



# NEWSDIRECT

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

NUMBER 46

JANUARY 2004

A modern fable

## The Actuary and the Marketers

by Don Jackson

“I got a problem,” the marketer said as he entered the actuary’s office.

“Okay, but the competition does the same thing.”

“Sorry to hear it. How can I help?” the actuary responded.

“Cash values, don’t forget about the cash values.”

“You know this graded benefit life product we’ve spent the last nine months developing”

“The competition has that feature, too.”

“Deed I do.”

“I just got off of MarketIQ and Comperemedia doing a competitive comparison of the rates, and we’re about twenty percent higher at every age.”

“You know,” said the actuary, “people who want this kind of coverage really don’t shop around for it. We’re giving them a quality product. We’re a big company that’s been in business for eighty years. And we have a nationally recognized brand.”

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“Well, the product is guaranteed issue.”

“I know, but so is the competition.”

“Okay, but you know rates are calculated age-last-birthday, and we built in rate stability—they never increase.”

“Yeah, but so is the competition.”

“Well, we also guaranteed that the face amount will never decrease.”



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# Resolve to make a difference!

by Brian L. Louth

**T**he start of a new year is full of promise of reflection on what has just been and a time to take stock of how you will make a difference to achieve that promise. This edition contains articles to get you thinking about the year ahead and to reflect on what has been.

This is certainly a non-traditional edition. From a fable, to think tanks, to understanding which shareholder's time horizon you should be focused on, interspersed within summaries of some great sessions from the Annual SOA meeting in Orlando along with the promise of sessions planned for the spring meeting. Add to that a dash of the nontraditional marketing product channel directory and an overview from a recent seminar on direct marketing and you have an interesting read to start the year. Hopefully, this edition will spur you on to



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fully investigate the topics that are touched on.

When I reflect back on the last few months I am drawn to two items from the

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NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

This newsletter is now electronic and can be found on the SOA Web site, [www.soa.org](http://www.soa.org). Back issues of section newsletters have been placed in the Society library, and are on the SOA Web site as well.

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# Looking ahead to 2004...

by Christopher H. Hause

**S**itting here in an airport in our nation's capital on this Veteran's Day, I cannot help but marvel at the richness of our national heritage. The greatness of our country is not due to the efforts and accomplishments of one man, one group of men or even a succession of a group of men. Leaders are important to success, but the efforts of the mosaic of peoples that make up our nation is the true source of our greatness.

I am also proud to reflect that the success of our Nontraditional Marketing Section contributes to the success of our Society, our industry and the companies that employ us. And that, in turn, contributes to our success as a nation.

Similar to the building of our success as a nation, the success of our section is not solely attributed to the succession of chairpersons or even the tireless efforts of our council.

"You Gotta Have Friends"

One of the unique features of our Section, and one of the most valuable contributors to our success is our "Friends of the Council." Councils come and go, but Friends are forever. I would like specifically to recognize the invaluable help over the past year from Jay Jaffe, Carl Meier and Howell Pugh. And the winner in the category "Going Above and Beyond the Call of Duty" is Steve Cooperstein, who put in countless hours on the Web site, and has volunteered to continue to serve as webmaster for the coming year.

I would also like to recognize the valiant efforts of our *NewsDirect* editorial team, Brian Louth and Nancy Manning. *NewsDirect* is our most recognized and widespread contact with our membership. Thank you both for seeking out timely and important articles and for your tenacity in promoting our section.

A special thank you goes to the outgoing Council member and Secretary-Treasurer, Theresa Resnick. Theresa's energy and enthusiasm that she brought to our meetings will be missed.

I would say that Diane McGovern's chairpersonship is a hard act to follow. But the fact is, her efficiency and thoroughness make

taking over the position a pleasure. The challenge of continuing her good work is made all the easier by her staying on the council and coordinating the spring NTM meeting sessions.

## Goals for the Coming Year

*NewsDirect* – We will continue to seek out timely and informative articles, with an eye toward making the annual hard copy a valuable resource for our members.

*Product/Channel Directory* – I hope to enlarge and improve this tool, and help it to become a resource and a model for other sections.

