in the name of greater consumer protection, has had most effect on the marketing of retail financial services. At the moment we are at a crossroads, a critical time for the future of the life assurance industry as we know it. We are all trying to guess what hard disclosure will really mean for IFAs and how this affects them. The majority of the representatives here this evening, I am sure, are from CAMIFA offices and recognise that the problems of the IFA very quickly become their problems.

While I appreciate the argument that an IFA acting as the agent of the customer should disclose his remuneration basis, and parallels can be drawn here with the services provided by the IFA and those of other professionals, or alternatively the appointed representative of the company should only declare that he represents that company, I cannot help but feel that our legislators have failed to recognise the way in which the sales process actually works. This is where Mr Iqbal comes in with some of his comments on consumer buying behaviour. In the majority of situations, a client will go to an IFA on the basis of a referral. The broker is less likely to create the need for the client although he may have advertised that his services are available. The client though has still to be sold a life assurance or investment product but this client always has the choice that he can go elsewhere to the company representative and get virtually the same product. The product will probably be dearer and this is a whole subject in itself, but the advantage of not delaring his remuneration basis must be considerable. This, to my mind, is where the analogy with certain other professional services breaks down, that is, the individual always has the choice not to use the IFA. There is not an analogy with other professionals—for instance there are no tied accounting or legal practices.

The other area in which the parallel with the IFA and professional services breaks down is in market penetration. Life assurance is a mass-marketed product with around 67% of the population having life assurance, which is 33% too little. Only 1% of the population will have an accountant, which is probably 1% too many. If he does exercise this choice of course it then becomes even more difficult to make a judgement on the information he has been given.

There is a considerable amount being said at the moment about hard disclosure and some monumental decisions are being taken in the fear of what it may bring. We have at the moment a system of soft disclosure whereby reference is made to specified commission scales in a cancellation notice. If hard disclosure means stating the commission scale or the amount of commission in a notice issued after the sale, and again in a cancellation notice which is at best difficult to understand, then perhaps its impact will not be so significant although this should not stop us from lobbying the legislators and attempting to bring home the view of many, including my own, that the current legislation is already way beyond the bounds of necessity in providing consumer protection.

Mr C. W. McLean said: I too would like to congratulate the author on producing an excellent paper; the first of what I hope will be many that address solely the question of marketing. It forms an excellent introduction, not only to the topic of marketing but to that new creature, that apparent oxymoron, "the marketing actuary." I find Mr Iqbal's arguments persuasive, supported as they are by a wide review of the academic literature on the topic. He even includes some reference to recent techniques, although the whole subject of marketing is somewhat weakened academically by the understandable delay in writing up the currently most effective techniques that are the cutting edge of the discipline. As we found out after the last British and recent American elections, novel proprietary marketing techniques based on rigorous analysis are being used, but the dissemination into academic text and the availability to businesses generally is often delayed.

It is entirely appropriate that a paper on marketing should begin with Levitt, who also stressed the importance of having the appropriate definition of a target market—one that will not readily date. The theme has been picked up by many others, such as Davidson (mentioned in paragraph 2.9), who have also stressed the need for a profit objective. Amongst these latter writers, I much prefer Porter's approach, as he did address the need for integrating long-term survival and profitability with a choice of target market, in a more prescriptive way than Davidson. His approach suggests that the business mission should incorporate the appropriate generic strategy for the firm as well as stating the target market and how the company would address it. Mr Iqbal addressed this in Appendix 4, under Tregoe & Zimmerman's description of driving forces. Again, I think the superiority of Porter to that approach is his prescriptiveness, which admits only a limited range of strategies as being successful over the longer term. Moreover, Porter also introduces the concept of market focus which is frequently overlooked by British companies, yet is a viable business strategy in U.K. financial services. Porter's value chain analysis can also be a useful tool for strategic marketing choices.

Thus the driving force analysis might claim that offering a full range of products, focusing distribution on the independent intermediary channel and via a mutual corporate structure would be a viable strategy. But Porter would suggest that, if many companies followed this same strategy, only the largest would be successful in the long run. Thus I think it is important, when considering marketing, not to divorce the products from the companies and the types of corporate structure involved in offering them. This I find is the weakness in Exhibit 1, which suggests a 1998 scenario that mixes companies (e.g. foreign banks, insurance companies) with vehicles, such as unit trusts. The form of analysis might very well work if defined purely in terms of products or services. However, if it is to represent an analysis of market share of different types of companies, I think that groupings are necessary to reflect different combinations of services or types of diversified financial services companies. I would certainly suggest that, by 1998, foreign based UCITS vehicles, such as SICAVs, will compete here for long-term savings and investment and that these vehicles will also be competing within the short-term savings segment. As, indeed, Mr Iqbal mentions, widening investment powers will allow money market funds shortly. Such funds have the largest share of the market in the U.S.A. and several continental countries. This omission is repeated in paragraph 3.3.2, in which the available market for bonds and unit trusts is described as those interested in equity-based investments.

The paper certainly raises a real marketing dilemma. Despite the projected increasing share of direct and tied selling and the likely diminishing share of independent intermediaries, this trend must be set against the marketer's natural inclination to service the intermediary as the primary customer. Exhibit 4 certainly gives one example of a failed attempt at "selling through", or appealing to the ultimate customer. However, in many other areas such an approach has been successful (e.g. J. C. Bamford). I think, when taken together with the statement in paragraph 4.6.5 that relatively few people go to intermediaries, it may be wise for the life assurance companies that can afford it to increase customer awareness and branding by mass advertising. I am sure that this aim, and the need to make use of funds that would otherwise have supported overriding commissions, is why many larger companies are now advertising on television. If they do not do so they are effectively offering a pricing umbrella to their smaller competitors when commissions are fixed. And why should the large offices fail to exploit this potential competitive advantage and expose their less efficient competitors?

I do not believe, despite the contention of paragraph 6.4.5, that intangible products could not be branded until recently and suspect that there must be many long-standing examples apart from Thomas Cook. Nor do I accept paragraph 6.6.3, that the brand need necessarily have the shortest life cycle—properly maintained, many brands will outgrow their products and possibly outlive the companies. The price at which brands are changing hands nowadays supports this. Many brands are long-standing—Mickey Mouse is 60 and many of today's most popular confectionery brands began in the 1930's.

