

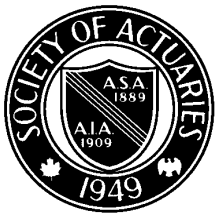


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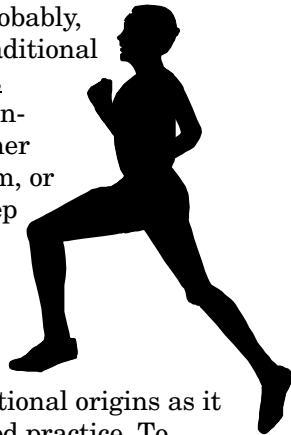
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Keeping Up With Nontraditional

by Tom Bakos

One dilemma that no one, probably, ever associates with nontraditional marketing is how one stays nontraditional. The fact is that a non-traditional marketing approach either succeeds, and enters the mainstream, or fails and disappears. In order to keep the nontraditional fires burning, more new ideas always need to be piled on. Like our youthful exploits, once brilliantly acted out signs of nonconformity, a marketing scheme is remembered only for its nontraditional origins as it takes on the gray hairs of established practice. To remain fresh, new, alive, and vibrant, the Nontraditional Marketing Section must wash off both the successes and the failures and dress in new clothes suited to a traveler in the wild, fringe territories it must explore to confront the ever changing nontraditional market.



One of these new territories is the Internet. The problem waiting to be solved there is how Internet consumers can click-shop for life insurance as easily as they click-shop for books, computer software, or airline tickets.

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Chairperson's Corner

What's Going On With NTM?

by James B. Smith

Several years ago during my consulting career, I was invited to participate in a discussion with the management team of a midwestern insurance company. The team consisted of senior personnel from all areas of the company. My role was to assist them in the development of a new product portfolio. We started the meeting by discussing product features, but the conversation quickly turned to target customer segments and distribution channels.

The discussion of customers and channels was vitally important so that the company's new products could be optimally designed. Such information is needed to increase the likelihood that products will be:

- Reasonably competitive — that is, not too expensive
- Priced properly with reasonable assumptions for persistency/mortality/expenses, and a profit margin that meets or exceeds the minimum hurdle

After twenty minutes of discussion, the investment officer said in a frustrated voice, "Why are we discussing all of this? I thought that we would simply tell you the product that we want, and you would price it out."

I could empathize with his frustration because I also have a bottom-line orientation. However, I had been down the path of prematurely starting the pricing work without a basic understanding of target customers and distribution channels. Except by accident or good fortune, a premature

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One thing, in general, that makes it difficult to **close** a life insurance sale and actually **issue** a policy, regardless of the selling environment, is the need for the applicant to go through some sort of underwriting process. The current, *traditional* sales mechanisms place the underwriting process at the **back end** of the sale, making it an **obstacle** to success.

Therefore, in an Internet environment, clicking for life insurance is, currently, only an effective way to indicate interest. That means that this wonderful new tool that provides effective two way communication all day, every day can be used only for lead generation. And, its use in that arena has been only marginally successful.

The Internet environment, it should be noted, is still under development. Not everyone is connected. Many connections are at annoyingly slow data transfer speeds and some Web page designers don't seem to account for that. But those problems are slowly being solved.

Some users are not yet very comfortable sharing their private moments and vitals with their keyboard which is, potentially, connected to every other keyboard and monitor in the world. But, we'll probably all get over that.

The thing is, that when all of those Internet performance worries are solved or forgotten, we'll still have to wait for life insurance because the traditional life insurance sales process works like this: apply, then get underwritten, hope for approval at the expected rate, deliver the policy. If the Internet is to ever play a significant role in the

sale of life insurance, someone has to start thinking in a Non-traditional way.

A Nontraditional Approach

So, bringing some Nontraditional thinking to bear, why not do the underwriting first? Why not **pre-approve** someone for life insurance so that when they decided they wanted it, or were offered the opportunity to buy it, all they had to do was say yes, and it was theirs? In other words, can we create a selling process in which the order is: get underwritten, *then apply*, get immediate approval with rate guarantee, download issued policy?

