Presented to the Institute of Actuaries Students’ Society

on 17th January 1984

THE DIRECT MARKETING OF
LIFE ASSURANCE
IN THE UNITED KINGDOM

by

Elaine Fairless
CONTENTS

A. INTRODUCTION.

B. BACKGROUND.
   1) Definition and Scope.
   2) Why do people respond to Direct Marketing?
   3) Why sell life assurance by Direct Marketing?
   4) History.

C. LEGISLATION and VOLUNTARY CONTROLS.
   1) General Principles.
   2) Contracts.
   3) The Post Office.
   4) Codes of Practice.
   5) The BDMA Code of Practice.
   6) Mailing Preference Service.
   7) ROLAC and Direct Marketing.

D. DIRECT RESPONSE MEDIA.
   1) Direct Mail
   2) Door to Door Leaflets.
   3) Newspapers.
   4) Magazines.
   5) The Broadcast Media.
   6) The Telephone.
   7) Posters.
E. DIRECT MAIL.

1. Package design.
2. Mailing lists.
3. The Post Office.

F. PUBLICATIONS.

2. Timing.
3. Position.
4. Size.
5. Repetition.
6. Design.
7. Product Range.

G. TESTING.

1. Methods of Testing.
2. Timing.
3. Reliability of Results.
4. Administration.
H. TECHNICAL CONSIDERATIONS.

1. Persistency.
2. Mortality Considerations.
3. Underwriting.
4. Reassurance.
5. Intermediaries.

I. THE FUTURE.

1. Videotex.
2. Gateway.
3. Cable/Satellite.
4. VCRs, Discs and Personal Computers.
5. Implications for Direct Marketing.

J. CONCLUSION

1. Summary
2. Acknowledgements
3. References
A. INTRODUCTION

This paper represents a rather idiosyncratic view of Direct Marketing. I have tended to concentrate on those areas that are peculiar to this art and which would not necessarily be familiar to the Actuarial Profession in the normal course of events. At the same time, I hope that it will prove to be of some interest to those practising in this area. This paper, therefore, undoubtably has a marketing rather than a technical bias and I hope that it will be read in that spirit.

Studying the subject in greater depth, I rapidly reached the conclusion that it was not possible to obtain reliable and consistent information on response rates and costs. These are areas where trade secrets still abound.

Direct response marketing is a subject that will impinge upon our lives to a greater and greater extent. I hope that this paper will enable the reader to look upon direct response advertising in a more well-informed way in the future.
B. BACKGROUND

1. Definition and Scope

The accepted definition of Direct Marketing, created by the umbrella organisation of Direct Marketing in the United States, the DMMA (Direct Mail/Marketing Association) is:-

"Direct (Response) Marketing is the total of activities by which products and services are offered to market segments in one or more media for informational purposes, or to solicit a direct response from a present or prospective customer or contributor by mail, telephone or other access." (A)

Thus Direct Marketing, also known as Direct Response Marketing, Media Response Marketing, Direct Response Advertising or Mass Marketing is a marketing system and not an industry. The "target market" includes both present and potential customers. The choice of media includes direct mail, newspapers, magazines, radio and television which can be used singly or in combination. The objective can be to obtain inquiries or to sell directly. Underlying all Direct Marketing success is the ability to trigger a direct measurable action at the right cost.

A more pertinent definition for the insurance industry may be:-

"Any activity which creates and profitably exploits a direct relationship between you and your prospect." (B)
In this context "you" may mean an insurance company, a broker or other intermediary.

The setting up of this direct relationship has two consequences:-

1. It is usually possible to measure the results of Direct Marketing activity, often very accurately.

2. It is usually possible to record the names and addresses of the people who react to an offer, and keep these addresses so that the respondents can be contacted again.

These points can be extended as follows:-

a) The ability to measure response means that the copy can be altered and tests conducted in order to improve response rates.

b) The ability to "capture" names means that people can be contacted again and a continuing relationship can be established with clients or prospects.

It is these two features that make Direct Marketing unique.
2. Why Do People Respond to Direct Marketing?

1) **Time Saving**

    Prospects often prefer to read clearly written explanatory material at their leisure.

2) **Convenience**

    This is allied to saving time.

3) **Embarrassment**

    Many people prefer not to deal face to face. This can be particularly true in the case of the purchase of life assurance.

4) **Information**

    It is possible to be given more information in a written advertisement or mail shot. More time will be available to read it and consider it than if a salesman is trying to "close a sale".

5) **Security**

    It is possible to emphasize the concept of "being under no obligation" when the initial response is made.
6) Politeness

The written word can be more polite and flattering without appearing insincere.

7) Unique

It is possible to offer a unique product or unique special offer by direct response. Thus if the prospect wishes to buy he will have to respond or do without.

8) Price

Prospects generally believe that a product bought direct will be a bargain whether it is or not.

3. Why sell Life Assurance by Direct Marketing?

1) The Product

Life Assurance is intangible. It is often very much easier to "sell the need" via the printed word. Use of line drawings or photographs encourages the prospect to identify with the product's benefits.

2) Distribution

Unlike the majority of goods sold by Direct Marketing there are no inventory or stock control problems. Similarly the life assurance contract does not have a "shelf life", neither is storage, packing or delivery a problem.
3) **Marketing Potential**

Life assurance is highly marketable. The general public expect to be "sold" the product and therefore are more susceptible. Contracts tend to become out of date only very slowly and it is often possible to revamp them to include the current "flavour of the month" to obtain a marketing advantage.

4) **Premium Offers**

There are a large variety of premium offers and benefits that can form part of a life contract sold by Direct Mail.

These include:-

- Deviated first premium.
- First month's cover free.
- Free gifts.
- Guaranteed acceptance.
- Special options.
- Free accident cover.
- Tax advantages.

