



NEWSDIRECT

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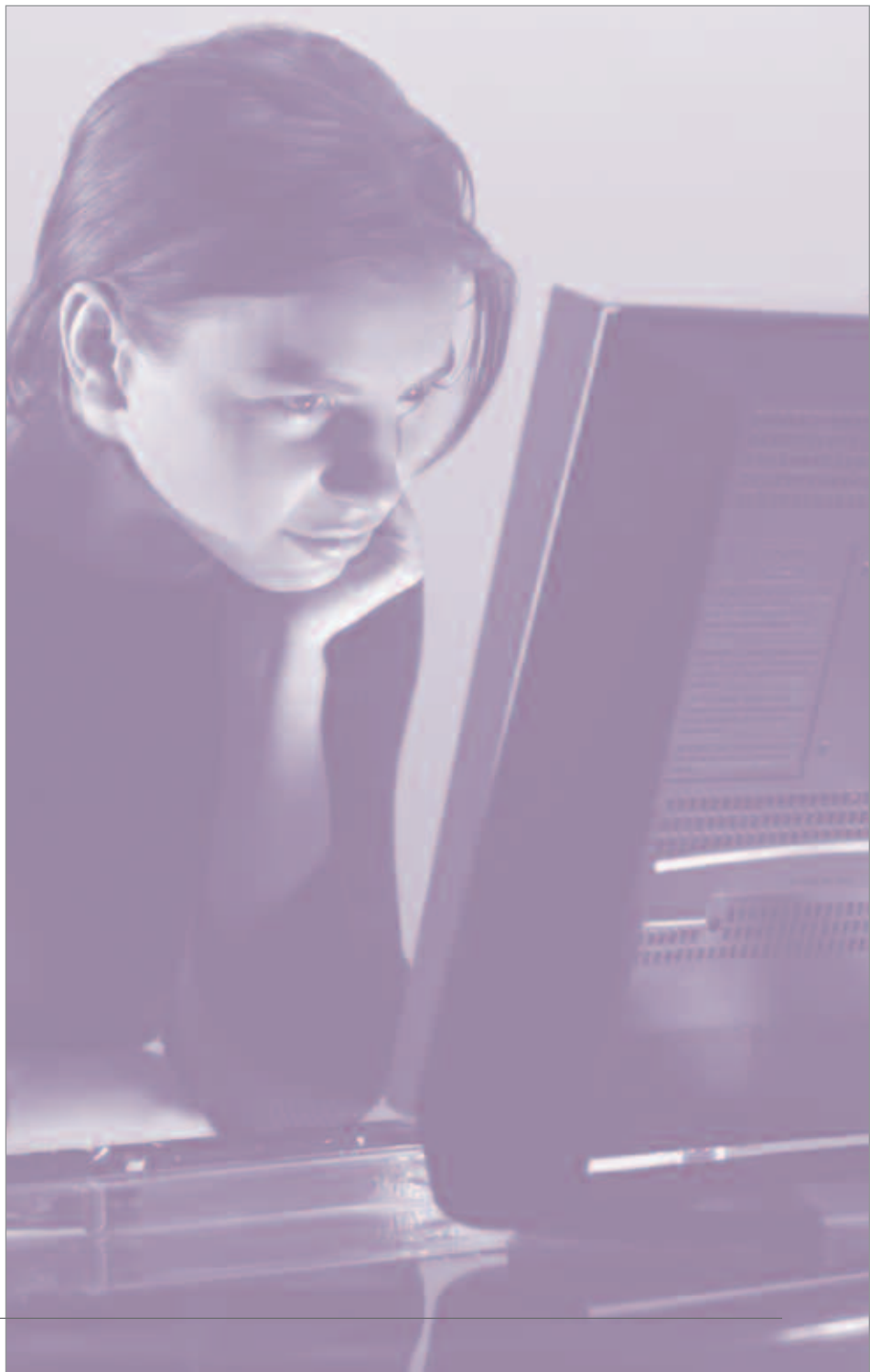
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The lead time required to produce this edition of *NewsDirect* for September makes it a real challenge to get things done as people disappear for their summer vacations. As you'll note in "Chairperson's Corner," there are changes ahead for the sections as the Society of Actuaries restructures.

In this edition there is an abstract for credit life and disability active life reserves. Chris Hause is looking for help in developing a draft of the paper before we publish it in *NewsDirect*. You can reach Chris directly or through any NTM Council members.

At the spring meeting in San Antonio, we structured the Nontraditional Marketing sessions to provide attendees with a learning track to deal with key issues in developing and delivering effective nontraditional products or programs. Session summaries provide an overview of sessions on compliance and regulatory issues as well as underwriting. For more details you can access the meeting presentations on the SOA Web site. We will also be looking to provide future articles on these topics in *NewsDirect*.

At the Annual Meeting in New York, we are sponsoring a selection of sessions ranging from dealing with 'Do Not Call' legislation to banks acquiring insurance companies, simplified issue products and applying the Six Sigma process to insurance. Don't forget that we will be hosting a reception where you will have a chance to meet the NTM Council.

This edition has a focus on selling insurance online. LIMRA'S Mary Art summarizes the role of the Internet in the purchase process. Kevin McKenna of the Credo Group outlines the benefit of using an online platform for direct selling, and Jay Jaffe provides insight from attending the "Online Insurance Marketing" meeting. Using strategic alliances, as noted by Richard Katz, is clearly something to consider when embarking on an online venture.

Everything doesn't have to be online. As Bill Spink notes, promotional cards have a key role to play in direct programs and new technologies can help increase their effectiveness.

As you read this newsletter, the SOA elections will have come and gone, and we will have new members joining the council soon. As editor of *NewsDirect*, I am enthusiastic in welcoming these new members, especially those that have indicated a willingness to put together articles. We don't restrict ourselves to articles from council members. If you feel inclined to put an article together, or if you would like to see a particular topic covered in some depth—drop me a line—online. ■



Brian L. Louth, FSA, FCIA, is vice president at RGA Life Reinsurance Company of Canada in Toronto, ON. He can be reached at blouth@rgare.ca.

NEWSDIRECT

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

This newsletter is now electronic and can be found on the SOA Web site, 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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The Society assumes no responsibility for statements made or opinions expressed in the articles, criticisms and discussions contained in this publication.

