September 2011, Issue No. 64

SOCIETY OF ACTUARIES Marketing and Distribution Section

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WHAT MAKES YOU M.A.D.?

By Michael L. Kaster

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THE INCREDIBLE, ILLUSIVE MIDDLE MARKET

By Pat Wedeking

Much has been talked about the life insurance industry pursuing the middle market. There are many reasons for this pursuit including the fact that this market represents the largest, fastest growing market in the life insurance industry. Full article >>

A NEW REALITY FOR AUTOMATING THE LIFE INSURANCE UNDERWRITING PROCESS!

Ernest A. Testa

Life insurance carriers in North America have long recognized the need to speed up the life insurance underwriting process through automation technology. Historically, current generation automation systems, typically referred to as "rules engines," have been used in well-understood business processes that have very little ambiguity. Full article >>

2011 ANNUAL MEETING HIGHLIGHTS

By Mad Section

The Marketing and Distribution Section invites you to join us for one or more of the following sessions at the 2011 Annual Meeting in Chicago, October 16-19. Full article >>

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WHAT MAKES YOU M.A.D.?

By Michael L. Kaster

I'd like to start this edition of NewsDirect with a question–what makes you M.A.D.?

- Paying tolls?
- People who tailgate?
- Obamacare?
- Telemarketers?

Well, my question is not really to raise your gander, but for you to ask yourself, "why am I a member of MaD (the Marketing and Distribution Section)"?

For me, I joined the MaD Section because of my interest in product development and marketing. Many years ago, I wrote an article entitled, "Are you a Pricing Actuary or a Marketing Actuary?" largely because I had just finished my MBA coursework and thought I had something to say to actuaries on their role in marketing. Since then, I have to say that my opinion really isn't much different today than it was back then. To be a good pricing actuary, you not only need to know the technical issues around developing good products, but you also need to be very attuned to the market issues, customer issues, and general business conditions in which your client/company operates.

One of the goals of the MaD Section is to not only help actuaries stay current on developments in the area of marketing and distribution, but to create learning opportunities for actuaries. And not just to learn from other actuaries, but from non-actuaries and other professionals who have different perspectives. I am a big believer that different perspectives should always be considered and reviewed in almost every business situation.

I am very proud to be an actuary. You should be too. We all worked very hard to earn our credential, and we should not treat it lightly. I know that much of what I have learned in my career as an actuary has been because of the excellent tutelage and advice I have received over my career from many actuaries, and non-actuaries. Some lessons have been learned the hard way, while others have been learned through successful endeavors. But from each experience, and each interaction with another professional individual, I have learned something that has made me a better actuary.

So I ask you, why are you a member of MaD? Is it because of your interest in product development? Is it to have the opportunity to stay abreast of new developments in the area of marketing? Or are you trying to figure out what makes other people MaD?

Whatever your reason, I would encourage you to GET INVOLVED! Simply being a member of MaD and receiving our e-newsletter, or getting our discounts to webcasts, or attending our many networking opportunities at the SOA meetings is merely not enough. You need to get involved.

My time on the MaD Section Council, which is coming to an end in October, has truly been a worthwhile and enjoyable experience. I have met some great individuals, who happen to be actuaries that share some very similar interests with me. And many of these people will now be my friends for many years to come. I am very thankful to have had this opportunity and I know I am a better actuary for my time served on the section council.

Some of you may wonder whether or not you are qualified to become involved with the MaD Section Council. Well, if you have some time that you can spare for the betterment of your own career, and you have something to share, whether it be some ideas or willingness to help, then you are definitely qualified. Anyone can volunteer to be a friend of the section council, and it is a great way to learn the ropes without having a huge time commitment or responsibility. And the benefit of being a friend is that you get to learn from other actuaries with similar interests to you.

The SOA Annual Meeting is coming up soon, and it represents an outstanding opportunity for anyone interested in getting more involved. Maybe you have been sitting on the sidelines for most of your career waiting for the right opportunity. We would welcome you to join us. Whatever your motivation, we welcome you. At the annual meeting, we will have a networking reception on Sunday evening, a breakfast meeting, and several interactive learning sessions during the meeting.

I would personally welcome any suggestions and feedback you would have for me and the section council. Without the ideas of our membership, we would simply be a group of 10 or so individuals sharing only our own ideas. But with the contributions of more and more of our members, we can be more certain that the work we do will be of benefit to the members, which is what EVERY section council member wants.

I want to thank my fellow section council members for making this year truly a great experience, both personally and professionally. And while I am moving on to a new section council for next year (Reinsurance, look out, here I come), I will always be a friend of the MaD Section Council.

Please look for me, or any of the other section council members, at this year's Annual Meeting. We would be very happy to discuss ways for you to get involved, and start your own learning adventure as a member of MaD. And if we can make you (a member of) MaD, you will definitely be glad. (I know kind of corny. But I never said that being on MaD Section Council has made me a good comedian).

