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ACTUARIES**

**MARKETING &
DISTRIBUTION
SECTION**

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News Direct

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Tell Me a Story

By Nathan Worrell

Mark Etting pauses in front of the colossal spire of concrete and glass. The top is shrouded in low hanging clouds, and he imagines that at its pinnacle the corporate executives are conspiring with a cadre of deities to find more ways to rule the universe. Workers dutifully pour into the revolving doors like bees returning to their hive.

They are a homogenous blur of white and khaki, and Mark thinks about going back home. Will he become a mindless automaton? Will he start chatting about golf instead of slam poetry? Why did he even quit working for his brother?

Then he sees the lady in the orange dress, a flicker of originality in the monotone sea. Perhaps, if she can survive here, so can a man in a pink shirt, checkered pants, and polka dot bow tie. Mark takes his place in the stream of workers, just as purposeful, but perhaps with slightly different objectives. The first thing he must do is find the lady in orange ...

I, like Mark in the story, recently had a moment of uncertainty, fear, and self doubt. I decided to take a risk and leave a comfortable, satisfying job for something new and unfamiliar. Stories are powerful because of their ability to cut to the heart of our human experience, and provide a way for the imag-

ination to wander through the unknown. In my own journey, the theme of “story” emerged in a couple different contexts and I would challenge that in order for actuaries to be successful, that “story” should be a necessary part of the tool kit.

SHARED STORYLINES

One of the first observations I made at my new job was that while the setting and characters were different, much of the story line was very similar.

My former employer was a financial planning firm, selling annuities and market-linked insurance products. They had a captive agent distribution system, including franchise and corporate sales staff, as well as an external broker driven channel. My new firm sells business through employers, primarily life and disability, but ancillary products as well, which is where I work. My new company also had a captive agent model and broker model. Though a variable annuity and an accident plan are very different creatures, getting each product to a happy ending through the nefarious broker channel requires overcoming similar obstacles.

First, there’s the Beauty Pageant, in which the product must display its unique and special

attributes that make it stand out from the crowd. However, in order to get to the pageant, the product must survive the Margin Squeeze, as each new shiny feature has a cost and the entry fees to the contest are quite high. And winning the pageant isn’t enough, because soon after comes the Battle for Loyalty in which the product has to defend itself against subsequent pageant winners. It’s a fierce journey and not for the faint of heart.

I knew that I could take the lessons from the victories and heartaches of my past employer and immediately apply them in my new job.

WHAT’S THE STORY?

It’s late 2008 and the market is crashing, Lehman is dissolving and other firms are wondering if they are “too big to fail.” The product portfolio was suddenly irrelevant and there was an “all hands on deck” scrum to change focus to a formerly neglected set of products. In the midst of the pricing exercise, the marketing staff set up some time to discuss the new product. I volunteered, and delivered a stellar presentation on all the workings of the product including the math behind the mechanics of fixed interest rates, guarantee periods, bonus rates and surrender charges. At least, I thought it was stellar.

Turns out, the presentation was a complete flop and the marketing staff remained unclear about the workings of the product and it was evident in their materials. I needed a new approach.

Through a collaborative effort, we started to make the story. First we found some familiar reference points—savings accounts, for instance—to establish context. Then we talked about purpose—safety and peace of mind. We used more simple terms than technical ones, and by the end of the process all parties felt very comfortable that we would represent the product well.

I saw this interaction occur in a couple other instances as we developed more intricate and complicated products. We had more discussions about the appropriateness of an analogy than about financial modeling.

STORY SKILLS

In my experience, stories helped me understand a new situation and have been tools to bring products to consumers. Could you imagine if insurance contracts had the “can’t put it down” power of popular novels? Could they contain the teen angst of the Twilight series? Could they be as suspenseful as Stephen King or present a puzzle like Dan Brown? Perhaps

CONTINUED ON PAGE 4

Stories are powerful because of their ability to cut to the heart of our human experience. ...

they could be scandalous, “Fifty Shades of Guarantees”?

Insurance contracts may not be the immediate place for stories, but I want to end with some writing exercises to help take a product from a set of numbers and acronyms to something with color, depth, and intrigue.

1. Find an analogy. What other thing is your product like? In my recent job, I’ve developed parallels to stadium ticket prices and the perils of elderly people falling out of windows.

2. Make your product a character. You can make it a person, or perhaps an alien for a sci-fi twist, or take it to a fantasy realm and give it magical powers. What does this character care about? What motivates it?

Could you imagine if insurance contracts had the “can’t put it down” power of popular novels?

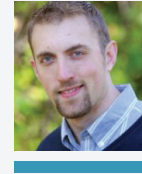
What are its strengths, fears, and weaknesses? Who does it hang out with?

3. Give your product a nemesis. Every great protagonist needs a counterpart. Perhaps it is a competitor’s product, the grim reaper, or a corrupt broker. Whoever or whatever the villain is, its primary purpose is to challenge and create conflict to your product.

4. Write a scene. The most important thing here is that there is conflict. Put your char-

acter up against its nemesis and let the magic unfold. The harder or more impossible the challenge, the better. Use action and/or dialogue (It might be rather fun to hear what your product has to say) to give the scene pace.

I’d love to read your tales. Please send them to me at nworrell@unum.com. ■



Nate Worrell, FSA, MAAA is a pricing actuary with a focus on voluntary products at Unum Group. He is also a three time entrant in the

Society of Actuary’s Speculative Fiction contest, and maintains two actuarial related websites. A-Comma-Comma covers the literary lives of actuaries and Between the Spreadsheets is a humorous and thought provoking blog covering a variety of actuarial themes.