Newsletter Co-Editors

Brian L. Louth, FSA, FCIA
Phone: (416) 682-0003
E-mail: blouth@rgare.ca

Nancy Manning, ASA, MAAA
Phone: (972) 881-6004
E-mail: nmanning@aegonusa.com

OFFICERS

Chairperson

Christopher H. Hause, FSA, MAAA

Vice-Chairperson

Robert P. Stone, FSA

Secretary/Treasurer

Ian G. Duncan, FSA

Council Members

Jeanne Meeker Dahrsh, FSA
Steven E. Konath, FSA

Paul D. La Porte, ASA
Brian L. Louth, FSA, FCIA
Nancy A. Manning, ASA, MAAA
Diane McGovern, FSA

SOA Staff

Lois Chinnock, Sections Manager
Phone: (847) 706-3524
E-mail: lchinnock@soa.org

Erica Barraca, Graphic Designer
Phone: (847) 706-3549
Fax: (847) 273-8549
E-mail: ebarraca@soa.org

Society of Actuaries

475 N. Martingale Road, Suite 600
Schaumburg, IL 60173
Phone: (847) 706-3500
Fax: (847) 706-3599
Web: www.soa.org

SOA RESTRUCTURING

I recently had the opportunity to participate in a workshop sponsored by the Society of Actuaries. Representatives of all sections and practice areas came together to begin the assessment of life in the new structure of the SOA. Given that I attended in place of the Nontraditional Marketing council chairperson, I feel it appropriate to usurp his regular space in *NewsDirect* to share my observations on this direction and the implications for our section.

In 2003, the SOA Board of Governors commissioned a governance audit to deal with concerns that the SOA was not responding as effectively as needed to issues of concern to the membership. In response to this audit there were a number of recommendations approved by the Board. A new organizational structure has been proposed for the SOA that will see the creation of strategic action teams to focus on issues facing the profession. These teams will deal with issues that cross areas of practice, issues specific to single areas of practice and responsibilities currently handled by practice areas which are not addressed by sections. This last item is of particular interest to sections in how we will work within the new SOA framework.

The new structure will see the elimination of the practice areas with the core functions becoming the responsibility of a strategically focused organization. The areas of practice will still play an important role. This new structure will create an opportunity and provide additional resources for sections to expand their roles. For smaller sections like Nontraditional Marketing, better access to resources will increase enthusiasm and require a more expansive mindset for the council. We could continue on the current path, but this would not leverage the increased opportunities that will be available. Increased resources mean not only money but people and expertise. Working with other sections, the strategic action teams and staff actuaries will be very beneficial.

The intention in this new structure is for the sections to play a key role in helping the strategic action teams focus on issues facing the profession. This brings us to

the goal of the workshop: to review the activities that both practice areas and sections undertake and to ensure that, in the new structure, nothing gets left behind. The sections will be able to play a stronger role in the strategic initiatives of the SOA. This will certainly require some new thinking and I would expect some more expansive discussions at council meetings.

The purpose of the workshop was to better understand and document the activities and processes focused on by sections and practice areas. This included the development of content for continuing education, identifying and overseeing research initiatives and experience studies, providing input to strategic direction and ensuring that the activities of the SOA promote the interests of the members of the sections both within the SOA and externally.

We made good progress in the documentation and outlining of all of the key activities. This is just the beginning. Sections will have a greater responsibility to influence the strategic direction of the SOA, while at the same time maintaining continued value to their section members. Broader responsibility will necessitate broader involvement by members with section councils. There is a great opportunity for the Non-Traditional Marketing Section to better link with other sections in achieving common objectives and greater individual involvement.

As the restructuring takes place, and we all begin to understand the changes, section councils are looking toward exciting times. Perhaps we will even see the expansion of the product channel directory that we have sponsored to include more sections and areas of practice. Rest assured there is much more to come. ■



WHY STRATEGIC ALLIANCES?

BY RICHARD S. KATZ

Over the course of a decade or more, the growth of strategic alliances has been substantial. In 1990, just 3 percent to 5 percent of all business conducted was through a strategic alliance. In 2000, the number jumped to 20 percent. In 2010, it is projected that strategic alliances will account for 40 percent of all business (source: EIU Global Executive Survey). Why strategic alliances? What is the benefit—and for whom? In today’s tumultuous business environment, companies must be strategically and tactically nimble enough to correct their course based on market activity and increased competition in order to achieve a superior value-added position in the marketplace. Most would agree that this can be a difficult challenge at best. However, many companies involved in the insurance and financial services industries are successfully embracing the concept of strategic alliances to help weather the storm.

The insurance and financial services marketplace is no different from any other in that it will seek out the products it desires from a readily available source. But the truth is no one company can successfully provide all needs for all market segments or satisfy all consumer needs and desires. It is difficult, if not impossible, to master all the critical skills and techniques required to provide products and distribution capabilities to all market segments, let alone take on the challenge of channel development. Furthermore, investments in emerging products and technology are costly and often

difficult to recover in the short term. There is little or no patience in today’s boardrooms for a financial review that begins with “At the margins ...”

The recent proliferation of mergers and acquisitions has proven itself, thus far, to be largely unprofitable. For a merger or acquisition to be considered successful, the end result should be the introduction of new products, markets, capabilities or capital; the minimization or elimination of channel conflict; and the realization that only one entity will survive. A strategic alliance, on the other hand, can work to increase profitability for all parties involved. Over a five-year period, the average return on investment (ROI) for alliances was significantly higher than the average ROI of the individual participants.

A strategic alliance is preferable because it helps to achieve a superior value-added position in the marketplace by supplementing or creating a core competency. The potential for an alliance is unlimited—it can be leveraged for channel development,

...many companies involved in the insurance and financial services industries are successfully embracing the concept of strategic alliances to help weather the storm.

marketing, product development, administrative and other initiatives. However, perhaps one of the most significant advantages to a company when forming an alliance is the fact that it can reduce the many financial risks associated with new product development and market entry.

The benefits of strategic alliances are many. A well-organized strategic alliance can open new markets.



Richard S. Katz, CLU, ChFC, is vice president of American Direct Marketing Resources, Inc., a full service, turnkey direct response marketing agency. He can be reached at (636) 532-7703 or via e-mail at rkatz@admr.com.

It can leverage customer and prospect databases, improve competencies, expand market presence, and offer access to knowledge and expertise far beyond what's possible with existing internal resources. Strategic alliances can be put together between

Research and due diligence are critical components, of course, of any strategic alliance.

competitors, with call centers, distributors, and marketing and advertising firms, to mention just a few options. Today some 50 percent of all alliances are among competitors.

Research and due diligence are critical components, of course, of any strategic alliance. And it is equally as important for both parties to establish and communicate critical success factors, expectations and measurements to ensure that each is in synch with the other and that shared goals are achieved. When embarking upon a strategic relationship, it is also important to consider the culture of each partner and how the two entities will work together.

Joining forces through strategic alliances is a concept whose time has come for the insurance and financial services industries. By developing a well-planned strategy that considers the needs and desires of each party—and the needs and desires of existing and future customers—insurance and financial services companies can not only “weather the storm” but emerge as winners that will live long and prosper in any economic environment. ▀



PROMOTIONAL CARDS: AN OLD DOG LEARNS SOME NEW TRICKS

BY BILL SPINK

They come in all shapes, sizes, composites and colors. Some are glued, tipped on and embossed. Some are perfed. Some peek through windows. Many carry names. Most tend to be numbered. Others are personalized. They are a time-honored direct technique.