Michael L. Kaster, FSA, MAAA, is senior vice president of the Life Solutions Group of Willis Re Inc., located in New York, NY. He can be reached at mike.kaster@willis.com.

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LETTER FROM THE EDITOR

By Juliet Sandrowicz

Wow! another year has gone by. We are welcoming new council members and saying goodbye to others.

I would like to thank the outgoing council members for their three years of service–Jennifer Brady, Mike Kaster, and Maria, Thomson. Thank you very much for your contributions and support. We look forward to working with you in the future as friends of the council.

I would like to welcome our new 2012 council members Adam, PW, and Rick.

Adam Vanevenhoven: Currently a senior consultant with Deloitte Consulting LLP in Chicago, Adam is focused on life insurance and annuity product development. He currently participates in Marketing and Distribution activities as a friend of the council, and he has previously served on the SOA Life Reserve Working Group modeling committee.

PW Calfas : Another current participant in MaD Section Council activities as a friend, PW is very involved in marketing and distribution management activities at Federal Life Insurance Company in Rosewood, Illinois. PW also helped develop MaD-sponsored meeting sessions and webinars.

Rick Pretty: Rick currently serves as the head product actuary at TIAA-CREF in Charlotte, North Carolina, and he has held senior product management positions with previous employers. Rick's prior broad leadership experiences are well-aligned with the section council's objectives.

The Marketing and Distribution council has been very busy throughout 2011 coordinating webcasts, new research projects, expanding partnerships with non-actuarial organizations, and sponsoring sessions at SOA meetings.

Did you know MaD members receive a discount of $40 on our next MaD

Webinars, which will bring your cost down from $89 to $49. Mark your calendars for the Nov. 1, 2011 webcast with Professor James Jones on Micro Insurance.

Be sure to check out highlights of the 2011 Annual Meeting sessions and events sponsored by the Marketing and Distribution Section. Thanks to Jennifer and Doug who organized and coordinated these sessions.

2012 planning is well underway. Jeff Johnson will coordinate sessions for the 2012 Life Insurance Conference and Marianne Purushotham will be coordinating sessions for the 2012 Life & Annuity Symposium.

MAD Matters is our new monthly bulletin bringing you breaking news, direct connection to the council, and links to just released research, articles and surveys. This is one more way for you to contact the council with your ideas, your articles, or any comments that you have to make MAD Matters more useful to you.

Enjoy this issue of NewsDirect!

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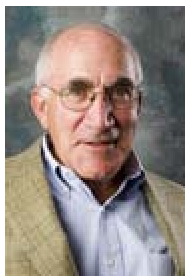
AN ACTUARY'S INSIGHT INTO STRATEGIC OPPORTUNITIES

By Jay M. Jaffe



We live in a world of fast paced change. Therefore, a business needs to accept that change is an inherent part of its culture and that the amount of change that will be needed in the future is probably much larger than a business predicts.

The challenge is to identify the steps that will be necessary to continue to be a relevant business in the future and then to be one of the organizations that successfully and profitably implements the changes that you've identified.

This article has one main goal: to help you to better see some of the changes that will be needed by your organizations during the coming decade. The specific types of changes the article discusses are strategic opportunities rather than operational or administrative changes. Unfortunately, a hand-held GPS programmed to tell you exactly when and in which direction to turn doesn't exist for these travels.

Business history books are full of stories of companies that had great ideas and failed to implement their strategies. In some cases the inventors of new concepts have even had to watch as other organizations found ways to take their ideas and create very successful businesses. However, the best organizations seem to have the knack for both identifying how the future will look and then making it a reality. GE's memorable slogan "we bring good things to life" reflects exactly how the company operates and why it has been a success.

SUTTON'S LAW

Willie Sutton was a bank robber and supposedly replied to a reporter who asked him why he robbed banks by saying, "because that's where the money is." By the way, Sutton denied that he ever uttered these words.

Regardless of whether the quote is from Will Sutton, it forms the basis of Sutton's Law which is taught to medical students. Sutton's law states that when diagnosing, one should first consider the obvious; put another way, a physician should first conduct those tests that could confirm (or rule out) the most likely diagnosis. Sutton's Law is taught to medical students so that they will order tests in a sequence that is most likely to result in an accurate diagnosis, hence treatment, while minimizing unnecessary costs.

But Sutton's Law is universal. It is applicable to any process of diagnosis, such as debugging a computer program. As I will explain, it is even applicable to identifying and implementing strategic opportunities for insurance marketing.

If you want another way to remember the principle of Sutton's Law, remember the physician's adage, "When you hear hoof beats behind you, think horses, not zebras."

APPLYING SUTTON'S LAW TO INSURANCE

The basics of insurance haven't changed over the years. The aim of insurance is to provide collective protection against risks rather than individuals assuming the burden of such risks. Insurance is intended to cover events which are unpleasant and occur randomly in an exposed population. Insurance is based on the Law of Large numbers which means that while we can't predict whether a particular individual risk will suffer a loss, we can actuarially predict the total losses for a large group of covered risks.

