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REDUCED LIFE AGENCY FORCE SUPPLEMENTED BY DIRECT MARKETING

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Article abstract

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Reduced life agency force supplemented by direct marketing*

by

Jean-Pierre Bernier

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The opportunity to buy insurance through direct marketing has almost doubled since 1982.

Six years ago, Canadians were served by more than 60,000 licensed life insurance agents, some tied to one insurer, others working independently. Today, there are about 53,400 life agents across the country. From 1988 to 1994, their aggregate number decreased by 11% (or 6,600 licensees). During the same period, the population of Canada increased from 25.9 million people to 29.2 million people (as of July 1,1994), according to Statistics Canada estimates, which represents a growth rate of 12.7% (or 33 million new inhabitants). Consequently, fewer agents are

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serving a much larger market. In this author's view, it would be a mistake to think that this state of affairs is beneficial because it provides each agent with a wider range for solicitation. In reality, the average agent appears to be selling fewer and fewer products. Indeed, according to the 1993 Canadian Buyer Study published by the Life Insurance Marketing and Research Association, Inc. (LIMRA), agent sales of individual products are down; in 1983, the average agent sold 61 individual policies (life, health, and annuities) compared with 46 in 1991.

In the banking sector during the same period, the number of bank branches did not increase proportionately with Canada's population. However, this gradual decline in access to banking was more than remedied by the phenomenal growth in automated banking machines (ABMs) since 1988. There is no doubt that Canadian have come to accept technology in the distribution of financial services.

The life and health insurance needs of all new Canadians must be met. Faced with declining opportunities to buy through life agents, consumers could turn to non-insurance products for substitution. These include trusts to help beneficiaries, pooled funds to cover health care, trusteed plans and group RRSPs to provide for pensions, mutual funds in lieu of individual segregated fund policies, and lifetime RRIFs to replace life annuities.

Direct marketing

Direct marketing is the retailing of insurance directly to the consumer by the insurer without a life agent acting as an intermediary between the purchasing public and the insurance contract issuer. It encompasses various means of distribution. At present in the life and health insurance industry, the most common methods include promotional mail, usually on a target market basis; solicitation by telephone (in-bound with a toll-free 1-800 number or out-bound using telemarketers); direct response following print media advertisements; offers through credit card networks; and group marketing (not to be confused with group insurance) whereby individual insurance is offered through employers, large retailers, professional or trade associations, universities, and colleges. On a smaller scale, travel insurance can currently be bought from vending machines at major airports. In addition, while some life insurers are contemplating the sale of insurance through strategically located interactive kiosks, others are engaged in the development of two-way home television offerings of insurance/retirement needs analysis and financial security products.

Tied Life Agents, Bank Branches and ABMs In Canada 1988-1994

Year	Tied Life Agent	Bank Branches	ABMs
1988	23,400	7,176	4,244
1989	21,800	7,300	6,432
1990	19,800	7,397	8,635
1991	20,000	7,583	10,272
1992	19,700	7,623	11,298
1993	19,700	7,744	12,160
1994	18,900	8,038	12,365

Sources: CBA, CLHIA.

In order to ensure accessibility to life insurance and to secure market penetration, an increasing number of life insurers are making use of direct marketing. The 1993 LIMRA study revealed that, throughout Canada, opportunities to buy through direct marketing have almost doubled since 1982. In as much as ABMs are essential to maintain banking services, direct marketing of life insurance is crucial to meet the demand for financial security. Given that the size of Canada's life and health insurance agency force did not keep pace with the increase in population and that the average sales per agent has declined over the past decade, direct marketing has become an extremely important tool not only to survive but to remain competitive. If life insurance companies do not enter the direct marketing field, other financial institutions will. In a marketplace where cross-pillar activities are permitted, intersectoral competition brings a new dimension to the ways one must look at today's business. It is wrong to view direct marketing of life insurance as a distribution channel that threatens the existence of the agency force. Life agents, because of their sheer numbers, will undoubtedly remain the most prominent providers of opportunities to buy life insurance. Just as ABMs and bank branches allow depositors to be kept inside the banking sector, direct marketing and life agents supplement each other to keep policy holders within the insurance sector.

Without consumer acceptance, no means of direct marketing will be feasible. Consumers, not the industry, will determine the viability of direct marketing. Where insurance advice is necessary, it will be provided. Where commodity-type insurance is offered without advice, it will be bought if that is what consumers want.

On this point, it was recently reported *(The Financial Post,* January 28, 1995) that CIBC's new car insurance operations have been swamped with 40,000 inquiries from potential customers in its first three and a half weeks of activity, and that about 1,000 of those inquiries have translated into insurance policies. With respect to life insurance, the 1993 LIMRA study concluded that the dramatic increase in individual life sales through direct marketing plainly indicates the public's acceptance of this distribution system, particularly among "baby boomers." The study pointed out that as a result of the ageing of the agency force, along with less new-agent recruiting, life agents now provide better opportunities to buy for consumers over 45 years of age.