<http://www.acommacomma.com/>

<http://betweenthespreadsheets.blogspot.com/>

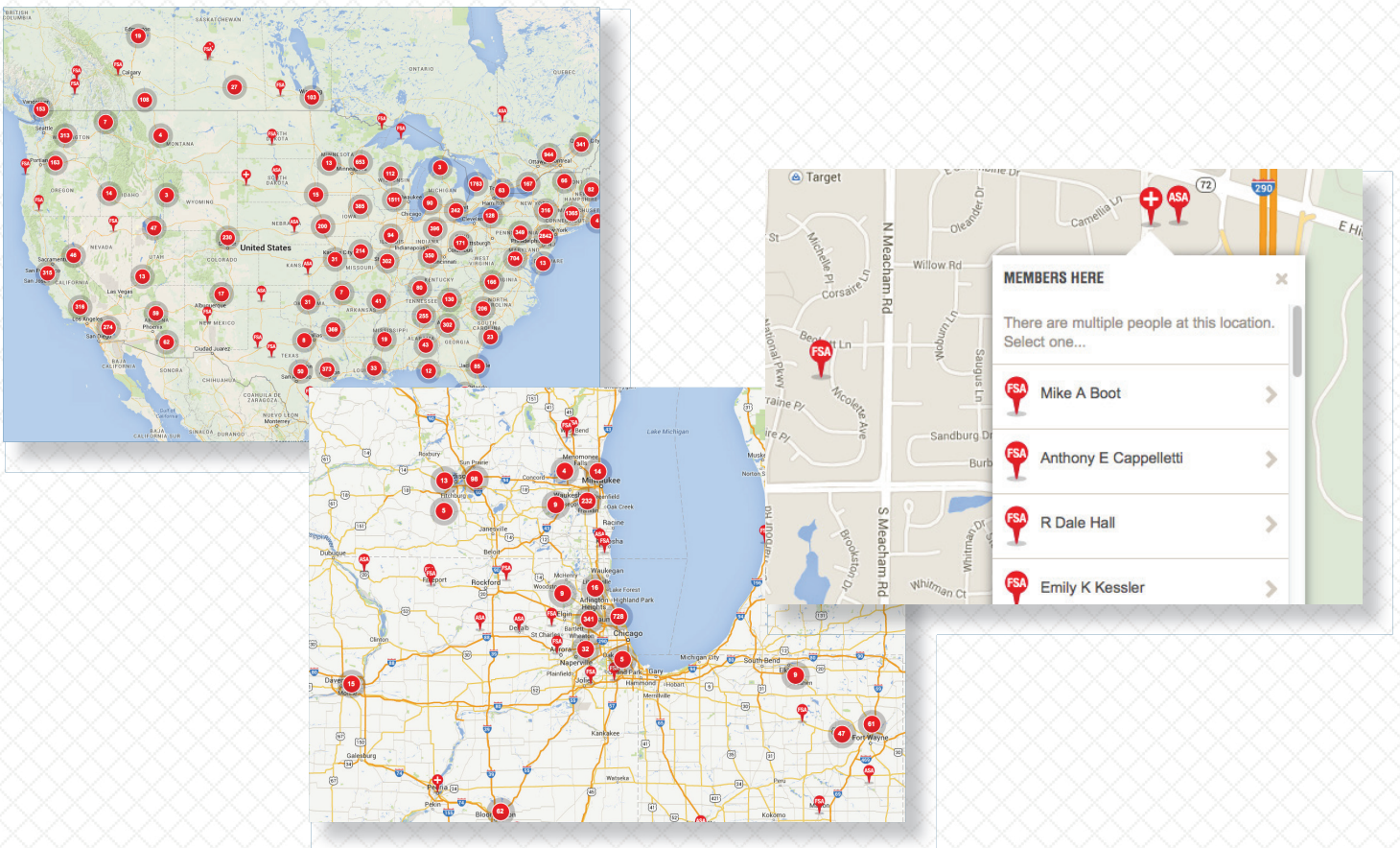


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MaD Happenings

By Jill Klibanov



RESEARCH PROJECTS

The Marketing and Distribution (MaD) Section has made excellent progress on our Underserved Life Insurance Markets research project. Our project team has reached out to a wide variety of industry experts and others who are particularly knowledgeable in marketing life insurance or similar products to the middle-income market. We are collecting and compiling the unique insights that they have into this market place. Our discussions will address the strategies that have been touted but have struggled to find success, the impediments causing the struggles, areas of the market that are being successfully reached, and ideas

for the life insurance industry that haven't been captured already by prior research.

Look for more updates later in 2015 with some results from this exciting research initiative.

PODCASTS

You can download the latest MaD podcasts from the iTunes store or access at the following link: <https://www.soa.org/Professional-Development/Event-Calendar/Podcasts/Marketing-and-Distribution-Section.aspx>

In our first podcast, you can hear section chair Scott Sheefel discuss MaD's top areas of interest for 2015. Look for more interesting podcasts coming soon.

UPCOMING MEETING SESSIONS

MaD will be sponsoring the following sessions at the Annual Meeting in October:

- Session 21: Panel Discussion: Product Innovation for Life Insurance Through Agent Owned Reinsurance Companies
- Session 108: Panel Discussion: Trends in the Worksite Market
- Session 152: Panel Discussion: Predictive Modeling for Actuaries: Predictive Analytics for Marketing & Distribution and Why Actuaries Should Care
- Session 165: Open Forum: New Trends in Critical Illness Insurance Markets

Annual Meeting Networking Event—Sunday, Oct. 11, from 4–7 p.m.

Join the Reinsurance, Product Development and MaD Sections at a fun networking event that will give you a chance to keep up with the Sunday afternoon NFL games while you enjoy a game of pool, darts or foosball, mingle and build your professional connections.

Annual Meeting Hot Breakfast—Tuesday, Oct. 13, 7:15 a.m.

LINKEDIN

Are you LinkedIn? Join MaD's LinkedIn group to hear the latest news on our continuing middle market research, sessions at SOA meetings, upcoming webinars and articles of interest. [Click here](#) to join.

You do need to have a LinkedIn account to join the MaD LinkedIn group, but creating an account is free and easy. LinkedIn is a great way to stay connected with other actuaries and professionals.

MEMBER INVOLVEMENT

For anyone interested in getting involved with MaD, a great way to get started is by becoming a friend of the council. By doing so, you can join in on monthly conference calls with the council and find additional opportunities to participate in section activities. To become a friend, simply contact any [member of the council](#). ■

Jill Klibanov is a senior managing actuary at CNO. She can be contacted at j.klibanov@banklife.com.

Selling Life Insurance to the International High Net Worth Individual Market

By Farron Blanc

One of the most vibrant and fastest-growing insurance market niches worldwide is the market for high-face-amount universal life (UL) insurance products. Universal life insurance has been available in a variety of permutations since its creation in the late 1970s. Today, policies with death benefits in excess of US\$10 million are purchased exclusively by customers with more than US\$1 million in investable assets—that is, high-net-worth individuals (HNWIs)—and play vital roles in estate planning and asset allocation strategies. When combined with private bank-originated premium financing, these policies provide not just coverage, but also a low-risk investment yield that is typically in excess of the premium financing. HNWI assets under management have been growing rapidly on every continent. Capgemini’s World Wealth Report 2014 notes that assets of ultra-high-net-worth individuals (UHNWI), defined in the report as possessing investable assets in excess of US\$30 million, grew 12 percent from 2012 to 2013 and totaled more than one-third of the available assets, making this an essential segment for insurance executives to monitor. This report aims to show how primary life insurers can explore or strengthen their ex-

isting presence in this brokered international market by developing successful strategies that can optimize market presence and penetration. These perspectives were derived from RGA’s proprietary research and data on this market, stemming from our role as one of the leading global providers of insurance solutions and capacity for carriers serving the HNWI market.

THE HIGH-NET-WORTH MARKET

The global high-net-worth (HNW) market currently consists of individuals with at least US\$1 million of investable assets exclusive of their primary residences. Approximately 12.4 million people

worldwide fit this description. The wealthiest market segment, ultra-high-net-worth individuals (UHNWIs), number just under 129,000 and have investable assets in excess of US\$30 million. UHNWIs and Mid-Tier Millionaires (Figure 1, below) are the main buyers of high-face-amount universal life policies.

The UHNW market is growing quickly in terms of population and investable wealth. Figure 2 (pg. 9, top) shows that the five-year growth rate for the UHNWI segment is highest of all: in the five year period of 2008-2013, the world’s UHNWI population increased by about 11 percent and its investable wealth by about 10 percent. Although Mid-Tier Millionaires have 10 times as many members as the UHNWIs (and Millionaires Next Door 100 times as many), UHNWIs represent more than one-third of the HNW market’s total available investable wealth.

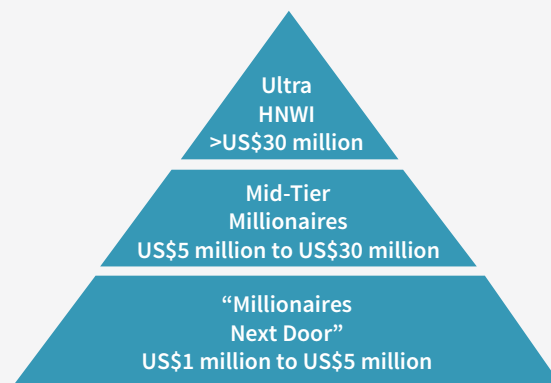
EVOLUTION OF THE MARKETPLACE

Life insurance began to emerge as a cost-effective component of estate and asset planning for HNWIs in the mid-1990s. This sparked sizable growth in the sale of high face-value life insurance policies. Specialist global insurance brokers such as R.E. Lee International and Charles Monat Associates pioneered this market, working directly with HNWIs to identify their estate planning needs and structure the massive insurance policies required for these needs. The policies were then issued offshore by Bermuda based insurers, which at the time were among the few with the capacity to do so.

By the mid-2000s, Asia’s HNW market was evolving rapidly, with life insurance assuming an increasingly important and visible role in asset diversification and preservation, tax efficiency, and intergenerational estate planning needs. Asian insurers, recognizing considerable opportunity in the rapid growth of absolute and year-over-year premium volumes, began providing greater support for UL product sales through HNW brokers. Several firms established specialized onshore underwriting units for this business. During the same time period, private banking institutions moved actively into managing HNWI assets and estate and trust planning needs.

