

SMR Research Corporation

High-End Life Insurance & Annuity Marketing Model

- Numeric scores predict which consumers are most likely to obtain personal life insurance policies or annuities paying the highest premiums.
- The higher the score, the larger the premiums a consumer is likely to pay.
- These scores are applied to more than **35 million U.S. households**.
- About 4 million in the file will pay at least twice the normalized life premiums.

Applications:

- **Identify Up-Selling Prospects:** Append scores to lists of existing policyholders paying modest premiums.
 - Provide agents with scores that show which existing customers are ripe for new up-sell contacts.
 - Direct mail to existing customers for trade-up policies.
- **Market direct to new prospect leads most likely to generate high premiums.**
 - As the stock market sours, this is a good time to market alternative investments that are more reliable, such as annuities.

Key Facts

- This model is new, completed in 2006.
 - It is a open opportunity for any life insurer ready to test.
- Our scored records are comprised solely of home owners.
- Identifies only high-end prospects – not first-time life buyers.
- The model probably predicts disability insurance prospects, but this needs to be verified.
- The model can be verified against a life insurer's existing data.
 - To prove the value, give us a small sampling of your existing customers. We'll tell you who pays the highest premiums.

Model Development

- This model was developed using county-level public records data matched against life insurance premium payment information provided in the complex microdata file of the Consumer Expenditures Survey (CEX).
- CEX is the survey used by the federal government to produce the **Consumer Price Index (CPI)**. It is arguably the most important and most carefully produced survey in the world.
- The scores range from near-zero to as high as 10,000 (rare). A score of **1,000** is the national norm.
- The higher the score, the better the prospect.
- Scores are linear.

Someone with a score of **2,000** is likely to pay exactly twice the national norm in life insurance premiums. Someone with a score of **500** will pay only half the national norm.
- Based only on variables that appear the SMR home owner database, the model gave the highest scores to people who turned out to be an extremely interesting demographic group. See the next page.

Demographic Profile Of High-End Life Prospects ("High-Scored Prospects" Have SMR Scores Of 2,000+)

VERIFIED THROUGH THE CONSUMER EXPENDITURES SURVEY MICRODATA FILE,
USED TO CREATE THE U.S. CONSUMER PRICE INDEX.

<u>FINANCIAL</u>	<u>HIGH-SCORED PROSPECTS</u>	<u>US NORMS</u>
AVG HOUSEHOLD INCOME	\$137,838	\$ 55,120
AVG HOME VALUE (FOR HOME OWNERS)	\$598,690	\$212,239
MEAN LIQUID ASSETS (CASH & SECURITIES)	\$74,456	\$17,804
# HOUSEHOLD VEHICLES	2.6	1.7

NON-FINANCIAL

% MARRIED	97.3%	51.7%
% MARRIED, WITH CHILDREN AT HOME	54.2%	24.7%
MEAN AGE	52.2	47.7
% WITH BACHELOR'S DEGREE OR HIGHER	61.9%	27.7%
AVERAGE ANNUAL LIFE PREMIUM PAID, LARGEST POLICY (FOR THOSE WITH POLICIES)	\$1,883	\$ 831

Model Development Results

Applied against a random sampling of home owners in the CEX survey:

