

INSTITUTE AND FACULTY OF ACTUARIES

220

Subject CP3 – Communication Practice

Core Practices

Scenario Material

INSTRUCTIONS FOR CANDIDATES

You are provided with this advance information to enable you to read and understand it in your own time, and not under examination conditions. Please note that this is an examination to test your ability to communicate technical information to a non-technical audience. It is not a test of your technical actuarial knowledge or skills. As such, any technical actuarial information or techniques needed to answer the question will be provided to you. You do not need to spend time revising other subjects or researching further detail on the topics covered in the paper.

Background

SalesMachine PLC, a leading direct-marketing organisation in your country, has identified a new business opportunity: using its established distribution channels to enter the insurance market. This document contains some general information on the organisation, as well as some detail on the new business opportunity.

Specific sections are:

1. Internal Strategy Memo
2. Product Specification
3. SalesMachine PLC's Marketing Committee Document.

A Business Case spreadsheet has also been provided, which includes assumptions and financial projections for the proposals set out in this scenario material.

Direct marketing organisations build a network of potential customers through various means such as buying data from other organisations. They will use these data to produce tailored marketing campaigns for specific products, aimed at groups of customers who they believe have a higher chance of purchasing those products.

1 Internal Strategy Memo

From: R Olivier (CEO) <rolivier@salesmachine.com>

To: All SalesMachine staff

Date: 2 April 2020

Subject: New Insurance Opportunity

Good day everyone,

Firstly, I would like to thank each and every one of you for an incredible start to the year. Sales were up 15% for the first quarter compared to Q1 last year and we are well on track to achieving our best financial year in our organisation's history. Well done to each of you!

I would also like to use this opportunity to communicate a very exciting new opportunity for SalesMachine, which I believe will be critical in continuing our growth trajectory over the next 5 years. A press release will be published today, but I wanted to personally update all of you. As of last night, SalesMachine has entered into a joint venture agreement with ABC Insurance where we will create and sell a range of simple but relevant insurance products to the SalesMachine customer base. Initially we plan to launch the ABC Family Funeral Insurance Plan, and more details will be released in the coming weeks. Profits and costs will be shared equally between both us and ABC.

I would like to take a minute to share with you some of the background and rationale behind this strategic decision to enter the insurance market.

Background on the partners

As you all know SalesMachine has been in business for over 20 years. Over this time we have built one of the strongest direct marketing organisations in our country. Our key competency lies in our ability to source products which appeal to a large target audience, create branding and marketing which gets customers excited, and then effectively sell through our mail-order, telephone sales and online distribution channels. We have invested heavily in technology, people and infrastructure over the past 5 years and we are now well positioned to expand our business.

In looking for an insurance partner we have selected ABC Insurance as it shares our passion and ambition for growth. It has been around for over 90 years and has a deep understanding of all aspects of insurance product development.

We have chosen the insurance market for three primary reasons:

- 1) Our customer research has shown a strong demand in the mass-market for simple insurance offerings, especially for customers aged 20–40. Existing insurance providers have not been successful in meeting customer demand and are focused on selling complex offerings through financial advisors. It is therefore critical that both our product and sales process be as quick, simple and straightforward as possible.
- 2) One of the vulnerabilities in our current business model is our reliance on sustained consumer spending. Over 90% of our revenues in any given month are as a result of new business generated in that month. This leaves us vulnerable to a significant drop in earnings should the economy weaken.

This is not the case in insurance, where a policy sold today will produce premium income for many months and even years to come, and research indicates that customers tend to continue to pay premiums even if the economy is not doing well. This will help to mitigate the risk in earnings volatility, which is important to our shareholders.

- 3) The management at SalesMachine are eager to diversify our product offering. 45% of revenue in the last quarter came from our two top-selling products, the Ab-Monster 3000 fitness equipment and Wonder-Paint. We need to continually find new products which suit our distribution, and not wait for demand on our existing products to diminish.

The project will be run through our regular business units in collaboration with the team at ABC Insurance. Any questions or concerns should be raised with the SalesMachine Marketing Committee who are ultimately responsible for the successful execution of this insurance strategy.

More information will be communicated as details of the project unfold.

Regards
R Olivier
CEO SalesMachine PLC

2 Product Specification

Product Name:

ABC Family Funeral Insurance Plan

Target Market:

Mass-market customer, typically aged 20–40.

Employed individuals with a partner and/or financial dependants.

Earning \$1,000–\$5,000 per month.

Customer Need:

Immediate cash payment on death to cover funeral and related expenses.

Sales Channel(s):

Telemarketing, Online

Minimum Entry Age:

18 years old (age next quarter birthday)

Term:

Whole of life

Sum assured:

\$5,000 to \$30,000 paid within 24 hours of receiving all claims documentation.

Premium:

\$5–\$30 per month

Lives insured:

Main policyholder and partner

Underwriting:

No medical underwriting.

Exclusions:

Claims arising from activities linked to extreme sports.

Pre-existing medical conditions.

War and/or terrorism.

3 SalesMachine PLC's Marketing Committee Scope Document

Purpose

The stated purpose of the SalesMachine Marketing Committee is to provide approval for all new products and/or sales campaigns run by SalesMachine, as well as oversight of, and accountability for, their successful implementation. For governance purposes the committee is comprised of both internal and external members with a track record of success in sales and marketing ventures.

Key Performance Indicators

The SalesMachine Marketing Committee measure their success in terms of monthly sales volumes, revenue and profit-margins. Remuneration and bonuses of committee members is linked directly to Quarterly Profits Before Tax (PBT) versus the business plan.

Member Biographies

- Ms Lehman (age 53) – Masters in Marketing from Signature Business School. Previously head of product for XYZ Fitness Equipment PLC. Currently executive head of sales for SalesMachine.
- Ms Sachs (age 37) – PhD in Physics from Wizz University. Executive head of Analytics and Business Intelligence for SalesMachine.
- Mr Chase (age 44) – Masters in Operations Management. Previously logistics manager for Delta Tyres & Co. Currently executive head of operations and campaigns for SalesMachine.
- Mr Stanley (age 64) – MBA from Traditional School Europe. Non-Executive. Head of brands for Fancy Perfume Industries.
- Mr Suisse (aged 62) – MBA from Elegant School Asia. Non-Executive. Co-founder and CEO of Deluxe Leather Goods International.

END OF SCENARIO MATERIAL