Since the global financial crisis of 2008, this shift in the distribution paradigm has continued to strengthen. Investment banks have sharpened their strategic focus on private bank-

Figure 1
The HNWI Pyramid



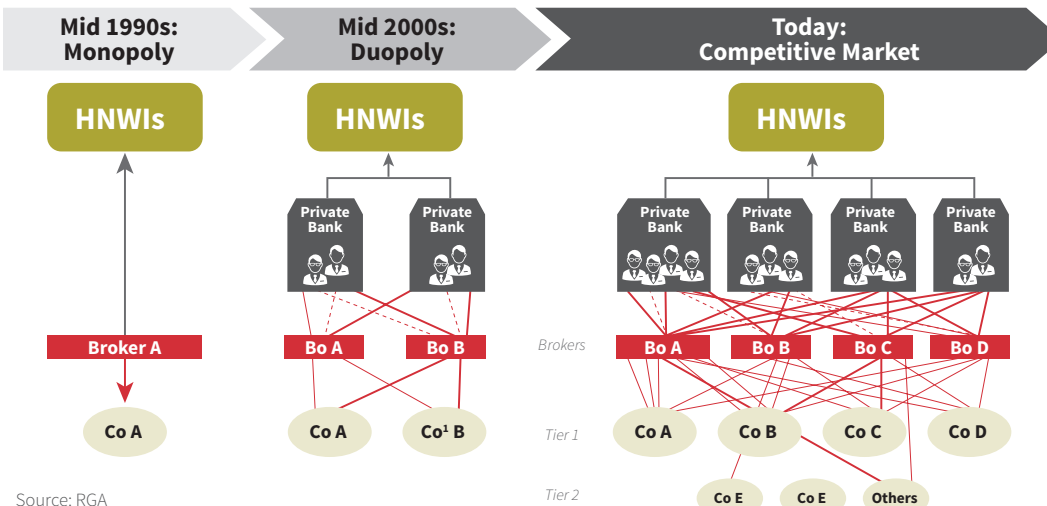
Source: Capgemini – World Wealth Report 2014

Figure 2
Growth of HNWI population and wealth

MARKET SEGMENT	NUMBER OF INDIVIDUALS	HNWI POPULATION		HNWI WEALTH		% OF HNWI WEALTH
		CAGR	GROWTH	CAGR	GROWTH	
Year(s)	2013	2008-2013	2012-2013	2008-2013	2012-2013	2013
Ultra HNWI	128,300 (0.9% of total)	10.5%	15.6%	9.9%	12.0%	34.6%
Mid-Tier Millionaires	1.2 million (9.0% of total)	10.0%	15.2%	10.2%	15.2%	22.3%
“Millionaires Next Door”	12.4 million (90.1% of total)	9.8%	14.6%	9.9%	14.7%	43.1%

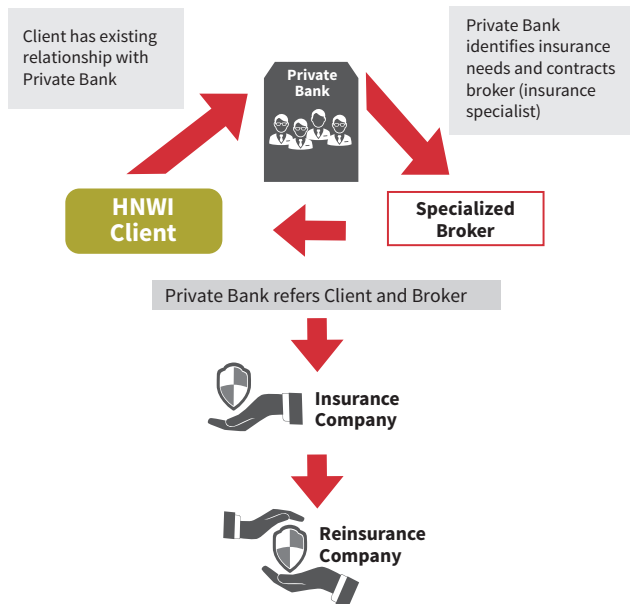
Source: Capgemini – World Wealth Report 2014

Figure 3
Monopoly to duopoly to competitive market



Source: RGA

Figure 4
Typical life insurance distribution process to HNWIs



Source: RGA

gle premium UL, with premiums financed by private banks. Not surprisingly, these private banks, whether standalone or part of global banking institutions, have become the principal source of client referrals to the insurance brokers that specialize in this market. The role of life insurers, meanwhile, has evolved from a pure product underwriter/provider to one that also incorporates sales support to the specialized brokers and marketing support to the private bankers.

FACTORS IMPACTING BUSINESS PLACEMENT

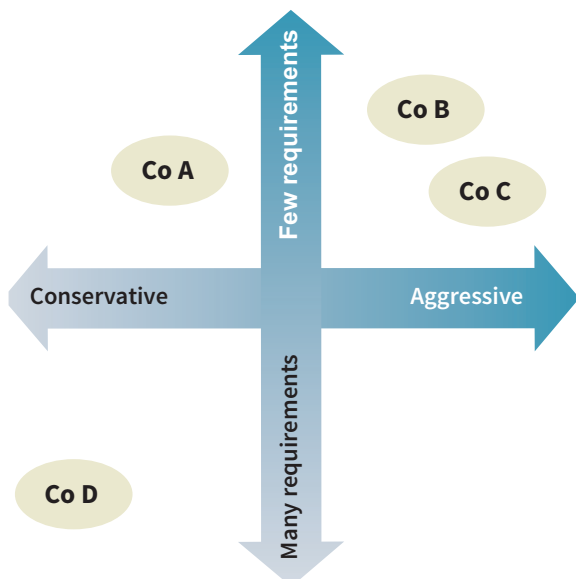
As private banks and brokers have become familiar with premium-financed UL, they have successfully pushed for its standardization and commoditization. Life insurers, to maintain strong competitive positions in this market, need to offer competitive headline premiums, efficient underwriting practices and reliable post-issuance services. The three main factors that influence the successful placement of business with a particular insurance carrier are product pricing, underwriting service, and underwriting appetite.

PRODUCT PRICING

Many of the leading brokers and private bankers serving the global HNWI insurance market view headline premium (i.e., the dollar amount of premium that will secure a specific sum assured) as the main indicator of an insurance product's competitiveness. For primary life insurers, providing competi-

CONTINUED ON PAGE 10

Figure 5
The Appetite Matrix



Source: Capgemini – World Wealth Report 2014

tively priced headline premium for HNW cases is an absolute requirement. To demonstrate good fiduciary faith, brokers will typically show clients at least two comparable options. A 50-year-old male, for example, can currently expect to pay a headline premium of between US\$3 million and US\$5 mil-

lion for a US\$10 million sum assured single premium UL policy offered by a rated carrier with an established track record in this market.

UNDERWRITING SERVICE

Throughout the underwriting process, insurance brokers act on behalf of the private bank-

ers who referred the client. The private bankers, in turn, act on behalf of the HNWI clients they referred. Both the brokers and the private bankers require insurers to provide seamless, efficient underwriting processes for the end client. HNWI are accustomed to “white glove” service — i.e., service that is meticulous, seamless and anticipates every possible need — in many aspects of their lives. Primary insurers seeking to strengthen their shares of the HNWI market must provide such service and manage expectations carefully at all points during the sales process. This means providing realistic underwriting decision timelines as well as managing the number of medical requirements and the number and nature of financial disclosures needed. It is crucial for life insurers to ensure their new business and communication processes produce a seamless experience for the broker, the private bank and the HNWI.