All these can of course be accounted for in the basic pricing of the product.
5) **Target Market**

It is quite costly for a broker or salesman to sell a life assurance product, and intermediaries generally tend to be remunerated on a basis that relates to the premium income they generate. Thus they prefer to concentrate on selling high premium products to the AB market segments.

However, Direct Marketing can provide an ideal opportunity for selling to the C1C2 market segments. Direct Marketing methods are normally less costly so that it becomes viable, especially in these days of computerised administration, to sell lower premium products to this market segment.

6) **Statutory Notice**

The issue of a Statutory Notice is a unique opportunity to reinforce the original sale. In addition many marketeers stress this legal obligation as a selling point e.g. "money back guarantee".

7) **Long Term**

The selling of the life assurance contract forms the basis of a long term relationship between the insurance company and the applicant. It will be necessary to maintain contact with the policyholder, for example when issuing bonus notices. This contract provides opportunities for selling further products.
8) **Direct Debits**

The increasing use of variable direct debit mandates has enabled more increasing premium products to be sold. This in itself can ensure an increasing amount of premium being received each year from the policyholder, at very little administrative cost.

4. **History**

Until the 1970's the U.K market paid scant attention to direct response sales methods. Enquiry cards would often be included with bonus notices, renewal notices or copies of Reports and Accounts. These would produce a good crop of change of address notifications but a dismal flow of new business.

Direct response newspaper advertising was regarded as improper since it placed an office in competition with its brokers and only a few non-broker offices practised the art.

Several companies also experimented with inserts in magazines but these were generally unsophisticated and did not elicit significant levels of response.

Instead the insurance companies concentrated on marketing their product range, investment expertise and corporate image whilst the BIA and LOA promoted the strength of the insurance industry in general.
In the meantime, in the United States, Direct Marketeers were turning their attention to the Insurance Industry. They realised that their techniques could also be applied to selling insurance which had the advantages over more conventional products of having no stock control or transportation problems and in addition the cost of selling by this method could be embodied in the price of the product. Over a period of several years these techniques were tested and refined and several extremely successful companies emerged.

The experts in Direct Marketing then decided to turn their attention to Great Britain and Western Europe. At first the British response as very unenthusiastic, many companies were approached but the response was always negative. The breakthrough, when it came was with a subsidiary of an American Company which needed sales to replace its much diminished sales force. The initial market was members of the Automatic Association - a motoring organisation with a membership and hence a mailing list of more than 5 million adults.

The next major development occurred early in the second half of the decade. This time the vehicle was a daily newspaper - issued nationwide in the U.K. Although the sales technique was good, the enormous success achieved is really attributable to the product. Another import from the United States, the "Over 50's" plan, offered guaranteed cover to that age group without any evidence of health, subject to the limitation of return of premiums on death in the first two or three years.
After this, one or two major offices were converted and launched multi-million pound sales campaigns through post and press. The remainder of the market then sensed that they might be missing out and at the present time we are experiencing a bandwagon effect with a substantial number of offices either involved or actively thinking about it.
C. LEGAL CONSIDERATIONS AND VOLUNTARY CONTROLS

This section briefly outlines those areas of consumer protection law that relate specifically to Direct Marketing - Consumer Legislation applicable to insurance in general, for example, the Policyholders Protection Act 1975 is not covered.

Consumer protection law, as we know it today, is no new thing. Most of the major statutes which are popularly considered to be for the protection of the consumer have their origins in the eighteenth century and earlier.

The term "consumer protection law" is itself misleading. The truth is that important acts of parliament such as the Trade Descriptions Act 1968 and the Sale of Goods Act 1979 are constructed to hold a fair balance between the seller and the buyer. They are "fair trading laws" and cover every aspect of trading activity from manufacture, to advertising, labelling, distribution, pricing, delivery and retailing. These laws are concerned with contract, quantity, quality, safety, price and description.

As laws have been developed to control trading practices so various systems of voluntary self-regulation have grown too. Such systems are based on codes of practice which are devised by trade and professional associations to govern the activities of their members again, there is nothing new in self regulation. In the fourteenth century craft guilds promoted rules of conduct for their members and from time to time the crown, and later parliament, gave statutory recognition to codes of practice to reinforce their effectiveness and this process continues.
1. General Principles

a) Criminal Laws

These are passed by the State for the protection of the population in general. If Parliament considers that a certain activity is undesirable, then it passes a law against it, and a breach of that law is a crime. Such breaches may be prosecuted in the magistrates courts or the crown courts and if proved, may be punished by a fine or imprisonment. In trading law it is a crime to misdescribe goods sold to the public.

b) Civil Laws

These are also passed by the State and they set up rules on which disputes between two or more individuals, or companies may be solved by the courts. If a trader is in breach of contract the buyer may sue him in the civil courts. If the court finds for the buyer the seller may be ordered to pay damages, or to provide some other remedy to recompense the buyer. An action in a civil court does not result in a fine or imprisonment, and actions at civil law are not recorded as convictions.
c) **Statutes**

These are Acts of Parliament which have been right through the Parliamentary process. They begin life as a Bill and then go through stages known as "reading" in both Houses of Parliament, plus a committee stage during which the bill is considered in detail. After completing all stages the bill receives the Royal assent and becomes an Act of Parliament. Statutes are both criminal and civil law. The Trade Descriptions Act 1968 is a criminal statute and the Unfair Contract Terms Act 1977 is a civil statute, but both are concerned with fair trading.

d) **Regulations**

These are made by government departments under powers granted by a statute. Because it necessarily takes a long time to get a statute through the parliamentary processes and because matters of a technical or complex nature cannot be dealt with by statute it is common for Ministers of the crown to be given such powers. The regulations are known as Statutory Instruments. Once regulations have been made it is merely necessary for them to be laid on a table of the House of Commons for a prescribed period of time after which they become law sometimes regulations can create criminal offences just as if they were a statute and a breach of them can be prosecuted in the courts. In other cases the regulations merely add detail to the principles created by the statute concerned. The Consumer Credit (advertisement) Regulations 1980 are regulations made under the Consumer Credit Act 1974, but they create offences for advertising contrary to their requirements.
e) **Prosecutions**

These result from a breach of the criminal law and are heard, in nearly all trading matters, in the magistrates' courts. In some serious cases under the Trade Descriptions Act, for example, it is open to the prosecutor to apply for "indictment", that is, a trial before a jury in the crown court, which is a superior court to the magistrates' court.