What are we talking about? Promotional cards that have become an integral part of so many direct mail package controls.

If you've wrestled with tales of how successful these cards have been over the years—but been stumped on how you could handle the added cost—there are many new and exciting variables to add into the equation.

The cards you may have seen which have been used for decades are heavy plastic (20-30 mil) and embossed—much like credit cards. In fact, you may have seen these used recently in solicitation mailings by major issuers. Perfed paper cards cost less but also tend to perform less.

Today, with new technologies, come advances in card marketing such as digital printing, 3-D and holographic images, and new materials such as transparent plastics. There are also more inventive uses for cards. These include co-branding, tracking through embedded bar codes and chips, and other couponing and versioning opportunities. The possibilities seem to be limited only by the imagination—and of course, budget.

New tricks and twists

There are plenty of new twists on traditional plastic cards, including four-color printing. This technique can be used to show the target market or even to illustrate the card in use. Cards can now be die cut into a variety of shapes to add interest. Examples include unique silhouettes, shapes, punch-outs in the card's center and holographic images that emulate motion. These new card technologies are now widely available from vendors offering competitive pricing.

With the advent of digital printing, non-plastic cards offer insurance marketers a number of new opportunities. Heavy weight paper that is laminated can have the feel of credit-card thickness. They can be printed

Cards can also impact your offer, serving as valuable retention tools and CRM applications as well as tactics for bringing life to co-branded and affinity marketing efforts.

with variable four colors on one or both sides, with personalized names, logos and company addresses. These cards can be used to cost effectively co-brand products and test offers, or to market subsidiaries or various co-brand partners for minimal additional cost. Cards like these can also be produced with punch-out parts, such as key tags and book marks. They can even be incorporated into self mailers.

The possibilities today are not only for the sake of getting an envelope opened. Cards can also impact your offer, serving as valuable retention tools and CRM applications as well as tactics for bringing life to co-branded and affinity marketing efforts. By incorporating bar codes, for example, a static card can be transformed into a response vehicle! Bar coding and electronic chips allow a card to be used as a coupon or

Bill Spink is chief creative officer for DMW, a full-service direct response advertising agency with offices in Wayne, Pa. and Plymouth, Mass. You can reach him at (610) 407-0407 or via e-mail at bspink@dmwdirect.com.

other trackable device, further extending the value of your initial investment. Cards can also be used as an easy reference for a Web site, personalized with a member-only URL and passwords/access codes.

With so many new alternatives available, cards can be utilized for a wide variety of life, health or auto applications. For instance, Allstate recently mailed a card to remind insureds their coverage included roadside assistance. This effort generated dramatic results as a retention strategy near policy renewal time. Think about the possibilities of using a card as a hands-on reminder of discounts or to dramatize service access for your customers.

In addition, CD-ROM technology brings whole new worlds of content to credit card-sized media. CD-ROMs can be die-cut into both traditional and unique card shapes and printed in innovative ways. They can be programmed to interact with continually updated content “real time” from the World Wide Web.

Test to determine return on investment

With so many new options, what is an insurance direct marketer to do? And what about return on investment (ROI)?

The answer lies in good old-fashioned testing, through which you can more easily determine what pays out and what doesn't. A few words of caution: as in other areas of direct mail testing, it's critical to test just one element at a time. For instance, you might start by testing different kinds of cards—i.e., paper, plastic, laminated or clear. You might consider testing graphic treatments against each other. Test weights. Test personalization techniques. Test every characteristic you can imagine to determine the card that best meets marketing and ROI objectives.



Adding a card may add anywhere from a few pennies to as much as 30 cents or more per package, depending on the card type and personalization utilized. But when the effort adds more than \$600 per thousand in sales, you net twice the revenue rather than adding \$300 per thousand in cost. Testing histories show that cards can pay off in a major way!

Today's new technologies offer wide-ranging card options for insurance marketers looking to leverage direct mail. So why not brainstorm, research, and develop new partnerships for any number of strategic marketing and tactical promotional initiatives? Then test a few cards! You might be surprised at how much they can do to open new doors, lift response, provide new value and dramatically boost your direct marketing ROI. ■

SELLING INSURANCE ONLINE: EVERYTHING OLD IS NEW AGAIN

BY KEVIN MCKENNA

This article is based on a presentation by Kevin McKenna at JCG Ltd.'s 18th Annual Executive Workshops in Direct & Database Marketing.

The quest to find value in the Internet as a media channel continues. So, what works? Why is the Internet different? And what does the future hold for the insurance industry?

Consider the market today, and it doesn't take long to realize that the Web hasn't given consumers perfect access to information. Nor has it eliminated the need for agents. Most importantly, the Web has not yet been embraced as the direct marketing channel that it is. The majority of insurance marketers have not come to terms with the fact that online marketing equals direct marketing.

Unlike other channels, the Internet provides instantaneous results, and online tracking opportunities are exceptional.

Despite this, insurance is being sold on the Internet. Companies such as Globe Life & Accident, RBC Insurance and Mutual of Omaha are successful because they've embraced the concept that making online sales means applying direct marketing principles. To sell insurance online, marketers must integrate these principles into all facets of the sale, including product design, marketing methods, administrative processes and site design.

Successful online insurance marketers are successful direct marketers. They control their own destinies and don't rely on aggregators to drive business. They use Web technology to support multiple marketing channels. Rather than sell all products on one site, they deploy single-product Web sites with a strong offer and design that make it easy for the consumer to buy. They market products that are simple. They use

direct marketing methods to target prospects and drive them to their site, including search engines, e-mails, pop-ups and cross-sell/down-sell efforts.

When leveraged properly, the Internet can deliver sales that are less expensive than those produced by direct mail, television and print. By keeping both product and process simple, marketers are selling life insurance products with average premiums as high as \$400—completely online, from rate quote to policy issue.

How is the Internet unique?

The Internet presents an easy, low-risk testing environment for products, creative executions and messaging. Unlike other channels, the Internet provides instantaneous results, and online tracking opportunities are exceptional. The Internet allows marketers to manage media costs. Without print production and other costs associated with offline efforts, the Internet also offers a low-cost environment for cross selling.

The ultimate beauty of Web technology is that it's fast, cheap and flexible. It can be used to support channels such as agents and call centers. In fact, integrating the Web with other channels not only helps increase the chances for success, but it leverages the initial investment.

The potential for the future

So what does the future hold for insurance direct marketers who want to benefit from the promise of the Internet? The short-term will probably be not much different than the past. But all indicators point to a strong growth among the direct players. Those that hold fast to market-proven direct marketing best practices are planning launches in 2004, and others will become more aggressive as they see their competitors advance.