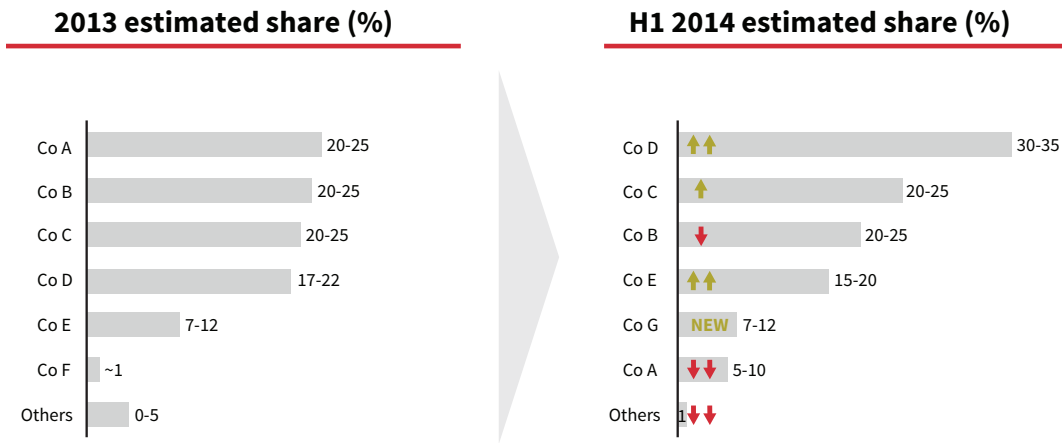
Insurers can differentiate themselves positively in the underwriting space by providing rapid decisions and by optimizing the frequency and clarity of underwriter communication to brokers. These items can influence a broker’s perception of an insurer’s underwriting quality, creating a strong impression of reliability and directly influencing consumer satisfaction levels. In any competitive marketplace, fast turnaround times and speedy, clear communications are always important, and for the HNW market, they are crucial. The amount of time HNWI can spare, especially those who are entrepreneurs, is limited. Their hectic global travel schedules make it impractical for an insurer to request additional procedures, as their time on the ground might be limited and they might not wish to perform repeat medical tests.

UNDERWRITING APPETITE

To have a successful presence in this market, projecting consistency in underwriting appetite is essential. Appetite, in this market, is a function of an insurer’s underwriting and rating practices. In Figure 5 (above, left), the X-axis refers to a broker’s perception of an insurer’s aggressiveness or conservativeness when it comes to individual cases. Aggressiveness refers to the accept, rating, postpone or decline decisions a carrier might issue. In the highly concentrated international HNWI market (currently less than 200 active brokers), brokers will be aware which carriers might be more likely to decline a given



Figure 6
Business placement in competitive geographies



Source: RGA and selected brokers estimates

case as well as those that might be more likely to issue an accept (or even preferred) rating for the same type of case. Carriers considered more likely to decline will place on the conservative arm of the X axis, and those more likely to accept will place on the aggressive arm.

The Y-axis refers to the number and nature of evidence requests. If a carrier asks for numerous sources of financial evidence or repeat paramedical exams, brokers will place that carrier on the lower portion of the Y-axis, and fewer exams, on the upper portion. The carrier's perceived underwriting appetite will illustrate as the intersection of the two points in a quadrant.

In the international HNWI market, the ability of an insurer to set a consistent underwriting appetite is important yet challenging. Given the high-stakes nature of HNWI cases, brokers and private bankers want to minimize the number of variables with which they and

their clients must contend. If a carrier's appetite seems to shift every month, or worse, if various underwriters at the same carrier demonstrate different appetites, that carrier can experience a rapid loss of market share. As the cases reflect very large face amounts and the clients' high privacy needs, it is crucial for insurers serving this market to adopt a consistent company-wide underwriting appetite which balances both market share ambitions and risk management controls. The relatively small group of insurance brokers and private banks that specialize in this market is one that can respond quickly to changes by life insurers, whether to products or in underwriting appetite. The necessity for insurers to examine and provide the right responses to pricing, underwriting and appetite needs in order to drive improved business placement is evident in Figure 6 (above). In 2013, full-year market shares for insurers in the international

UL market were largely equal for the top four direct writers. In 2014, however, companies C and D took aggressive steps to implement a revised strategy that focused on improving headline premium solve and strengthening underwriting service. Their efforts were rewarded by the brokers in terms of market share.

THE PATH FORWARD

Today's HNWI market merits close attention by insurers: it is dynamic and highly competitive, and is growing and evolving quite rapidly, representing a sizable opportunity. As the HNWI segment's size and wealth continues to increase, insurance carriers interested in penetrating this segment would do well to choose a strategy that will ensure appropriate market share, due to the sizable investment needed to start a new HNWI business line or strengthen an existing one. There are many untapped regional opportunities, particularly in North Asia,

Africa, and Western Europe. Historically, these regions have not been major centers for the international private bank-referred UL market. The HNWI cohort and its investable assets are growing fast. Many private banks in the three regions cited above already have large numbers of clients in the "Millionaire Next Door" category (US\$1 million to US\$5 million) as well as in the lower range of the mid-tier millionaire category (US\$5 million to US\$30 million). Insurers may not yet have the resources to provide "white glove" underwriting and sales support service, but even so, this segment could still generate substantial premiums and growth. ■



Farron Blanc is a VP, and innovation studio lead at RGA. He can be contacted at fblanc@rgare.com or on twitter @FarronBlanc

Drivers Of Technology In Selling Insurance

By Steven Johnson



I recently took a trip with my family and went about with the usual preparations. We packed our clothes, some snacks, the kids' bikes, and when we were ready to leave I punched our destination into my GPS. It was then that my son asked me why I wasn't using an app on my smartphone.

My response to him was, "This will get us where we need to go and we have used it for all of our other trips." He replied, "Yeah, but Dad, this GPS app uses social networking and reports live traffic, potholes, and police!"

At that moment I realized how I could benefit from this new evolving technology that was constantly being refined and I reflected on how to avoid becoming like my parents—who used hard copies of maps—and stay up to date with modern advances.

Now, I'm not so old that I don't remember following printed-out, online directions, but my father would go to the local AAA office and get a map. Not just the little fold up kind, but one of those large books full of maps. It was bad enough that it couldn't tell you where you wanted to go, but you also needed to know which direction was North!

So at a quick glance, whether it is my father with his road atlas, me with my GPS, or my son with his smartphone app, it is quite apparent that there is a fundamental difference in the level of technology that each of our generations have become comfortable using.

Figure 1
Different Generational Consumers

THE IGEN'S	THE MILLENNIALS (AKA GEN Y)	GENERATION X	THE BOOMERS	THE MATURES
< 14	15 – 35	36 – 50	51 – 69	> 70

I am not suggesting that I am breaking new ground with these observations, but understanding why certain groups choose different levels of technology, and what their preferred method of communication is, can give us an insight on how we can best tap into each market, target what kind of consumer they are, and help sell them insurance.

Understanding what the market wants is what will ultimately drive the technology that helps us reach those markets, especially in life insurance.

GENERATIONAL CONSUMERS

Let's take a look at the different types and ages of the generational consumers in the U.S. (see Figure 1 below)

The Boomers and the Matures have a very small adoption rate of the current technology.

Generation X has transitioned from the past technologies to the latest ones, and they are fairly comfortable in both mediums.

The Millennials were adults around the Millennium and are heavily immersed in modern technology.

The iGen's have always had the Internet and the latest technology such as smart phones. To them, they cannot imagine a world that existed without these devices.

A basic principle of marketing

suggests that using the preferred medium a consumer knows and trusts will have a direct impact on the way they make purchases and how one could—and should—sell to and interact with them.

When it comes to life insurance, there are three groups that are of particular interest when it comes to the actual purchase: Boomers (my father), Gen Xers (me) and Millennials (my son).

THE SALES MODELS

Boomers gravitate towards brand recognition, tenure in the market, and historical or perceived quality. They want an expert with years of experience to tell them what is best for them, spend time with them and get to know them. These are the deals that get done over a few drinks, out on the golf course, or whatever it takes to get them alone so they can sell, sell, sell!

This is the exact reason why my father would go to AAA for a map. He could have gone to the local store and bought the same map, but he wanted an expert.

