



SOCIETY OF ACTUARIES

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LAMENTATIONS AND POSSIBILITIES

BY DON JACKSON

You may have noticed. Insurance direct marketers' DNA is extraordinarily different from actuarial DNA.

Consider the marketers' entwined strands—inclusive of messy notions like competition and market trends and “creativity,” etc., while the neat, ordered strands of actuarial DNA include ideas like appropriate premium, return on investment, return on equity, margin, surplus and risk assessment.

It is not precisely true that all marketers feverishly embrace “risky business” the way Gable embraced Harlow. Although, admittedly, marketers do have a tendency to—how can one put it? How about this—marketers live for and love the pursuit.

They love to pursue prospects, customers and ideas. Yes, truth be told—resident in the marketing DNA is the chase...and good marketers throw themselves into the chase with as much devotion and heat as that which is observed in singles bars across the land.

And, pursuit is truly an untidy business. It is confused, cluttered and chaotic.

Pursuit does not possess the pristine elegance of numbers. The clean, uncluttered completely ordered existence of row upon row of calculations, formulae and odd bits of mathematical theory deliver lovely solutions to complicated problems.

So, there are differences.

But, remarkably, there are similarities too, well beyond 10 fingers and 10 toes. The actuarial world is a world of numbers. And, if the marketer is the least bit smart—the marketer's world is a world of

numbers, to be sure not entirely the same numbers—but numbers that are contiguous if not congruent.

There are also a number of commonly shared ideas.

Acquisition cost and persistency, response rates and expenses, profit and loss. And herein is the juncture at which marketing DNA and actuarial DNA might just combine, creating a powerful business helix.

Actuaries and marketers need to form a symbiotic partnership that results in successful marketing strategies and potent persistency.

To that end we come to the “product specification.”

The life blood of any insurance direct marketing operation is a complete product portfolio. And, the best product portfolio is one in which each of its denizens are built in modular configuration—allowing marketers to pick and choose product features to match market need.

To get there, however, marketers logically must explain to their actuarial partners what they want and why they want it.

To do so the marketers need to provide detail about the product they want to sell. Information like:

- A broad product description
- Type (group or individual)
- Who is eligible for the product
- What the product looks like—features and benefits
- What the distribution will be (individual vs. family)
- Gender distribution
- Administrative allowance
- Desired premium (usually on a monthly basis)
- Modal payment availability and anticipated modal distribution
- Payment options
- Average annual premium
- Desired marketing allowance
- Collected factor
- Conversion factor
- Issue rate
- Reinsurance data
- Age distribution
- Media utilization
- Claims data



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| CONTINUED ON PAGE 19 |

TUESDAY, JUNE 15

2:00 PM–3:30 PM

DESIGNING YOUR NONTRADITIONAL PRODUCT FROM START TO FINISH: IMPACT OF MARKET-PLACE CHARACTERISTICS ON THE DESIGN AND PRICING FOR A DIRECT MARKETED PRODUCT

Instructors: Jay M. Jaffe, Francis McGovern *

This session covers the importance of knowing your target market and how it impacts product design and the use of market knowledge to predict the quality and quantity of responses. The instructor also discusses how embedded values can be used to determine appropriate sales goals and impact overall profitability.

Attendees gain a basic knowledge of the important market characteristics to designing and pricing a direct marketed product and learn the applicability of embedded value analysis to answering various marketing and profitability questions.

TUESDAY, JUNE 15

2:00 PM–3:30 PM

Specialty Track: FR/ NTM

NAIC MODEL REGULATIONS ON DETERMINING RESERVE LIABILITIES FOR CREDIT INSURANCE

Facilitator: Christopher H. Hause

The NAIC Life and Health Actuarial Task Force has a charge to determine the feasibility of promulgating reserve standards for credit life insurance. This workshop is designed to provide attendees with the latest information on the status of that project, as well as an opportunity to provide their comments on the direction of the project.

The NAIC has also enacted changes to the Accident and Health Valuation Model Regulation and changes to SSAP 59 that will allow companies to use morbidity-based tables for single premium credit disability insurance. This workshop allows attendees to discuss state action on the model and the tools and methods needed to implement the new standard.

| LAMENTATIONS AND POSSIBILITIES CONTINUED FROM PAGE |

- Underwriting requirements
- Mortality/morbidity
- Investment earnings
- Cash values (y/n)
- Reserves
- Profit objectives
- Anticipated Lapse rates

And that's just the beginning. Marketers must provide market definition, general market demographics, type of solicitation techniques, offer elements, seasonality, geographic considerations, testing strategy, competitive product and company information, media segmentation, underwriting questions (if any) and modeling protocols. Sounds simple, doesn't it?

It's not. It is very difficult. And that is the lamentation.

If actuaries and marketers want to get along, each side needs to understand what the other does. By applying this technique—lo, you get the job done. What is good for the marketer is good for the actuary and good for the company. And, what is most important—good for the consumers.

And that represents the possibilities. Because, if you don't focus on the end user—the insurance consumer—then premium doesn't get paid. Cash is not collected. And, neither the actuary nor the marketer gets paid.

Not getting paid is a bad thing.