It is most regrettable that the rise of direct marketing to provide Canadians with opportunities to buy insurance is not accompanied by statistical data. There exists no meaningful information such as premium income, cost reduction, sales by channel, insurance coverage, product preferences, and policy holder/beneficiary claims about this fast-growing delivery system. Every supplier is conscious of the phenomenon, but nobody can measure its cope or determine the value of its various components. As a result of this lack of information, the banks' inroads into insurance cannot be accurately assessed.

Telebanking

Four of the Big Five banks now own and control their own insurance companies in Canada. The Bank of Montreal is the exception. Canada's sixth largest bank, the National Bank, is in the process of incorporating its own insurance subsidiary. Because the *Bank Act* prohibits banks from retailing insurance through their branches, and given the huge investments that banks have already made in telebanking, they are bound to become significant players in the direct marketing of insurance. In fact, CIBC currently sells accidental death and travel insurance over the telephone, and, as reported in the media, has begun a pilot program to market term life insurance. Moreover, the TD Bank is expected to introduce a teleservice for car, home, and liability insurance in Ontario next year.

The market acceptance and future expansion of telebanking (another expression for telermarketing) by banks and near-banks is highly evident. The last issue of Directions (November/December 1994) contained some revealing figures that are worth repeating here.

- Growth in CIBC's telebanking operations over the past year has exceeded expectations, going from 72,000 clients to over 300,000.
- TD's telebanking services are growing at 10% a month, with 80% of customers preferring to use the automated services rather than consulting a life representative.
- Over 3.5 million calls are handled annually by the Bank of Montreal's telephone banking services.
- Canada Trust is bullish on telebanking and expects to be processing over 1 million calls per month by the end of 1995.

- VanCity, Canada's largest credit union, currently receives an average of 3,500 calls a day.

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Canadian Opportunities To Buy Life Insurance by Type of Contact		
	Percentage of All Households	
Type of Contact	1982	1992
Agent Contacts Only	29	22
Direct-Marketing Contacts Only	8	14
Both Agent and Direct Contacts	5	10
No Contacts	58	54
Total	100	100
Number of households surveyed	3,594	2,470

Source: LIMRA, 1993 Canadian Buyer Study.

International comparisons

The aggressive move of the Canadian banks in the direct marketing arena is an attempt to catch up with other countries' banks. Indeed, by international standards, the direct marketing business of our large domestic banks lags behind their foreign competitors. In the United State Chase Manhattan and Citicorp are significant direct marketers of a wide range of financial products. In the United Kingdom, Midland Bank through its First Direct operations launched in October 1989, is adding an average of 10,000 customers every month offering, among other things credit card insurance, travel insurance and house insurance. Formed in 1985, Direct Line, owned by the Royal Bank of Scotland, now has about two million policy holders, mainly of automobile and household insurance coverage. Both First Direct and Direct Line will soon be offering life insurance.

In Canada, in the marketplace for annuities of all kinds (except those with a life contingency), life insurers compete head-on with all deposit takers. If bank GICs and term annuities are bought in a big way through direct marketing, this creates a formidable competition for all life insurance agents selling deferred (asset accumulation) annuities issued by life companies.

On January 18, 1995, the Supreme Court of the United States unanimously ruled that all annuities, without exception, are financial investment instruments (not insurance) that may be sold by banks acting as agents for life insurers. Undoubtedly, life company annuities will be added to the already extensive list of financial products directly marketed by U.S. bank. What, if any, influence this will have on the future strategies of Canadian banks remains to be seen.

Regulation

Direct marketing of insurance generally unregulated by the provinces, which have exclusive authority over the distribution of insurance. The existing regulatory regimes across Canada are old and outdated. None of them applies to banks, even though banks are permitted to distribute certain types of insurance. The rules governing insurance retailing were established decades ago when the only means of distribution were salespeople. The rapid growth of direct marketing, its ability to serve the whole country from one location, and the increasing presence of non-insurance entities acting as telemarketers are attracting the notice of regulators. Alberta Treasury is reviewing the issues as part of a complete update of the provincial Insurance Act. The Quebec Life Agents Council has an internal task force examining all facets of direct marketing. The Saskatchewan Department of Justice is initiating financial reforms. The Ontario Life Agent Reform that came into effect February 1, 1995 is silent on direct marketing of insurance. The challenge for Canada's life and health insurance industry will be to ensure interprovincial harmonization of laws and regulations.

The insurance world is being altered by direct marketing. This transformation must not only be recognized, it must also be carefully examined with a view to adopting the best possible stand to face the strong winds of change.