Most people understand that they can't afford to cover certain risks by themselves. While home fires don't occur infrequently, if one were to occur and cause serious damage, most of us either couldn't afford to repair our residence or it would put a large dent in our savings. Thus, we turn to insurance.

The connection between Sutton's Law and insurance is that there are usually several obvious reasons people buy insurance and these reasons haven't changed over time. The reasons include:

- Insurance is required–such as by a mortgagor to cover property being secured by a loan;
- Insurance covers an event that we recognize is more a matter of when it will occur rather than whether it will occur–such as death, medical costs, etc.;
- Insurance provides peace of mind against a very unpleasant event–such as cancer insurance provides because we've all seen the dreadful impact of cancer on a friend or loved one; and
- Insurance seems like a good bet–such as accidental death insurance

where only a very small premiums is paid relative to the amount of benefit provided.

What Sutton's Law really means in relation to insurance strategic opportunities is that you need to look for new ways to apply the old rules. For example, 20 years ago there wasn't coverage for lost or damaged cell phones. But as cell phones, PDAs, iPads and other personal electronic devices have proliferated our way of life, the motivations just described drive people to buy coverage in the event they lose their electronic communication capacity. Fact: nearly 30 percent of households today don't have landlines–this means they communicate entirely with PDAs, Skype or other devices not wired to telephone poles and explains why insurance for cells phones has become a popular product.

It is very unlikely that any of us will ever create a real new insurance product during our careers. But we can find profitable new strategic opportunities that work off of the basic principles of insurance and apply these to new markets or in new environments. The following section describes a specific instance of how I applied the principles to identify a new strategic opportunity.

SELF-SERVICE LIFE INSURANCE

Nearly three decades ago I was a speaker at the Montreux, Switzerland Direct Marketing Symposium. Insurance direct marketing was one of perhaps 20 tracks at the meeting.

On the long flight home it hit me that there was a strategic opportunity to change the way life insurance was sold. Specifically, the onrushing advances in computer technology would make it possible to offer meaningful amounts of life insurance directly to consumers.

Historically, life insurance is a product which people say is sold rather than bought mainly because for most of us it is unpleasant to accept our own mortality and life insurance may not be a simple product to understand. Moreover, purchasing a life insurance policy is usually a complicated process.

So why did I see that things could be different. Here are the factors I identified as being game changers:

- The ability for computers to cost-effectively store and retrieve information rapidly;
- The integration of computers into the daily lives of the public;
- The increasing availability of "user friendly" software so that computer users would not have to become computer geeks; and
- The ability of home computers to communicate with other computers.

OK, I missed predicting the Internet and its impact on the world but in all other respects, I was able to understand the importance of fundamental factors that would be game changers and why there was a new strategic opportunity staring us in the face.

I imagined that if people were able to buy life insurance directly they could be charged less for the policies because commissions to sales people would be eliminated. I even predicted that there would be aggregators that would provide detailed information about the products offered by many companies and that underwriting would become automated through the use of medical data bases.

As I learned later, I forgot that it would still be necessary to drive people to specific sites and that this would be expensive. I also didn't foresee the proliferation of data which, by itself, would help reduce costs because there would be more accurate and comparative information about premiums available to the public. Even though I didn't exactly predict how this new distribution opportunity would develop, my few omissions don't in any way diminish that I was able to see an entirely new and emerging distribution system for life as well as non-life insurance.

When I identified a strategic opportunity for life insurance, I didn't use a crystal ball or a time machine. What I did, many of you can and should be doing. Look at what is happening around you and then put all this information into perspective. Those of you with insight look at changes as information; those of you who ask why someone else thought of the idea tend to look at changes as noise.

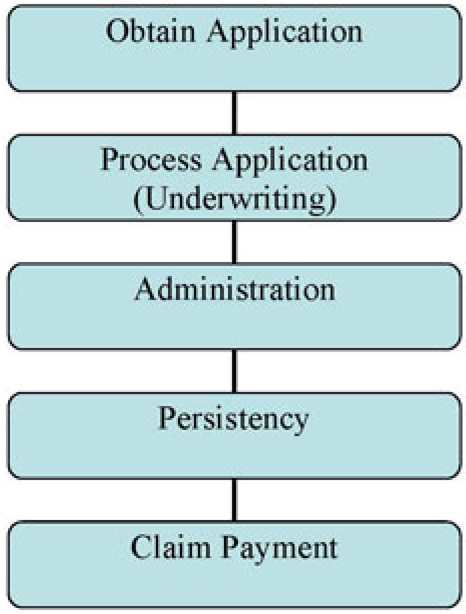
If you don't innately have the skills to look ahead with confidence, it can be learned. All it takes is a bit of effort in order to train your brain to look at the whole picture. And if you want to read my prediction about "Self Service Life Insurance," see Best's Review, October, 1983.

As Sutton's Law stresses, look for the obvious or, at least, the obvious direction in which the insurance business must travel in order to keep pace with emerging environments so that you can identify new strategic opportunities.

