



## Editor's Note

by Kiran Desai

As we race towards the SOA Annual meeting in New York, it is time to recognize that another year has come to a close. It was not the best of times, it was not the worst of times. (I am not sure if I should attribute the quote but, well, *NewsDirect* is not the *Boston Globe*. So what the Dickens, I will merrily continue sans attribution.) Members will little note, nor long remember, our efforts to serve them or the new communication tool introduced this year at our web page site, but will surely remember the Presidency held hostage by the "late night comics."

What, you may ask, is this new communication tool? Even before Steve Fedele expounded his noteworthy piece on "How to Get Nihilist Consumers to Listen" (page 1), the NTM Section Council was reviewing ways to provide members with an instant access to the "experts." If you have any questions, comments, or suggestions, you can go to our Section page (nestled in the SOA web site) and e-mail your query directly to our "monitor." The daily monitor will forward questions to the expert and the cogent answers may appear in your e-mail in short order. The editor will review your comments, suggestions, and so on, and provide an appropriate response.

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## How to Get Nihilist Consumers to Listen

by Steve Fedele

**Editor's Note:** *This article originally appeared in the July 7, 1998 issue of The Journal of Commerce and is posted on its web site at www.JOC.com. This speech was delivered at the SOA's 1998 Spring Meeting in Maui, Hawaii.*



Viewing several current events, and general public reactions to them, leads one to the conclusion that people are not following current events in the same predictable ways that they have in the past. For example:

Consumer confidence rose to a 30-year high during the recent Iraqi crisis, and the Dow Jones average rose from 7600 to 8400 during that time—a rather atypical response to an impending war.

Despite all of the media frenzy in January and February over "Monicagate," all three major networks had larger audience shares for the evening news over the same time period in the previous year.

The Winter Olympics in Nagano, Japan, had the lowest level of viewership in 30 years. CBS had to offer free airtime to advertisers who had contracted for higher ratings.

Despite low inflation, high consumer confidence and low unemployment, the 1997 holiday season was, for all practical purposes, a retailing bust. Stores struggled to realize just a 2% increase over 1996 sales figures.

In spite of the huge economic dislocation in the Pacific Rim, the "Asian flu" has yet to create the expected worry, fear and financial pullbacks. Rather, the price of gold, a traditional safe harbor during times of instability, has actually been declining.

Consumers are telling us: "These events are not important to us now." Let's face it, today we have nihilist customers.

External events such as confrontation with Iraq to Asian flu no longer influence their behavior. Yesterday's hot button issues leave them cold. Increasing the frequency and volume of advertisements and promotions runs headlong into a consumer wall of skepticism that acts to bounce away messages. As a result, although their insurance needs are relatively unchanged, our traditional approaches for providing product are no longer valid.

To be engaged, Americans are demanding a higher threshold of relevance and importance than they did just a short while ago.

Traditional marketing methods, like leveraging transactions with buy-ups and add-ons, are no longer working. Creating a relationship that survives a transaction is becoming the most effective way to do business. For example, a major home mortgage lender asks its customers to tell them what conditions would make them consider refinancing their mortgage. The lender then tracks those conditions and notifies the customers when the time is right.

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Those asking questions should know that the SOA, the NTM Section, and the expert's affiliate organizations make no warranties as to the accuracy of the information contained in the responses. Responses to messages do not constitute knowledge, endorsement, or approval by the SOA, nor does the SOA accept any liability for the content of any messages.

We also intend to use this tool to conduct "panel discussions" on live Internet if there is sufficient interest and a relevant topic needing timely discussion. You need to "join" or be part of the "list" for us to notify you of such an event. Those who "join" will also receive e-mail on other timely news topics.

To join the list server, go to the SOA web site at [www.soa.org](http://www.soa.org) and select "Special Interest Section." Then select "Nontraditional Marketing Section." Once on the NTM Section page, click on the \*JOIN\* button at the bottom of the page, provide the necessary information, and click on the \*SUBMIT\* button. You will receive an e-mail message providing information about how to use the list server. (Don't be intimidated by the long message. Use the Q&A link to resolve any questions.)