The importance of remembering profitability within the marketing challenge is relevant to paragraph 4.6.3. I am not sure why share ownership trends are considered to "compare favourably" with unit trusts. There is no profit for companies in having a wide shareholder base and British Gas, for example, does not seem too concerned that its shareholder numbers are declining by some 10,000 per month. Indeed, the process actually increases its profitability. The same rationale might have described Freddie Laker as comparing favourably with his competitors, but it is not difficult to recruit customers at a loss. I do not think that this is the objective of marketing and do not think the activity can be divorced from its profitability and strategic implications.

In paragraph 8.2.1 I am not sure what is meant by unit trust intermediaries acquiring title to a product that they will sell to the ultimate customer. It is certainly now against FIMBRA Rule 4.14 to retail in this way, and I do not believe it previously occurred. The intermediary will always act as the agent only, although an element of intermediary branding is possible. Also I question whether the intermediary's role (paragraph 8.3.1) need necessarily be an integral part of the product. It depends very much on the countervailing power—the relative size of the producer and the middleman. For example, I doubt if the *Financial Times* is particularly anxious that its readers' loyalty might be to the newsagent.

I am surprised that the analysis of unit trusts as a competitive force in section 1.6 states that the proportion of adults holding unit trusts has not changed for several years as during the 1980's it has enjoyed proportionately the largest market share increase of personal sector financial assets, and I think that Mr Iqbal was indeed correct to place the product in the growth segment—a view supported by the declining concentration of suppliers that he also describes. Yet, I am not sure why their sales should be described as largely "confined to" socio-economic groups A and B when the distribution is not dissimilar to the pre-British Telecom analysis of shareholders or those now holding more than one share. Moreover, sales to the high net worth individuals in these groups seem to be described as a positive element of market focus earlier in the paper.

I think it is important to return to the profitability aspect when asking the question (paragraph 1.6.3 of Appendix 1) why life offices have better service and distribution. If the most profitable way to sell unit trusts is without locally servicing independent intermediaries (and surveys have placed service and administration well down intermediaries' list of critical factors in choice of unit trust managers), then strategically it may not be wise to approach unit trust marketing in the same way as life assurance. More importantly, the products are different, with the relatively low front-end loads and initial profitability of unit trusts being insufficient to support the overhead of a branch network. If a life office move to unit trusts were effectively to cannibalise bond business, or redirect their existing sales effort, quite probably overhead recovery would drop. Thus I do not see service as a competitive advantage in the move from the life product to the unbundled unit trust one if the latter does not have service priced in.

Thus I would suggest that this paper leads us directly to questions of strategy and profitability, and would suggest that future work might address the question of optimal levels of diversification and the competitive advantage offered by segment sharing. Mr Iqbal's term (paragraph 1.8.1 of Appendix 1) "multinationalise" may be a new one, but I agree with him that the international dimension, in respect of both marketing and corporate structure, will increase in importance. There is ample scope for development of this theme. In conclusion, therefore, I should like again to thank Mr Iqbal for providing this paper as an excellent base on which the profession can build further studies.

Mr L. J. Gray said: In paragraph 1.9 the author defines his use for the term "marketer", i.e. someone who practises marketing management. I would not describe myself as a marketer and thus, prior to reading this paper, I had heard of precious few of the people whose quotations the author uses and I certainly have not read any of their works. I have, however, for several years now been at the receiving end of a vast number of first drafts of marketing documents and, in the course of this, have often been intrigued by the marketing approach. Anxious not to be excluded from that group of people described in paragraph 1.5 as "modern actuaries", I naturally looked to this paper for some enlightenment. To a large extent the paper was successful in this respect but I would like to make one fundamental point and a number of what are probably minor quibbles.

First the fundamental point. The description of marketing which the author gives in the opening sections of his paper is, I take it, a general description of marketing principles and practice which should apply to all areas and not just to retail financial services. For such a set of general principles to apply there must be a number of elementary basic prerequisites one of which, I would have thought, must be that the customer should have some understanding of the product being marketed—not a detailed technical understanding but sufficient to let him know what he is spending his money on and what the product will do for him. If he does not, the marketing techniques adopted are unlikely to, in the words of the quotation in paragraph 1.3, "result in a customer who is willing to buy".

This is particularly important for the intangible products we are discussing tonight but I do not think anyone will disagree with the view that such customer understanding is, for the most part, non-existent. Consequently we, as a country, are under-insured and salesmen are required to persuade the public to buy. This is both costly and bad for the industry image.

Before we start to build a marketing theory that has particular relevance to life assurance products, I think we should consider why the public's understanding is so bad that they do not, for example appreciate the difference between such basic contract types as term assurance, whole life and endowment. If we do not understand this and do something to remedy it, I feel any subsequent marketing theory will be built on sand.

The reason for this lack of understanding may, in part, be due to the blurring of the differences between contract types in the unbundled policies referred to in the paper but it is more likely to be to do with the fact that we have not in the past taken the trouble to explain properly what is being offered. Most of the blame for this must, I suggest, lie at the door of the marketers who frequently relegated contract descriptions to small print at the back of the sales brochure where it would never be read. While I fully appreciate the need to grab the customer's interest and create awareness of a need in the opening pages, I could never understand why we did not follow this through with a description in equal prominence of the main features of the policy. Perhaps it had something to do with confusion over who the customer really was, a point made by the author in section 2.11, i.e. perhaps we were more interested in making it easy for the salesman.

We now have LAUTRO rules on advertising and on product disclosure which will force a change, but the marketing need to change as well as the legislative need must be accepted by marketers. Previous industry practice has left a legacy of customers who have purchased something which they do not comprehend. If, as I believe, these customers have not progressed any distance along the need-want-demand chain, we have failed one of the fundamental tests of good marketing. For evidence of this, we need look no further than the high lapse rates for our contracts.

Now I come to my quibbles, the first of which is in the use of the product life cycle discussed in section 6.6. The author acknowledges its limitations for financial contracts but I would go further and doubt its validity. The concept of a PLC is, it seems to me, useful when dealing with products which are susceptible to trends or fashions but have limited sales potential. Video recorders, for example, are probably at the top of the decline part of the cycle now that most homes have one and there is not much sign of the two-video family becoming the norm at present. Recognising this, companies might then switch emphasis to manufacturing and selling video cameras which are possible in the growth part of the cycle at present. I can relate the PLC to products of this type but I cannot see its relevance to life assurance based products for three reasons.

Firstly, to those who accept the need for life assurance in whatever form, it should nearly always be possible to go back and make another sale, i.e. the usefulness of a second or third endowment or pensions policy or whatever is not diminishing in the way it is for the second or third video recorder.