NTM Web site – With the help of Debbie Jay and the great improvements she is making, and the continued diligence of Steve Cooperstein, we hope to increase the functionality and improve its content and usability.

Research – Our membership has indicated that research is important to them. We will be looking at several research projects for viability, and will attempt to prepare a compilation of previous studies.

Meeting Content – We will attempt to take a more structured approach to our meeting content. This is in accordance with the needs of our budding members needing professional development, as well as the seasoned veterans.

Product Development Symposium – We will continue to sponsor and help improve this most important and successful meeting. Rob Stone is our coordinator, and he brings much experience and enthusiasm to the symposium.

I look forward to working with (and for) all of you in the coming year.

Let's make it a great one. 📧



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# A Recap of the Insurance Direct Marketing Forum 2003

by Jay M. Jaffe

If you didn't attend the recent Insurance Direct Marketing Forum 2003 in Philadelphia, you missed a great program. One of the sponsors of the program was the Nontraditional Marketing Section of the SOA. As a result, the members of the NTM Section are partly responsible for the program's success.


About 150 insurance direct marketing professionals attended the program on September 15-16, 2003 in Philadelphia. The program featured several case studies and other presentations discussing current issues on insurance direct marketing.

The case studies were particularly interesting because of the candidness of the speakers. The speakers described their success stories in a considerable amount of detail. Each presentation revealed that no matter how simple something looks, there was a little luck and a lot of hard work which went into developing, growing and sustaining a successful program. Not only were there examples of successful life and health programs, but also presentations describing successful auto and other P&C insurance programs.

A number of the programs were devoted to marketing issues facing the insurance direct marketing business. The new telemarketing rules were covered as were marketing issues for specific markets such as banks, the Internet and sponsored markets.

The only criticism of the program was the concurrent sessions hosting any topics of interest. It was impossible to be in two rooms at once to hear the programs. Wouldn't it be nice if all conferences had so many worthwhile sessions running simultaneously?

Actuaries benefit from attending this type of program. Not only will an actuary get a different perspective of successful new products and programs, but an opportunity to glean information which will be helpful in pricing such programs. The Forum was truly a non-actuarial conference which actuaries working in the insurance direct marketing field will find interesting, informative and helpful in their daily work activities.

There will be another conference in the fall of 2004. To get on the mailing list contact Donald Jackson of the JCG Group, Ltd., at [donjackson@jcg-ltd.com](mailto:donjackson@jcg-ltd.com). 



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“So what you are saying is they will pay more for our product even though it is exactly the same as the others in the marketplace?”

“Sure.”

“I got a problem with that reasoning.”

“Why?”

“Because I’m selling this graded benefit life product direct to the consumer using television and direct mail. And my market is not dumb. They know what is out there, and we haven’t created a value that will outweigh the lower rates charged by our competitors.”

“Well, we gave our agents a similar product and they did okay with it. Now, we can’t give you guys lower rates. You know the guarantee issue business means we have to account for anti-selection.”

“Isn’t the grading period supposed to cover that?”

“Yes, but we’re a quality company so we can get away with charging more.”

“It makes me uncomfortable,” said the marketer, “to go into the marketplace with higher rates. So, I think we’re going to have to test it before committing a lot of marketing dollars.”

“Test it? I don’t know. The guys in finance have you budgeted for 5 million in new annualized premium from this product.”

“It wouldn’t be right not to test it.”

“Oh. If the premiums were lower would you have to test it?”

“Yes, but we’d have a better chance of it working.”



“Okay. Let’s lower the premiums twenty percent and see what happens.”

Face it...it’s a fable.

If actuaries did what marketers wanted—especially in the price department—marketers would be dancing on table tops.

As far as new product development is concerned, the marketer and the actuary are partners. Neither can work in a vacuum. It is the marketer’s job to give the actuary as much information about the product as the marketer wants—complete with competitive data.

It’s the actuary’s job to ask the marketer the right questions. And the first question to ask is “how much can the market afford to pay for the product?” That question leads to competitive research.

And competitive research leads to competitive products.