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## **"Emerging Markets for the New Senior Citizen" Seminar Rescheduled**

The Product Development and Nontraditional Marketing Sections will co-sponsor a seminar entitled "Emerging Markets for the New Senior Citizen" designed to help actuaries and other professionals learn more about the needs, desires, demographics, and influences baby boomers and their parents have in today's world. Attendees will find out how insurance companies and service providers might want to position themselves in the coming millennium to take advantage of changes in the health care system, tax reform, technological advances, and underwriting protocols. Topics to be addressed include:

- An overview of market demographics
- Implications of recent tax law changes
- Mortality trends and underwriting issues
- Potential changes being discussed relative to valuation and nonforfeiture regulations
- Distribution issues using state-of-the-art technologies
- Overview of current products and services
  - Life insurance
  - Reverse mortgages
  - CCRCs
  - Long-term care
- Insights into senior marketing.

This seminar, originally scheduled for March 1–3 in Charleston, South Carolina, has been rescheduled to November 16–17 at the same Charleston location. The day-and-a-half meeting will begin on November 16, with a reception that night.

For further details, please contact Sheri Abel at 847-706-3536.

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475 N. Martingale Road, Suite 800  
Schaumburg, IL 60173

Phone: 847-706-3500

Fax: 847-706-3599

World Wide Web: <http://www.soa.org>

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**Kiran Desai**, Newsletter Editor  
Swiss Am Financial Consultants  
1909 Route 70 East, Third Floor Suite  
Cherry Hill, NJ 08003  
Phone: 609-489-1114, Fax: 609-489-1116  
E-mail: [kdesai@voicenet.com](mailto:kdesai@voicenet.com)

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# The Value of the Sentinel Effect—Revisited

by Richard Bergstrom

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The underwriting community has known about the concept of the Sentinel Effect (SE)—that self-selection process which directs unhealthy insurance applicants to apply for coverage at amounts where testing is not done, thereby minimizing the chances that their affliction(s) will be discovered—for many years. Yet accurately quantifying the value of the SE remains an illusive exercise at best, because we simply cannot directly measure what we cannot track, or so it would seem.

However, there are ways to indirectly derive surrogate measures for SE and this article proposes one such way that should help the insurance community more fully appreciate the contribution SE makes to the cost effectiveness of one specific underwriting protocol—laboratory testing.

In 1996 oral fluid testing (OFT) was introduced, its Western Blot HIV confirmatory test having finally been approved by the FDA. OFT currently screens for HIV antibodies, cocaine metabolites, and nicotine (cotinine). Because the oral fluid modality easily lends itself to agent collection, total test and lab analysis-related costs can be minimized (under \$20 per applicant), thereby producing dramatically low protective value testing thresholds. How does this help us quantify the value of the SE? Let's take a closer look.

Serum testing for HIV, and urine testing for cocaine and nicotine have been available for years. It is likely, therefore, that many insurance applicants are keenly aware that blood/urine profiles specifically target detection of these antibodies or metabolites. As such, it is not that difficult to conclude that many such well-informed applicants might attempt to place their business in

companies where testing is not performed at all amounts. Hence, the genesis of the SE.

As companies began using OFT in 1996, statistics kept by the testing laboratories unveiled a dramatically different profile for the cohort of applicants tested at lower amounts than that of the blood/urine tested cohort. Table 1 compares the prevalence of HIV-positive applicants as tested by LabOne for serum versus OFT. At the \$25,000 amount band, the HIV+ prevalence rate for OFT applicants is 70% greater than

serum for all ages combined. But when one compares the under \$25,000 OFT cohort to the low-band serum-tested cohort, OFT prevalence rates are 4½ times greater! Dramatic evidence of the SE in action. To be sure, these differences will narrow over time as is always the case as testing methodologies "mature." I believe this phenomenon happens more because of customer awareness, however, than changing prevalence rates in the insurance-buying

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TABLE 1  
Positive HIV—Antibody Rates per 1,000 Tested

Age	Serum	OFT	
	\$25-50K	<\$25K	\$25-50K
20-29	0.79	11.75	2.25
30-39	3.62	14.39	4.07
40-49	2.23	8.60	3.27
50-59	1.64	2.11	2.35
All Ages	1.70	7.67	2.88

TABLE 2  
Positive Cocaine Rates per 1,000 Tested

Age	Urine	OFT	
	\$25-50K	<\$25K	\$25-50K
20-29	8.36	15.77	7.36
30-39	16.20	36.84	18.37
40-49	10.07	27.37	12.11
50-59	2.86	7.43	3.31
All Ages	5.94	19.17	10.98

