

Changing Your Marketing Views – And Expectations

For well over a century, fraternal benefit societies have generally opted to follow and not to lead in the development and implementation of new life insurance and annuity products. The following adage, in my judgment, accurately summarizes this perspective:

If you're not the Lead Dog, the view never changes.

I. Background

Historically, opting not to be the “Lead Dog” when assessing risk/reward benefits of being this leader has generally worked well for the fraternal industry as a whole. Thus, maintaining this “rear view” while watching and benefiting from mistakes of other leaders in the industry has allowed fraternals to ultimately offer these same new ideas and products while concurrently avoiding past, known mistakes that others have made. UL product design is a good example. In the late 1970’s and early 1980’s, virtually every UL product was front loaded. By the 1990’s, the industry had moved to back loaded products. Many of my fraternal clients’ first UL product has a back loaded design.

The tradeoff, of course, is speed to market. By willingly accepting a continual “rear view”, most fraternals accepted delays in the introduction of new product types. In many cases, this delay can be measured in years.

But the strategy that worked in the 20th century may well lead to failure in the 21st. There are numerous small and medium size fraternals in this country that, at best, are simply treading water and hoping to survive one more year. More accurately, I believe that these same fraternals are on a path that will lead to them being merged out of existence. This merging may occur willingly if a troubled society recognizes its financial issues and seeks a partner. Or it may come about as a result of regulators putting a given society into receivership or conservation due to continued deterioration in financial performance and key statistics.

CEOs of these struggling fraternals are obviously looking for a viable strategy to navigate back to a position of financial health. Many actuaries, including myself, strongly counsel these CEOs to ramp up production of the society’s core business (typically permanent life insurance).

But these societies are so thinly capitalized that layering on several years of new business in the form of Whole Life or Limited Pay Life requires meaningful first year surplus drain – particularly if it is sold by one of the company’s agents. First year commissions, including marketing overhead, are typically north of 90% and can be as high as 125%. These first year commissions, combined with other acquisition costs (e.g., underwriting, issue, etc.), could simply result in regulators sniffing around the society’s front door much more quickly than would have occurred had this society not written any new business at all.

Therefore, doing what a society has done in the recent past obviously won’t work. Growing the company to some reasonable level of critical mass following the template currently in use in virtually every company (i.e., agent sold products) simply accelerates the date at which failure occurs.

If membership and management strongly desire to see a society remain independent and viable (which it has likely done for well over a century), then what is any self-respecting CEO to do? If

one defines failure as anything other than maintaining independence, then this troubled society will fail if it does nothing and will no doubt fail more quickly if it does something (like attempt to write ultimately profitable, permanent life business).

Perhaps there is no realistic alternative that can “right the ship” within allowable timeframes.

Then again, maybe there is a strategic alternative that might allow a struggling fraternal to not only survive but to thrive.

II. Alternative Production Sourcing

In two previous papers, I outlined ideas for fraternal CEOs, to help them best assess the societies' near term direction and results. I also presented an idea for partnering with a responsible reinsurer to help fraternals enter new markets that might otherwise be considered off limits. What follows is a discussion suggesting that fraternal leadership should relook at the model the industry uses to acquire new members and new life insurance as well as how it compensates those who bring this new business to the society. Acquiring new business from an agent, agency or individual marketing organization (IMO), typically goes like this:

Insurance Company Executive: “*So Mr. Agent, what can we do to win your business?*”

Mr. Agent: “*Unless I have the lowest rates and the highest commissions, I can't sell one.*”

Another characteristic of the current production model relates to the joy and excitement individuals conjure in their mind when anticipating a meeting with their insurance agent. Personally, I think I have the ideal arrangement with my agent. I live in Austin. He lives in Raleigh, NC. But he knows that he is welcome to stop by my office any time, any day.

Hopefully you see where I am headed.

III. Perpetuating Existence

I am in my 63rd year of life on this planet, and most would conclude that I am well through my “formative years.” This does not mean that I am not cognizant of fundamental changes in how younger generations communicate and behave when buying or shopping. As is obvious to anyone who does not wake up looking at a ceiling of rock, there has been, and continues to be, a fundamental change in how people acquire virtually all goods – including life insurance.

For the purpose of the discussion that follows, I will employ the following definitions:

Baby Boomers – Those born between 1946 and 1964.

This is the generation in which my existence is included. Currently there are approximately 75 million Americans born in this interval. Consumer reports indicate that boomers are more apt to do online shopping than is generally perceived; however, boomers seem to be less motivated by price differentials and tend to exhibit loyalty to products and companies that they like. Roughly three-quarters of this demographic component report doing some shopping and researching of products online.

Millennials – Those born between 1983 and 2000.

A bit over 92 million reside in this birth interval.

Today millennials comprise the largest percentage of the American workforce. Millennials exhibit buying traits that maximize convenience and focus on lowest available price. They tend to rely heavily on blogs and peer reviews prior to making purchases and are loyal to brands with social networks (i.e., instant access). In excess of 90% of millennials purchase products online (or at least research them on the internet). They spend, on average, 25 hours per week online.

The millennial generation has one other fundamental change in its purchasing mentality. Millennials are more likely than any other generation to purchase insurance from a company that currently insures another family member. A recent poll from Gallup research indicates a clear preference by millennials to buy insurance online rather than through an agent.