With the Gen Xers and Millennials, however, it is the complete opposite: they avoid salespeople and prefer options. They are a generation of informed consumers and are willing to do a massive amount of online research prior to most purchases. This generation,

however, is not necessarily concerned about the length a company has been in business or their historical reputation. This is a generation that cares about the star rating and browses the customer reviews.

A member from this generation will commonly do their research across multiple sites and make it a point to check out the most negative reviews. They want to be informed, educated, and choose what they have determined is best for them. No expert required or desired.

Although the Millennials and the Gen Xers engage in similar research habits, there is an interesting distinction between the two: once the decision for a purchase has been made, the Gen Xer is more likely to go out to a local store to complete the purchase, rather than completing the transaction online, even if the price is better online.

They prefer bricks to clicks. Perhaps this is a result of being raised by the Boomers.

Millennials, on the other hand, prefer completing transactions online and want their items delivered, never having spoken to an actual person. In a worst case scenario they will engage in an online support chat, but only out of extreme necessity.

There is also the subject of online privacy. The younger the consumer, the less concerned they are with privacy. Even when it comes to monitoring their online transactions, the younger consumers are willing to accept this level of intrusion if it means that the algorithm

making suggestions is more accurate to their buying habits.

PRODUCTS

So what products are these three groups purchasing?

The Boomers are most likely to purchase annuities (perhaps with the cash value from their permanent products), long-term care, and/or various estate-planning products.

The Gen Xers are getting their first mortgage—also known as the gateway purchase into life insurance—and typically look to buy term products. Their next logical advancement into the purchase of life insurance comes when they have children. Now there is a need to save for college and other unforeseen expenses, which drives the need for additional insurance like Whole Life, Universal Life, and other permanent products.

Lastly, we have the Millennials. They are not thinking about life insurance.

Up to this point in their lives they have only thought about Auto, Health, and maybe Renters Insurance. This group, however, are going to be the next big wave of clients.

SALES CYCLE

The average amount of time that elapses between a consumer picking up the phone and saying, “I would like to purchase some insurance” and the policy actually being issued is well more than a month. During that time, there could be countless events that could go wrong for this potential policyholder, all of which could lead to the sale falling through.

For example, someone is purchasing life insurance and their refrigerator decides to stop working. Are they more likely to lock-in their premium because they are the youngest and healthiest they will ever be, or defer the insurance purchase because they have an immediate need?

Ask any insurance company or experienced life insurance salesperson and they will tell you that reducing the sales cycle has always been of interest. At the same time, with the Millennials, a shorter and unassisted sales cycle is going to be required in order to gain their business.

This can already be seen in similar industries like auto insurance, where the Millennials are already making their presence felt. Advertisements promising applications in 15 minutes or less are inescapable and competitors promising the same process in half the time are becoming just as prevalent.

This is an industry trying to capture the Millennial market and doing so where the window of opportunity is in minutes. Not weeks. Not months. This is being accomplished through a streamlined process over the phone, completely online, or done through a smart phone app.

This is where the life insurance industry needs to be.

OPPORTUNITIES

In order for the life insurance industry to catch up, it will have to consider streamlined and consumer-focused practices like automated underwriting and mobile quoting.

The traditional method of underwriting remains as one of the most dreaded aspects of the entire process of obtaining life insurance: scheduling a medical exam, drawing blood, being asked a multitude of embarrassing questions about your medical history, and finally having someone scrutinize your medical past.

One possible alternative consists of providing underwriters with access to online databases, credit reports, driving histories, and medical records in order to ascertain the risk and make a decision in seconds.

Mobile quoting, online applications, online education for research, and comparison tools are all areas of opportunity. Simplifying permanent products, and creating the basic building blocks to help consumers choose their own complex life insurance products with just enough assistance as they request is the future.

There is no silver bullet when it comes to selling insurance, but there is a multi-faceted, multi-generational approach that can redefine an industry. ■



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6 objections to the “myths” of DIAs

By Chuck Ritzke

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I’d like to start a movement to banish the term “**life expectancy**” from the retirement planning lexicon. It is one of the most abused and dangerously misunderstood concepts in retirement planning. And this misunderstanding is holding us back. It’s holding us back from providing the middle-market consumer with real solutions to a serious problem - outliving one’s income in retirement. We need to do something to counter these misconceptions.

TREASURY RULING ON LONGEVITY ANNUITIES

As you may have heard, the Treasury has recently issued a ruling allowing longevity annuities, a.k.a. deferred income annuities (DIAs) to be sold as part of a 401K or IRA plan with favorable tax consequences. Simply put, a DIA allows you to purchase a guaranteed lifetime income stream now (say at age 65), that starts sometime in the

distant future (say at age 85). Not to be confused with a typical deferred annuity, there is no cash value with a DIA (you can add a death benefit, but that’s not its “purest” form). It works exactly like a single premium immediate annuity (SPIA) except payments start further out into the future. This allows the DIA to provide a classic cost-effective insurance solution by deploying a modest percentage of your assets in a vehicle that spreads the risk of living a long time.

BUT “FINANCIAL EXPERTS” THROW COLD WATER

This is an exciting opportunity to apply new solutions to a serious problem. Yet many “financial experts” are trying to throw cold water on the party. Here is just one recent example at Forbes.com. Now, if you review this author’s body of work, he seems biased against anything with the term “annuity” or “insurance company” in it, so we’d likely need to banish a lot more things to satisfy him. But in any case, his concerns are full of misconceptions. I will address each one later in this article, but want to focus first on what I think is the most important and common misconception. That’s the one surrounding “life expectancy”.

The argument goes something like this. DIAs pay you nothing if you die before the start date (say, age 85). And your life expectancy is around age 85. So you are “likely” to die before receiving any benefits, and so the evil insurance company is “likely” going to keep all of your money. The implication is that your life expectancy is some kind of virtual upper bound on your life, beyond which all but a few fortunate souls survive. That’s the misconception. This is not true or even close to what life expectancy means.

SO WHAT DOES LIFE EXPECTANCY MEAN AND HOW IS IT MISUNDERSTOOD?

As an actuary, I take some portion of the collective responsibility for the term life expectancy as it is somewhat of an actuarial concept. So bear with me as I use a little math (details relegated to this linked spreadsheet for those who want to check my work) to demonstrate the misconception.

Let’s say you have 100 reasonably healthy age 65 male and female couples for clients. I’ve used the most recent Society of Actuaries individual annuitant mortality experience table to calculate their life expectancy. (You could justify other assumptions, but the story does not change that much for our

purposes.) Life expectancy is the expected average age at death. So the spreadsheet simply calculates that by projecting out how many are expected to die each year and taking an average. For your 100 clients, the male life expectancy is 86 and the female life expectancy is 88.

But those numbers really don’t tell you anything useful. What you really want to know is how many of your 100 clients would be expected to live a long life? Under our assumptions, 56 out of the 100 males will live beyond age 85, 34 will live beyond age 90, and 13 beyond age 95. For the females, it’s 64 out of the 100 living beyond age 85, 42 living beyond age 90, and 21 living beyond age 95.

But that’s not even the whole picture. If you are advising these clients, you would be talking about providing income so long as either are alive. So you would want to use a joint and survivor DIA. Under those same life expectancy assumptions, you could expect that 84 out of 100 couples will have at least one person still alive at age 85. You’d expect that 62 would have one person alive beyond age 90 and 31 beyond age 95. This is all based upon actual industry experience for individual annuitants. It does not even assume any ongoing improvement in longevity, which shows little if

I’d like to start a movement to banish the term “life expectancy” from the retirement plan lexicon.



any signs of slowing down.

As you can see, the life expectancy numbers of 86 and 88 really provide no useful information when considering how long your clients are likely to need income. It is in no way true to imply that the DIA is some kind of insurance company rip-off where you are likely to not receive any benefits. A DIA will provide a very good return for well over half of your clients, and precisely for all of those who will actually need it, because that's what insurance is supposed to do.

SO HOW DOES THIS MISCONCEPTION SHOW UP IN RETIREMENT PLANNING?

You typically see a few different approaches to retirement planning.