And that obviates the need for fables. 📄



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# Tell me, which shareholder are we talking about?

by Marcel M. Gingras

Over the course of my career, I had the opportunity to work directly or indirectly with organizations operating under different ownership structures. I have been associated with government operated agencies, mutual companies, privately held corporations, partnerships and finally, publicly traded companies. I was also very involved in the process of implementing the transformation of a mutual company into a stock company.

To me, stock companies have always represented the ultimate form of ownership. They represent the purest form of capitalism, with easier and potentially unlimited access to capital, open disclosure, potential for lining up interests of management and shareholders, and ultimate accountability to shareholders.

Unfortunately, I believe that many publicly traded companies fail to realize their full potential due to a lack of clarity in identifying which shareholders they are trying to serve. Is management attempting to serve the best interests of the shareholder who bought five years ago and will likely hold the stock for several years to come? Is it trying to serve the interests of the shareholder who bought yesterday and may sell tomorrow if the price is right? Or, is it trying to represent some shareholder in between these two groups?

If asked the question, many executives might answer that they try to serve the best interests of all these groups. To me, this is a 'non answer' as it is nearly impossible to serve the interests of all these shareholders at the same time, especially the shareholders at the extremes, i.e. those who buy and hold and the frequent traders.

## What is the issue?

Essentially, this would be a non-issue if management were able to equally serve all groups of shareholders. If this were the case, there would be no need to specify which group of shareholders would take priority. However, I don't believe it is possible to serve

all groups of shareholders equally well. In the absence of making specific choices, most executive groups will feel pressured to satisfy the short term demands of shareholders, i.e. the demands of shareholders with a shorter time horizon or the more frequent traders. In this process, I believe that loyal long term horizon investors are likely to be shortchanged in their expectations. They believe they are buying the stock of a company with a long term horizon while they may be investing in a company that has a short term horizon, with varying degrees of consideration given to the long term.

## What is the underlying cause?

Simply stated, the cause of all this is quite human. The pressure on management to deliver short term results is enormous. In my view, it is easier for management to attempt to deliver short term results based on somewhat unrealistic expectations than it is to explain a complex long term game plan that may involve peaks and valleys.

There are several reasons why management is under so much pressure to deliver short term results:

1. Many financial analysts tend to be very focused on quarterly results. Management does not look forward to explaining under performance on the quarterly analyst calls. Among the analysts, many of them represent firms whose general focus is on customers who trade as opposed to those who buy and hold. The retail securities market, mutual funds, hedge funds and the short term performance focus in the pension investment area are all elements contributing to the focus on short term results. There is nothing wrong with the way analysts do their job; it is only that their role and the customers they represent need to be kept in mind by company management.
2. The market has come to expect management to 'smooth out' what is happening

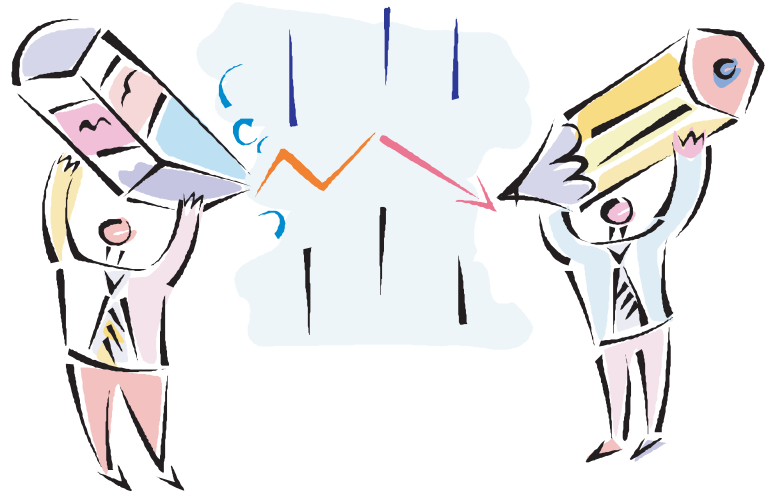
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In this process, I believe that loyal long-term horizon investors are likely to be short-changed in their expectations.

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in the economy. As an example, in the financial sector, results are expected to fluctuate, depending on the economy but more importantly, depending on what is happening in the financial markets. Yet, there is some expectation that management will continue to produce steadily increasing results, despite the fact that informed shareholders would expect some fluctuation in the results.

