Article from:

News Direct Newsletter

September 2003 – Issue No. 44

NTM Sessions held in Washington, D.C.

Session 06 PD

DEBT CANCELLATION UPDATE

Panel: Chris Hause, Hause Actuarial Solutions
Mike Balsley, Fleet Credit Card Services
Hugh Alexander, Alexander Law Firm

Chris Hause provided a brief overview of the nature of debt cancellation and suspension agreements. These agreements take the form of loan addendum that allow the creditor to cancel or waive certain requirements of the loan based on occurrence of certain events. These events in the insurance arena have traditionally included death, disability and unemployment. However, these choices have expanded to quite an impressive list. Events now include marriage, divorce, birth or adoption, college enrollment, disaster relief, hospitalization, long-term care confinement and leave of absence.

Mike Balsley then talked about his experience with FleetBoston Financial, who migrated their credit card portfolio from insurance to debt cancellation/suspension.

FleetBoston formed a self-contained operating unit, called complementary products group that is dedicated to the design, marketing, administration and risk management of these programs. After favorable test results, the move was made in 2001 to eliminate new offerings of insured programs, and exclusively to debt protection. Here is an outline of the advantages of this migration.

Product Design Advantages

- Absence of filing requirements allowed development and testing of new products on a timely basis
- Greater flexibility in product design allowed us to be more responsive to the customer
- The ability to charge the same rate nationwide resulted in marketing and administration efficiencies
- All of these factors have enabled us to adopt a multi-product approach with different product sets designed to appeal to specific segments of the portfolio, plus "roll down" products to augment retention efforts

Distribution Advantages

- Absence of representative licensing requirements and credit insurance boilerplate allowed us to:
  – Maximize telemarketing as the primary distribution channel
  – Change "real estate" requirements on applications, card carriers, etc.
  – Develop effective programs for customer service staff
  – Offer protection at virtually every point of customer contact including:
- Telemarketing
- Card Activation
- Balance transfer
- VRU
- Customer service
- Internet

Marketing Advantages

- Ability to utilize a multi-product, multi-price point approach led to the development of proprietary targeting/modeling techniques including:

– Profit driven targeting using EVA/Life Time Value models that have reduced leads by more than 30 percent and achieved same economic results
– Each customer scored and offered the "right product at right time"
– Sophisticated offer "windowing" that ensures customers are not contacted too frequently
- Marketing techniques spurred by FCCS' migration to debt cancellation have resulted in:
– 21 percent conversion rate improvement
– 25.2 percent decrease in acquisition costs
– $12 of additional revenue per active account

Operational Advantages

- All fulfillment, product service and claims administration are now entirely "in house"
- Direct management of the claims process has resulted in significantly improved levels customer satisfaction
- In-house retention and more product options have led to the development and implementation of highly effective retention strategies that consistently yield save rates over 20 percent

Migration Impacts

- More products to serve customer needs and fuel better marketing techniques
- Improved debt protection program revenue
- Improved persistency supported by debt cancellation retention products and strategies
- Improved customer satisfaction

In general, the conversion from insurance programs to debt protection seems to be an unqualified success for FleetBoston.

Hugh Alexander then gave us an overview of the Gramm-Leach Biley act and OCC regulation that govern these plans at the bank level. In general, the practices that are currently prohibited for insured products remain prohibited for debt protection as well. Two additional requirements that affect these programs are the outright prohibition against single premium plans on real estate secured loans and a requirement that

there must be a bona fide monthly alternative to any single premium plan. Non-refund single premium plans can be made available, but a refund alternative is required as well.

Hugh also summarized what the various state positions and actions have been toward debt protection.

Chris Hause covered two of the more important aspects of these new plans—the "safety and soundness requirement" that the OCC requires and the Bona fide monthly alternative requirement.

While the OCC has pronounced that debt protection programs are offered on a "safe-and-sound" basis, there has been little guidance available thus far to put any specific guidelines in place for examiners. There appears to be an opportunity for actuaries to put their science to work, and I have been in contact at several levels to involve the profession in assisting in the development of viable standards.