Most criminal laws restrict the power to prosecute to a public authority. In most trading matters this a nearly always the local trading standards department of the County Council or London Borough Council. In Scotland it is the Regional Councils. However, any private citizen can bring a prosecution under the Trade Descriptions Act 1968 and certain other statutes.

It is very unusual for private citizens to bring prosecution in trading matters. The law is complex and the risk of high courts in the event of failure is daunting. Furthermore, a unsuccessful prosecution may result in a fine but that does nothing for the consumer unless he can obtain a compensation order from the criminal court.
e) **Actions or Suits**

These are brought by a private citizen or a company against another in respect of breaches of contract and many other matters. These are actions at civil law and in trading matters nearly all of them take place in the local county court. All civil cases are brought by private citizens or companies. Public authorities never take action on behalf of others, although they may, through their consumer advice services, give information about how it can be done. But under recent changes the traditional distinction between criminal and civil law has been blurred. It is now possible, and indeed quite common, for local authorities to ask for an order of compensation on behalf of an aggrieved purchaser at the conclusion of a successful trial at criminal law.

A prosecution and a civil action can often flow from the same circumstances.

2. **Contracts**

A contract is any agreement between two or more people to sell and buy goods or a service for a money payment.

The law protecting the consumer comes from four very important statutes which are inextricably interwoven by amendments. They are the supply of goods (Implied Terms) Act 1973, the Unfair Contract Terms Act 1977, the Sale of Goods Act 1979 and the Misrepresentation Act 1967. The main effects of these are:-
a) Goods or services must correspond to the description given of them. The rules are set by the 1973 and 1979 Acts but if there is any substantial misrepresentation in the contract then that contract may be rescinded by the terms of the 1967 act.

b) Goods or services must be fit for the purpose intended for them. By this is meant that where the buyer relies on the advice of the seller in selecting something to meet his needs and accepts that advice then the goods must live up to that expectation.

3. The Post Office

The liability of the Post Office is limited by law. Under the Post Office Act 1969, for example, all liability is removed from the Post Office or its employees in respect of the loss of mail or failure to collect or deliver and only limited liability is allowed in respect of registered mail. However the Post Office operates a voluntary code of practice under which it provides compensation of up to £12.50 under ordinary mail services where it can be shown that a letter or parcel has been damaged or lost in the post. The limits under the recorded delivery service are £18 and there is a maximum of £800 under registered mail.

Except in respect of failure under certain insurance schemes the Post Office cannot be sued for breach of contract whereas other carriers can.
5. Codes of Practice

The Director General of Fair Trading is under a duty by virtue of the Fair Trading Act 1973 to encourage and promote Codes of good practice amongst trade associations. Recognition of a code of practice is a "badge of respectability" and all such codes currently in operation and which have any practical value have been recognised by the Director General.

There are three basic types of code:-

a) The enforceable code of practice. This is a code where the trade association has sanctions which it can impose upon members who do not comply. The best example is the British Code of Advertising Practice under which the Advertising Standard Authority can recommend to the media organisations that they should withdraw advertising space or facilities from an advertiser who is deemed to be in breach of the code.

b) The remedial code of practice. This is by far the largest group and includes all codes where there is a conciliation and/or arbitration scheme under which members of the public may complain with a view to obtaining redress from the trader who is in breach of the code. Such codes provide a united alternative to process at civil law and do much to retain customer goodwill for the industry concerned.
c) Pious codes of practice. These are codes which seek to establish rules of good conduct for members of a trade association but make no provisions for enforcement or redress. They are little more than an expression of good intent by an industry and are generally not thought to be of great value.

There are currently 29 codes of practice recognised by the Director General of Fair Trading and the number grows every year. The weakness in codes of practice is that they can only apply to traders who belong to trade associations and by definition they are likely to be the ones who need control the least. That is why moves are now under way to give the Director General certain injunctive powers to apply to traders who are in breach of codes but not subject to them.

5. The BDMA Code of Practice

The BDMA has had a Direct Marketing Code of Practice recognised by the Director General of Fair Trading that has been in operation for over two years. However as a result of negotiations between the BDMA the Association of Mail Order Publishers with a view to a merger, it has been agreed that a new joint code should be developed and that this code should be submitted to the Office of Fair Trading for recognition. At the time of writing, work is now at an advanced stage for the submission of a final draft.
6. Mailing Preference Service

This is organized with the active cooperation of:-

The Association of Mail Order Publishers.
The British Direct Marketing Association.
The British List Brokers' Association.
The Direct Mail Producers' Association.
The Mail Order Traders' Association.
The Mail Users' Association.

and supported by the Post Office.

This service was set up in 1982 in order to give members of the public the opportunity to either a) to have their names excluded wherever possible from mailing lists or b) to receive more offers by mail and to state which categories they are particularly interested in.

The service was primarily set up to counteract criticism that too much unsolicited mail was being sent through the post. However, to date, it would appear that the majority of respondents to the service have requested more, rather than less mail.