3. The media puts a lot of pressure on producing steady results, again meaning that management must try to minimize natural fluctuations. The media tends to jump on the opportunity to portray management in a bad light whenever it 'fails' to produce expected results; hence, the temptation to smooth out results. A difficult issue for management is the fact that the public in general may confuse stock performance with the financial stability of the organization, which may lead to a negative impact on the company brand and sales.
4. The board of directors will also put pressure on management to perform. This is their role. There is nothing wrong in the board putting some heat on management as long as it understands what it is asking for and what it is really getting. Good short term results do not always lead to good long term results. A strong board is able to balance the two.
5. The average tenure of C.E.O.s has been shortening for a variety of reasons. No point taking a 20-year horizon if the average stay is going to be around 5 years or sometimes shorter based on figures quoted by the media.
6. Finally, management is remunerated both on short term and long term performance, which seems to be fine until one looks a little bit more closely. On the short term side, annual bonuses tend to be determined on a 12-month performance where the financial component is typically most important. Lack of performance will affect everyone on a bonus scheme including middle management. Low bonuses become a morale issue, a retention issue and a recruiting issue. On the long term side, options have been the favoured instrument for



rewarding management. However, options are not quite a perfect match as far as aligning the interests of management with those of long term horizon shareholders. This topic has been well documented lately. As a result, several boards have been taking a proactive approach as far as modifying long term incentive plans. Restricted share units, performance share units and deferred share units are all likely to become part of the new arrangements, and they are likely to be accompanied by performance measures and restrictions on the ability of executives to exercise these incentives.

### Impact on company operations

In general, operations have a difficult time adapting to a management style that focuses on short term results. In some industries, due to the cyclical nature of the business, operations are structured in a way such that they react quickly to a changing economy. However, there are several companies operating through very long cycles. Again, using the financial sector as an example, companies typically have very long term relationships with clients, loans transacted are repayable over long periods, they make long term investments and selling products create liabilities to be met several decades later.

Generally, short term focus on results is reflected through one or several of the following actions:

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1. Staff reduction or hiring freeze, even though this may be at the expense of client service.
2. Freeze on training programs, even though it may be at the expense of longer term productivity.
3. Postponement of technology investments, even though these may be justified for the long term success of the enterprise.
5. Support divisions, such as Human Resources, become an easy target for quick savings and typically they never get to deliver on their promises or meet expectations from operating divisions, and they quickly acquire a reputation for being unreliable partners.

The long term impact of these measures is real but might not be reflected in the company's performance, for quite some time. However, you can expect one or more of the following to happen:

1. Confusion among employees who can't understand whether management has a plan and whether they believe in it and stick to it.
2. Disappointment among clients who may fail to see the long term commitment of their supplier towards their business.
3. Short term savings tend to have a ripple effect. The idea is that these budget cuts should be temporary and they will be made up in the following period. However, this tends not to happen. For example, let's assume that an organization has an information technology (IT) budget of \$10 million and decides to reduce it by 10 percent for the current year, i.e. to \$9 million. The following year, going back to the same level as that budgeted for the current year will result in an increase of \$1 million or 11.1 percent. If the organization wishes to catch up on the work postponed, then it is looking at \$11 million in spending as compared to \$9 million or a 22.2 percent increase. Most organizations will balk at this type of increase, even though it may have been just to get back on the original plan.
4. Operational divisions have a difficult time planning, as budget cuts may not be related to the financial health of specific divisions or units.

### So, what is the solution?

This is a tough question. It is much easier to criticize the situation than it is to be creative and come up with solutions. Here are a few ideas:

1. Companies spend a lot of time producing mission and vision statements which sometimes turn out to be meaningless to a good portion of their employees, either because employees don't understand what is meant or because management acts in a way that does not support the statements. I suggest that time should be invested to increase clarity on the nature of the shareholders who will be best-served by investing in company XYZ. A commitment to take action for the sole benefit of long term shareholders, for example, would help to focus on meeting this objective and provide real substance to the mission and vision statements.
2. Better alignment of bonuses and long-term incentives with the interests of shareholders who have been identified as the target shareholder group
3. To the extent possible, better communication with the financial market with respect to the shareholder group being best-served by an investment in this company and reinforcement of actions being taken to be true to the commitment, even though it might mean more volatility in short term results. Some companies have followed this approach in the past with some success. 