Chris reviewed the mathematics, history and the "pros and cons" of the three main approaches to monthly alternatives to single premium. These methods include the traditional monthly outstanding balance, the so-called APR method and the level monthly

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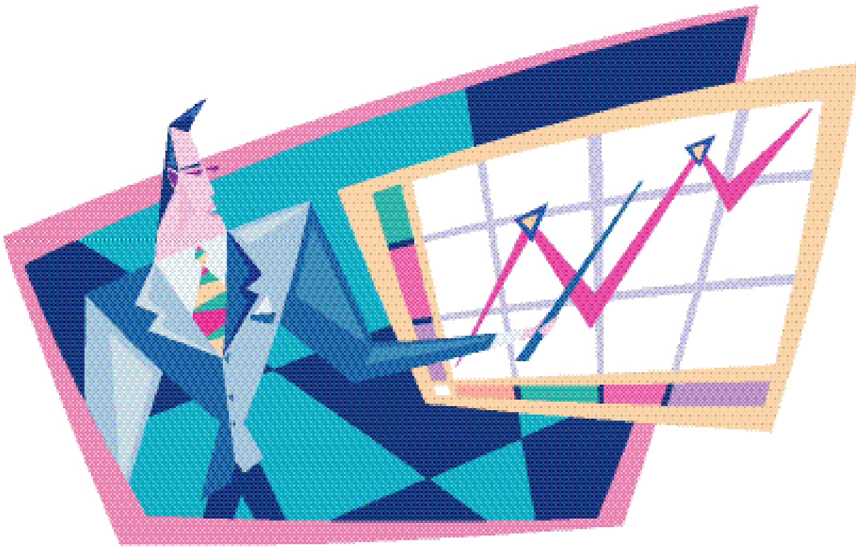

method. Which of these will emerge and in which markets remains to be seen.

For more information on this topic you can reach Chris by *chrish@hauseactuarial.com*.

Session 50 PD

INTRODUCTION TO VOLUNTARY BENEFITS

Moderator: Chris Hause, Hause Actuarial Solutions

Panel: Diana Thulin, Swiss Re Life and Health America
Thomas F. Welch, Jr., Johnson Rooney Welch, Inc

This session provided an overview of the "traditional" voluntary products, life and AD&D. This was either packaged together with the employer-paid benefits or as a stand-alone product. These products generally feature an accelerated death benefit, and usually include options for spouse and children's benefits as well.

Benefit configurations are usually multiples of earnings (one to five times is most common, and there is some upward pressure on these) or fixed increments up to a maximum ($500,000 on the employee and $100,000 for a spouse).

Other voluntary products include cancer, critical care, disability income (long-term and short-term), dental, vision, long-term care, auto, homeowners, pet and legal services.

There is consensus that the offering of these type plans by employers is on the rise. This is particularly true when there is high competition for employees, or when an employer has discontinued or reduced an employer-paid plan. Employees enjoy the convenience of payroll deduction, expanded benefit offerings and generally lower level of underwriting versus individual plans.

Effective marketing is very important to these plans' success. The loss experience depends very heavily on the spread of risk achieved. Multiple options for enrollment and information have been helpful in this regard. Examples are the initial and subsequent enrollments, intranet, voice-response enrollment and well-educated Human Resources personnel.

Administrative systems are crucial to long-term success due to the peculiarities of the business. This applies not only to the initial enrollment and billing of multiple plans, but also to new hires, guaranteed issue limits, rate increases due to employee aging, automatic increases due to salary and managing multiple worksites.

Pricing is generally done on a unisex, age-banded structure. Smoker distinct rates are common. Experience refunds, if any, are generally used to grant "payment holidays." The administrative system must handle this aspect as well.

This session was well received by those who attended. Many requested copies of a recent article written by Diana titled, "Where did the Lines Go Between Group and Individual Life?" If you are interested in seeing a copy of this article please contact Chris Hause at *chrish@hauseactuarial.com*.