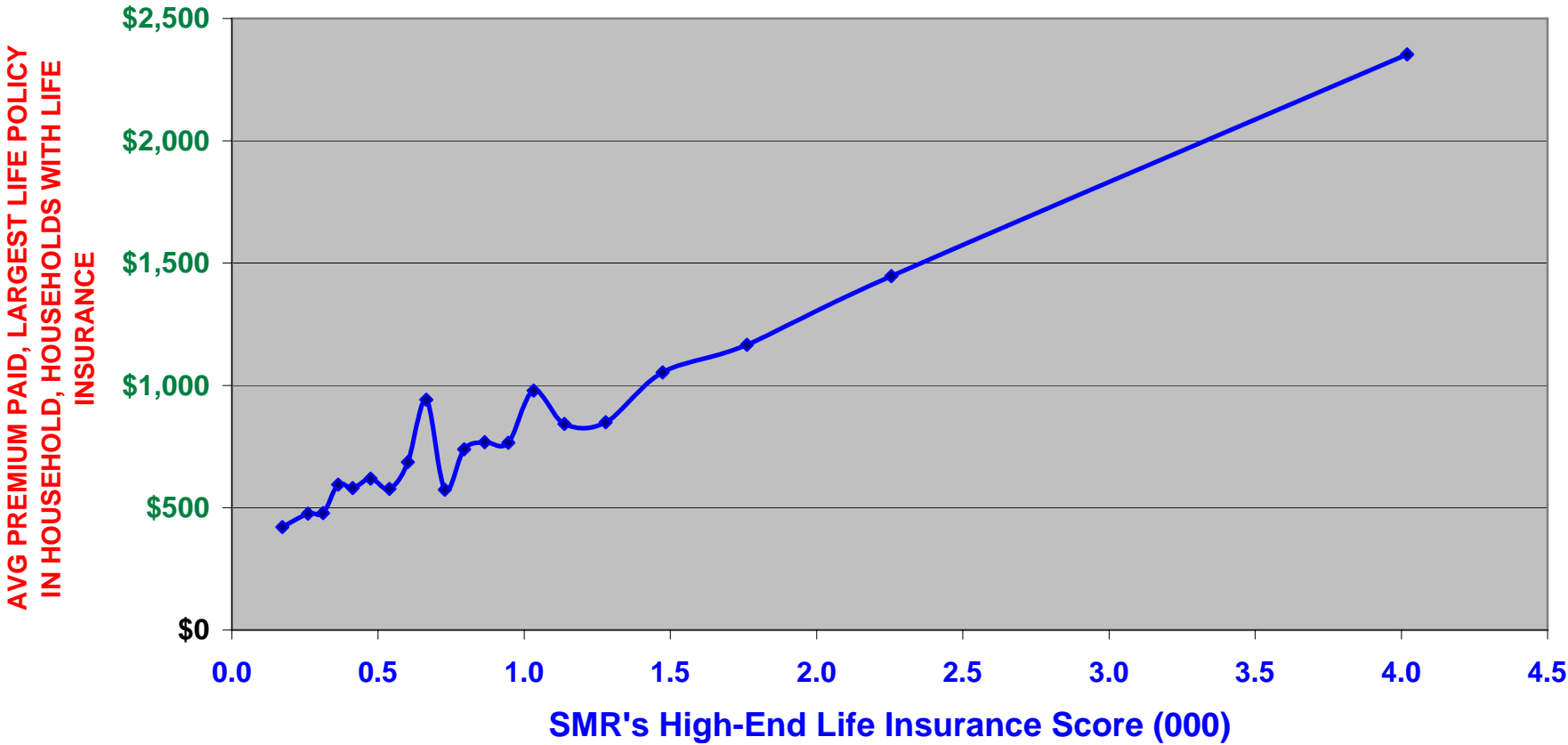
- The **5%** of home owners with the **lowest scores** accounted for only **1.34%** of total annual life insurance premiums paid by all home owners.
- The **5%** of home owners with the **highest scores** accounted for **15.91%** of total annual life insurance premiums paid by all home owners.
- Reliability of the scores was excellent.

When the scored file was divided into 20 equal-sized groups, the R-squared correlation between the score and average premiums paid was **.9831** (using a polynomial equation to the fourth power).

An R-squared value of **1.000** is perfect and never achieved by any model in the real world. An R-squared value of **.800** or higher is considered to be very highly correlated.

- Model development results are shown in chart form on the next page.

SMR's HIGH-END LIFE SCORE RESULTS



NEXT STEPS

- The High-End Life Insurance Model is new.
- You may wish to verify the effectiveness of the scores.
- **Retro Test:**

Under confidentiality, provide us with some policyholder names and addresses. Include a unique account number for each. Select them randomly by geography and randomly by premium paid.

We will match those we can to our database, append scores, and return them.

Using the account number, match back to your records. See if the higher scores correctly predicted the higher premiums and low scores predicted low premiums.

- **Model Refinement**

We can use insurance company data to further refine the scores, if the client is interested.

- **Pricing**

Will depend on volume and match-and-append requirements. Overall costs may be higher than ordinary, un-targeted lists of consumer names but will be more cost-effective.

Interested? Contact SMR's Scoring Director, Jonathan Varone:

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