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# Summary of Orlando sessions

## Session 31 The inside scoop on new product/market success

**N**TM Section Council members Jay Jaffe, Actuarial Enterprises, Ltd., and Brian Louth, RGA Canada Life Reinsurance Company, teamed with Linda Koco, Senior Editor of the National Underwriter magazine, to lead an Interactive Forum on the ingredients for achieving product/market success. The session was facilitated by NTM Section Council member Steve Cooperstein, Income Solutions for Life, who prodded audience participation, including thoughts on the various ways success might be measured—sales results, profitability, moving or changing the market, meeting budget, hitting your target and exceeding projections were some of the criterion offered.

Among many morsels shared, Jay stressed the need to judge a new product's success by evaluating whether "the dogs ate the dog food." He noted that new processes are in many ways as important a success factor as new products and suggested that product and production responsibilities not be combined. Using outside resources is often effective and efficient for developing new products.

Brian gave an example of a start to finish marketing success which was characterized by focusing on the market, testing and refining offerings in the market.

Linda's observations provided background on what seems to have worked or not over the years. She then led the audience in examining simplified case studies to drive home key elements for success, such as changes in promotional emphasis and educating distribution. No bottom line conclusion of the ingredients for success, though, was defined. Pursuit seems to still be the Holy Grail.

## Session 60 Professionalism in the nontraditional marketing Context

**Moderator:** Theresa Resnick, Combined Insurance Co. of America

The session on Professionalism in the Non-Traditional Marketing Context, unfortunately, had a low turn out, but fortunately, had two great speakers. This was a very topical session that related recent events with Enron and Worldcom to the actuarial world.

Len Karpowich, Counsel for Combined Insurance, brought to light the news of poor professional choices made of recent times at Enron and World Com. Len provided the group with a picture of the happenings there, the choices that were made and horrific downfall that resulted, not only at these companies, but the cascading effect on Anderson, Citibank and Chase. This was an excellent overview of the impact that can be generated from poor professional judgement.

Lauren Bloom, attorney with the American Academy of Actuaries, followed by using the examples of these highly publicized scandals to place it into the actuarial context. She shared with the participants the code of professional conduct and how to use the code in everyday decision making, most notably as the actuary works out of the traditional scope.

## Session 118TS The Effect of Malpractice Insurance Costs on Health Care Delivery and Health Insurance

**Moderator:** Steven Konnath, Physicians Mutual Ins. Co.

The teaching session on medical malpractice and its impact on the delivery of healthcare and health insurance in the United States and Canada was a huge success. The session started off with a great presentation from Dr. Donald Palmisano, the president of the American Medical Association. Dr. Palmisano was not only informative, but displayed his passion about the problems with litigation and its severe impact on doctors providing care. He cited several examples of areas in the country where doctors are now quitting their practices because the cost of malpractice insurance is

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# NTM Council Sponsors Think Tank

by Nancy A. Manning

**A** blast e-mail to members of the NTM Section announced plans to stage a full-scale test of a new vehicle for sharing information. The idea for the Think Tank originated primarily as a way to identify possible research topics.

Only time will reveal where the idea takes us—but isn't that what brainstorming is all about?

Following a typical direct response campaign plan, we publicized the Think Tank via e-mail:

*Just a note to remind you that there will be a Nontraditional Marketing Section Think Tank brainstorming discussion on "Internet Marketing of Insurance—Where is it headed?", right after the NTM Council meeting on Sunday, October 26, from 6 p.m. to 7 p.m. For more information please contact Steve Cooperstein (moderator). Looking forward to your participation.*



To preface the session, Steve had me read some notes written after the section council dry run of the Think Tank, held as part of our Chicago meeting in early 2003.