IDENTIFYING STRATEGIC OPPORTUNITIES

Assuming that you're on board with needing to find strategic opportunities, how can you and your companies make this happen? For insurance marketing you need to visualize the components of insurance products and then go after opportunities that improve operational or marketing efficiency in one of these areas. I also am defining new strategic opportunities to be more or less the same as game changing steps. So while tangential or marginal new efforts are always important, I am not considering such activities as new strategic opportunities.

Here's a simplistic but helpful picture of what I mean when I talk about visualizing the components of insurance products such as is the situation for directed marketed programs:



The first task is to get somebody to respond. This can involve such factors as:

- Media,
- Offer,
- Product, and
- Price.

Here are a couple of break through events, or game changing activities, I have seen during my career that have changed the insurance direct marketing business:

- Guaranteed Issue Life (graded death benefits),
- Telemarketing, and
- Internet.

GI or graded death benefit life made it possible for older people to obtain small amounts of life insurance for final expenses without having to undergo a physical exam. It was both an appealing offer and because it used graded or modified death benefits, it made underwriting unnecessary.

Several years later another breakthrough change occurred when a group of companies discovered that they could market their products by the telephone. The use of telemarketing became feasible as less expensive and easier to use telephone equipment and competing phone providers became available, but it also was in reaction to the overloading of direct mail that was clogging everyone's mail boxes and was becoming a less effective media. However, while telemarketing was also a very productive media, it was extremely capital intensive and many smaller companies were precluded from using this approach.

The introduction of the Internet is a now event and we still don't know its impact, but it has already altered the way insurance is marketed.

Application processing is the next phase of our business. I've already mentioned guaranteed issue life insurance as an example of a new strategic opportunity. GI essentially avoids any meaningful underwriting and allows for all applicants to be accepted.

But what about opportunities to make underwriting a less painful process for all the other forms of insurance where applicants must still undergo some form of approval? Yes, there are always going to be strategic opportunities emerging that can help.

In both P&C and life/A&H markets, major game changing processing opportunities have become available to insurers in recent years. For auto insurance the use of credit scoring has become common place because this data enables underwriters to efficiently and appropriately place applicants in one of several risk classes. For life/A&H, prescription drug records are increasingly used because they offer a fast and effective insight into the health of applicants. Both of these strategic operational activities are the result of improved data bases and the ability, almost in real time, to retrieve and analyze the information they provide.

The administration of insurance products offers many opportunities for new strategic opportunities. Improving administration not only reduces costs, but should lead to improved policyholder satisfaction and persistency.

A simple example of an administrative strategic change that occurred during the early years of my career was the acceptance by both the public and insurance companies of automatic premium payments from checking accounts and credit cards. With these changes it became possible to insure many people who simply would not have the discipline to pay monthly premiums or would not have had the available cash to pay using quarterly or other less frequent premium payment modes.

The ultimate test of an insurance policy is when a claim is submitted and paid. While claim payment is a very important step, it is not a particularly sexy part of our business. For those types of insurance where claim payment is more frequent, it is necessary to find ways to make the process more user-friendly. However, I can't think of any game changing claim payment strategies that have emerged, although there are many changes that have been implemented to make the claim payment process more efficient and transparent.

The message from what we've just covered is that you don't have to completely change the entire insurance experience to be able to find new strategic opportunities. Some companies may be better at one part or the other of the overall process and in these areas they may be innovators. For whatever reasons, in other areas they may be and should be more comfortable being buyers or borrowers of new concepts from others.

Clearly, many strategic opportunities emerge as a result of new and improved technologies. Other strategic opportunities develop as solutions to business practices that otherwise prevent or deter sales. Then there are also strategic opportunities that emerge as a way to solve heretofore unsolvable problems. Crises are another source for new strategic opportunities because these events blatantly identify flaws that cry out for solutions.

If I were asked to start looking for new strategic opportunities, I would become very knowledgeable and sensitive to the following:

- Media changes,
- Governmental/Public policy changes,
- Technology developments,
- Economic trends and changes,
- Consumerism developments, and
- New social trends.

These areas are starting points for finding the strategic paths and opportunities that are going to define the insurance markets and products of the future. Think of finding new strategic opportunities as a treasure hunt. The clues you receive in a treasure hunt often have multiple interpretations and meanings. The winners of the treasure hunt are usually the people who can read the minds of the staff that created the treasure hunt. In our world the development staff is the public.

MAKING YOUR STRATEGIC OPPORTUNITIES SUCCESSFUL

My first suggestion for helping to improve the chances for success for strategic ventures would be to understand the numbers. Don't think that you can make these activities successful without a detailed grasp of what makes each new strategic venture tick. Fortunately, actuaries already understand this aspect of insurance.

Secondly, the management of new strategic opportunities needs to be put in a separate business unit. I've made this point countless times: most insurance companies stress current activities and results rather than investing in longer term programs. There is too much pressure to produce results today and asking people to work both on meeting current targets and investing in new strategic opportunities is almost never going to work.