Secondly, sales are influenced by investment conditions. Products which started to go out of fashion a few years ago (because minimum risk was equated with minimum gain) are now back in favour again (because minimum risk is equated with minimum loss).

Finally, other factors, mainly legislative, can affect sales. A cynic, looking at the 3 mini-sales booms earlier this year (maximum investment plans, section 226 business and term assurance) might conclude that a good marketing strategy (i.e. one which, to use again the quote in paragraph 1.3, "results in a customer who is willing to buy") consists of withdrawing valuable options, withdrawing whole classes of business or putting up the price!

With these diverse factors in play, I find it difficult to accept in life assurance the concept of "over capacity" which the author refers to in paragraph 6.6.10 as contributing to the decline stage of the PLC.

Appendices in actuarial papers are frequently full of figures or graphs and therefore rarely the subject of discussion. In tonight's paper, I found the appendices (particularly Appendices 1 and 2) contained much comment which is at the heart of the subject and which should therefore not be lightly skipped over. In Table 4, in Appendix 1, for example, the share of what you might call "safe" financial assets, i.e. building societies, cash and bank deposits, National Savings, is very high (although it has fallen over the years from about 40% at the start of the decade to about one-third in 1985 and more recent figures might show a further reduction as a result of privatisation issues and stock market conditions up to October last year). I will not be the first person to say that this is too high a figure to be entirely "rainy day money" and that it suggests that a lot of people are unhappy about risking their capital. However, instead of trying to change this attitude, perhaps we should accept it, possibly as one of the cultural factors referred to in Appendix 5, as an indicator to life offices to promote rather than to play down one of their unique products referred to in paragraph 1.9.6 of Appendix 1, i.e. the stable nature of with-profits business.

In paragraph 1.3.4 of Appendix 1, the author doubts whether the consumer really wants unbundling of charges on unit-linked plans. I think he is right—it is more likely that the demand for this comes from product-pricing actuaries who want to avoid the need for guarantees.

I have another minor quibble with paragraph 1.9.4 of Appendix 1. I think the life assurance industry has three unique products, i.e. the two mentioned (protection and with-profits) plus annuities. Competition on the classical type of annuity is considerable and scope for profit is small but, if people make use of the lower pension ages available under Personal Pensions, there may perhaps in future be a greater market for unit-linked or with-profit annuities which, at present, are not particularly attractive to those retiring in their mid-sixties. Other potential opportunities for annuities are in structured settlements and home income plans, the latter related perhaps to provision of finance.

The unique product of protection is discussed in section 2.3 of Appendix 2. My heart sank when I reached here. While reading through the paper I had a growing expectation of something rare these days—an actuarial paper with no reference to AIDS—but this was thwarted. This section refers to the size of the market but there are a large number of single earners with no dependants

(25% of households, I believe). I assume they are included in the 26m earners but I suggest they should be excluded from the market size for protection benefits.

Finally, some comments on the last section of the paper where the author is at pains to justify the need for actuaries to become involved in marketing. On reflection, I was struck by the points of similarity between the two disciplines. Both start with a pool of data and Appendix 2 gives an indication as to the data which is available for marketing purposes. Frequently it is gathered for reasons not specifically related to life assurance marketing and thus it has shortcomings which the author suggests the ABI might tackle. The next stage is to segment that data into data suitable for the purpose in hand. Finally, the results are converted into financial terms involving, amongst other things, projections into the future. This sounds familiar territory. No one who has read the paper should therefore consider that the "marketing actuary" operating in the way the author describes is a contradiction in terms or oxymoron as the previous speaker described him.

I certainly found the paper informative and I think that the author is to be thanked for giving us such a splendid summary and the opportunity to discuss the subject tonight.

Mr A. R. Goodman said: As a member of the Faculty Marketing Research Group many of my own personal views have already been expressed by the Chairman of our Group, Mr Milne. However, I would like to make a couple of comments on one particular aspect of the paper.

In section 3.6.6 the author states: "The salesman himself is an integral part of the product". I believe this is important and has been frequently overlooked by life offices in the past. I think we should always consider the product as consisting of three main elements:

(i) the product itself,
(ii) the sales process, and
(iii) the administrative process.

The quality of the overall product will be determined by an evaluation of all three elements.

For a life office selling through an independent intermediary it has often been the case in the past that the product has been thrust into the marketplace, accompanied by reams of glossy sales literature. It is then left to the devices and skills of the sales force and the intermediary to sell the product. This will not be acceptable in the future because intermediaries will require an efficient process of selling to their clients in order that they can compete against the direct salesman and run a cost-effective business.

We might like to look at the strategy of the newer life offices, many of whom have proved successful because they have developed a finely-tuned sales process, selling both direct and through intermediaries.

In paragraph 6.4.4 the author states: "Product features are a competitive tool for differentiating the product from competing products." I believe this is only true to a limited extent. For the direct salesman, it is relatively unimportant. For the provider selling through the independent intermediary, the *existence* of a particular feature is often more important than its intrinsic value. Because it is often difficult to differentiate between the products of a number of offices, the lack of a particular feature tends to give the intermediary a reason for *not* using or not recommending a particular product. It is for this reason that all elements of the product must be properly marketed. The intermediary will not recommend a product if he is unhappy with either the sales process or the administrative process. This is why I believe that the author may have placed too much emphasis on price.

In paragraph 6.4.7 the author states: "Where the sale is made via an intermediary price becomes important and will become even more important once 'best advice' begins to bite." And in paragraph 8.3.6: "Price competitiveness is extremely important." Clearly an overpriced product will be difficult to sell, even if one has the best sales and administrative processes in the market. I believe, however, that in the current environment the price of the product and the multitude of features that a product may offer are only parts of a larger jigsaw which make up the financial product that the office is trying to sell.

Mr I. J. Thomson said: I am a member of the Faculty Research Group. You have already had from Mr Milne the points our group wish to make. I would nevertheless like to echo the sentiments already expressed and congratulate Mr Iqbal on producing a very comprehensive summary of how the theory of marketing can be applied to insurance. Our group has already recognised that it is difficult to identify specific marketing topics suitable for professional research but there was a need for a general background paper and the document we are discussing tonight certainly does that.