TABLE 3  
Positive Cotinine Percentages

Age	Urine	OFT	
	\$25-50K	<\$25K	\$25-50K
20-29	21.0%	30.8%	29.0%
30-39	27.5	41.3	36.6
40-49	29.5	39.7	33.7
50-59	26.6	34.6	25.8
All Ages	24.0%	34.8%	31.8%

## Sentinel Effect

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population, hence, the further proliferation of the Sentinel Effect. The effect is particularly enhanced by impairments dictated by lifestyle considerations, where the applicant more or less consciously chooses to live a risky lifestyle (smoking, drugs, and so on). Tables 2 and 3 show similar comparisons for urine versus OFT-tested cocaine and cotinine metabolites, respectively. "All ages" prevalence for cocaine detection is about two to three times higher than for urine testing, and cotinine detection by

OFT exceeds urine-tested detection by 30% to 45%—significant differences!

One final sobering thought: As more and more companies begin screening at lower testing thresholds, knowledgeably impaired applicants, seeking to secure coverage at standard rates, will migrate to those companies that have chosen not to reduce their testing limits. This, of course, increases the relative prevalence of impaired risks in the markets of these companies, a phenomenon whose antiselection can actually lend to higher

prevalence rates in some cells than in the general population!

If you think the value of the Sentinel Effect is significant now, what will you think when your company is the only one not testing?!?

*Richard Bergstrom, FSA, is a consulting actuary at Milliman & Robertson Inc., in Seattle, Washington and a former Chairperson of the Nontraditional Marketing Section Council.*

## Nihilist Consumers

*continued from page 1*

### Useful and Entertaining

Success awaits those companies that are seen to be extremely useful or highly entertaining, and that realize that for the present, consumers want to be left alone.

Entertainment is viewed as a reward, escape or source of excitement. Although the Olympics failed, last year, consumers bought record numbers of music CDs and movie videos, more adventure trips are being taken than ever before, with Costa Rica and Africa becoming leading destinations; mall spending is down, with the notable exception of Ontario Mills mall (east of Los Angeles), which has wilderness rides, a giant maze, 3-D giant screen television auditorium and a virtual-reality arcade. A typical trip lasts three hours, and sales per square foot are \$100 higher than elsewhere.

In examining some responses to Monica-gate, people have said:

- Sex lives are nobody's business
- Phone conversations between friends shouldn't be taped
- Zealous prosecutors are frightening.

### Personal, Not Political

These statements are not so much political as they are personal, reinforcing a desire for privacy. Note also that "push technology" on the Web was labeled invasive, rendering Web surfers passive and eliminating fun from the Web experience. A *PC World* survey found only 8% of the group actually preferred to get their information "pushed" at them.

When dealing with consumers, and attempting to meet the higher thresholds,

it is important to note that a "link" merely facilitates a consumer and company transaction. Whether electronic, agent-based or branch-based, links do not of themselves sustain relationships. When a new link emerges that is faster, cheaper or more entertaining to use, customers break the original link.

A connection with the customer is a sustainable link and offers more than a low price. It may also be more efficient to create connections than to sustain links.

As for the explosions of offerings on the World Wide Web, a close look at what is working on that venue shows the top five product categories to be books, computer hardware, airline tickets, software, music CDs, and tapes.

And the top five categories for percentage sales growth are 301%, airline tickets; 291%, stocks and mutual funds; 111%, computer hardware; 105%, car rentals; 94%, books.

Furthermore, 16% of new car buyers used the Web for shopping in 1997, up from 10% in 1996.

What is the common thread in all of this? These are commodity products. The customer has no need to feel or handle the material, check it for fit or evaluate the look of the products. What you see is exactly what you get.

Realize as well that these products are "display insensitive," in that any truly novel Web site can be easily and quickly duplicated.

A review of offerings that have not worked on the Web would include:

- New Century Network—a joint effort from *Knight-Ridder*, *Times Mirror*, *Gannett*, the *Washington Post* and the

*New York Times*. Users could receive content from over 140 member publications. This effort was dissolved on March 9, as it appeared to be a service without a demand.