7. ROLAC and Direct Marketing.

The draft agreement on the Regulation of Life Assurance Commissions contains areas which would specifically affect Direct Marketing.
Permissible

a) Servicing of intermediary by Inspector.
b) Normal and reasonable business entertainment.
c) Promotional gifts bearing the company name to the value of £25, e.g. diaries, pens, blotters, golf balls etc.
d) Quotation Service.
e) Computer software solely for providing individual office's quotations at no cost to the intermediary.
f) Briefing on office's products to an intermediary - organised training course.
g) Provision of office's own sales or marketing material (which may be overprinted with the intermediary's name and address).
h) Joint Marketing Ventures - Where the intermediary gets Commission - either all costs of the provision must be offset against commission and the agreement must incorporate and appropriate recovery of cost clause if costs exceed commission generated or all costs to be paid by the intermediary.
Disallowed

a) Postages.
b) Telephone bills.
c) Advertising on behalf of or for the benefit of the intermediary.
d) Travel costs of the intermediary.
e) Hotel bills of the intermediary.
f) Provision of holidays.
g) Provision of motor cars.
h) Subsidised rents and office accommodation.

Available to the Intermediary at reasonable Commercial Cost.

a) Computer hardware or other office equipment.
b) Computer software packages.
c) General training for the staff or sales force of the intermediary.
d) Loans.
e) Intermediary's printing.

Many offices felt that the ROLAC Consultative Paper had been drafted without consideration of the Direct Marketing sector of the Industry.
At the time of writing however, it appears likely that these restrictions will be modified so that it will be possible for an office to make a continuation of up to 50% of the cost of joint marketing direct response campaigns subject to certain conditions. This is seen as an areas where the commission rules can be developed to permit further scope for such ventures as time goes on.

8. Data Protection Bill

This Bill was introduced during the last parliamentary session to implement the European Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data. However it did not proceed when the general election was called. Nevertheless it is due to be reintroduced during the current session.

The principal area of interest to Direct Marketeers in the original European Convention concerns trading list holders.

Personal data undergoing automatic processing should be:-

a) Obtained and processed fairly and carefully.

b) Stored for specified and legitimate purposes and not used in a way incompatible with those purposes.

c) Adequate, relevant and not excessive in relation to the purposes for which they are stored.

d) Accurate, and where necessary, kept up to date.
e) Preserved in a form which permits identification of the data subjects for no longer than is required for the purpose for which those data are stored.

If b) above is strictly interpreted it could have a devastating effect on Trading List use. It is hoped that it will be interpreted as Trading Lists fulfilling a 'purpose' in their own right.
D. DIRECT RESPONSE MEDIA

There are seven media that it is possible to use for direct response advertising, all of which have different characteristics.

1. Direct Mail

This is the most important medium used. Direct Mail is ideal for testing products and for building a long term personal relationship with customers.

After the telephone it is the most expensive medium that can be selected. However, it is a very effective medium because precisely the right people can be reached and it is also possible to test a large number of variables.

With the development of computerised lists it is possible to segment prospects according to a great many criteria and thus target the message with great precision, for example, using the new personalised laser printing techniques it is possible to provide prospects with a personalised quotation if the age of the prospect is known.
Direct mail is also very flexible as one can choose both when a package goes out and what is included in it. There are not the space restrictions found in newspapers or magazines or the time restriction of radio or television. It is very easy to vary direct mail packages for testing purposes in terms of the number of pieces enclosed and the messages on the pieces.

Following testing it is also possible to estimate accurately the response that will be achieved and gear the administration to cope with this.

Direct Mail will be discussed in greater detail in Section E.

2. Door-to-Door Leaflets

Door-to-door has many of the virtues of Direct Mail but to a lesser degree. By definition, it is less selective since the logistics of delivering to a particular list using door-to-door would normally make it uneconomic. However door-to-door used in conjunction with ACORN is more effective.

ACORN is A Classification Of Residential districts by Neighbourhood. It breaks the country down into about 130,000 districts of about 150 dwellings each, based on Census Districts. by referring to the answers to 40 key questions in the census, Acorn classifies each district as any one of 136 different types. By looking at this classification it is possible to assess the likelihood of a particular district being responsive to an offer.
Door-to-door is approximately half the cost of mailing a similar leaflet.

However door-to-door is less easy to control.

3. Newspapers

Newspapers in the United Kingdom are a more powerful medium than in most other countries. There are two reasons for this. Firstly the press in this country is national to a greater extent than in countries like the United States. Secondly the U.K. tend to read more newspapers than any other country.

The points to note are:-

a) The lead time is very short. For example it would be possible to sell a bonus bond at very short notice if changes in legislation or interest rates are imminent.

b) It is possible to project fast. The press is powerful, pervasive and very quick to give results. It is possible a test one week and a couple of weeks later project results with a fair degree of certainty.

c) There is a high degree of availability for testing in terms of A/B splits and geographical breakdowns.

d) On the other hand it is not possible to control the quality of the print in the press and colour facilities are limited or non existent.
4. Magazines

Magazines including the Sunday colour supplements are another important medium which offers significant advantages to counterbalance the problems with the press.

The points to note are:

a) Magazines normally have long copy dates which may invalidate any tests which be undertaken. This is a major disadvantage.

b) However magazines often do have a readership of several millions, or can be specialist and will thus be read by a specific market.

c) Colour facilities are generally available and although it is not possible to control reproduction entirely it is possible to have some say in the final product.

d) There is usually a long response time for magazines, sometimes running into years if there is no close date, and sometimes even if there is a close date.

e) There is a large range of test facilities both regional and split run but because of a long copy date, as mentioned above, circumstances may change drastically.
f) The magazine is an ideal vehicle for testing inserts. It is possible to test several inserts in one publication.

g) For inserts it is possible to control the quality and content of the printing entirely.

h) Inserts can be classified as midway between adverts and mailings, so that often something that works for inserts will work in both the other media.

i) An insert can be used in several other ways e.g. as a bounce back with a policy document or annual report or bonus notice. Inserts are a medium that is growing and developing fast. Different formats and shapes produce different results. Stapled in inserts produce better results than loose inserts.