Those destined for success offer single products on a single site, commit to the direct marketing formula, take ownership of the technology and leverage the database building abilities of the Web. While the Web produces lower volumes, it has the potential to deliver higher margins. Respected as the direct marketing channel that it is, the Web can, and will, continue to deliver profits for insurance marketers. ■

Kevin McKenna is chief executive officer of The Credo Group in Princeton, N.J. The Credo Group is a leading digital insurance agency specializing in creating alternative distribution channels for insurance carriers. He can be reached at (609) 750-2649 or via e-mail at kmckenna@thecredogroup.com.

CONSUMERS ONLINE: THE ROLE OF THE INTERNET IN THE PURCHASE PROCESS

BY MARY M. ART

Editors note: This article is reprinted with permission from the fall 2003 issue of LIMRA's Market Facts Quarterly.

It is no secret that the majority of the population is online and that online retail sales are increasing. But what about using the Internet to seek information about life insurance and annuities?

For most people the insurance purchase process proceeds in stages: identifying the need, seeking information, making the decision, purchasing and obtaining service. While it is known that consumers typically move through these stages, it was not known what role, if any, the Internet plays in each stage.

Prior research suggested that the Internet plays a minor role in the life insurance purchase itself, but that it has the potential to play a much greater role in the remaining steps. Identifying ways online consumers recently made use of the Internet and ways in which they anticipate using the Internet in the future will help companies as they continue to develop their Internet strategies regarding consumers. Identifying those more likely to use the Internet for these processes will also assist in targeting these consumers for their online initiatives. With this in mind, a recent LIMRA study sought to learn more about recent and anticipated future use of the Internet as a part of the purchase process.

Internet-Oriented Consumers

While all the consumers included in the study are online and all had purchased or researched life insurance or annuities in the past 24 months, some of them are more inclined to make use of the Internet in the research or purchase of insurance and investment products. In this segment, known as Internet-oriented consumers (IOCs), LIMRA included only online consumers who actually used the Internet as a part of

their most recent research or purchase experience, whether as a trigger, information source, decision-making or purchase source; speculation about future research and purchase was not considered. The other group, online consumers who had purchased or researched life insurance or investment products, but had not done so online, are called non-Internet-oriented consumers (NIOCs).

The IOCs comprise 16 percent of recent life insurance and annuity shoppers and buyers. They are far from a majority, but as we will see, their numbers have the potential to increase in the near future.

When thinking about insurance or annuities, an IOC sounds like the following consumers:

If I were looking at buying insurance and looking at insurance on the Internet—maybe it takes away the pressure. The [in-person agent] says, 'You need a little of this and a little of that.' So [using the Internet], you are really taking away the pressure. You're just looking at numbers and figures . . .

— Boston focus group participant (age 45 to 65)

The Internet is a gold mine of information. I can access a variety of companies, compare and make better decisions based on the research.

—Recent shopper/buyer mail survey

In contrast, the NIOCs did not use the Internet for their recent life insurance or annuity search or purchase. Their responses run the gamut from those who never anticipate using the Internet as part of the insurance and annuity purchase process to those who just might in the future.

I don't use the Internet for insurance research. I would much rather speak to someone because there are too many variables regarding insurance.

— Recent shopper/buyer mail survey

Since I have just started using the Internet, I am just getting familiar with looking things up. I'm sure the more I become familiar with the Internet, the more I will use it.

— Recent shopper/buyer mail survey



Mary M. Art is an associate scientist in technology in marketing and distribution research at LIMRA International. She can be reached at MArt@limga.com

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Differences

What are some characteristics that distinguish IOCs from NIOCs?

- Demographically, IOCs are more often between the ages of 35 and 44 and less often between 45 and 54.
- They are more likely to be part of middle-to-high investable-asset households, male, with middle-to-upper household income, and have attained at least a four-year college degree.
- They are also more likely to be married and have dependent children relative to NIOCs.
- IOCs have been online longer than NIOCs (68 percent online for five years or more versus 52 percent for NIOCs).
- IOCs are more likely than their NIOC counterparts to have integrated the Internet into their daily lives and to report that potential loss of either the Web or e-mail capabilities for a month would be a disruption in their lives.

- Sixty-nine percent of IOCs expect to conduct more of their financial business over the Internet within the next five years compared with only 45 percent of the NIOCs. They are already more comfortable going online and visiting the sites of financial services companies and third-party Web sites, whether for life insurance, annuities or investments.

- IOCs less often have a personal agent now (41 percent for IOCs and 49 percent for NIOCs) and are more likely to have never had one (39 percent and 32 percent, respectively).

- IOCs are the online consumers that companies need to prepare for when thinking about online customers and prospects. The Internet is such a part of their lives that they consider it natural to

make the Internet at least a part of the process if they are considering a life insurance or annuity product—and probably other insurance and investment products as well. They are comfortable with the Internet and will set high standards for the companies with which they conduct business online:

Sixty-nine percent of IOCs expect to conduct more of their financial business over the Internet within the next five years compared with only 45 percent of the NIOCs.

I do almost all preliminary research online in order to see how easy or difficult it is to obtain information from a company. If a site is difficult to maneuver, I definitely won't buy from it.

—Recent shopper/buyer mail survey

Shopping for Insurance and Annuities

Of all online consumers who recently sought information on life insurance or annuities, 6 percent report that online information—whether something they read on the Web or received via e-mail—got them to consider that they might need life insurance or annuities. While the Internet as a trigger for product need appears limited, it does vary by type of online consumer: one in three IOCs said something online served this purpose; by definition, none of the NIOCs did.

When gathering information on life insurance or annuities, 21 percent of the online consumers made the Internet part of the process. While the number may seem low, that is still just over one in five online consumers who are potentially in the market for life insurance or annuities and who actually went online for their recent product search. Furthermore, this figure rises to one in four for those who have been online five years or more. And IOCs typically made use of the Internet for this step: 82 percent went to the Internet at some point in their information-seeking



ing process. Their reasons for doing so include a desire to gather information without pressure, to investigate multiple companies and to conduct their information search at a convenient time of day, whether after their children have gone to bed, during the workday or after they have finished working the night shift.

[At the bank] Their opinion is subjective and you listen to them and you get carried away. If you are at home and you browse the Web, you have the time to come back, digest it, think about it, discuss it with the wife, the kids. You're not under pressure. Then again, it's key to have a good Web site. They have to earn their reputation.

—Boston focus group, ages 25 to 45

I am able to do as much research as possible and I am not rushed. Also, I have the option to do this without pressure from an agent. I can access information any time, day or night!