*Imagine a group of actuaries sitting in a room, without a specific, well-defined agenda. Can this be a setting for productive activity? Or will there be silence?*

*A group of the section council members decided to test the hypothesis that attendees could brainstorm effectively, with only broad, general guidelines for discussion.*

*The objective? To determine whether we might test a session similar to this at an SOA meeting, with the use of list serves on the Internet, teleconferences, et al, and to learn what results we might achieve.*

*As we participated in the test in Chicago, March 2003, we considered the effectiveness of our activity and how to offer a similar experience to others.*

*We began with a few questions on a flip chart—and proceeded to exhaust our two-hour time allotment easily. Thoughts flowed freely around the room. Questions arose—and we strayed wherever the questions and comment took us.*

*As a forum for idea generation, we surmise that satisfied participants would exhibit 4 basic characteristics:*

- *Willingness to ask questions*
- *Free thinking*
- *Not judgmental*
- *Willingness to express an opinion*

*We're going to test posting ideas and similar open-ended questions for access by a list*

serve—and then publicize to our NTM Section membership. Will that approach work? Only time will tell.

We haven't reached any conclusions yet. The creative juices are still flowing. The idea is still evolving. Where will the brainstorming take us? Perhaps down the yellow brick road of new experience. The future awaits.

To stimulate discussion, Steve then posed three questions, all revolving around the Internet and insurance. What's your personal experience with buying on the Internet? What's your professional experience with buying on the Internet? What does the future hold?

Ground rules for the session—discussion flows wherever the group takes us. Effectively, the sky's the limit.

Several members of the group shared experiences with insurance on the web. Others added ideas to draw parallels with sales of other products and services. Attendees included several NTM council and friends, plus some new faces who responded to the invitation to join in.

The allotted hour for discussion flew by—and everyone in the room spoke. Participants presented personal experiences, ideas—free-flowing brainstorming and sharing prevailed.

Interesting ideas that I heard:

- American Indians may be able to sell insurance without being subjected to United States laws
- Using the Internet for sales opens up many new avenues, now that the consumer can actually research and make more informed decisions
- The Internet continues to raise channel conflict issues in some companies
- Agent compensation structures may evolve, as the Internet reduces some of the reliance on the agent for prospecting
- More and more, insurance may be added to the group benefits/payroll deduction



presentation, to reach the middle market consumer

- The insurance industry may be moving toward more products that are bought, rather than sold
- Simplicity may be a core issue for direct Internet sales
- The potential of the Net still bodes well for basic experimentation

Participants could hardly believe that the allotted time had expired. When asked for closing comments, we heard that attendees liked the approach, thought they would participate again, recommended offering similar forums in the future.

The evolution of the Think Tank continues....Where will we go from here? 📄



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# Proposed Session Descriptions

## **I. Designing Your Nontraditional Product from Start to Finish: Fundamentals of Pricing for a Direct Marketed Product**

Format: Teaching Session or Case Study  
Coordinator: Open

Description: This session will cover the importance of knowing your market, and being able to predict quality and quantity of responses. It will also cover the use of embedded values to determine the right sales goals and correlating levels of profitability.

Participants will gain a basic knowledge of the important elements to pricing a direct marketed product. They will also learn the applicability of embedded analysis to answering various marketing and profitability questions.

## **II. Designing Your Nontraditional Product from Start to Finish: Working with Your Sales and Marketing Teams**

Format: Interview or Interactive Forum  
Coordinator: Open

Description: This session will cover the importance of understanding the design and

pricing features of your product from the sales and marketing perspectives. Panel members will be asked about their best and worst experiences in bringing a product to market. They will share their insights on how to maximize the working relationship with the pricing experts.

Participants will see the product design process through the eyes of the sales and marketing people. They will take away an understanding of what makes a product work in the marketplace and how to build a solid working relationship with the pricing experts.

## **III. Designing Your Nontraditional Product from Start to Finish: Regulatory and Compliance Issues**

Format: Panel Discussion  
Coordinator: Open

Description: As new channels like the Internet, worksite marketing and direct marketing become more important to your business, knowing the regulatory environment is essential. This session will cover the legal aspects of e-signature and voice signature, who is using these approaches and under what circumstances. This session will also cover the impact of the federal 'do not call' legislation and other privacy issues.