- Charged magazine—an "extreme sports" publication, which was recently pulled after its owners could not find a buyer to take it off their hands.
- Slate magazine—critically acclaimed and owned by Microsoft, it has begun charging users, since the anticipated advertising revenues have not materialized.

These publications were "content and service" without demand. Magazine and newspaper content is complex. Slow Internet links tend to frustrate skimmers waiting for the download process to complete. Also, a contradiction arises between how people read (on a chair or couch with feet up) and how they surf, which is interactive, in the search and acquire mode. The new content doesn't fit the medium. Remember: Be highly entertaining!

So if price is the major consideration, what other factors can be used for product differentiation?

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## Nihilist Consumers

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Ease of use is a requirement rather than an option. Any difficulties, inconsistencies or time wasters will at best result in a lost lead ... at worst, you could get spammed. Freebies and giveaways translate rather nicely to this venue. Last year, *National Academy Press* posted 1,700 complete books on the Web, and their sales actually went up.

Customization of the product can give a short-term advantage: Dell Computer began this trend with personal computers, but was quickly matched by Gateway computers, leaving Dell with no net long-term advantage.

Sales of proprietary products—CD compilers that allow users to create their own “mixes” by downloading specific songs, rather than entire CDs. So far, major recording labels have shunned this practice, probably fearing that it would cannibalize overall sales.

Engaging the customers—creating a dialogue with a customer or prospect can add to enjoyment of the overall

experience and allow for better product customization. Amazon.com is a leader in this respect, by tracking reader preferences. However, this will be duplicated by similar software at Barnes & Noble.

One key area that may allow companies to charge a premium for their products is by creating or participating in a Web community. Sites such as Tripod, GeoCities or the 3rd Age all cater to specific audiences, which may allow offers to command premium prices if they are targeted specifically to those audiences.

### Who Will View the Site?

As marketers are increasingly drawn to the Web, it may prove beneficial to keep in mind who will view your site, and how their preferences on this venue differ from all of the other media that you have used in the past.

And finally, we can't assume the new model is static. Consumer preferences will continue to change. Knowing when and how requires constant monitoring.

In conclusion, we need to be mindful of the three cues from today's nihilist consumers:

1. “Be extremely useful.”
2. “Be highly entertaining.”
3. “Leave us alone.”

The key is make a sustainable link with the customer. Although they want to be left alone, the bar has been raised in terms of a demand for customer service and a “connection” with the provider of goods and services.

By adapting these types of approaches to our business, we can put insurers back on the radar screen.

*Steve Fedele is Assistant Vice President of Marketing at Cigna Reinsurance in Philadelphia, Pennsylvania.*

## NewsDirect 1998 Papers Contest

**T**he Nontraditional Marketing Section is still accepting original papers that would be of interest to Section members for publication in *NewsDirect*.

As an incentive, the Section is holding a contest for 1998. A cash prize of \$250 will be awarded to the author of any paper accepted for publication in 1998. In addition, at the end of 1998 a prize of \$1,000 will be awarded to the best paper submitted. *NewsDirect's* editorial board will decide which papers are acceptable for publication, and the Section Council will decide the grand prize winner. It is not required that papers be submitted by members of the Section.

Articles should be approximately 500 to 2,000 words in length, be educational in nature, include real world examples, and cover current issues or original research. A list of suggested topics include:

- Banks and insurance
- Preneed life insurance
- Credit insurance
- Payroll deduction
- Direct response
- Other.

This is a great opportunity to share your ideas and get some recognition—so, start writing. If you have an idea for a paper but are not sure if it is appropriate, please contact us. Articles should be typed in Word or WordPerfect and submitted via e-mail to [kdesai@voicenet.com](mailto:kdesai@voicenet.com) or [joseph.e.brennan@prudential.com](mailto:joseph.e.brennan@prudential.com).

# A Case Study: Australia

by Ian M. Robinson

At the SOA Spring Meeting in Hawaii in June, I presented a session, "A Case Study: Australia," at which I spoke on the evolution and success of bancassurance in Australia.