(1) *Hope For the Best scenario* (where “best” means you die young): Some advisors plan

income spending to ensure assets last to your life expectancy age. We have shown that this is a disaster for 84 of your 100 client couples. Can you possibly feel like you've done a good job putting together a retirement plan that only works for 16 percent of your clients? And it only worked for them because they died young, and thus your plan did not actually protect anyone from outliving their assets?

To be fair, many advisors do realize that there is an income need beyond life expectancy. But they argue that clients' retirement assets are so inadequate, that it is too overwhelming to discuss how to stretch those assets, so they resign themselves to “at least” provide income to their life expectancy age. But that makes no sense at all, as it just ignores the problem instead of solving it. It reminds me of the old joke about the drunk who lost his wallet in the dark alley. When asked why

he is looking for his wallet under the street light, he says the light is better there.

That approach is not helping anybody find the keys to a retirement solution. The sad part is that solving the real problem costs only a little more than the one they are solving.

(2) *Live Off the Interest scenario*: Finally, many advisors do realize that they need to provide a plan that will last for life. So they recommend a plan where you “live off the interest”. They claim it is safe to withdraw 4 percent to 5 percent of your retirement savings each year and that, over the long haul, interest will be sufficient to cover that. This plan has several problems. First, is it just me or does it seem odd that you save all this money for retirement and then are told by your advisor to never actually spend the money you saved for retirement? Second, it is inefficient

to leave all your money on the table when you need income. \$500K in retirement savings will only generate \$20 to \$25K in annual income under this approach. That's not much and how many middle-market couples have saved as much as 500K? Third, this plan might not even work. In our current low interest environment, it is pretty hard to generate 4 percent to 5 percent investment income. So presumably, the plan includes the purchase of stocks, mutual funds, etc. Yet, it only takes two years of minus 30 percent returns to possibly make the plan fall apart. It happens. My [spreadsheet](#) shows just one such feasible scenario. Finally, a 4 to 5 percent withdrawal scenario likely runs afoul of Required Minimum Distribution (RMD) requirements assuming your money is in a tax qualified vehicle. So it can be inefficient from a tax standpoint, in that you'll need to pay taxes earlier on more money than you are allowed to spend.

Bottom line is that a DIA can be used to develop a plan superior to these common approaches. But to do so, we need to answer all of the objections to DIAs. So let's address the objections in the [Forbes](#) article one by one.

OBJECTION 1: YOU PROBABLY WON'T COLLECT ANY DIA BENEFITS

We've already shown that 84 percent of your clients would be likely to collect benefits. Yet it is true that 16 percent or so

CONTINUED ON PAGE 16

might not. Is that bad? Consider that a typical 45 year old male purchasing 20 year term life insurance has about an 8 percent chance of collecting any benefits (assuming he keeps his policy for 20 years). Or a little Googling will show that the probability of ever collecting anything on your auto theft insurance over 40 years is on the order of 20 percent. And the probability of your home ever burning down and collecting on your homeowners insurance is likely about 0.2 percent. Yet those are all essential and valuable insurance benefits because that's what insurance does. Insurance companies pool your money so that you get precisely the benefit you need when you need it and not when you don't.

OBJECTION 2: THE DIA REQUIRES A HAIRCUT ON YOUR INCOME THAT YOU CANNOT AFFORD

The DIA Treasury Ruling allows for up to 25 percent of your 401K/IRA assets to be used to purchase a DIA. The Forbes author thinks this translates into taking a 25 percent haircut on your retirement income. This is entirely false and shows he does not understand how a DIA would work. With the purchase of a DIA that provides income after age 85, the retirees can now safely use portions of their principle to provide income prior to age 85. In fact, a simple calculation (see [linked spreadsheet](#)) shows that a couple age 65 with \$500K of retirement assets, using a DIA as part of their plan, could reasonably be expected to generate a lifetime retirement income in excess of \$29K per

year. This assumes the couple purchase a \$29K per year joint & survivor DIA that starts at age 85. Then they spend down their remaining retirement assets at \$29K per year from ages 65 to 85. A single retiree could generate over \$31K of lifetime income. This uses the same 4 percent interest assumption and a very conservative DIA rate (better rates are likely available). \$29K compares to the \$20K you would generate with a 4 percent "Live Off the Interest" plan. That's about a 45 percent increase in income. At a 5 percent assumption, the couple

There is of course no panacea for anyone who has not accumulated adequate retirement savings. ...

could generate over \$32K of income per year (compared to \$25K under a 5 percent "Live Off the Interest" scenario).

And the DIA would use only 13 percent to 20 percent of their assets, not 25 percent. No haircuts for the children of the Age of Aquarius. On the contrary, they can let their hair grow again (if they still have any)!

OBJECTION 3: THE DIA CAUSES YOU TO LOSE LIQUIDITY AND CONTROL OVER YOUR ASSETS

This was a valid objection to the traditional SPIA, but the DIA was invented, in part, to address this concern.

It is true that the 13 percent to

20 percent of your assets applied to a DIA would not be immediately liquid and available to you. And you are safely spending down your retirement funds over 20 years. Of course, there may be settlement market opportunities out there to turn that DIA back into cash if you really needed to.

But the liquidity of any of the other retirement funding methods is overstated by comparison. If you spend a portion of your \$500K, then you'll have less interest to live off of. If you are investing in stocks/mutual funds/long term bonds, then

in any given year the value of your funds can fluctuate by a lot more than the 10 percent to 20 percent you invested in your DIA. So how liquid are your funds in any case?

Finally, a DIA contract can provide guarantees and options (changing start dates, guaranteed income, death benefits, etc.) that actually give you more options and flexibility than the "do it yourself" retirement plans do.

OBJECTION 4: THE DIA DOES NOT ADDRESS INFLATIONARY NEEDS

Inflation does indeed present additional risks for retirees. But that is true under any retirement plan. The DIA does

not increase those risks. In fact, a DIA can be designed to offer inflation-adjusted income amounts, in a variety of ways, to reduce those risks.

OBJECTION 5: THE DIA ONLY WORKS FOR THE HEALTHY

DIA's can be designed to be underwritten and reflect the health of the retirees. This would result in substantially cheaper rates and perhaps call for scenarios where the DIA income starts at an earlier age for those retirees with health problems. It is important for such retirees to carefully shop for a DIA that does this, but it is not an inherent flaw in the DIA concept.

OBJECTION 6: THE DIA DOES NOT ADDRESS THE PRIMARY PROBLEM - INSUFFICIENT SAVINGS

There is of course no panacea for anyone who has not accumulated adequate retirement savings and this is a major problem for any retirement plan. For some, their only option will be to look to other options, such as depending upon the government, family, charity, or maybe a retirement life of crime or politics (and there is some overlap here). But again, this is true of any retirement income approach, unless you've figured out a fool-proof way to beat the casino or the lottery.

But a DIA actually can help reduce this problem in several ways. We've already shown that a DIA can allow you to safely draw a much larger income than under a "Live Off the Interest" scenario. In addition, the purchase of a DIA can ac-

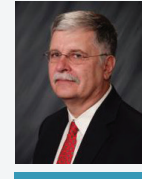
tually help retirees to develop a more concrete delayed retirement plan if needed. Start by immediately purchasing a DIA to generate the retirement income you need at age 85. Now you've reduced your retirement problem to a simple goal. We can precisely determine how much savings you'll need to retire at any given later age and can develop a specific plan to reach your goals. The result can be a safer, more predict-

able, earlier retirement with higher income compared to the "do it yourself" plans.

The bottom line in this article is that the DIA is an extremely useful tool for the middle-market to develop a safe and secure retirement plan. And the recent Treasury ruling makes it even more so. When you think about it, the DIA actually allows you to turn 401K/IRA balances into better versions of the nostalgic

defined benefit pension plans of yesteryear. Yet misconceptions that are reinforced by the naysayers stand in the way.