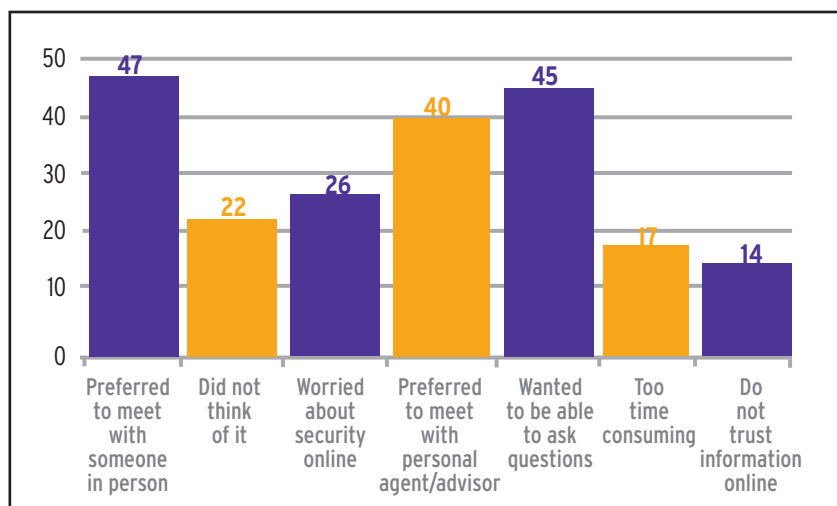
—Recent shopper/buyer mail survey

While IOCs typically went to the Internet for information most online consumers did not make the Internet part of the information gathering process. The tool existed for NIOCs, usually in their own homes, but they did not use it. Why not? The desire to meet with someone in person and to be able to ask questions were the most prevalent reasons, followed by security concerns and simply not thinking about the Internet as a source (Figure 1).

Online consumers participating in focus groups often tell LIMRA that life insurance and annuities are products that they purchase infrequently, so they are more likely to want to seek the services of an agent or advisor rather than attempt to become experts themselves. Others feel life insurance is too important to buy online.

Even so, there is some indication that the Internet will grow as a means for gathering information and making decisions about what to buy. Table 1 shows the patterns that online consumers say fit their way of seeking information on life insurance and annuities. Many see the Internet and the agent playing a role. Eighty-nine percent of IOCs would make the Internet part of the process in comparison with only

REASONS INTERNET WAS NOT PART OF THE INSURANCE INFORMATION PROCESS



Base: Respondents obtaining information on life insurance or annuities and who did not make the Internet part of the process.

FIGURE 1

MOST LIKELY PATTERN OF SEEKING INFORMATION ON LIFE INSURANCE AND ANNUITY PRODUCTS

	Percentage of IOCs	Percentage of NIOCs
Talk to an agent or financial advisor but not look on the Internet	8	53
Talk to an agent or financial advisor, then seek information on the Internet	26	18
Look on the Internet, then talk to an agent or financial advisor	42	9
Look on the Internet, but not talk to an agent or financial advisor	21	2
Neither talk to an agent or financial advisor nor look on the Internet	3	18

Base: Respondents obtaining information on life insurance or annuities.

TABLE 1

29 percent of NIOCs. Most will still turn to an agent at some point in the process, but IOCs will usually look on the Internet before or after speaking with an agent or financial advisor. For IOCs comfortable and familiar with the Internet, this technology has become a tool to use as part of their information-gathering and decision-making process.

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The next time they shop for life insurance or annuities, the majority of all online consumers expect to go online for some part of the process (Table 2).

FUTURE USE OF THE INTERNET WHEN CONSIDERING LIFE INSURANCE OR ANNUITIES BY INTERNET ORIENTATION

	Percentage of IOCs	Percentage of NIOCs
Compare prices	96	76
Look for product information	94	75
Check company ratings	92	71
Research companies you are considering	92	71
Research a price or quote	92	66
Use online calculators or worksheets to determine the type of products needed	75	53
Use online calculators or worksheets to determine the amount to buy	74	52
Request someone call you to discuss the insurance or annuity	56	40
Locate an agent online	47	37

Base: All respondents.

| TABLE 2

CHANNELS USED FOR PURCHASE OF LIFE INSURANCE OR ANNUITIES [BY INTERNET ORIENTATION]

	Percentage of IOCs	Percentage of NIOCs
In person, from an agent or financial advisor	33	62
Mail	22	15
Work	9	10
Phone	10	5
Bank or credit union	6	6
Internet	19	*
Other	1	2
TOTAL:	100	100

Base: Respondents who purchased life insurance or an annuity.

* Some cells have a small number of respondents.

| TABLE 3

Nearly all IOCs say that they will turn to the Internet for prices, company ratings and product information. Two-thirds or more of NIOCs predict they will also get online for these aspects of their insurance and annuity research process. At least in theory, online consumers will make the Internet a resource for these functions in the future. LIMRA research shows that the longer people are online, the more likely they are to conduct financial activities online, so it is likely that more of these online consumers would indeed go online when thinking of their next product, even though practice is likely to fall somewhat short of expectation.

Buying Life Insurance and Annuities Online

Four percent of online consumers who report that they purchased either a life insurance or annuity product in the past 24 months did so online. Seven percent of term life buyers purchased online, while 3 percent of the annuities buyers and none of the permanent life buyers did so (Table 3).

Since many companies do not allow people to purchase online, instead offering such options as the opportunity for agent contact or the facility of downloading an application and mailing it to the company, there is opportunity here for companies who want to sell online to reach these IOCs for future online sales. While it is true that IOCs represent a small segment of the online population, this segment is more interested in non-agent channels for purchase.

IOCs appear to be very price conscious. Price is their most cited reason to buy online, closely followed by convenience, and knowing the product they wanted to buy.

We utilize the Internet as a resource in our decision making. The easier it is on the Internet from a particular company for a product to be purchased and serviced, the more likely we would be to purchase from that company.

—Recent shopper/buyer mail survey

I went to Quotesmith.com and did all my research on companies, ratings and prices. Then I applied online and they sent the medical person to my house.

—Recent shopper/buyer mail survey

IOCs, all of whom made the Internet part of the process within the past several years, are more apt in the future to either apply or pay online than are NIOCs. Specifically, 53 percent of IOCs have an interest in applying for insurance online in comparison with 28 percent of NIOCs, and 36 percent of IOCs say that they are at least somewhat likely to pay online, more than the 22 percent of NIOCs who would do so.

NIOCs may not have used the Internet on their most recent purchase or information search, but a number have some interest in making use of the Internet as part of the purchase process in the future. As they spend more time online, some of these less online-oriented consumers will become more comfortable there and will increase usage in the future. In short, these are services that companies may want to consider offering online.

Why *not* buy online? The desire to have someone there, both to ask questions of at the time of sale and later on for service and that final claim, is strong for many:

When we first bought life insurance—it was after our first child was born. The agent came to our house and he talked a long time. It's an emotional thing, because you're talking about if somebody dies. And I still have his card and if somebody dies, I will

...online consumers considering life insurance or annuities are still much more inclined to research and buy offline, most often through an agent or broker, than they are to research or buy online.

call this person. And I am wondering how it would be [if I bought online] if somebody dies and I don't have a person to talk to and I am dealing with death.