After providing an outline of the banking and insurance markets in Australia, I provided a definition of bancassurance, namely, "the manufacture and distribution of banking and insurance products cost effectively to a common customer base." More specifically it

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*"The banks in Australia have come to realize that the components of their different business can be brought together, but the trick is knowing how to do so and in a way that is not easily replicable."*

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entails the bank proactively leveraging off its brand, customer base, branch network, and existing banking activities by seeking cross-selling opportunities in order to enhance corporate profits. While the aim is clearly to increase the value of the bank's franchise for the shareholder by releasing goodwill inherent in the franchise, the customer benefits by being offered a more comprehensive range of financial services from a single-service provider who should be in a position to better understand the needs of the customer.

In Australia, bancassurance commenced in the mid-1980s with the

establishment of life office subsidiaries by all four of the major national banks. This was largely driven at the time by the deregulation of the banking industry and resulted in significant inroads into the traditional life insurance market. In more recent times, rapid technological advances combined with the constant threats from "new wave" competitors and cherry picking by specialist providers of the banks' most profitable lines are continuing to force further change and experimentation with different

bancassurance models. Life insurance companies have responded by now attempting to play the banks at their own game.

Banks in Australia have had the advantage of large, well-established, largely captive customer bases, strong brand reputation and recognition,

as well as regular access to customer. They have been able to achieve higher levels of productivity than traditional life offices from the "warm" customer leads and lower marginal costs from their significant well-established infrastructures, which together have led to overall lower product margins but enhanced aggregate profits and value added.

The banks in Australia have come to realize that the components of their different businesses can be brought together, but the trick is knowing how to do so and in a way that is not easily replicable. For example, organizational

structures are generally along functional lines in order to gain both the full advantages of economies of scale as well as to avoid each business unit from tripping over the other to reach the customer. Further, a common approach to training, sales culture, targets, compliance, product package, performance measurement, and so on is fundamental to this approach. Other key issues are to align competencies of front and back offices, being prepared to divest of nonvalue adding parts of the value chain, and managing multiple-channel conflicts.

In conclusion, the bancassurance model can be adopted by life insurers as well as banks. Both banks and life insurers consider themselves to be in the financial services industry by being focussed on the resolution of customer problems through matching tools and products to customers' needs. The distinction between the industries has now diminished in Australia. It could be said (although it is not proven) that bancassurers have raised the awareness of customers of the need for life insurance, retirement savings, and so on, so that all competitors benefit from a larger pie.

Finally, bancassurance in Australia is still a competitive formula but it is a moving target. The industry is rapidly reinventing itself at this very moment. The term "allfinanz" as used in Germany is now probably a better description.

*Ian M. Robinson, ASA, FIA, FIAA, is with Tillinghast-Towers Perrin, Sydney, Australia.*

# Autumn in New York— The Nontraditional Way

by Carl Meier

**A**lthough it's still summer, it's not too soon to begin thinking about the SOA Annual Meeting to be held at the New York Marriott Marquis on October 18–21.

If you've ever tried to score a pair of tickets for a hit Broadway musical, you know that timing is of the essence. In fact, the best seats for the current blockbuster, "The Lion King," are already sold out past the end of this year. That's why you should be making your plans now to attend the Annual Meeting, especially the great lineup of sessions that the Nontraditional Marketing Section is planning to offer. Seats are limited and you wouldn't want to miss out on any of these great presentations.

Take a look at the brief summary of the program our Section will be offering:

## Monday, October 19

- **2:00–3:30 p.m.**

### HOT TOPICS IN CREDIT INSURANCE

This workshop will provide attendees with the opportunity for an open discussion of important and timely credit insurance topics. Subjects to be covered include: the regulatory environment, marketing approaches, product development, financial reporting, and the lending environment.

## Tuesday, October 20

- **8:30–10:00 a.m.**

### BANCASSURANCE: A GLOBAL PERSPECTIVE ON CUSTOMERS, PRODUCTS, AND DISTRIBUTION METHODS

This panel discussion will look at the subject of bank distribution of insurance products from both the banker's and the insurer's perspectives, examining the experience with annuity sales in the U.S., as well as with a wider range of products in Europe and Latin America. Topics to be covered include:

- Insurance products. What are the proven and emerging product lines?
- Bank distribution subchannels. What methods of distribution, or subchannels, are banks using to sell insurance and why?
- Matching customer needs, products, and subchannels. What is the optimal matching for maximum profits?
- Marketing support. What competitive advantages does marketing support offer bankers and insurers?
- Profit-sharing arrangements. What different types of profit-sharing arrangements between banks and insurers are in use and how have they evolved?