One way to handle a pre-approval of underwriting for life insurance is to use the same method financial institutions now use to pre-approve targeted customers for credit cards.

Demographic data in existing client databases can be cross referenced against generally available information databases, like motor vehicle and prescription drug records, and decisions can be made by expert electronic systems about an individual's eligibility for guaranteed issue life insurance.

Life insurance offered in this way would still need to be constrained by some issue rules (for example — limit amounts) and would need to be priced for the broad mortality that could be expected from such a simplified issue class.

But, to be still more Non-traditional in our thinking, I believe that there is a way to make pre-approval an even more workable Nontraditional process.

What if the underwriting function was **unbundled** from the traditional insurance marketing

process? That is, underwriting became more than just a function performed within a life insurance company for the exclusive use of that company in its evaluation of a risk applying for life insurance.

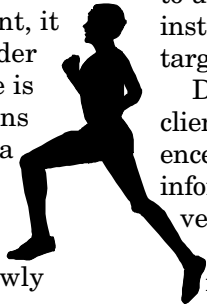
That seems to be an inherently wasteful and inefficient process. Underwriting, instead, would be included in the broader function, **mortality risk assessment**, and could be positioned as an essential part of an individual's health maintenance program. Here's how it could work.

Risk Assessment Company

A risk assessment company would provide an individual with a reliable, independent risk profile. This risk profile could be used in a number of ways. Individuals would pay for and own this information which would be stored in the risk assessment company's secure database. Only an appropriate portion of an individual's risk profile, authorized for release by the individual, would be made available to registered or authorized users of the data.

These users would be companies, life insurance companies for example, who were pre-approved to access the data and agreed to standards for use of the data. Only companies or organizations with a legitimate business need for the data would be authorized as users.

Since the database would be structured so that it was impossible for an individual to manipulate the data, any user would find it a reliable base for any decision to be made which was dependent on the individual's risk characteristics. The data would be coded in a standard industry format and available immediately, electronically via an



electronically transmitted authorization code.

The risk assessment company would operate as follows. It would partner with traditional health care providers, HMOs and PPOs, for example. Typically, individuals who are members of group health plans like those have a right to periodic physical exams for a small co-payment or encounter fee. I suspect that there are many people who do not take advantage of this preventive medical benefit.

They would be encouraged to do so. But, since the standard periodic medical exam ordinarily provided is not likely to gather all of the data necessary to evaluate a risk for a significant amount of life insurance, the health care provider would offer an insurance exam supplement for a small additional fee, paid by the individual requesting the service. The supplement offered could have a few choices of level, which would allow for the possibility of greater refinement in the underwriting classification derived from the data and eligibility for larger amounts of insurance based on the risk profile generated. All of the data collected as a result of these exams would be forwarded to the risk assessment company for evaluation. In addition, the individual would provide his authorization for the company to collect other data to be used in the risk evaluation process.

Individuals could initiate this process because they were interested in the eventual purchase of life insurance. However, they might also be interested in the individualized reports and analysis that the risk assessment company would provide them as part of its service.

For example, the company could provide a detailed report on any medical test results and where they fall within the general population observed range. The report would explain the importance and

significance of the results, the correlation that one might have with another, and the likely causes of any result outside of a standard range.

The report could provide a measure of life expectancy based on the profile the company created. With respect to test results that could be affected by diet and lifestyle, the report could suggest ways to achieve some improvement in order to return to the standard range.

“Typically, individuals who are members of group health plans like those have a right to periodic physical exams for a small co-payment or encounter fee. I suspect that there are many people who do not take advantage of this preventive medical benefit.”

To the extent that the supplemental medical testing was not covered by the normal physical exam, the examining physician would have additional data available to determine the health status of his patient.

The reporting and analysis service alone might be attractive enough to warrant the additional cost. However, the risk assessment company would create a risk profile that would contain enough information so that an insurance company, for example, could use it to determine the appropriate fit of the individual into its underwriting

class structure. If the insurance company were intending to be competitive in its use of the data, it would establish a process in which the data was processed through an electronic, expert system to establish the underwriting class so that fully-underwritten insurance at the most competitive rate could be issued almost immediately. This, clearly, would have a significant impact on the sale of life insurance over the Internet.