The term used to describe an organizational structure that helps improve the odds of a new strategic marketing opportunity being successful is skunk works:

Skunk works describes a group within an organization given a high degree of autonomy and unhampered by bureaucracy and is tasked with working on advanced or secret projects.

One of the requirements for a skunk works is a separate budget and another is a dedicated project staff. If you decide to create a skunk works but not use a separate budget or dedicated staff, you are very likely to be unsuccessful.

Another factor to help bring success is a committed management along with a requirement that there are measurable performance requirements.

Let's assume that you've gone along with my keys to success. Then there's one last element that you need to buy into and it is the most difficult of all the steps: "know when to fold 'em." It is always painful to kill a project but sometimes euthanasia is the only reasonable course of action. The odds of any individual new strategic opportunity being a success are low–actually very low. Therefore, as a friend once explained, one can't dabble in new strategic opportunities; it has to be at least a 110 percent commitment.

CARLSON'S LAW

I first learned of Carlson's Law in an editorial written by Tom Friedman in the June 5, 2011 Sunday *New York Times*. Curtis Carlson is CEO of SRI International. Here's Friedman's description of Carlson's Law and its importance to anyone thinking about strategic opportunities:

"In a world where so many people now have access to education and cheap tools of innovation, innovation that happens from the bottom up tends to be chaotic but smart. Innovation that happens from the top down tends to be orderly but dumb." As a result, says Carlson, the sweet spot for innovation today is "moving down," closer to the people, not up, because all the people together are smarter than anyone alone and all the people now have the tools to invent and collaborate.

Friedman's discussion of Carlson's Law was written in the context of the political world, but it applies directly to every other part of our environment including the business of insurance. The ramifications of Carlson's Law are enormous particularly to a business such as insurance that tends to be relatively slow moving, is usually reluctant to be on the bleeding edge of innovation, generally fails to grasp strategic opportunities, and usually develops new products from within rather than asking its markets what products they want to buy.

SUMMARY

Here's what I've learned and observed about how insurance companies have dealt with finding and implementing new strategic opportunities:

- Most insurance companies historically have performed rather poorly in terms of recognizing and successfully implementing new strategic opportunities;
- New strategic opportunities often are right in front of our eyes, but we need to keep our eyes open to see them;;
- If we don't commit to the need for and importance of new strategic opportunities, your chances for success will be minimal; and;
- In the event that insurance companies see the need to pursue new strategic opportunities, but comprehend that the strategic opportunity business is not their cup of tea, it is strongly recommended that they make friends with their local sharks (aka, venture capitalists or VCs) because they are in the business of identifying and implementing new strategic concepts.;

In the very beginning of this article I talked about change. Change and crises are our friends. Somewhere within insurance companies there should be a Change and Crisis Observation Department that monitors the environment and then recommends possible strategic options. A key function of this new department is to both learn to accept and minimize the impact of failures.

I love to fish. When you go fishing sometimes you land many fish and some days you have no luck. As a fishing-friend once reminded me, if it were so simple it would be called catching rather than fishing. The same can be said about finding and implementing profitable new strategic opportunities.

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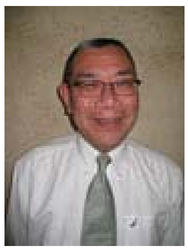

The topic of this article is independent underwriting audits. The question is why so few?

In a typical life insurance company the underwriting department does their own routine desk audits. Different companies have different procedures, but typically 25 to 50 cases per underwriter are audited by higher level, experienced underwriters on a routine basis, perhaps on a quarterly or semi-annual basis. Reinsurance companies conduct their own audits every two years or so of perhaps a hundred files. Despite the obvious lack of statistical validity, what's wrong with this picture?

Audits done by internal staff and/or by reinsurance companies essentially will inform management of issues such as the following:

- Adherence to internal underwriting guidelines and procedures;
- Consistency;
- Trend identification;
- Identify concentrations of mortality risk by impairment, sales channel, underwriter, or plan of insurance;
- Quality of underwriting decisions;
- Quality of file documentation;
- Adherence with or deviation from approved underwriting manuals;
- Adherence with or deviation from generally accepted industry standards; and
- Identify areas for group or individual training.

I'll ask the question again–what's wrong with this picture?

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Audits performed by a company's own underwriters or reinsurers are not independent. The readership for this article is a smart sophisticated audience. The value of an independently conducted objective underwriting audit should be readily apparent. Our industry can ill afford another Equity Funding scandal. But the question is why are there so few independent underwriting audits?

My upcoming audit engagement is with a NYSE listed company whose Internal Audit department conducts independent life underwriting audits in partnership with a life underwriting subject matter expert. The life underwriting expert changes in a regular two- or three-year rotation. Internal Audit reports only to the Audit Committee of the Board of Directors, not to internal management. The final audit findings are reported also to the Audit Committee of the Board of Directors.

After many years and many audits in the life insurance business it was quite refreshing to come across a company who applies stringent standards of risk management to the risk selection process.