5. The Broadcast Media

Radio has only been available for a short time commercially in Britain and until relatively recently Independent Television has always had demand greater than supply in terms of advertising.
The points to note are as follows:-

a) Time is an important consideration. The standard format of 30 seconds is insufficient to generate a response to a particular selling message.

b) Generally short ads can only be used as a secondary medium i.e. as simple attention-getters in a multi media campaign in the press or elsewhere.

c) It is now becoming easier to obtain longer advertising slots in order to sell a product. The optimum length is two minutes with at least 20 seconds devoted to order further details procedures.

d) These days many companies use Teledata to generate further leads.

e) It has not yet proved possible to sell life assurance directly from a broadcast advertisement because of the complex details required.

f) Ideal products tend to be those where it is possible to demonstrate them rather than abstract concepts.

g) These media are also fleeting so that it is necessary to repeat the commercials a number of times in order to get real attention.
7. The Telephone

This is a fast-growing medium, which arouses such strong feelings that the use of unsolicited telephone calls in some countries has been banned. It has been described as:

"The most-cost effective marketing tool invented lies unused on desks up and down the country". (D)

a) The telephone is immediate and thus it is possible to read results quickly. It is interactive. Apart from face to face selling, it is the only medium where objections can be stated and overcome. It is also possible to establish what the best appeals are for a product.

b) For these reasons it is a very useful research medium, especially when one is following up unconverted leads for a product.

c) It is also possible to create more sales from enquiries, orders or complaints that come in. Anyone who cares enough to complain has a real need for a product.

d) Also the telephone is an expensive medium in terms of telephone charges and because telephone marketing companies also like to make a profit on top of their costs. Nevertheless it is cheaper than getting a salesman to call and often a telephone campaign will pay where a salesman cannot.

e) The telephone also demands a response.
7. Posters

These are only useful as a secondary medium to back up another campaign.

However posters in tube stations or bus stations may be useful in attracting enquiries on the telephone.
E. DIRECT MAIL

This section covers some ideas that are generally used when designing packages for direct mail or for advertising copy.

1) Package Design

The following items would generally be included in a Direct Mail package.

a) Outer Envelope

This would generally include the company name or logo. A return address would be shown in order that the Post Office can return "gone aways". About 10% of a list will require amendment each year.

b) Reply Envelope

This would generally be a first class reply paid envelope to demonstrate the importance of the reply.

c) Brochure

This would include all the basic details of the plan being promoted, possibly including a table of premium rates, often a line drawing would be included on the front rather than a photograph to enable respondents to identify with the person shown.
d) Flyer

This is an additional slip of paper reinforcing one particular aspect of the contract, for example a non-smoker discount.

e) Application Form

This would generally be already completed wherever possible, for example with the name and address of the prospect.

The trend is towards minimal underwriting for these types of plans. Simply a declaration of health may be used or for example three or four underwriting questions, depending on the type of contract being sold.

For example:-

1) Have you at any time during the last two years received any medical advice, treatment or drugs under prescription from a doctor?

2) Have you ever undergone any hospital investigations or operations?

3) Have you any prospect or intention of engaging in any activity, associated with occupation or recreation, that may be considered hazardous?
f) Letter

This is the most important part of the package and is the most instrumental in carrying the sales message.

The components of a good sales letter are:-

a) The opening, which should attract the readers attention and induce him to read.

b) The description and explanation which should hold his attention by causing him to picture the proposition in his mind.

c) The argument, this should create the desire for the plan offered for sale.

d) Persuasion should bring the reader around to responding by seeing how the plan is adapted to his needs.

This is followed by:-

e) Inducement, which gives him an extra reason for buying and in conclusion.

f) The close, which makes it easy for the reader to respond and assures that action by causing him to act at once.
This can be represented by the well known Acronym AIDCA
Attention, Interest, Desire, Conviction, Action.

The best attention getter is one that promises benefits to the consumer.

2. Mailing Lists

The most effective list an insurance company has is its existing policyholders. The company's best asset is its name.

It is also possible to mail to affinity groups. The profile of a typical member can be established and the object of the group identified. The marketing message can then be tailored to this particular group.

It is usually possible to buy in lists of this type. If this is done it is necessary to establish how the data are stored, when the list was last mailed and what product was being sold. Endorsement of the list by the owner will improve response.

Other lists can also be used but these generally have limited affinity. Response lists are generally the most effective lists of this type.

A booklet is published which includes a list of all lists that are available for sale with a summary of their characteristics and the cost of renting the list.
Politically, the sale of mailing lists is a sensitive area at present.

3. The Post Office

The Post Office has adopted a more aggressive stance to direct mail in recent years. Its attitude at present may be summarized as follows:

a) The Post Office knows that it is not living in a world of automatically growing traffic.

b) The Post Office has been obliged to recognize that all of its markets are price sensitive.

c) The Post Office realizes that it must have traffic growth if it is to have any hope of improving its present poor productivity and keeping its costs in line with general inflation.

d) The Post Office recognizes direct mail as a large potential growth point, it will do everything it can to encourage the growth of efficient and professional direct mail enterprises including the use of a more flexible pricing policy.

Several pricing methods are now available to users of large mailing lists. These include bulk rebate services, second class discount services and first class letter contracts. The use of post codes is encouraged by offering financial incentives also.
4. General

The following are a selection of points that may improve response to a direct mailing exercise:

a) Immediate response to an application is essential.

b) A time limit may encourage a swift response.

c) A double application form may increase response.

d) A small premium choice is preferable.

e) "Sleepers" may be used to test the efficiency of the Post Office service.

f) A reminder letter may improve responses, but keep it simple.

g) A P.S is often effective.

h) A unique selling point will enhance the inherent attractiveness of a product.

i) It is better to sell a product that has already been bought.

j) It is usually most effective to use a combination of specialist advice and in-house expertise.
F. PUBLICATIONS

Life Assurance sold "off the page" has become very popular in both the national press and magazines during the last few years. Whereas in the past insurance companies tended to use advertisements solely to promote the company image or advertise their product range, now a wide variety of products are sold directly. The sections on timing and products are also applicable to direct mail campaigns.