—Focus group, Boston, ages 25 to 45

To date, the Internet is too impersonal. I need to talk to a body—it gets too frustrating. My agent handles everything.

—Recent shoppers/buyers mail survey

THE ONLINE PICTURE: WHERE ARE WE GOING?

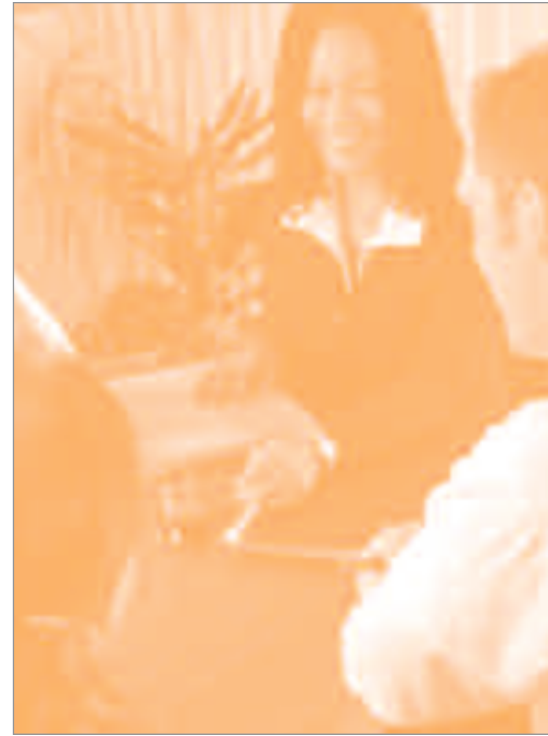
In summary, online consumers considering life insurance or annuities are still much more inclined to research and buy offline, most often through an agent or broker, than they are to research or buy online. What does this tell us about future

use of the Internet by online consumers for need identification, information, decision making, purchase and service regarding annuities and life insurance? As people grow more comfortable online, use of the Internet for all these aspects of the buying process should increase.

That said, it will not become a major channel for purchase any time soon. The preference to buy in person for the majority of consumers—including online consumers—is substantial.

When dealing with their money and their futures—and the future of their heirs—they still want to meet in person with a trusted individual, to ask questions, get advice and receive assurance that they are making the right decision for their situation.

In addition, insurance is something most people purchase only a few times in their lives and they often feel that it is better to consult an expert than attempt to become expert themselves. Beyond the desire to handle



| CONTINUED ON PAGE 14 |

these transactions in person, many people do not trust the information on the Internet and they are often unwilling to provide sensitive information there, such as their Social Security or driver's license numbers. Some of this mistrust seems to dissipate as they gain experience online.

IOCs are the exception to the preference shown by most online consumers to gather information and buy from an agent or advisor. When it came to their most recent purchase, these online consumers consistently made the Internet part of the process, whether for need identification, information, decision making, purchase or a combination of these. More likely to be male, married with children, affluent and college-educated, they want to increase their use of the

Internet for financial transactions and are less concerned about online privacy issues. In addition, they tend to be more self-reliant and less inclined to have a personal agent, either now or in the past. For this segment of online consumers, the desire to use the Internet for all aspects of the buying process in the future is likely to increase. These are the consumers companies need to target for online marketing, information, services and sales. Since most looked online when considering their most recent purchase and most anticipate that they will turn to the Internet again next time, companies that wish to sell online need to

make their Web sites known to online consumers and to make their experience online a satisfactory one. Offering the option to contact someone at the company for questions will enhance their experience. (The most preferred option is offering the option to call a toll-free number.) Another valuable option is the facility to buy online.

The greatest growth, at least in the near future, will be the Internet as part of the information process.

HOW WILL THE INTERNET BE USED IN THE FUTURE?

The Internet will make the greatest gains as an information source for consumers considering myriad financial products in addition to life insurance and annuities. The greatest growth, at least in the near future, will be the Internet as part of the information process.

Greater use of the Internet for seeking information will naturally lead to growth in the role it plays in decision making. While consumers are online for basic information, attractive, well-designed sites may entice them to spend more time there, educating themselves about insurance and financial products. The Internet will likely be used in conjunction with other sources of information, most often an agent or advisor, and it may be used either before or after the prospect obtains information from this individual.

Advances in technology, such as e-signatures and straight through processing, increased adoption of broadband and refinements in company Web sites will make the online purchase process simpler for those who are presently willing to purchase through impersonal channels such as mail or phone. At this time, the IOCs identified by this research are the most likely to take advantage of these changes. Online sales of simpler products will lead the way. There is greater interest in the online purchase of term life



than permanent life and some experts foresee fixed annuities as more feasible online sales than variable annuities. The option of being assigned an agent for service or the opportunity to get a better price when buying online will induce some to purchase there.

Another issue for many companies continues to be the potential conflict with their field force if they offer the same products for the same price—or possibly even less—online. Use of the Internet for lead generation may be more practical and cost-effective for many companies. Even so, since some consumers indicate that they would be more willing to buy online if the company assigned them an agent for service, such a program could increase online sales, as long as companies are able to develop a process that meets the needs of both producer and customer.

Online retail sales have increased substantially over the Internet. While insurance and annuities are unlikely to enjoy such online success, some online consumers have already gone from buying books online to buying insurance online. For those who know what they want to buy, or are confident of being able to determine this through their research, the Internet will provide a viable channel.

The agent will continue to be the channel of choice for the majority of consumers, but the Internet should increase in use among a segment of IOCs for all aspects of the sales process. What is more, the percentage of the online population that falls into this segment should increase over time. Companies that offer a superior online experience stand the best chance of attracting and keeping IOCs as their customers:

It's the first connection I make with a company because it's faster than a phone connection and I don't waste so much time.

—Recent shoppers/buyers mail survey

In summary, the greatest growth in Internet use for life insurance and annuities is likely to occur as part of the information gathering and decision-making processes. More consumers will also be willing to obtain some services online, as long as they see a benefit to the service, such as a savings of time or money. Online sales will increase slightly as technology catches up with desire. Rather than taking sales from the agent or advisor, these shifts are more likely to be from those who currently prefer the mail or phone for purchases. ■

METHODOLOGY

LIMRA looked at 1,502 online consumers who are members of a mail panel in the United States and Canada. All respondents are between the ages of 25 and 64 and have either researched or purchased life insurance or annuities within the past two years. The recent purchase or research could be through any channel. However, since all consumers in the study report that they are online for personal reasons, it is assumed that the Internet was a potential part of the process for each of them. This article is drawn from a LIMRA report entitled “Consumer Internet Use for Insurance and Investments in the United States, Phase II: The Practices of Online Consumers in the Buying Process” that focuses on the 1,208 respondents in the United States.



Ian Duncan, FSA, MAAA, is a partner at Lotter Actuarial Partners, Inc. in New York, N.Y., and is editor of *The Independent Consultant*. He can be reached at lduncan@lotteract.com.