My remarks are not going to be aimed at the fundamental points made in the body of the paper. Most of these are, as Mr Knowles has already pointed out, common sense and Mr Milne has already covered the areas our group decided warranted comment. Instead I will look at the snapshot of our industry covered in Appendix 1 and I will speculate how this would differ if Mr Iqbal, or perhaps if I, were to rewrite his paper now.

I certainly listened with interest to the points Mr Iqbal made in his opening remarks and I hope that much of what he forecasted proves to be incorrect. Surprisingly, despite the passing of a further twelve months with the Financial Services Act now being a reality, we are still in a position where the rule books and the interpretations of many aspects are unclear or changing. It would be interesting to see how LAUTRO react to the interpretations of some of the rules taken by insurance companies when the LAUTRO inspection visits take place over the coming months. Then, of course, we have SIB suggesting a freer approach to rules and we are also waiting with bated breath for the commission disclosure rules which will apply from 1990. This is going to be a particularly important announcement since already the polarisation position has softened over the last twelve months and bad news on disclosure could well result in a further blurring of the polarisation rules to ensure that enough so-called independent advice continues to be available. This in turn will affect best advice and these rules will certainly have to be rethought once the new environment is finalised. At least the other main plank of the Financial Services Act, Know your Customer, should survive unscathed.

I agree with the author's sentiments expressed in section 1.3 of Appendix 1 that unbundling of contract features should in theory develop in the independent sector. However, I believe the practical situation is that the small and medium sized intermediaries are looking for as much help as possible from insurers to make their life easier and the bundling or packaging of combined services is one of the remaining legitimate ways this help can be given. I totally agree that the end client is not interested in unbundling and therefore I believe this concept is unlikely to be carried as far as the theory would suggest.

The short-term position of building societies has certainly altered substantially since Mr Iqbal wrote his paper. The crash of October 1987 has driven investors back to the safety of the societies. They are now back in a much stronger position. I would, however, share the author's doubts as to how effective the majority of them will be in taking advantage of their loyal customer base. I believe many do not understand enough about insurance and are not sufficiently resourced or adequately structured to fully benefit.

Conversely unit trusts suffered a body blow last year and it will take many years to recover fully if the experience of 1974 is anything to go by. However, already there are perhaps some signs that the marketing efforts of some suppliers are reviving interest so perhaps the industry will prove more resilient than I had originally feared.

Mergers between insurance companies would still seem the natural course of events for many companies. There has been some evidence of this but I would suggest less than might have been expected. My fear is that most companies have been too busy dealing with short-term problems to think seriously enough about the longer term. As a result many could leave it too late, partly out of pride of remaining independent and partly out of a fear of the unknown.

The CAMIFA companies are only too aware of the danger of not having control over distribution channels but a large and healthy independent market is worth fighting for and would secure sales outlets for their companies. The future certainly remains an interesting enigma.

Life offices must certainly play to their strengths but the consumer lobby seems keen to expose the strength of our sales expertise as an expensive and unnecessary evil. Protection and with-profits are unique features to our industry but will require clever manipulation to achieve levels of sales needed to prove a success in the future competitive marketplace.

In conclusion I strongly agree with Mr Iqbal that actuaries must become aware of marketing. This can expand into many areas and while most are identified by Mr Iqbal I feel much further research could usefully be carried out in these areas. Perhaps this is what our Research Group should concentrate on.

Mr G. Westall said: I would like to begin my remarks by referring to what some earlier speakers have said because I think it illustrates one of the problems that actuaries have, which is that they bring their intellect to bear upon the problem. Mr Iqbal in his opening remarks said that when people were asked whether they would rather deal with an IFA or a company salesman they of course replied they would prefer to deal with an IFA because this was like being offered £5 or £3. I feel many people in this room would think it is more like being asked if they would like a punch in one eye rather than a punch in both eyes. However, far from this being the case, work that I have seen in market research actually indicates that the majority of the population would prefer to deal with the company salesman. At first glance this sounds rather peculiar. However, there are reasons why this should be so and two of the main reasons are, (1) convenience and (2) that a large percentage of the population perceive that somebody who is representing just one company will know the products much better than somebody who is struggling to deal with a vast array of products from throughout the industry. In fact the interesting part of one piece of research which I saw was that price came tenth on the list of desirable qualities and technical knowledge of the salesman came even lower than that, so we must not get carried away with the idea that people are interested in competitive pricing or even independent financial advice.

The second popular misconception is that people do not like life assurance salesmen. I have seen two pieces of work on this, one was objective research from America and the other was rather anecdotal material from the U.K. The anecdotal is more interesting to me. I attended a sales conference which began with a video film that had been recorded in the street consisting of a professional interviewer asking people what they thought of life assurance salesmen and surprise, surprise, they said that generally they thought they were the lowest of the low, that they were only interested in themselves, they did not give very good advice, they were only interested in commissions, and so on. They then had the meeting and at the end of the meeting they showed the back end of the film. At the back end of the interviews with these people, the interviewer said "Do you have a life assurance or pension policy" and when they said "Yes" they were asked how they bought it and the answers were almost invariably the same. They had bought it from a salesman, and they did not differentiate between an IFA and a company salesman, and when asked what they thought of this salesman they all thought he was wonderful. So dealing with a life assurance salesman on an individual basis is fine, it is just the generality that they do not like.

The third thing is the hot subject of what the customer should know about the product. I am a great believer that it is a lost cause trying to get across almost any technicalities of the products to the consumer, the best that you can do is try to get across some of the effects. I was talking to a group of actuaries once about this problem and they were very strong that we ought to be filling our sales literature with the technical explanation on how with-profits works, capital units and everything under the sun. I said I thought this was not only a waste of time, but did not particularly add to the ethics of the sale—they disagreed. The only example I could give outside life assurance was a case of my own. I like hi-fi sets and the only thing I know about them is that lots of watts per channel are good because I read this about twenty years ago. When I go to buy a hi-fi set what I look for are lots of watts per channel, whatever they might be. The last time I went to buy a set the salesman showed me an array of sets. I made sure they all had lots of watts per channel and then the salesman did his presentation and I made my selection. They said how did you make your selection and I said well of course I bought the black one.