1) Choice of Publication

At the present time all national and local newspapers carry advertisements for life assurance from time to time. In addition the colour supplements are a popular choice.

Advertising in the insurance press appears to concentrate on projecting the corporate image of companies rather than the direct sale of specific products, however other special interest magazines and trade journals have proved more popular for this type of advertising, especially if it is possible to obtain an endorsement for the product. Some advertising also takes place in general interest magazines but it is generally felt that in this case the expected response will be much lower.
2) Timing

The months of the year can be rated approximately as follows in terms of effective response to advertising, January and February then September, March, October, April, November and May. June, July and August tend to be very slow and December is generally even worse. However, it is often possible to negotiate better rates in the less effective months which may counterbalance the expected lower response rates.

In newspapers, the best days of the week are thought to be Tuesday for the tabloids and Friday and Saturday for the quality daily papers.

3) Position

As far as position is concerned, the following points are worth considering:-

1. The front of a publication is better than the back unless there is a specialist financial section located near the back of the paper.

2. Right hand pages tend to be better than left, as do pages facing editorial.

3. Any ad in magazines or newspapers which is next to the letters pages, TV programme pages or horoscopes does well.

4. Gutter positions are worse than outside positions.
5. Any ad that is surrounded by matter will do worse than otherwise.

6. If there is a special financial supplement in a publication then a medium which is not normally worth using may prove profitable.

4) Size

In 1914, Strong produced some research which stated that if a rating of 100 is assigned to a full page ad, then a half page carrying identical copy in the same medium would be rated 68, and a quarter page 49 whereas a double page would rate 141. It is generally believed that these ratios still hold true today.

5) Repetition

If an ad is run a second time immediately after the first the response rate is generally less good and the quality of respondents will be less good. Other points to consider when considering repeating an ad are the size of the advert and the circulation of the medium.

6) Design

The copy for "off the page" advertising usually follows similar lines and will include the following:-
1) An eye catching headline plus an illustration of a typical prospect.

2) Straightforward copy describing the benefits of the product.

3) Possibly an endorsement from a famous personality or a policyholder.

4) Table of rates and benefits.

5) Simple application form including simple medical questions or health declaration.

6) Closing date for application.

7) Special offer - for example special low premium in the first month or one month's free cover.

At one stage a direct debit was often included in the ad but this has proved difficult to administer because a) prospects often complete them incorrectly and b) there have been difficulties with some banks over the acceptance of a non-standard sized direct debit. Generally, a two step approach is now adopted with the applicant being sent a DD Mandate on receipt of the completed proposal form.
7) Product Range

A wide range of products have been sold "off the page" including the following:-

1. Term assurance.

2. Increasing term assurance.

3. Over 50's plans.

4. Endowments - traditional and unit linked.

5. Income bonds.

6. Hospital cash plans.

7. Permanent Health Insurance.

8. Self employed plans - usually lead generation for salesmen

In most cases these contracts offered are relatively straightforward and are issued on minimal underwriting evidence as detailed in the section on direct mail.

Pensions contracts are not generally sold directly although direct response may be used to generate leads for Intermediaries as part of a two stage selling process.
G. TESTING

As mentioned in Section A testing is the cornerstone of Direct Marketing. It is possible, to a far greater extent than in any other medium to measure the effect of changes to a product or to the method of selling the product, and to predict the level of response within certain limits that will be achieved by an ad.

1) Methods of Testing

a) A/B Split

An A/B copy split is a facility offered by many large circulation journals. It allows advertisers the chance to insert two different pieces of copy in alternate and otherwise identical copies of the same publication at the same time and in the same position.

On the whole editors will not permit price tests, or other tests which favour one section of their readers more than another.

Testing colour versus black and white in an A/B split will usually involve paying for colour in both the 'A' and 'B' copies of the colour medium.

Space sizes can be tested in A/B splits by reselling, or utilizing in some other way any surplus space in the edition which is carrying the smaller size.
With A/B splits it is generally only possible to test two alternatives or at best possibly four.

b) Split Run Inserts

It is possible to test more alternatives using inserts which have been pre-printed.

Inserts also allow tests of several media at a time and often permit techniques that are debarred to press advertisers e.g. special offer testing, and are harder for competitors to monitor.

To ensure perfectly matched samples it is essential that alternative copy tests are interleaved before being dispatched to the publication.

The insert as a medium generates a higher level of response than adverts normally do. Hence fewer copies of an insert in a publication are needed to obtain a statistically reliable response level.

On the other hand, the initial print cost of an insert will almost certainly be greater than most ads.

Time can also be an important factor. It may be necessary to wait for a magazine to publish including an insert and then have to wait again until a sufficient percentage of results are in.
c) Split Run Mailing Tests

Mailing tests can be divided into tests of new lists and tests of new approaches.

A new list should never be tested with new copy unless it is also being tested with an existing package.

Also, always test new copy against the existing copy at the same time i.e. it is not valid to compare response levels at different times.

d) Geographical Splits

Many publications may not offer A/B split facilities, but may be published in different editions.

However, as different regions respond differently, it is necessary to rotate copy region by region in order to make allowances for the biases e.g. if A is run in region Y in week 1 and region 2 in week 2, and B is run in region 2 in week 1 and region Y in week 2, the results of the two tests may be added together to give a reasonably reliable result.

e) Telescope Testing

It could be possible to test in one publication using both a geographical split and an A/B split simultaneously. However one ad must be used in both geographical areas as a control.
2) Timing

The following gives an indication of the percentage to total expected replies that will have been received in the weeks following a mailing or an advert.