Insurers participating in this new, nontraditional sales process, would gain a significant expense benefit. First, they would reduce their own absolute expenditures for underwriting, since a large portion of the cost to underwrite a life insurance policy would be borne by the individual applicant.

This would allow them to offer their fully-underwritten insurance coverages at lower rates than competitors not using the system. The applicant would benefit from the lower premium, which would effectively reimburse him, in whole, in part, or in excess of, the cost of the supplemental exam he paid for. The insurer might reflect its lower cost in a number of ways: a lower annual premium; a first-year lump sum discount; or a combination of the two.

There is an overall expense savings in this new nontraditional sales system because the insurer incurs an underwriting cost only with respect to policies it actually issues. Therefore, it doesn't need to “gross up” its unit pricing expenses to account for policies applied for, underwritten, and **not taken**. In addition, some system-wide expense redundancy is eliminated.

The insurance examination *piggybacks* on the periodic medical exams already provided and paid for as part of the applicant's health plan. In addition, the risk profile created can be used multiple times

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by a number of insurers or other qualified users.

By encouraging people to take advantage of the periodic medical exams provided by many health insurance plans and to be better informed about their own health situation, the new nontraditional process would be encouraging a healthy lifestyle.

The industry could further enhance this goal by continuing to provide a premium discount to individuals who maintained a **current** risk profile in the risk assessment company data base. Individuals could maintain their risk profile as **current** by updating it periodically on a schedule appropriate for their age and general health. The fact that a risk profile was current would trigger the premium discount. The actual medical result of the update would be significant only with respect to the purchase of new insurance.

The continuation of a discount on existing insurance relying only on a **current** risk profile status could be justified by the belief (which would need to be tested) that the preventive medicine being practiced by periodic examinations effectively increases life expectancy. An added advantage of having a current risk profile status would be that an individual is always eligible for fully-underwritten life insurance that can be issued instantly.

The participating individual's cost could be reduced by charging insurers a small fee to have access to the risk profile data. In addition, other purposes for the risk profile data could be developed. One idea would be to use the risk profile in lieu of a standard pre-employment physical for those companies requiring one.

Another idea is, with proper authorization from the individual, anonymous risk profile data could be made available for use in experience studies. Fees generated by these additional uses of the data could offset the individual's cost for using the service.

Internet Life Insurance Revisited

With this new, nontraditional selling mechanism in place, the sale of life insurance in the new Internet marketplace could be done via one-click shopping. For example, a customer would enter a former "aggregator" site, converted from a lead generation emphasis to a sales emphasis, and key in his vital information and provide authorization to access his risk profile stored on the risk assessment company database.

The customer would authorize access through provision of his unique access code. Only service users pre-authorized by the risk assessment company could utilize the service. Within minutes, the Web site would provide the customer with binding, fully underwritten insurance quotes for the type of insurance requested at the most competitive rate available. The quotes would be from several companies, filtered by criteria provided by the customer, at the best underwriting class that the customer qualifies for in each company.

The customer would need to answer a couple of non-medical questions designed to elicit information on any change in health that might have occurred since the risk profile was established. The customer would make his choice based on the premium and other information provided to him and

purchase his policy by clicking the appropriate "buy" button. The initial premium could be paid by credit card, coverage could begin immediately, and a policy could be downloaded for printing on the customer's printer. Confirmation of the sale would be provided in such a way as to satisfy law and custom.

This could be such an attractive and efficient sales process that the Internet, or at least some form of electronic commerce, could become a part of every insurance sale.

Certainly, not every insurance need is self-recognized or easily self-defined. Therefore, it is unlikely that the internet by itself can satisfy every insurance need. Financial advice and financial advisors will still have a role to play. They too, however, can serve their clients better by using the services of a risk assessment company to pre-establish risk characteristics and an underwriting classification.

This risk assessment can occur concurrently with the financial evaluation process, and when the planner is ready to make a recommendation (any time, any day), he can sit down with his client and get instant binding quotes via the Internet for precisely the coverage he is recommending, from either the primary carrier or a number of carriers, and close a sale immediately.

Are you ready?

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