I have ideas and suspicions on why so few independent life underwriting audits are performed. In a few months I'll have one life company�s rationale for conducting independent life underwriting audits. Stay tuned.

Gary Lee is CEO and Managing Member at Underwriting Solutions LLC, Edmond OK. Gary may be reached at glee@underwritingsolutionsllc.com.

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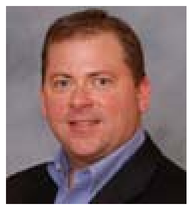

Much has been talked about the life insurance industry pursuing the middle market. There are many reasons for this pursuit including the fact that this market represents the largest, fastest growing market in the life insurance industry. LIMRA calls it the "Trillion Dollar Baby" in one of its studies referring to the incredible amount of premium that is available to us as an industry as we strive to serve middle America better. Another account suggests that there is $17 Billion in premium available if we simply fill the already perceived need. This means we don't have to sell anyone on the need for additional insurance, we simply have to provide the amount they say they need. This says nothing to proper financial planning that would most certainly reveal a larger need.

As an industry, we have known this for some time and yet we fail miserably in delivering our products to the middle market place. A look through the LIMRA's latest study on personal ownership of life insurance* reveals more than 50 negative serving and negative trending statements. Here are just a few:

1. Over the past 50 years, the proportion of U.S. adults with life insurance protection has declined to an all-time low.
2. The likelihood of being without life insurance protection has dramatically increased for every age group over the past six years.
3. Husbands ages 35 to 54 and 65 or older had double-digit declines in the proportion owning individual life insurance in the past six years.
4. Since 2004 the likelihood of husbands having any life insurance has declined across every income level–low, middle and affluent.
5. Only one-third of Americans are covered by individual life insurance–the lowest level in 50 years. This is not surprising, since the number of individual life insurance policies sold annually has been declining for more than 25 years.
6. Four in 10 U.S. adults have no life insurance coverage at all–the lowest level ever.

7. Only one-third of Americans are covered by individual life insurance–the lowest level in 50 years.
8. The proportion of insured adults who have both individual and group life insurance coverage has been declining sharply since 1998.
9. Men's average insurance coverage decreased by about $45,000 in the past six years.
10. Husbands earning $100,000 or more experienced the steepest decline in coverage over the past six years–a drop of an average $200,000.

*LIMRA's Study: Personal-Level Trends in U.S. Life Insurance Ownership, Cheryl D. Retzloff, LLIF, ACS, 2011

We can do better.

The primary challenge is cost of distribution. Not only has lead generation quintupled in price in the past decade, but this cost has much to do with the time it takes to get a traditionally underwritten product in force and in the hands of the consumer. Ask most Americans how long it takes to get a policy in force and they may say seven, 10 or 14 days. The sad fact is that it can, rather easily, be 10 times that.

We can do better, and I suggest we must. Red lights are flashing, alarms our sounding and we have an immediate need to address these issues as an industry.

Distribution has always come from face-to-face sales. New distribution comes primarily from the following channels;

1. Direct Marketing including Internet generated inquiries;
2. Worksite Marketing; and
3. What the industry used to call "Alternative Forms of Distribution." Not so "alternative" any more, people are buying life insurance from their financial advisors, Property and Casualty Agencies, Banks and Credit Unions and Affinity Groups.

All of these distribution channels have one thing in common: Speed is Critical.

For a number of reasons, speed increases placement ratio of policies applied for versus how many actually go in force. To say that "Speed is Everything" would be only a slight overstatement. It goes to customer satisfaction, repeat business, the public's impression of the life insurance industry, reducing buyer's remorse, and eliminating those that are just so frustrated with the process that they remove themselves from it.

For direct marketers, those representing the fastest growing of all these channels, the fall out can be as much as 70 percent. In fact 50 percent fall out is, by many standards, "hitting it out of the ballpark."

Can you imagine if Nordstrom's had to take back more than half of the sweaters they sell?! What if a restaurant had to do all the same work but only get paid for half?! This is a significant contributor to the cost of distribution. When distribution costs are too high, no one calls on middle America and we see numbers and trends like those outlined above.

Note the graph that illustrates the profound affect that speed has on placement ratio. As Zig Ziglar once said about money, speed isn't everything, but it's right up there with oxygen.

How do we make it faster? Ah, the $64 million question. Here are some thoughts:

First and foremost, we need to remove paper from the process. There are many things that dealing with paper does to the time frame of the life insuring process, and all of them are bad–inaccuracies, missing pieces, transporting costs, data entry ... and more.

Distributors need to embrace electronic ways of quoting and submitting business. Transactional life insurance platforms are emerging that need to be embraced as THE way that business is initiated in some channels. Inaccurate quoting causes a number of delays in the process so agents have something to do with it being accelerated. It all starts at the point of sale; we must be able to properly quote our prospective clients.

There are too many moving parts. Often an enroller or agent submits business to a GA who then orders a paramed exam from a third party. Medical records are ordered by a fourth entity and sometimes case management is controlled by a fifth party–all before we even talk about the various departments at an insurance company who have to touch a policy before it gets entered, approved, issued, mailed and administered.