**Response Forecasting**

<table>
<thead>
<tr>
<th></th>
<th>Full weeks after mailing or ad on-sale date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative percentage for:</strong></td>
<td>1  2  3  4  5  6  7  8  9  10</td>
</tr>
<tr>
<td>Rebate mailing</td>
<td>3  12  41  67  80  85  90  93  95  97</td>
</tr>
<tr>
<td>First-class mailing</td>
<td>14  75  87  91  93  95  96  97  98  99</td>
</tr>
<tr>
<td>Broadcast (phone orders)</td>
<td>95  98  99  100  100  100  100  100  100  100</td>
</tr>
<tr>
<td>Newspaper preprint</td>
<td>26  73  85  89  92  94  95  96  97  98</td>
</tr>
<tr>
<td>Weekly magazine ad</td>
<td>10  36  61  70  76  81  84  87  88  89</td>
</tr>
<tr>
<td>Monthly magazine ad</td>
<td>7   28  43  55  64  71  76  82  85  87</td>
</tr>
<tr>
<td>Catalogues</td>
<td>3   17  31  40  47  53  59  64  69  73</td>
</tr>
</tbody>
</table>
Response curves will also vary by type of product, publication or list and local postal efficiency. Also post paid responses tend to arrive faster than those requiring a stamp, enverlope and cheque. Local mailings and ads have a faster response curve than national efforts.

3. Reliability of Results

The degree of confidence that one can place in a test depends on two factors:-

1. The Sample Size.
2. Response Level.

If \( r = \) Response percentage from test
\( s = \) Sample Size
\( k = \) A constant (3.84 delivers 95% confidence).
\( e = \) Statistical error.

Then \( e^2 = \frac{k \times r(100-r)}{s} \)

Then if \( R \) is the expected response to the main campaign

\[ Pr\ (r-e \leq R \leq r+e) = 0.95 \]
4. Administration

Another significant advantage of testing is that it is then possible to anticipate with a reasonable degree of confidence the incidence pattern and actual number of replies that will be received. Thus the appropriate arrangements for employing temporary staff can be made.

Testing should also reveal the expected number of incorrectly or inadequately completed application forms. This will give the office the opportunity to adjust the application form if this is practical without changing the look of the total package. Alternatively it should be possible to estimate how many members of staff it will be necessary to allocate to the processing of non-standard applications.

Similarly it should be possible to estimate the number of applications on which the medical evidence is not satisfactory and requires further investigation.

The use of service lines has also been tested by many companies in order to ascertain whether these reduce the administrative problems. To date results have not been very promising although some offices nevertheless feel that there is a marketing advantage to be gained by having a service line available.
H. TECHNICAL CONSIDERATIONS

In actuarial terms, Direct Marketing may still be considered in its infancy. No inter-company investigations have yet been undertaken into the mortality, or persistency of products sold by Direct Marketing. Insurance companies are unwilling to say very much about their own experience.

In this section, therefore, I shall restrict myself to some general comments.

1. Persistency

As I mentioned above there is a lack of statistical information available in this area. However, it is generally believed that lapse rates tend to be lower than for business sold by more traditional methods, especially after the first year. However some companies have experienced a higher than average proportion of policies "cooling off" on receipt of the statutory notice, possibly because applicants have misunderstood the contract that has actually been purchased.

The rationale behind this lower lapse experience may be that as there has been no outside pressure to purchase the policyholder will tend to keep his policy in force as a justification for taking out the original contract.
2. Mortality Considerations

Once again there have, as yet been no published investigations produced in this area. In any case, the exposed risk to date is probably too small to draw anything but some tentative conclusions.

However, in general for direct mail it is believed that most offices have experienced relatively good claims experience, probably on par with quality broker business. On the other hand it would appear that the experience from "off the page" advertising has been less encouraging, especially in the area of "no medical" plans for older ages.

3. Underwriting

Products sold by direct response are usually aimed at lives in good health. The sums assured offered are generally pitched so that they fall within the offices non-medical limits, thus there is automatic acceptance for all cases submitted with a clean proposal form. If requested to attend for a medical a large majority of cases fail to complete.

Some companies, especially those offering investment contracts with relatively low sums assured, for example Friendly Societies, may adopt an accept/debt/reject underwriting basis. Under these circumstances it is usual to offer some sort of "appeals" facility for potential clients who feel that they may be being harshly treated.
Non-disclosure rates for direct response business are in many cases disturbingly high and many offices have had to reject several claims. On the other hand, the majority of applicants tend to be extremely honest, often revealing very trivial complaints.

Height and weight questions are usually omitted from direct response proposal forms which some consider a significant lowering of underwriting standards. However, on contrast a smoking question is now often included.

4. Reassurance

In many ways using a new marketing method can be likened to launching a new product. Reassurance can be used to support this in several ways:-

a) Mortality

Direct response campaigns require simplicity to succeed. Less underwriting information will be available and there may be doubts on the adequacy of the mortality element in the premium basis. Hence an office may decide to reassure business from a direct response campaign or a quota share on surplus basis.

b) Financing

The reassurer may be able to provide assistance with financing in return for a proportionate share of the business generated by this method.
There is a risk that test results may not be realised in a full campaign because of outside influences, for example postal difficulties, list quality and major news items.

c) Advice

The reassurer may also be able to provide either specific or general advice before the launch of a direct response campaign. For example, advice may be given or products or copy or introductions may be made to specialist consultants in this field.

5. Intermediaries

When Direct Marketing campaigns were first introduced there was often a hostile reaction from both brokers and insurance companies' field forces. However this method of marketing is now widely accepted by Intermediaries provided that they are kept informed and that the spin-off benefits of name awareness and lead generation are stressed.