And beyond the damage done to retirees, the sad part for us is that the DIA is a solution that only the insurance business can offer. So we all need to diligently defend and promote its use. I would love to hear your comments and ideas on ways to do that. ■



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The New Marriage: Actuaries and Marketers

By Sarah Konrad Hinchey

I remember in my college years being forced to take marketing classes because the actuarial science major was attained through the business school at my university. I remember thinking how most of the content in those courses was too “fluffy” and I would never need to apply any of it for a career as an actuary. Why was I wasting my time learning about targeting, cross-selling and segmentation while I could be learning more about decrements, stochastic processes, or at least anything that would help me get through those grueling exams?

Times have changed. The opportunities for actuaries are expanding. With data scientists among the most sought-after professionals in Silicon Valley and around the world, now more than ever it's time for actuaries to step up their game and apply their analytical skill-sets not just as financial, product, and risk managers, but also as marketing partners to help grow and sustain profitable businesses and meet increasing customer demands. This became crystal clear to me last year when I transitioned from the actuarial pricing and product development world to the marketing and customer analytics domain.

In this article I'm going to walk you through the five steps of our multinational company's journey towards advanced customer intelligence and data driven marketing. Some readers may work for companies that are already quite advanced in this area, while others are at the very beginning. My hope is that you will take away something from this article that will either validate your current path, or help you move forward in your own journey.

1. SPEED DATING: GET STARTED WITH SMALL PILOTS TO PROVE VALUE

Prior to my transition from the actuarial world to the marketing domain, the customer intelligence journey at our company had already begun as a series of small pilot projects to meet the growing demands of the sales force. The agents needed more high quality leads in order to generate enough sales to make a decent living. Because the statistical modeling expertise did not yet exist within our marketing departments, a trusted consultancy was partnered with for guidance and speed to market.

The first lead generation campaign was launched in Romania. The initial step of the process was a manual transfer of

depersonalized data from our many disconnected databases to the partner's data warehouse. This included policy data, CRM data, claims data, and basically everything we could unlock and upload. Once uploaded, our partner organized all the data so that there was one single 360-degree view at a customer level, and then delivered a customized report of portfolio insights. The whole process took about three to four weeks.

Based on these initial insights, the Romanian team decided upon a life insurance cross-sell campaign for their pension database, and set up the campaign structure, channel, and timeline. In this initial phase of our customer intelligence journey, the “hardcore” analytics, modeling, and lead generation were temporarily outsourced to our trusted partner, based on the depersonalized databases that had been shared with them. This temporary set-up would begin to change, however, once I joined the team and demonstrated that these hardcore skills already resided within other pockets of the company: the actuaries.

The Romanian campaign and similar pilots quickly began to show their value, and more countries expressed an interest to follow the same path. We began to pilot other types of data-driven campaigns and analysis and saw significant results:

- Romania: 50 percent increase in cross-sell conversion rate
- Poland: 91 percent increase in cross-sell conversion rate

- Turkey: 100 percent increase in cross-sell conversion rate
- Spain: Retention model identified €20 million in annual premiums with high lapse risk
- Spain and Turkey: Segmentation of client base on Customer Lifetime Value used to develop new client contact strategy

It was quite amazing to me what a significant and direct impact could be achieved with basic statistical models. And this really wasn't rocket science. Basically, the look-a-like models we built (usually logistic regression or decision trees) would look at existing customers who had product A, and determine the factors that had the strongest influence on whether those customers bought product B. The model algorithm would then be applied on a set of customers with only Product A, rank them based on their predicted likelihood of buying product B (or how much those customers “looked like” customers who had also bought product B). The customers with the highest propensity to buy product B would then be the targeted leads delivered to the agents.

At this point it became clear that the data-driven marketing initiative was on a successful path. The success of the pilots was critical to gaining senior management buy-in to further support the rollout of a larger customer intelligence program within our company. The customer intelligence program would aim to transform our company into a much more data-driven operation, delivering

the right offers and experiences at every step along the customer journey.

2. THE COURTSHIP: BRING TOGETHER MARKETING ANALYSTS AND ACTUARIES IN A TRAINING PROGRAM

Customer Intelligence was identified as a core long-term strategic priority, and as such it would be necessary to develop the analytical expertise and modelling capabilities in-house in a sustainable way, rather than continue to rely on outsourced solutions. The question soon came up—“Who from the marketing teams should be trained?”

Fortunately I was in a position to influence this decision, and it was quite obvious to me that now was the time to tap into the existing actuarial resources from the risk side of the company who already had strong statistical and modeling expertise. In the end we had a selected class of 35 participants from 11 countries, six of which were actuaries and the rest were marketing analysts. Thus began our delightful courtship of actuaries and marketers.

Our marketing partner offered to run the Customer Intelligence Academy (CIA) in a series of five one-week modules at their campus in Amsterdam, spread out over 18 months with hands-on assignments and training provided along the way. The modules covered the following topics:

Module 1: Creating insights from data; Data visualization; Presentation skills

Module 2: Basic statistics; Data Cleansing; Basic training in SQL, SPSS, and R; Customer Lifetime Value

Module 3: Predictive modeling techniques; Machine learning in R

Module 4: Campaign Management & Monitoring

Module 5: Making Impact with Presentations

The decision to mix participants with completely different professional backgrounds led to some entertaining weeks. I remember during the module on predictive modelling (where we practiced coding in R for logistic regression, decision trees, random forest, and neural networks) many of the marketers were exhausted, brains completely fried. For the actuaries, this was our favorite module, our comfort zone, and we helped our colleagues work through the challenging exercises. Other modules

focused on presentation skills and persuasion. The marketers excelled during this week and passionately presented creative results. Meanwhile many of the actuaries were depleted of energy by the end of the week after being taken out of their comfort zone. Luckily years of Toastmasters made me more comfortable, but that’s a tale for another day. This mix of strengths and weaknesses led to a very fun and collaborative atmosphere, and a greater overall appreciation for each other’s complementary talents.

3. THE NEW MARRIAGE: EMBED ACTUARIES IN MARKETING TEAMS

Now more than ever actuaries are needed in the marketing domain. In addition to the analytical and statistical expertise required for predictive modeling, actuaries have a deep understanding of the underlying product mechanics and profit drivers. Implementing a cross-sell campaign based

on propensity-to-buy models may increase premium inflows; however, if we are not concurrently targeting the right risk profiles we may be doing more harm than good by attracting undesirable risks. Similarly, a retention campaign designed to retain those customers with the highest propensity to lapse must also include an element to ensure we’re not encouraging highly unprofitable customers to stay on the books.

For a segmentation project in Spain, I developed a model for Customer Lifetime Value (CLV), which is basically the actuarial present value of future profits one would expect to earn from a single customer, across all his current and potential future product holdings. We used CLV to divide the client base into high/low current and potential value customers, and align contact strategies accordingly, allocating more scarce resources to service high

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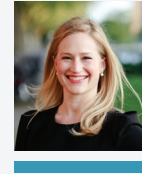


current/high potential customers. I was able to show the value in using a more sophisticated CLV calculation in place of Annual Premiums or Assets Under Management, because the CLV takes into account the fact that some products are actually loss making and therefore diminish the customer's financial value to the company.

Marketing teams are recognizing the growing need for strong data scientists to drive the decision making process. With a deep understanding of profit drivers and statistical modeling, actuaries with a passion for data science, behavioral economics, and the business frontline are the perfect addition to meet this demand.

would need links to sophisticated CRM tooling, while the actuaries and modelers would be most interested in predictive modeling capabilities. Once having organized our internal "small data," we would want to have capabilities to draw insights from big data sources like wearable devices and social media. Having everything cloud-based would allow for easier cross-country cooperation, more flexibility to adapt to new (big) data sources, and a more scalable cost model. Our "People First, Cloud First" approach was a conscious decision to first invest in our own people rather than expensive platforms and tools, which allowed us to make more informed decisions

to improve the underwriting journey and effectiveness—for example, using the Customer Intelligence analytical platform for predictive underwriting to pre-approve customers for additional coverage. Our pricing actuaries see opportunities for developing more segmented and tailored pricing, as well as using more sophisticated methods for setting best estimate assumptions. And finally, our Investment Management colleagues see opportunities to use the platform for analyzing and predicting customer behavior in relation to market movements. Rather than re-invent the wheel, we can adapt our developing analytical platform and training programs to meet these additional requirements.