I would like to now turn to the position of the product and the distribution system to which one or two people have alluded this evening, when they said that the salesman and the product should be considered together. I would like to take it even further and say that in the marketing of financial services in general this is actually a crucial element which must not be overlooked. Traditionally financial services were split up into well-defined industries and during the course of the history of these industries they each developed their own particular, and in some ways peculiar distribution, system. For example, banks and building societies developed a passive distribution system. They put buildings situated in the High Street and waited for people to go in and buy the products. General branch business was a mixture of active and passive. Where you need the commodity, e.g. motor insurance, it can be relatively passive because you go to buy it. Other forms of general business must be more active. They have to go out and search for the customer. For life and pensions products, generally the distribution system has been extremely active, in fact an American colleague of mine calls them intrusive, and you need an intrusive distribution system which means that you have a salesman. It does not matter for the purpose of these remarks whether he is a company salesman or an IFA, they both actually operate in much the same way. For fund management and unit trust management, which is a relatively complex product, then I think you need yet again an active and intrusive distribution system. The need for different distribution systems has depended amongst other reasons on the perceived or actual needs, i.e. a bank account has a higher perceived, and probably in today's environment an actual definite need, by most people in the community. It is very difficult to operate without a bank account. Therefore the bank branch in the High Street is a sufficiently powerful distribution system. Motor insurance, being something which is required by law, can once again be a passive distribution system. Interestingly enough this brings out another feature of products that are sold by passive distribution systems, that is they tend to be more commodity driven, so price will be a much more important factor. As you move to greater complexity, such as, say, self-invested pension schemes, there is a need for a very active distribution system, and often you need more than one type of distribution system. Complex products will need to have higher margins so that the industry can afford to send more expensive distribution systems after them. Of course in the life assurance industry we have amongst the largest margins and amongst the most expensive distribution systems. We have a paradox in our range which is mortgage endowments. Mortgage endowments are a commodity type product, i.e. it is a way of repaying a mortgage, and as such is an integral part of the loan transaction. However, we come from an intrusive, active distribution industry with large margins and therefore we are able to pay large commissions. This resulted in an absolute bonanza time for the passive distribution systems who just waited for the customer to come in and then could distribute the product on a passive basis, but receive active basis remuneration. This is very good but is a paradox. At the moment it is driving a lot of the business, because the building societies are getting paid over the odds for what they are doing, but as an important source of their margins and an important source of our business it will continue for some time, but it is an unstable situation.

Why have the boundaries between the different financial services industries' products started to break down? There was a feeling that it was deregulation and in America when they started to deregulate this was undoubtedly a contributory factor. I do not believe it is so in the U.K. We have had very few restrictions for most of my working lifetime. Banks have been able to have life assurance companies, life assurance companies could own whatever they wanted. It just seems to have gathered pace in the last few years. My feeling is that it is what one of my American colleagues calls 'the brown grass syndrome' and it is not that the grass is greener over there but it is just terribly brown over here so we better go over there in case it might be greener. For example, building societies' core business would seem to be unprofitable. To borrow in small amounts and lend in large amounts and have your margins squeezed is not the sort of business to be in. So they are moving out into other financial services, especially life assurance which is perceived as having large margins. Life assurance has been very profitable but the industry has a terrible weakness in the lack of a client base, so they are interested in getting out of life assurance and into other areas which might secure them a client base.

Returning to the particular problem of products and distribution system, I mentioned earlier that I think the two are inextricably linked and a failure to perceive this has led to the failure of some really quite interesting ventures in the past. For example, with the exception of TSB who do not sell in the bank branches to any extent, there has been a notable failure so far by the banks to sell significant volumes of life assurance business and there has been an absolute total failure of banks selling life assurance in bank branches. The reason for this was they failed to realise that life assurance needed an active distribution system and they were using a passive distribution system. There was the famous case where life assurance salesmen tried to sell bank accounts. This proved not to be a success for a variety of reasons, but basically it came down to an active distribution system, with the sort of rewards and margins that this needs, being used for a product which can be sold, and should be sold, through a passive distribution system. Direct mail to people for life assurance has so far, with the exception of cases where affinity lists or existing client bases have been attacked, not been a success. Once again it is using a relatively passive distribution system for products which require an active distribution system. Finally retail outlets such as Sears and other people in the States, and I believe the House of Fraser had a go here for life assurance, have also proved to be a failure. Retail is a passive distribution system and does not work for products requiring an active system.

This leads us on to a large potential problem for the industry as a whole. Although I can understand that the position between IFAs and company salesmen is of tremendous interest in this Hall, I think it applies to the whole industry whatever type of salesman is being used. We may be entering a period where the industry may not have the ability to match the product and the distribution system. We have products which are complex and demand an intrusive active distribution system which requires high rewards because the productivity of salesmen is poor. If a salesman sells two policies a week he is doing well, one policy a week is average. The average commission that needs to be generated to pay a reasonable income to these people leads to a requirement for large margins in the products. Currently we have a couple of examples of legislation directly or indirectly restricting the amount of margin we can build into the products. The one that is currently on stocks is individual pension plans where in certain circumstances the margins are restricted by law, so we have the problem that a product which is complex and will need an intrusive distribution system to be delivered to the public cannot have the margins to pay for that system. An indirect one is the hard disclosure of commission which could drive down the commission rates so that IFAs cannot exist. We have the awful situation where we have products which need this expensive distribution system but we cannot build in the necessary margins. If this is the case, then this consumer protection legislation will have done a wonderful job of choking off almost the entire industry. This is a grave problem confronting us all, and I would suggest the economy as a whole.

Mr A. K. Gupta said: I too am a member of the Marketing Research Group but my remarks are more personal views and are made independently from the Group.

I would also like to congratulate Mr Iqbal on producing what I think is a very important and a very relevant paper. I would like to explore the supply and demand relationships for financial products and compare these to other consumer products. If we first take products sold by direct sales forces and by independent financial advisers, direct sales forces are not generally perceived to be price elastic which is a view I agree with. The broker market is a bit more price elastic but only in respect of those products which are sold on the basis of being the cheapest in the market. On the supply side most life insurance companies have a relatively unlimited manufacturing capacity if you ignore the capital constraints.

So for both these channels, IFAs and direct sales forces, the normal supply and demand relationships do not apply. The reason for this may be because when a life insurance product or an investment product is sold, what has been sold is not just the product but a mixture of a product, technical advice and ease of access to the product. That means that demand for the product is largely governed by the distribution channel.

If I turn now to look at products sold by a branch network, for example, a bank or building society, the fixed cost of a branch network makes it very attractive for a bank to try and pump more and more products through their bank branches. On a marginal basis these products are very profitable. Banks hope that by simplifying complex products such as pension products they can sell them through their branch networks. However, the methods usually chosen by them to try and accomplish this only lead to more problems.