Where an existing policy holder takes out a new policy as a result of a direct mail campaign it is usual to pay agreed levels of commission to the original intermediary.

Large brokers often have large data banks of both life and general insurance policy holders that they are prepared to mail in conjunction with insurance companies. Campaigns of this nature are one of the items under discussion under the ROLAC proposals.
6. General

The Question of when a direct response campaign has been successful can cause conflicts between marketing managers and actuaries because many marketing managers will tend to judge a campaign solely on the "up front" response rate with no regard to lapse or mortality considerations.

However, when initially pricing a product it is not usually necessary to be especially competitive especially if a "unique selling point" is included, so that considerable margins can be built into the rates.

On the whole, companies tend to evaluate each campaign separately and would establish a target break even date for each campaign.

Direct Marketing campaigns enable the actuary to exercise some control over the product mix of the company. For example an "off the page" newspaper campaign is a useful device for selling a tranche of bonus bonds very quickly.
I THE FUTURE

Over the past decade there has been a significant change in the public's attitude to Direct Marketing. Even more recently the advent of new technology has opened up new areas that may eventually be exploited by the Direct Marketeer. Implicit in the development of new electronic media is a market fragmentation which will probably lead many advertisers to think in terms of multi-media campaigns in order to maintain their current reach.

The relevant new technologies that are developing are:-

1. Videotex

Videotex is a term covering two types of systems - broadcast teletext and interactive videotex (also known as viewdata). Teletext was originally developed from a previously unused proportion of the broadcast TV signal, the Vertical Blanking Interval (VBI) and is carried on the outgoing signal on the back of television transmissions. Viewdata development utilises existing telephone lines and television sets, permitting a two-way communication with a central database via landlines.

There are currently 800,000 teletext sets in the consumer market and it is expected that 85% of homes will be penetrated by 1990. This can be attributed to the highly developed television rental industry.
British Telecom's Prestel has emerged more slowly. There are now over 20,000 sets installed in homes and offices. Over 240,000 frames of information are currently supplied by almost 1,000 information providers. There has been little consumer interest in the UK for Prestel and the greatest potential in the short term appears to be in the business market.

2. Gateway

Gateway is spurring growth and tests in both the consumer and business markets. This system allows a Prestel terminal, equipped with a password to access a third party computer and communicate with it in real time. The travel industry and auto industry are installing viewdata systems, whilst there are experiments in teleshopping using viewdata terminals based in public libraries and social welfare facilities. Telebanking is also being tested and no doubt there will be experiments within the insurance industry before too long.

3. Cable/Satellite

The development of cable TV will mean consumers will be given a greater choice of viewing. In the UK the cable network is likely to have a 45% penetration by 1990. Experiments in home shopping are already taking place.
The growth of cable in Europe depends very much on the development of direct broadcast satellites. Plans are well underway and each country in Europe has been assigned a position in a geostationary orbit for a broadcast satellite capable of transmitting 5 television channels. This will help relieve the pent up demand for TV advertising in Europe which to date, particularly in Germany and France has been restricted. The most efficient way to utilise satellite broadcasts is via community dishes with cable relay. Fibre optic cables will mean the television set will become truly interactive.

4. VCR, Discs and Personal Computers

The dramatic growth of VCR home ownership is likely to continue in the UK. It is expected that 70% of homes will have a VCR by 1990. It is harder to predict the growth of video disc players. However they can provide full resolution moving and still graphics which are easily and instantly accessible. Discs have the potential to store 54,000 frames of information per side.

The growth of personal computers both for business and home use will continue and with additional software, they could be modified to access viewdatabases. In the long run this may mean the personal computer may replace the viewdata terminal.
5. Implication for Direct Marketing

All past changes have tended to represent a consolidation of audiences culminating in mass market coverage by television. The development of new electronic media will change this. It will lead to a fragmentation of markets, smaller with better definition. Direct marketing is ideally suited to these developments as it uses the know how to select precisely target markets, send personalised messages, and have experience in testing and delivering the service required.

It may be asked whether technology is running ahead of customer acceptance. However the next generation is already being conditioned to use the new electronic media with personal computers and video games. There is a social trend towards more personal financial management. Ordering over the telephone in conjunction with a credit card is only a small step away from pressing a key pad to order.

The skills and expertise in direct marketing will be needed more than any other part of marketing, to develop and exploit fully the potential of the new electronic media as a marketing channel of distribution.
J. CONCLUSION

1. Summary

The business environment is becoming more and more competitive with companies constantly looking for ways in which they can expand their traditional markets. The increased acquisition costs of selling by conventional methods and the advent of computers have meant that Direct Marketing methods have become more attractive to the insurance industry.

For many companies products sold by direct response have become a valuable source of new business and this can only increase with the advent of new technology.

Despite the levelling off of response rates this marketing method continues to prove increasingly profitable for many companies.

Direct Marketing has now established itself firmly in the insurance companies' marketing mix.

Direct Marketing is here to stay.
2. Acknowledgements

In many areas this paper has been broadly based on the BDMA Diploma Course in Direct Marketing which I studied during 1982-3. I am extremely grateful to the course tutor Derek Holder and to my fellow students for all the insights they gave into the world of Direct Marketing of which until then I had primarily a theoretical vision.

I have also drawn ideas both consciously and unconsciously from colleagues in the insurance industry to all of whom I am extremely grateful.

I am also grateful to Sue Ansell for producing a readable script for me from my barely decipherable drafts.

Finally, I should like to say that this paper represents my personal views on this subject and all errors and omissions are my sole responsibility.
3. References

a) Successful Direct Marketing Methods - Bob Stone.

b) Commonsense Direct Marketing - Drayton Bird.

c) ROLAC Consultative Paper.


e) Direct Mail - Robin Fairlie.


g) Introduction to the theory of statistics - Mood and Graybill.