A SUMMARY OF "INSURANCE COVERAGE FOR ALL"

BY IAN DUNCAN

In "Insurance Coverage for ALL: And How Insurers Can Afford to Provide It" (see *NewsDirect*, Sept. 2003) Maria Thomson argues that if the extensive middle market insurance opportunity is to be tapped, insurers need to focus on achieving a faster and more streamlined issue process. This session at the San Antonio spring meeting was part of the series on "Bringing your Nontraditional Product to Market." It addressed underwriting, covering some practical ways that insurers can automate and improve their underwriting and pricing processes.

Michelle Moloney, vice president of business development at Transamerica Re in Charlotte, North Carolina addressed Transamerica Re's underwriting engine. This engine combines four different data sources (in addition to the application itself): MIB data, credit data, motor vehicle records and the "Rx Profile." The Rx profile is a new and innovative application of large databases of prescription drug-dispensing information that is becoming available.

Specific prescription drug use, either a single therapeutic class or multiple classes in combination, can be mapped to different categories of diseases, with different probabilities. The speed with which the data can be accessed, combined with the accuracy of diagnostic information, leads to a 20-plus percent improvement in price over simplified issue, Moloney says. Moloney went on to discuss the results of a study of 3,000-plus simplified issue applications, using the underwriting engine. In 27 percent of the cases, evidence of non-benign drug profiles were found in applicants who had said "no" to the health questions. Judging by the number

of questions afterward, this approach holds considerable interest for life insurers.

Medical Mutual of Ohio is another company that uses prescription drug data in the underwriting process, in this case in underwriting individual medical coverage. George Stadtlander, vice president of underwriting at Medical Mutual of Ohio, reminded us that in pricing it is critical to know your cost of claims, know your market, know your competition and know your company's objective. Medical Mutual has built an underwriting process that enables agents to issue policies in the field in many cases. Home office review is conducted, and pharmacy data is used when potential problems are noted. Historically, Medical Mutual flagged cases in which maintenance medication use triggered a review. This method was difficult, labor-intensive and unrewarding. Now, Medical Mutual uses the pharmacy database. Review of applications shows a very similar rate of nondisclosure of conditions (21 percent) to that noted by Moloney.

Van Beach, consulting actuary in the administration systems practice of Milliman USA discussed the practical aspects of data use in underwriting and pricing, particularly the need to monitor emerging experience. Changes in emerging experience should give rise to changes in pricing, as shifts in business are noted (for example, if pharmacy-based underwriting makes applicants more truthful and drives away dangerous risks). Van also pointed out that experience will be defined by the data that is collected, and that the value of experience data will be the greatest driver of return on investment in an administration system.

For those readers attending the Annual Meeting in New York, Michelle Moloney will be reprising her presentation. Judging by the reaction of spring meeting attendees, this is an area of considerable interest to the profession. Is this an area that the Nontraditional Marketing Section Council should be promoting—possibly through webcasts or other educational media? Let us know—chrish@hauseactuarial.com. ■

RECAP OF THE "ONLINE INSURANCE MARKETING" MEETING

BY JAY M. JAFFE

On May 17, 2004, The Credo Group sponsored a day-long seminar discussing insurance company activities on the Internet. The title of the meeting was "Online Insurance Marketing: From Concept to Profitability in 120 Days or Less." The meeting was held in the center of Princeton, N.J. adjacent to the campus of Princeton University.

At the meeting, there were several companies which have already started actively using the Internet for marketing insurance products. While the main focus of the meeting was on life and health products, there was a mention of online P&C programs.

My two most vivid "take-aways" from the meeting about online insurance marketing were:

- Internet insurance sales are still relatively small.
- Internet insurance marketing should be viewed as a media and an integral part of an overall marketing program.

Online insurance marketing is rapidly becoming its own science. Specialists with expertise in how to design and operate insurance Web sites are needed to ensure that a company's Internet marketing efforts will achieve their intended levels of success. Judging from a few of the stories at the meeting, there already have been companies that have taken the steps to do online marketing, but have been either total or partial failures because of the manner in which they execute their programs.

It was suggested that online customer service is one way to get potential customers comfortable with a company's Web site and eventually get into the habit of purchasing insurance via the Internet.

Insurance, as is the case for many other products, can be shopped on the Internet. There would appear to be many insurance buyers who use the Web for evaluating products and then use more traditional buying methods to make the actual purchase.

...Internet insurance sales are still relatively small, and Internet insurance marketing should be viewed as a media and an integral part of an overall marketing program.

Putting the right product on a Web site is critical. To some extent, this means products that don't require extensive underwriting and tend to be simpler. One distributor described how it was marketing short-term medical insurance to recent college graduates because it was a product that could be easily purchased and met the specific needs of a group of individuals.

What next? Well, I would expect attendance at next year's seminar to grow considerably as more companies make the commitment to be online insurance marketers. As the number of companies and agencies online grows, there will also be more experiences to share. And there will emerge a list of "do's and don'ts" for online marketing just as there seem to be such standards for direct mail, telemarketing, etc.

Online marketing is not necessarily an inexpensive media but it has the advantage of being able to make sales with very low marginal costs and control marketing costs to be within the available marketing allowances.

If you're interested in getting on the e-mail list for next year's conference, contact Ginny Simon at gsimon@projectmarketinginc.com (610) 889-2036. ■



Jay M. Jaffe, FSA, MAAA, is president of Actuarial Enterprises, Ltd. in Chicago, Ill. He can be reached at jay@actentitd.com.

NONTRADITIONAL MARKETING SESSIONS AT THE NEW YORK ANNUAL MEETING

MONDAY, OCTOBER 25

10:30 a.m. – 12:00 noon
Specialty Track: NTM

DO NOT CALL/E-MAIL LEGISLATION UPDATE

One year ago, the Federal Trade Commission activated the “Do Not Call Registry.” Subsequently, many states have implemented their own legislation in addition to the federal regulations. The federal government and states are also reviewing and passing “Do Not E-mail” legislation. Presenters talk about:

- Current status of “Do Not Call or Do Not E-mail” legislation nationwide
- How insurance companies have reacted or adjusted their marketing efforts due to these new laws

Attendees gain a greater understanding of the requirements of the Do Not Call/E-mail legislation and how the industry has responded to these new regulations and statutes.

This session is designed for attendees who have moderate experience with the subject.

MONDAY, OCTOBER 25

2:00 p.m. – 3:30 p.m.
Specialty Track: NTM

BANCASSURANCE—BANK PURCHASES OF LIFE INSURANCE COMPANIES

Why are banks acquiring life insurance companies? What is the outlook for life insurance sales in the bank channel? What are the lessons learned from acquisitions?

Attendees learn more about bancassurance and the level of success banks have had with incorporating insurance sales into their operations.

This session is designed for attendees who have moderate experience with the subject.