For example, take remuneration. A reason often put forward for branch networks' inability to sell insurance products is the lack of appropriate incentives. However, banks sell a wide range of products through their branches and to try and build the appropriate incentives for all of these products into a remuneration package would lead to a highly complex performance measurement system and motivation system which would become untenable and could become misleading and ultimately could even lead to customer alienation.

If you consider technology, expert systems are still at the very early stage of their development and the best example I have seen of the use of technology in selling life insurance or other financial products is the use of hand-held computers in the U.S.A. These have led to an increase in productivity but in my opinion this is mainly because they are used to keep the salesman on track. Consequently I think they work well as a sales aid but they cannot replace the salesman.

Consider organisational changes. Past attempts to change organisations to be, for example, customer oriented or product oriented have tended to result in new problems in such areas as financial control or product development. Problems such as product substitution can arise that can make unprofitable customers even more unprofitable. These organisational changes are not unique to branch networks. Multiple sales force distribution channels can lead to problems of co-ordination which if unresolved, can also lead to customer alienation.

The impact of all of this is that the normal supply and demand relationships do not apply for financial products because of the significance of the distribution channel and this makes the marketing of financial products different from other consumer goods. Since the selling of complex financial products usually contains the granting of advice I would question whether the quotation in paragraph 1.3 from Drucker, namely that the aim of marketing is to make selling superfluous, is pertinent to complex financial products.

This leads to the conclusion that if financial institutions wish to sell the greater range of financial products they are going to have to rethink the distribution strategy very carefully and more importantly they are going to have to understand their customers much more. For example, in one study with which I am acquainted, a bank found that 50% of its profit came from 5% of its customers, a further 40% of its profit came from a further 20% of its customers and the remaining 10% of its profit came from the remaining 75% of its customers.

In order to sell a wider range of financial products I believe that companies would have to expand the distribution capabilities and adopt more of a customer orientation rather than a product orientation. This in turn would have a major impact on management requirements and organisation.

Mr A. C. Buchanan said: I should begin too by confessing that I am a member of the Faculty Marketing Research Group. It seems to be something of an occupational hazard for marketing actuaries. What I have to say tonight is of course in no way intended to be a minority report but rather some personal views which I hope are an extension of what the Group put forward.

I must confess to having felt a rather odd sensation when I first read the paper, which was before it was presented to the Institute. It was not until I read it for a second time prior to tonight's meeting that I began to place these feelings. In fact it took me back to the Christmases of many years ago when in the morning as a child I would be faced with all the wonderful-looking presents which were arranged round the Christmas tree. The feeling then, as now, was very much one of anticipation slightly tinged with frustration. Anticipation because of all the delights that were about to be unfolded; frustration because of not quite knowing which ones to open first and what to do with them all. So, in some ways, with tonight's paper.

I suspect this may be the natural result of what I would describe as very much a foundation paper in relation to what actuaries do and could be doing as far as marketing is concerned. Certainly the paper seems to pose more questions than it provides answers to; and perhaps reasonably so. But equally I think in some cases there are statements made which are not fully substantiated and I find that that is really one area of frustration. For example, in his opening remarks tonight Mr Iqbal noted that 95% of all building societies would be tied and provided one example of name awareness going wrong to prove that CAMIFA must fail.

As with any subject, but especially one as rambling and as elusive as marketing can be, it is important to try to firmly nail down a number of pivotal points. If for no other reason, this enables us to understand how the different parts of the subject relate to each other. In other words, it provides some form of perspective. We have already heard tonight what some of these pivotal points might be, distribution channels, the marketing audit of the company, and so on. But my own personal view is that there is one of these points which is certainly crucial and that is 'who is the customer'. Mr Knowles and others have referred to this point. Early in the paper, in paragraphs 1.2 and 1.3, Mr Iqbal touches on this quoting Levitt and Drucker respectively. And section 2.11 identifies the pivotal role of the question more directly but even here the analysis is rather fleeting. The question 'who is the customer' in that section is followed by ten further questions but no real answers—this being a typical marketing response of course. In this respect the position of the "buying decision maker" is very interesting. This concept is examined in section 4.4 and certainly in the context of life offices operating in the intermediary market, the paper may considerably understate its importance.

The theoretical position of identifying and satisfying the customer's needs and wants which was mentioned in section 3.1 is all very well but do the customers really know what these are? In many instances the marketing and sales processes (and like Mr Gupta I am by no means certain that these are as distinguishable as the author suggests) may well be very much aimed at creating the needs and wants. In the context of a life office operating in the intermediary market, the question 'what is marketing' may be answered as "the process whereby the office attempts to influence or change or perhaps even control the perceptions of the so-called buying decision makers with whom it transacts business". This is briefer than the author's comments in section 3 of the paper but to me it lies at the core of what we are discussing.

One final point, in paragraph 6.6.5 the author quotes surveys from Taylor Nelson as showing that most new insurance products "fail". Well perhaps they do by the measures used, but to me that begs the question 'how valid are these measures in analysing success?'.

Mr M. D. Paterson, closing the discussion, said: I have not been invited to join the Marketing Research Group! I enjoyed Mr Iqbal's paper very much. So much indeed, I could not wait for the Faculty meeting but rushed off to the Institute meeting in February as I did not know it was coming here. Thus I can compare the quality of the two discussions, but I do not think that would be politic.

Mr Knowles mentioned that everybody in our organisation should be marketing and I certainly agree with that. I think, probably, that one should have a Marketing Department but I hope that if a Marketing Department is set up it does not make other people think that their duties regarding marketing are thereby taken away. He also mentioned he thought that marketing was easier for a mutual who worked on a different timescale. I think there is some truth in that. I think that only an organisation where most of the members were mutuals would ever have thought up something like CAMIFA and kept it going through all the tribulations that were put in its way. I think that even with mutual marketing, however, patience is not inexhaustible.

Mr Milne told the great lie of the night when he said he was speaking for the Marketing Research Group! He also said 9% of actuaries and 8% of students in the Faculty currently were working on the marketing side and wondered if this was a growing trend. In my own office in the 19th century most of our branch managers were FFAs. At that time we did not have very many branches and actuaries were ten a penny. Throughout the post-war period actuaries have been involved in the maketing side. I can think of agency managers in various offices over the years such as Bateman, Stepney, Cavaye, Hogarth. I think the percentage has grown slightly but there have always been actuaries turning their hand to that kind of thing.