This reality makes Channel Integration very important. "Straight Through Processing," an overused term, addresses this issue but until we have utopia, all channel partners need to work together to create as smooth a process as can possibly be designed electronically.

Distributors do well to work with paramed companies that are integrated with insurance companies in significant ways.

Or, we eliminate what is clearly the long pole in the tent when it comes to time in the process, the paramed exam and bodily fluids. Certainly we have tried to do this as an industry and now we need to try more. Technology advancements can make this more of a reality. Several carriers, including Farmers New World Life, Fidelity Life and Aviva, have made advancements in this effort. Database underwriting is advancing and we all hope that with the advancement in digitizing medical records, required by law in 2014, these advancements can continue. Up to $1 million of coverage, we must be able to deliver a competitively priced product without a paramed exam.

Actuaries can help by embracing automation and intelligent underwriting systems–at least up to $1 million of coverage so that we can adequately cover this middle market. To imply that $150,000 or $250,000 of life insurance is enough for a middle American family is malpractice. We need to take this to a million if we are to serve people better.

Finally, we want to deliver products electronically. Many are amazed to find out that in as much as 20- or 30-percent of the cases, we pay for the marketing and lead generation, we quote the people correctly, we get through the channels and get a policy issued as applied for, we review it for accuracy and send it out to the client only to have it not go in force. It's like driving down to the five yard line and punting. These extra days to issue, assemble and snail mail policies can be eliminated–not to mention the hard costs and trees that we can save as an industry. Electronic policy delivery is coming and the carriers that embrace this first will get more business because of it.

With a focus on speed and technology we have a bright future ahead. Direct marketing is growing in an otherwise declining industry, "Alternative Forms of Distribution" are now channels, worksite marketing is making a comeback and the Internet continues to grow as a marketplace for our products.

The products we deliver affect people's lives very significantly, at a time when they need it the most. Let's stand proud of what we do and strive to do it better.

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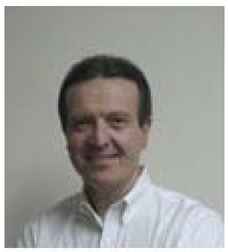
A NEW REALITY FOR AUTOMATING THE LIFE INSURANCE UNDERWRITING PROCESS!

By Ernest A. Testa



The Current Reality

Life insurance carriers in North America have long recognized the need to speed up the life insurance underwriting process through automation technology. Historically, current generation automation systems, typically referred to as “rules engines,” have been used in well-understood business processes that have very little ambiguity. However, when processes are variable and driven by variable discretionary decisions, automation has been ineffective. Yet, automation of the underwriting function in general, and more specifically for some portion of the business requiring underwriting, continues to promise dramatic improvements to productivity, consistency and quality of the underwriting decisions and cost. Moreover, it can result in a faster and more pleasant experience for life insurance customers and enable agents to sell more business.

Current generation business process technology solutions have delivered benefits by being able to automate repetitive and tedious tasks through very black-and-white rule sets—often with the unintended cost of turning the software into a “high maintenance” system. But, many decisions in the life insurance underwriting process are guideline-driven, subject to change and interpretation resulting in highly-skilled knowledge workers performing the task of applying them within a business process. This task has been traditionally left to the company’s underwriting personnel. Chief among the reasons for not being able to automate the function is the fact that it is very difficult to build a system that tracks each and every decision based on every possible contingency. And since most current software systems are designed to match a fixed process, it is a costly and time-consuming effort that could conceivably never end.

Companies attempting to solve these variable, judgment-driven processes with automation often end up spending tens of millions of dollars and years of time attempting to automate their work processes. While many of these initiatives often fail due to the time and expense of the project, the "successful" installations only address a marginal portion of the business process, leaving a significant portion of the original problem unaddressed.

Accepting Reality

The reality is that life insurance products are very complex and the processes employed to underwrite them are equally complex and highly judgmental. Sophisticated products, policy terms and conditions, intricate medical and financial risk factors, regulatory requirements, the need to fully document operational compliance, and last but not least, competitive market pressures, all conspire against the ability to design a simple, fully predictable underwriting process.

To accommodate these business realities, new generation technology must be able to support exceptions, unanticipated actions, complex risk analysis and skilled decisions influenced by business and underwriting ***guidelines,*** instead of following a mapped-out predictable sequence and sets of ***rules.*** Adaptive business processes such as the underwriting function require fluid interaction and the ability to change path and render complex decisioning at any point in time during the process cycle.

In a scene from the film *Pirates of the Caribbean*, Geoffrey Rush's character Captain Hector Barbossa is seen questioning whether a directive he has just been given is actually a ***rule*** or a ***guideline—***an interestingand perhaps mysterious question that can invoke heated debate, but one that can be easily demystified by observing actions that we take in our business environment every day. Take for instance the process of delegating. Anyone who has ever delegated understands that their time is better leveraged if they can simply describe the results to be accomplished—the ***guidelines,*** rather than having to predefine every step of the process from start to finish—the ***rules***.