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Marketing teams are recognizing the growing need for strong data scientists to drive the decision making process.

4. INVEST FOR THE FUTURE: BUILD A SUSTAINABLE ANALYTICAL PLATFORM

The valuable lessons learned from the outsourcing, pilots and training program gave us the necessary experience and time to define requirements from all departments for our own company-wide data infrastructure. We knew we would need to have a common data model across all business units in order to be able to share statistical models and best practices, as well as access to automatically and frequently refreshed data. Sales and marketing

later on, such as investing in a scalable and cost effective cloud-based solution.

5. GO FORTH AND MULTIPLY: SPREAD TO OTHER AREAS OF THE COMPANY

The success of our Customer Intelligence program is beginning to resonate with departments outside of Marketing and Sales, as they also increasingly see the need to be more data-driven in their operations in a consistent and scalable way. The risk and underwriting departments are investigating ways to intelligently use data

SUMMARY

Over the past 18 months I've lived through our company's gradual transformation into a more data-driven enterprise. We started small, step-by-step, with a series of small pilots to prove the value. We organically increased the knowledge, capabilities and collaboration of our own actuaries and marketers in a combined training program. Applying lessons learned from the small-scale pilots and understanding requirements from all departments, we were able to make informed decisions to develop our own multinational and cross-functional analytical data platform. What started as a small marketing and sales pilot has grown to a core strategic initiative touching all areas of the company.

Marketing isn't so fluffy anymore after all. ■

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Trends in Critical Illness Insurance

By Ashley Mehrer

At the SOA Health Meeting that was held in Atlanta June 15-17, the Marketing and Distribution Section sponsored a session on New Trends in Critical Illness Insurance. Despite the session being at 8:30 a.m. on the last day of the conference, it was well attended with great engagement from the audience.

We had three speakers who are experts in the critical illness arena: Ryan Chamberlain (VOYA), Cyriac Kotoor (GenRe), and Darrell Spell (Milliman). The MaD Section's very own Kamran Malik from Wakely Actuarial was the moderator. For those who missed the session, the following article will summarize the highlights of what was presented.

Darrell's presentation described seven trends in the critical illness market. I will use these as a basis for the article:

1. CARRIERS ARE ENTERING THE MARKET.

The critical illness market is in a constant state of change, partly due to many carriers entering the market. And they aren't just putting a toe in; they are entering the market in a big way. They are conducting lots of analysis and research prior to entry to be sure their

offerings are competitive and differentiated. When a carrier enters the critical illness market, they usually do not enter with a single product, but pair their offering with either accident or hospital indemnity coverage, if not both.

2. CARRIERS HAVE LESS INTEREST IN PLAYING "FOLLOW THE LEADER."

When carriers are entering the market, they are interested in creating distinction and their own flavor of critical illness. This comes across in a few ways, including the selection of triggers covered. Cyriac talked in his section of the presentation about the variation in triggers that he sees in the market. (See table below)

We could attribute this variation and distinction to the extensive research in product

development, strong product line managers who have deep understanding of the line of business and the strength of traditional group and health carriers entering the market.

Cyriac also pointed out some key questions to ask when considering certain policy triggers to include:

- Is the condition normally "critical"?
- Can the condition be well defined?
- Can a reliable incidence rate be developed?
- Can the risk be appropriately underwritten?
- Can the benefit eligibility be objectively determined?
- Is this benefit likely to increase sales?

3. PRODUCT POSITIONING THROUGH PACKAGING

As stated earlier, most carriers are entering the supplemental health insurance market, which includes a critical illness (CI) product, usually paired with accident or hospital indemnity. We are also seeing carriers experiment with CI riders on life and health products as a way to provide coverage and protec-

tion without a full scale product build. The bundling and portfolio approaches also support needs driven by health care reform legislation and emerging distribution channels, like exchanges.

4. FOCUS ON "PROTECTION" OVER "INNOVATION"

New products that we see coming into the market generally focus on simplicity. Carriers want to ensure that customer needs are met. Simplifying the product and making it easier to understand was also addressed by Ryan's discussion of enrollment. Recognizing that enrollment methods for the product can vary from employer sponsored one on one's (high level of engagement and product explanation) to self-service online or paper enrollment (limited explanation of product), means that the simpler products are going to lead to higher participation. This was another key product driver addressed by Ryan. Getting adequate participation to achieve the necessary spread of risk and to cover expenses is key to the product being profitable.

CORE TRIGGERS	SECONDARY TRIGGERS	ADDITIONAL TRIGGERS	LESS COMMON TRIGGERS
(~75%)	(~15%)	(~5%)	(~5%)
<ul style="list-style-type: none"> • Cancer • Heart Attack • Stroke • Kidney Failure • Major Organ Transplant 	<ul style="list-style-type: none"> • Carcinoma in Situ • Coronary Artery Angioplasty • Coronary Artery Bypass Grafting 	<ul style="list-style-type: none"> • Aortic Surgery • Benign Brain Tumor • Blindness • Coma • Deafness • Heart Valve Replacement • Paralysis • Severe Burns • Terminal Illness 	<ul style="list-style-type: none"> • Addison's Disease • Alzheimer's Disease • Aplastic Anemia • Loss of Speech • Motor Neuron Disease • Multiple Sclerosis • Parkinson's Disease

5. CONVERGENCE OF INDIVIDUAL AND GROUP PRODUCTS

There is continued blurring of lines between individual and group products, indicating that the world of hybrid is here to stay. While the hybrid concept is not new, its continued market appeal is significant. When comparing products, it can be difficult to tell whether it's group or individual. This blurring of lines between group and individual presents some increased competition for distribution with special emphasis on compensation. Ryan spoke to the many considerations with compensation including the ability to pay high/low or heaped commissions, with options for level commissions over the life of the policy. Another interesting twist on this market is the manner by which additional expenses are addressed. In some instances, costs such as benefit administration, may be paid out of existing commission structures.

6. UNLIMITED PAYOUTS

Following in the footsteps of the fashion market where what's old becomes new and hip again, we have seen an evolution in the number of payouts available on critical illness products. Cyriac spoke to this market evolution, too. Early versions were mostly single payout plans, where the policy would lapse after 100 percent payout of the benefit amount, either for a one major trigger or combination of major and partial benefits. The next generation provided for payments in a category approach. Under the category or "bucket" plan,

there is a 100 percent benefit for pre-defined categories, such as cancer, cardiovascular, and others. The policy would lapse after a full benefit is paid under each category. New developments are now leaning towards lifetime maximum approach where the conditions are not limited by categories, but the policy will terminate after 300 percent of the face amount had been paid. Carriers are also creating plan designs that pay once per condition, but the probability of multiple payouts declines as count increases (i.e., you are not likely to have 14 critical illnesses in your lifetime and survive them all). How many payouts per condition and time periods between diagnoses are all important product design considerations.

7. SHIFT TO ISSUE AGE RATING OR IS IT A SHIFT TO ATTAINED AGE RATING?

The trend for critical illness rating is simultaneously going in two directions: those that have issue age rates are adding step rates, and those with step rates are adding issue age capability. Carriers generally have a preference (typically based on what other lines they have), but realize that there is market demand for both types of rate structures. Ryan also spoke about the varying degrees of simplicity and complexity in how the rates are developed, including whether or not a census of eligible employees is required at time of quote.

In addition to these market trends, Ryan spoke to considerations around persistency, both at a case and member lev-

el. Case level persistency can be highly impacted by broker of record changes and carrier service experience. But, even when case level persistency is good, there can still be profitability challenges presented by high turnover industries where individual member persistency is low. There are also challenges presented with "no takes," where members sign up, but either leave their employer or cancel coverage before any premium is paid.

Overall, the session highlighted many of the market trends we are seeing in critical illness. It's an exciting time to be involved in the ever changing and evolving critical illness market! ■



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