Mr Thomson said he hopes Mr Iqbal is incorrect. He is not the only one! Mr Buchanan mentioned the Taylor Nelson Statement about insurance products most of which fail. Most of these products are not real products though—they are only the 58th version of a product which was brought out years ago by somebody else. They are not talking about genuine innovation. I think that they are analysing the 'me too' syndrome.

It was only when I reached Appendix 1 and the reference to Copernicus that I actually understood what the circles in 1978 were all about in Exhibit 1. I am still puzzled by the diagram for 1998. In view of the scary remarks at various places in the paper I take it that the change over the 20 years expressed diagramatically is perhaps not intended to convey the impression that all retail financial services will by then revolve round protection? Just look at the diagram. That would indeed give the actuarial profession a place in the sun. I agree with Mr McLean's comments on the 1998 diagram. It does not convey who owns whom. Take unit trusts for example. I would imagine quite a lot of the unit trusts sales in 1998, even if you accept the size of their sector, would actually be by life offices or organisations owned by banks and building societies. I do not think it should be a separate element and the various amounts of shading could look entirely different on a who owns whom basis.

In paragraph 8.10.22 there is no mention of the effect of polarisation in deciding what the market shares are going to be. Table 2 suggests that the FSA will change the market from being two-thirds independent intermediaries to 50% or less being independent. That was before the cheery update. However, whatever point you start from, there is a difficulty in measuring the market share enjoyed in recent years by the middle ground. Such people while masquerading as independent until April 1988 were, in practice, giving the bulk of their business to one office. Now they are probably tied to that office. Thus the apparent swing which has occurred this year by not having as many members in FIMBRA as they thought has not made much difference to the market share of the various offices. The tying of estate agencies and building societies is quite a different story though.

In Appendix 3 in paragraph 3.3.8 catch 22 is mentioned. That is the bonus catch. Declarations at the end of 1987 which I think came after the paper went to press have made a move towards solving the problem for a number of offices by changing the shape of reversionary bonus. Actually a less heralded but more effective measure has been the introduction of unitised with-profit funds with much less new business strain. This applies mainly to pensions business which is the most rapidly growing sector at the moment.

Talking about unitised with-profits makes me think of section 5.4 of the paper about competitors' data. Mr Iqbal complains, correctly, about imperfections in the data. Unitised with-profits is the worst for that. In the ABI figures that are published quarterly it is classified by some offices as unit-linked. Many offices have a hybrid contract for pensions business where switching among unitised with-profits, equity, property, cash, etc., is permitted. In practice about 80% of this business is with-profits and by returning this as unit-linked the ABI figures give the impression there is a sharp swing to unit-linked which is actually not taking place. When a major life office has all its business in with-profits one year and all of it including 80% of with-profits business in unit-linked the next year there is apparently a big industry swing and that has happened in several different years. I understand that the ABI are trying to make all offices split the figures accurately for hybrid contracts.

Mr Milne asked for more ABI figures. I presume he was only meaning total figures for the industry with better sub-division. I do not think that the ABI coud publish all the offices' figures individually. I think that sharing data has to be by consenting offices in private. In that connection it is currently on a reciprocal basis, but why do some offices delay their issue until the information is historic?

Turning back to Appendix 3 in paragraph 3.3.5 the "Swot Analysis", the competitive advantages, are listed and mutuality is not mentioned. Perhaps the author feels because of paragraph 3.3.8 it is not an advantage. This paper in part dates quickly because it has tried to be topical but I hope this will not deter actuaries reading it again, say in 1995. The fundamental questions are asked. I am not complaining about all the questions asked without answers being provided, I thought that was the right approach. The fundamental questions asked particularly in sections 9 and 10 will not date.

Take paragraph 9.1.1, "What business are we in?" That is a good question any time. A particularly good one within a week of a major life office withdrawing from part of the protection market because of AIDS. If we are only willing to sell life assurance as an add-on to assume that we capture our core business, our core business presumably being long-term savings, could we be surprised if the Inland Revenue on reviewing life office taxation ask "What business are you in?". If we do not sell term assurance separately at least we will not be the victims of unbundling.

In section 3, The Role of Marketing—it refers to customers' needs and the big question "Do the customers understand". Well Mr Gray said they do not understand the products even if we try to tell them. They are not interested in products—what they want is financial advice and security. Either they might die too soon or they might live too long or have money to invest or they want to buy a house. These are the problems and they are looking for solutions to these problems. They do not want to pay a fee for the advice. Even in the business mentioned on the very first page of the paper, I am led to believe there is no requirement to disclose separately the costs of bringing together the buyer and the seller. The Government has also created a tax structure where fees are much more expensive for the consumer as well as inherently more unpleasant to pay than commission.

Mr Knowles said the real customer is the person who hands over the money. Mr Milne says the decision to buy lies with the salesman. Mr Goodman split the whole service industry into three elements which I agreed with. There is no doubt the salesman is very critical in this and this being sold not bought leads me to the conclusion that one must have products with some degree of being user friendly but life offices are basically manufacturers who design their products to be sold not bought. This means some of the most important features of the product are those fulfilling the salesman's needs rather than the consumer's. For example, who wants low surrender values? They are only there because the salesman insists on getting the money upfront so the product must have low surrender values. It is because of the salesman that we have broker bonds. It is certainly not because of the consumer that an assumption of 80% of reversionary bonus and none of the terminal bonuses determines exactly the funding rate required to repay the mortgage. Again it is the salesman who causes the emphasis on whole life rather than term assurance. Do you think it is coincidence that now surrender values must appear in illustrations and within a few months a whole life policy has more features added such as paying the sum assured when the policyholder has a coronary? Why not a term assurance with that feature? Even the with-profit illustrations went though a telephone number stage for years because of life offices competing with each other to obtain intermediaries' business. Intermediaries were sometimes in competition with other intermediaries and they wanted telephone number illustrations to trump them. Sales to the public have actually grown rapidly on the more restrained ABI Rules showing the high numbers had nothing to do with the public buying.