This approach is analogous to successfully managing and automating complex adaptive business processes. The power of any new generation technology should be reflected in the simple but profound difference in approach—that is ***guiding vs. ruling.*** It is much better to be able to drive a complex business process by giving clear guidelines that describe goal requirements than it is to have to anticipate and address in exhaustive detail all the twists and turns of the various scenarios that might occur in reaching those goals.

A New Reality

Clearly, the life insurance industry, its customers and agents could benefit from a technology solution that not only delivers consistent underwriting results, reduces cycle time and acquisition costs, but can also be deployed and changed quickly, without process mapping and predefining every step of the process or undertaking traditional time consuming coding and testing.

Such technology innovation is now a reality:

Resonant Insurance Technologies Inc., a relatively new company with its development center in the Silicon Valley outside of San Francisco, has been marketing a new generation of automation software to the life insurance space with amazing results.

The Resonant software is a breakthrough patent-pending technology designed to manage and control complex decision-based work processes. The software strategy was the result of research completed by Dr. Brian Falkenhainer, Resonant's founder and chief technology officer, while a researcher at the world-renowned Xerox Palo Alto Research Center (PARC).

The Resonant software is centered on the core concept of guidelines and then leverages the power of the software in determining how goals can be satisfied while maintaining guideline compliance. Resonant's solution starts with the *Guideline Manager*, a unique document authoring system used to describe the business' products, underwriting, operational and regulatory guidelines in much the same way they are already described in MS Word and Excel. Additionally, the Resonant's Adaptive Process,TM (AP) processes the business guidelines to fully automate Simplified Issue/Straight-Through-Processing programs or automate steps, where possible, for fully underwritten products and determine when human intervention is needed on a decision. Resonant's solution ensures that each case is subject to the same guidelines, with 100 percent real-time audit of compliance and productivity.

Resonant Software's breakthrough technology, the Adaptive Process Engine, is the common platform upon which all Resonant applications are built, providing significant competitive differentiation and product development cost effectiveness. It includes Resonant's transformational adaptive process and guideline management technology, as well as real-time recording and reporting. A broad set of infrastructure services are also provided, enabling the platform to manage data, track events, enforce security and integrate with other systems. Additional information may be gleaned from visiting Resonant's website at: www.resonant-software.com.

Ernest A. Testa is a former executive and chief underwriter of The Prudential Insurance Company of America. He is the chairman of Resonant Insurance Technologies Inc. and is also president of the Company's Management Consulting practice. He joined Resonant five years ago during the solution development phase working closely with Mr. Falkenhainer in developing an application specifically designed for the life new business and underwriting functions. The Company's tag line is "Technology developed by underwriters for underwriters."

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LINKS

SPONSORED BY MAD

The Marketing and Distribution Section invites you to join us for one or more of the following sessions at the 2011 Annual Meeting in Chicago, October 16-19.

Sunday October 16, 5:00–7:00 p.m.
Joint Product Development and Marketing & Distribution Sections Networking Reception at Harry Caray's Tavern

Stop in at the Joint Product Development and Marketing & Distribution Sections Networking Reception to kick off your annual meeting experience. Located at Navy Pier, Chicago's most visited attraction, Harry Caray's Tavern is on the beautiful waterfront of Lake Michigan. Enjoy open bar, Chicago-themed buffet and the Chicago Sports Museum featuring a rotating collection of sports memorabilia.

Monday October 17, 7:00–7:45 a.m.
Marketing and Distribution Section Hot Breakfast

Take advantage of this opportunity to network with members of the Marketing and Distribution Section and learn about various insurance marketing and distribution issues while enjoying a delicious and hot buffet breakfast. Section council members will share recent and ongoing initiatives, and they will solicit your feedback. Outgoing and incoming council members will be recognized.

Tuesday October 18, 2:00–3:15 p.m.
Emerging Technologies and the Future of Insurance Distribution–Part 1

Typically new technologies have simply been applied to the traditional insurance sales model without really considering how that model might be changed to take advantage of the technology. This session will be one of two that will look at how business analytic tools and technologies such as artificial intelligence (AI), predictive analytics, automated underwriting and integrated sales platforms could be used with a new sales rep model to create one of the distribution channels of

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the future.

This first session will specifically focus on AI as a marketing tool, automated underwriting's impact on the sales process and using predictive analytics to deploy resources. While this session is intended as a lead-in to the second part where potential changes to the traditional sales model will be discussed, the content presented in this session is meant to stand on its own.

Tuesday October 18, 3:45–5:00 p.m.
Emerging Technologies and the future of Insurance Distribution–Part 2

This second session will specifically focus on sales platforms integrated with AI marketing tools, customer relationship management (CRM) and automated underwriting and how the sales rep's role might change to fully take advantage of these integrated technologies. While this session is intended as a follow-on to Part 1, where various emerging technologies will be presented, the content presented in this session is meant to stand on its own.

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