TUESDAY, OCTOBER 26

8:30 a.m. – 10:00 a.m.
Specialty Track: NTM

SIMPLIFIED ISSUE LIFE INSURANCE—CURRENT PRACTICES AND NEXT GENERATION PRODUCTS

Premium and benefit structures, underwriting criteria and methods, markets, distribution channels, use of technology and expected mortality results are all important elements of designing a successful simplified issue product. What are companies doing today in the simplified issue marketplace? What will companies do in the future? The presenters will discuss the results of a recent Society of Actuaries survey on simplified issue products to explain the current state of the simplified issue market and then provide a case study of what is expected to be a next-generation product.

Attendees gain an understanding of the current state of simplified issue products in the marketplace and emerging or possible methods for future simplified issue products.

This session is designed for attendees who have no to moderate experience with the subject.

NONTRADITIONAL MARKETING SESSIONS AT THE NEW YORK ANNUAL MEETING (cont'd)

TUESDAY, OCTOBER 26

2:30 p.m. – 4:00 p.m.
Specialty Track: NTM

FROM WIDGETS TO INSURANCE—APPLYING THE SIX-SIGMA PROCESS

We all think we know how to develop insurance products. Maybe, maybe not. This case study will explain General Electric's Six-Sigma process, originally designed for manufacturing industries, and how it can be applied to the insurance industry.

Attendees gain an understanding of better ways to develop and implement new nontraditional (and traditional) products.

This session is designed for attendees who have moderate experience with the subject.

TUESDAY, OCTOBER 26

5:30 p.m. – 7:00 p.m.
Specialty Track: NTM

NONTRADITIONAL MARKETING SECTION WINE AND CHEESE RECEPTION

The Nontraditional Marketing Section invites all section members and their registered guests to an informal wine and cheese reception to enjoy networking and meeting the new and retiring section council members. Please join us and express your wishes for section activities and programs.

The reception is open to section members and their registered guests only. There is a nonrefundable charge of \$10 per person. Please include the additional fee with your registration. ■

DESIGNING YOUR NONTRADITIONAL PRODUCT FROM START TO FINISH

BY ROBERT STONE

Utilizing an interview format, this NTM sponsored session in San Antonio saw Kevin Howard (Empire General) and Dave Dorans (Transamerica) interviewed by moderator Rob Stone. The interview covered various product design topics, focusing where possible on how nontraditional product design differs from the general case. Questions and the resulting discussion included input from the audience, ranging from how product ideas are generated to sizing up the competition, to managing the marketing/pricing/actuary relationship. The two interviewees also shared some examples of successes and challenges they've faced in past projects. Special thanks to Kevin, Dave and the audience participants for making the session work! For more information on this session, contact Rob Stone at Rob.P.Stone@aul.com. ■



Christopher H. Hause, FSA, MAAA, is president of Hause Actuarial Solutions, Inc. in Overland Park, Kan. and current chairperson of the Nontraditional Marketing Section. He can be reached at chrish@hauseactuarial.com.

CREDIT LIFE AND DISABILITY ACTIVE LIFE RESERVES

BY CHRISTOPHER H. HAUSE

Editor's Note: If you are interested in reviewing a draft of the paper described below, please contact Chris Hause at chrish@hauseactuarial.com.

Abstract

A definitive work for calculating active life reserves for credit insurance liabilities does not currently exist in actuarial literature. The products offered by credit insurers have changed considerably from the gross decreasing term life and full-benefit disability that had previously been the norm. Since 1986, there have been mortality and morbidity studies and regulatory changes in the area of active life-reserving methods and standards. The most dramatic change has been in the acceptance by NAIC and several states of morbidity-based reserve standards for credit disability insurers. This paper provides methods and formulas for calculating active life reserves for statutory and tax-reporting purposes. GAAP methods are discussed briefly in order to complete the discussion. ■

PIMA ANNOUNCES INNOVATION AWARD

The Professional Insurance Marketing Association (PIMA) has established a new award called the Product and Process Innovative Marketing Award—or P2IMA. PIMA's Product and Process Innovative Marketing Award competition, which is co-sponsored by SOA's Nontraditional Marketing Section, is open to all PIMA and SOA Nontraditional Marketing Section members. Entries will be judged equally on three critical elements: originality, salability and profitability. The product must have been introduced on or after January 1, 2001, and have involved a member of PIMA or the SOA in its development. Both insurance products and processes that facilitate insurance sales are eligible.

The entry fee is \$95. Entrants must be either PIMA members or SOA Nontraditional Marketing Section members. Members of the SOA who are not Nontraditional Marketing Section members may join the section by completing the application form that can be found on the SOA Web site at <http://www.soa.org/ccm/content/areas-of-practice/special-interest-sections/nontraditional-marketing/innovation-award>.

Membership in the Nontraditional Marketing Section costs \$20. The winner will receive an invitation to the PIMA conference in February 2005, a trophy and publicity within both PIMA and the SOA.

More information is available at the Nontraditional Marketing page of the SOA Web site at <http://www.soa.org/ccm/content/?categoryID=340001> or by calling PIMA at 817-569-PIMA. ■

NTM CO-SPONSORS PRODUCT DEVELOPMENT ACTUARY SYMPOSIUM

The Nontraditional Marketing Section co-sponsored the 4th annual Product Development Actuary Symposium, which was held May 6-7, 2004 at the Westin O'Hare. NTM partnered with the Product Development, Reinsurance and Actuary of the Future Sections to plan the event. Continuing the trend of increasing attendance at the meeting, over 200 attendees convened at the opening general session, which included a brief mortality studies presentation and the keynote address on enterprise risk management. At break-out sessions, participants attended meetings on various topics, including industry lapse experience, risk management for variable products, income annuities, life insurance securitization and credit capacity, permanent life market overview, impact of new RBC requirements on variable annuities with guarantees, regulatory updates on life and annuity business and others.

The 5th Annual Product Development Actuary Symposium will be at the Westin O'Hare June 28-30, 2005. NTM is pleased to continue its involvement with this growing event. ■

ARTICLES NEEDED FOR NEWSDIRECT

The Nontraditional Marketing Section 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
DECEMBER 2004	SEPT. 20, 2004
JANUARY 2005	NOV. 1, 2004

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

ATTENTION ALL NONTRADITIONAL MARKETING SECTION MEMBERS!

The Orlando Fall Meeting *Record* sessions are now available at <http://www.soa.org/ccm/content/research-publications/library-publications/record/2003-orlando-record-sessions/>. ■

CONGRATULATIONS!!

The following are newly-elected members of the Nontraditional Marketing Section Council. They will each serve a three-year term, beginning in October, 2004:

Van Beach

Milliman Inc.
Wayne, PA

Leonard Mangini

Platinum Underwriters Reinsurance Inc.
New York, NY

Juliet R. Sandrowicz

New York Life Insurance Co.
Tampa, FL