The Financial Services Act was intended to address, among other problems, abuses in selling life assurance products. Mr Westall mentioned the research where price came in tenth and this proves once again that the consumer simply does not understand the product. If he does not understand the product, is the Financial Services Act there to protect him? Perhaps some of this discussion is about what is acceptable marketing. If the consumer does not understand the nature of the price is it right that some people should charge him twice as much as other people for the same thing? But unless the SIB is very careful they will make matters worse for the consumers in some respects. Now when I say worse I am speaking as an actuary. Perhaps my Scottish CAMIFA Mutual heart is on my sleeve. If there is no level playing field for disclosure of commission then less packaged investments and life cover will be sold through independent intermediaries. Mr Westall put that point very strongly. Now an actuary would say this is worse because acquisition expenses will go up and hence maturity payments will go down a little. Surrender values at the early durations will go down a lot. A lower proportion of new business will be directed to offices because of current best advice criteria. Now will the public actually think that is worse? At the moment the difference in maturity values can be seen, the difference in surrender values can be seen but even the financial press do not seem to be making much of that. When building societies go tied you can see how surrender values must drop. On the other hand, perhaps higher acquisition costs would tackle the problem of the 40% of adults with no life assurance so it could be an argument the other way. The problem is that without the level playing field, considering the life office's customer being the consumer, will be reduced further in priority. If, say, 60% or 70% of the market decides to be tied then the balance between the independent and the tied distribution systems is lost because the major life offices would all be likely to be in the major part of the market competing for distribution outlets rather than competing on product and price.

The problem mentioned in paragraph 9.7.2 was called last week in the trade press the "leper" clause—that is not to let your product be on sale at two different prices. There is an increasing economy of scale in life assurance. If all the big offices are forced into the tied market by SIB's rules, price for the product would shift in the direction of the tied distribution costs. If they are getting economy of scale it may be that smaller offices seeking a niche market on the independent side may not provide cheaper products. The problem is that competition for the salesmen then being the core activity of our marketing might cause the industry to lose ground to other savings media and cause public disquiet at the soaring costs. Perhaps the time might even come when Professor Gower would be called out of retirement to study the problem. He might come up with the South African solution because they have been through all this. They are beyond the mature and into the decline stage of the product—a free for all. They have come up with the solution—statutory control of salesmen's remuneration being introduced at the same level whether tied or independent. Are you a little bewildered and confused-about all that? Do not worry, that will be the time when you re-read Mr Iqbal's paper.

Mr M. Iqbal, replying to the discussion, said: I may be less coy than Mr Paterson. The discussion here has really been much better and much more detailed than we had at the Institute. It has also left me with a problem which is that I have not been able to take notes as fast as I could have, so perhaps it is easier for me to summarise very quickly and I will just skate over one or two issues.

Mr Knowles referred to the five categories of investors and my reference to connoisseurs and pragmatists being the target market for unit trusts. It was not clear to me whether he was asking me or whether he was telling me whether this accorded with Marks & Spencers' experience. If he was asking me, I do not know. On direct marketing he was referring to the fact that it is very price insensitive, which is true, but only up to a point. I think most companies have found in the direct marketing of savings plans that the response rates have come down after the ABI guidelines were introduced because I think the public have some sort of intuitive perception of value for money. Not a comparative value for money, but if you ask them to pay £1,200 over 12 years and you give an illustrative figure of £1,400 then they probably feel that it is not worthwhile. Also I would challenge his suggestion that lapse experience is good. I have seen that with two major direct marketing companies lapse experience is pretty bad. It is probably the fact that they target at a very low premium size.

I was very interested to hear from Mr Milne the suggestions for missions for mutuals. As somebody who has never worked for a mutual company I have never even known what makes them tick. The perceived mythology amongst proprietary companies is that they are inefficient as there are no shareholders to drive them and consequently the company is run for the benefit of the senior management. Further credence to that view is lent by the fact that the chairman—I do not know whether he is the current or the past chairman—of the biggest mutual company, has the name, 'Take No Risk—T.N. Risk'. Anyway the record of the achievement of most of the mutuals gives lie to that, so I am not really sure what makes them tick. Mr Scurfield of the Norwich Union has said that they have some sort of missionary zeal to persuade more and more people to join their fold. Most of the missions that Mr Milne outlined were really financial ones maximising market share, maintaining the size of the estate, which were not really missions in the sense that I would describe them.

I think it was Mr Gibson who spoke after Mr Milne who talked about building societies looking again at this question of independence and whether it was really worthwhile and would it give them an extra market share. It is really, I suppose, the point I was making at the beginning. What is interesting is that they sort of say that the customer is a sort of gravy train from whom they make £x out of mortgages, £x out of commission on the endowment. If there is another £x of profit from the endowment why cannot we have all? I think it is fine in theory. Although I believe that many of them would end up having their own product company than becoming tied in some form or other, they will find at the end of the day that those margins will be squeezed, if not through competition at least through OFT. So the pressures on reducing the number of players would still be there.

Mr McLean made some very detailed submissions earlier which I would need to read in writing because he was going through fairly rapidly a number of points. He referred to the fact that I did not make adequate reference to Porter which is a fair point. He gave various examples. In particular his reference to the value chain is something my present company uses quite extensively. One or two speakers talked about the examples I gave right at the beginning of my paper, the two diagrams, the concentrated rings and wondered whether they refer to product companies or not. The description is of companies defined by their starting position. So the sector life assurance is companies like Standard Life or Royal or Norwich Union even if they happen to be going into other fields. That may make it a little easier to follow. Mr McLean referred to the fact that I had suggested that until recently intangible products cannot be branded. I meant financial products rather than intangible products generally. It is quite clear he comes from a unit-linked background because most of his comments were from the field of unit trusts and although his points are valid, I would say that generally it is a prescription for a niche market strategy rather than as a major player and nothing that I have seen by unit trust companies, maybe the Prudential is an exception, but nothing that I have seen indicates to me that they set themselves up to be anything other than a supplier of products that are recommended by others. That being the case they will get only "Execution Only" business and their business and profits will be very cyclical.

Mr Westall made some very interesting observations. He is really talking of active versus passive distribution systems and I think it is partly connected to whether there is an active demand for the product or a latent one that they have to actually stimulate. I do not really disagree with most of what he says. He refers to the brown grass syndrome which I think deep down must be right. I still question whether it is a valid basis to go into other industries. If you are not good enough to run your own business what right do you have to think that you can do others better than they can. But that seems to be a fallacy all of us seem to be following.

Finally, before I outstay my welcome, Mr Gupta and one other speaker referred to a quotation from Drucker at the beginning where he said that the role of marketing is to make selling superfluous and whether this was really true in the case of life assurance. I think the answer apart from one or two limited exceptions is that it is not true and the reason is, as I have said in some part of my paper, that the salesman's advice is an integral part of the product, so almost by definition you cannot make the selling process redundant, because it is the selling process that constitutes the delivery of the advice.