Participants will leave with a better understanding of the regulatory environment that impacts the nontraditional marketplace. They will also learn how different companies are responding to the latest legislation.

#### IV. Designing Your Nontraditional Product from Start to Finish: Matching Underwriting to Experience

Format: Panel Discussion  
Coordinator: Ian Duncan

Description: This session will cover the importance of knowing the impact of segmentation and underwriting on your expected mortality or morbidity. It will cover:

- The importance of data-mining and customer selection on ultimate experience
- Setting up your direct marketing application with the right type of questions to maximize responses but limit risk
- The use of prescription and other databases
- Tele-interviewing and expert systems—what they can and can't do


Participants will leave with a better understanding of how picking your customer base and setting up the application can impact risk. They will gain insight into what other carriers are doing to obtain customer information.

#### V. Products for Emerging Specialty Markets

Format: Panel Discussion/ Joint session with Product Development  
Coordinator: Steve Cooperstein

Description: This session will focus on product ideas that are being revitalized or newly developed for emerging specialty markets. It will cover:

- Deferred annuities for the senior market
- 412 (i) pension plans for small businesses
- High net worth products
- The evolving viatical market

Participants will leave with a broader view on the ideas and concepts driving product innovations in specialty markets. They will have a stronger appreciation for creative thinking and may be able to build on the information provided leading to new or advanced options. 


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prohibitive. Patients are now at risk in several geographic locations if they need emergency room care or are delivering a baby.

Jim Hurley then gave an extremely informative presentation on medical malpractice insurance trends in the United States over the last several years. He showed all of the components that are contributing to high medical malpractice insurance costs and displayed startling examples of malpractice insurance premiums by doctor specialty.

Liam McFarlane gave a very similar presentation to Jim Hurley's, but from the Canadian perspective. Liam showed that medical malpractice is a problem in Canada

as well, but not nearly the same magnitude as is in the United States.

Tim Barth, a spaceport technology manager from NASA, gave a fascinating presentation on the topic of human error factor analysis. This is a system that has been effectively used to minimize catastrophic errors in the aviation industry for more than 25 years. Tim advocated the need to use this same kind of system in the delivery of healthcare. He showed the similarities of how errors that lead to catastrophic events in the space program and general aviation are very similar to the kinds of errors that occur in healthcare. 

# Hot Topics in Credit Insurance and Debt Cancellation

by Christopher H. Hause

**Moderators:** Bob Butler, Assurant Group  
Chris Hause, Hause  
Actuarial Solutions, Inc.

**T**he workshop opened with a discussion of the decline in credit life and disability insurance, both in absolute terms and in relation to the amount of outstanding consumer debt. Bob prepared a set of handouts graphically depicting the decline. However, it was apparent from the emergence of debt protection that the void is being filled by this fledgling line of business.

We also discussed a recent article that indicated that credit life insurance face amounts issued were down by approximately 25 percent on an industry-wide basis. Some attendees were blaming not only debt cancellation, but new HOEPA rules, decreased acceptance and lower installment debt demand. The lower installment debt is particularly strong in the auto dealer segment.


The attendees agreed that the vast majority of debt cancellation coverage is being written in the credit card sector. The reasons for the conversion from insured products are many. Pricing freedom, benefit freedom, freedom from compensation limitations, better consumer acceptance and lack of licensing requirements all contribute to the relative attractiveness of debt cancellation.

Other market segments were discussed. One particular segment is the credit union market. In the past, this market has been very risk-averse, but debt cancellation programs are particularly attractive due to the freedom in designing benefit packages that suit the membership. The attendees agreed that most credit unions will want to pass off the risk through a contractual liability policy.

The most spirited discussion was about the prospect of class action lawsuits by consumer groups and/or plaintiff's bar, if "loss ratios" on debt cancellation products are low. First, it was pointed out that these charges and losses are not reported separately, so the term "loss ratio" has little meaning. Secondly, since it is a bank service and not an insurance contract, there is no more meaning to "loss ratio" than there is with an ATM fee. This position was contested as unsupportable in today's regulatory and legal climate.