My firm is a microcosm of the workforce in this country. If you remove me and 1 or 2 other “elderly” staff members, the resulting average age of the AB&A professional staff is in the low 30’s. Most of the members of this group don’t write checks. In fact, what I have observed is that virtually every monthly bill is paid online and further that the bulk of purchases (other than food, gasoline, etc.) is also purchased online. There is a seismic shift underway in this country. And as long as there is an abundant supply of electricity, this shift will only continue to accelerate.

The primary purpose of this discussion is to suggest to CEOs of thinly capitalized fraternals that shifting the focus of production sourcing from agents to online methods (direct to consumer or “DTC”) may well represent the only viable path to a given society’s continued existence.

IV. A Fork in the Road

Yogi Berra was one of my favorite philosophers. One of his insightful thoughts was this, “When you come to a fork in the road, take it.” Those reading this article and in a responsible position at any fraternal benefit society will likely realize that they are staring at this proverbial fork in the road. Those who choose the “same old, same old” will no doubt achieve just rewards. That is, a continued path to non-existence. But those executives willing to consider capitalizing on this new shift in purchasing products via online methods, could well incur rewards significantly greater than those reaped if a society refuses to acknowledge the truth in its past performance and the implication for the near term future.

Being an early entrant into any market carries with it significant risks. Partnering with an IT vendor that can help your society steer a proper course is one of these. Online marketing methods and choosing a partner to help you optimize your society’s website is another potential pratfall. But if marketing DTC is done properly and responsibly, the rewards for taking on such risks could increase a society’s financial success exponentially.

The truth of the matter is such that there may be no other option. Maintaining the “same old, same old” yields results that can be readily discerned by reviewing your society’s recent past financial performance. The results of doing this are nothing less than, eventually, catastrophic for your membership. So unless there is some idea to generate new production without straining existing surplus (something beyond my ability to conceive), many thinly capitalized fraternals may have no choice but to change how it sources production and to do so quickly.

I have reviewed the new business issued by the fraternal clients for which we are the appointed actuary. In 2016, and measured in terms of face amount, less than one-third of new life production comes from issue ages below age 36. In terms of policy or certificate count, this ration is even less. It is this group of potential new members (i.e., millennials) that represents a major new

source of production for any fraternal. As a reminder, this is the group which will most likely purchase insurance online. New business sold to these young parents and their dependents via DTC might well be the method your society should consider if it truly wishes to perpetuate its independent existence.

V. Refusing to Fail

Arguably, the greatest rock and roll album to ever be released occurred in November, 1970. Every piece was written, performed and then produced by a single musician. His name was George Harrison. The album was (and still is) All Things Must Pass. It was his first solo, post Beatles release. Personally, I place this production in its own unique, stellar category because of the quality of the music combined with the beauty of the lyrical compositions.

After your time as leader of a fraternal benefit society passes, how will those that come after see your legacy? How will they judge the quality of the organization left them? Though 62 years old, I still enjoy the 'daily grind' at the office. Plus, thus far, I have been blessed with good health that affords me the chance to plan to continue working for many days to come. However, nothing changes the fact that, with time, everything will pass. I have spent a fair amount of time thinking about what kind of leaders I am developing to sustain this firm and, in a larger sense, the actuarial profession, after I am gone. I've been told that any leader, like a parent, can be judged by those he or she leaves behind. But even if one has cultivated leaders of unparalleled ability, this fact, alone, does not ensure the success of any society unless the next generation inherits a company that is financially sound. Societies that follow initiatives likely to prove successful further enhances the probability of success for these new leaders.

We live during a period in history when the greatest economic engine ever known to mankind is finely tuned and humming. Information and information technology are growing exponentially. This includes various technological tools allowing executives, such as yourself, to mine this data and glean information that, when combined with new ideas, can put your society on a track to success. For smaller benefit societies, this track might be a completely new and different path than that which your fraternal has followed for over a century or more. In this scenario, being small may actually be a benefit.

Given the period in history during which we live combined with the fact that we are participants in this great United States economy, and when each of us assess and evaluate personal skills or traits we may have been given or with which we may have been born, how is it that any reasonable human being can truly contemplate failure? How is it that any leader can allow one's thought process to go down any path other than envisioning success?

All things must pass is a given, a natural law, something that no one will likely ever change. Similarly, determination to succeed and refusing to fail are laws of nature that are indistinguishable from other similar laws such as the title of George Harrison's album.

I suspect that for many who know me the fact that my direct style of communication will pass causes many to breathe a collective sigh of relief (I can almost hear it as I write this). But, as for me, any fraternal benefit society leader that contemplates and/or accepts failure need look no further than the nearest mirror to find the cause.

Where you take your society and where it ultimately resides is independent of and certainly not impacted by anyone's thinking other than your own. What will be your legacy? What kind of

organization will you leave to those who follow? The answer to these questions are directly within your control and, like it or not, how you answer these questions - via your actions - will allow those that follow to accurately answer these questions.

We are working very hard as a firm to help those fraternals willing to contemplate new and different paths to success. Whether my firm is involved or not, it is my genuine hope that each of you will take these words very sincerely and use them to best help your fraternal.

Very Sincerely,

L. Allen Bailey, FSA, MAAA
CEO & Founder