There was a discussion about the effect of the national no-call list on credit card telemarketing efforts. It would appear that some of the current telemarketing practices will have to be revised in order to comply.

The session finished with an update on the status of the credit life and disability reserving standards. The NAIC Model Regulation adopting the 2001 CSO Male Composite Ultimate Table, dynamic valuation interest rates, and CRV method has been exposed for comment. Industry is concerned that active life and perhaps deficiency reserves may be required for "level monthly" coverage if the regulation is adopted as it currently stands. The final pieces of the NAIC adoption of morbidity-based reserves for credit disability insurance are falling into place. It was reported that the necessary revisions to SSAP 59 had stalled at the Emerging Accounting Issues Working Group. However, we have since learned that the changes were enacted at the June NAIC meeting.

In all, the session was lively and informative. The workshop format worked very well for this session. I believe most everyone who attended got some useful information or insight. 

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# Looking Back on the Annual Meeting in Orlando



(Above): Chris Hause, incoming section chairperson, presents a gift of appreciation to out going section chairperson, Diane McGovern.

(Below): The Nontraditional Marketing Section Council (retired and current members) meeting in Orlando to plan for the new year –

(Left to Right): Jay Jaffe, Carl Meier, Brian Louth, Theresa Resnick, Chris Hause, Steve Cooperstein, Rob Stone, Diane McGovern, Nancy Manning, Steve Konnath and Ian Duncan.



(Above): Enjoying the Nontraditional Marketing Section's Wine and Cheese Reception at the Annual Meeting in Orlando are Section Chairperson Chris Hause and outgoing Secretary/Treasurer Theresa Resnick.

## SOA/Monster.com Partnership Debuts in February!

The SOA is excited to announce a partnership with one of the most recognized job-search Web sites on the Internet – *Monster.com*. The new co-sponsored *SOA/Monster.com site* will enable actuarial job seekers to:

- Search a more comprehensive database of actuarial job listings
- Have access to career-related articles with information about the actuarial profession

Watch for a blast e-mail with more detailed information about this exciting new partnership in the coming weeks.



## Articles Needed for *NewsDirect*

The Nontraditional Marketing Council is always looking for interesting and informative articles to publish in *NewsDirect*. Your ideas and contributions are a welcome addition to the content of this newsletter. All articles will include a byline to give you full credit for your effort.

### *NewsDirect* is published as follows:

Publication Date	Submission Deadline
May 2004	March 5, 2004
September 2004	July 9, 2004

In order to handle files efficiently, please e-mail your articles as attachments to the newsletter editor in either MS Word or Simple Text files.

### Attention All Nontraditional Marketing Members!

The Vancouver Spring Meeting Record sessions are now available at: <http://www.soa.org/bookstore/record.html>



SOCIETY OF ACTUARIES

SOA annual meeting. The first is the opportunity to hear Dr. J. Craig Venter present his views on the ethical implications following the complete sequencing of the human genome. The potential for where this will lead for all of us, on a personal level, in terms of health and disease management and to the impact that this will have on life and health insurance and retirement systems, is very exciting. The revelation that the mapping process was facilitated by a relatively simple algorithm, combined with computing muscle, gives pause to contemplate how we approach so many things today. In our hurried pace to get everything done, we rarely take the time to step back and critically look at issues and opportunities. Resolve to take the time to do this over the next year. One spark could ignite and make a real difference. Remember to patent that innovation.

Secondly, I reflect on the importance of professionalism and how that plays out in our everyday adventures, from Lynn Brewer recounting her experience with Enron to exploring the issues in more depth at a session discussing professionalism in a nontraditional marketing context. The importance of the code of professional conduct and how that should be used as a framework for everyday decision making, especially when you go beyond your traditional role, is incentive to refresh one's awareness. Resolve to take the time to do this over the next year. This framework could make a real difference for your actions.

There is one last thing to mention. Becoming a published author can be a rewarding experience. One of our recent authors noted that in visiting a client in Pakistan they commented on seeing his article in *NewsDirect*. Evidence that *Newsdirect* reaches across the world. We welcome your contributions with an opportunity to be noticed around the world!

Resolve to get involved. Look for an opportunity to make a difference in the year ahead! 📧