- **10:30 a.m.–12:00 noon**

### LIFE INSURANCE AND THE INTERNET: WHAT DOES THE FUTURE HOLD?

This session will be conducted in a talk-show format, with an interviewer soliciting the views of four very able panelists representing a broad spectrum of backgrounds and opinions, and of the audience itself, on effects of the Internet on: agent/company relations, client education, prospecting, sales promotion, administrative operations and policyholder services, as well as the cost implications and legal ramifications.

This session is being cosponsored with the Actuary of the Future Section.

- **2:00–4:00 p.m.**

### VISIT TO DIRECT MARKETING ADVERTISING AGENCY

This field trip provides an insight into the workings of an advertising agency that specializes in direct marketing. The offices of Rapp Collins Worldwide are located in the nearby business district on Madison Avenue. Case studies will be used to illustrate both the strategic and creative aspects of developing and executing a successful direct-marketing campaign, with emphasis on the marketing of financial services. Attendees will also get to see examples of the latest innovations in direct-marketing techniques as used by firms from a number of other industries.

Advance registration is required, and attendance will be limited to the first 35 registrants.

- **5:30–6:30 p.m.**

### RECEPTION

This reception, hosted by the Nontraditional Marketing Section, offers beer, wine, and munchies along with the opportunity for Section members to further network with each other. A short business meeting is also planned.



## Wednesday, October 21

- **10:00–11:30 a.m.**

### A CALL TO ARMS: BREAKING THE BARRIERS TO LIFE INSURANCE DISTRIBUTION REFORM

This session will cover results of a not-yet released study by the Washington-based Insurance Advisory Board into what life insurers are doing (and not doing) in the area of delivery-system reform. As consumers become more and more acclimated to purchasing products and services through nontraditional distribution channels, major changes in the way life companies

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## Autumn in New York

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address their distribution function ought to be occurring, but are they? The presentation will review industry progress as well as some of the success stories that have emerged in the marketplace thus far.

This is a subject that should be of interest to all Section members, and we are fortunate to have lined up an extremely dynamic speaker to guide us through the findings and present us with his organization's vision of the future for life insurance distribution strategy.

- **1:00-2:30 p.m.**

### CREDIT DISABILITY TABLES FOR PRICING AND VALUATION

This presentation is directed at addressing a problem with which the industry has long struggled—the lack of any generally accepted continuance tables for use in pricing or

valuing credit-disability insurance. Panelists will discuss the strengths and weaknesses of disability tables currently being used for the pricing and/or valuation of other types of disability insurance, and then proceed to show how these tables might be adapted to meet the needs of a credit insurer.

The preliminary meeting program has been distributed and we hope that this brief look at the NTM Section offerings has convinced you that this is a meeting you'll want to attend. We look forward to seeing you there.

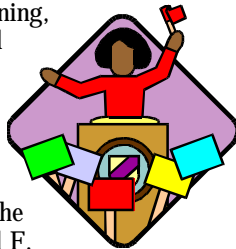
*Carl Meier, FSA, is Second Vice President and Actuary at Pan American Life Insurance Company in New Orleans, Louisiana and a member of the Nontraditional Marketing Section Council.*

## Election Results Announced

The results of the Nontraditional Marketing Section election have been tabulated and Nancy Manning, Steven Ostlund, and James B. Smith, Jr. join the Council for three-year terms beginning in October.

Remaining on the Council are Edward F. McKernan, Robert J. Butler, Richard C. Dutton, A. Grant Hemphill, and Carl E. Meier.

The Section would like to thank outgoing Council members David A. Seidel, Kiran Desai, and Charles R. Haskins for their efforts and dedicated work.



### Editor's Note

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We are looking forward to hearing from you and hoping that you avail yourselves of these new tools to serve your needs. If you participate frequently, you'll be surprised by how many new ways you find to market your company's services using these new tools. We even have a session at the Annual Meeting in New York (Session 80I) on "Life Insurance and the Internet: What Does the Future Hold?" In life, the only thing that is certain is change (forget mortality, morbidity, and GAT). The insurance industry needs to change to respond to the new consumer demands created by technology. As usual, the NTM Section is at the forefront of these changes. So "join" our list, use our Q&A, links and tell us how we can better serve you.

We hope to see you in New York this autumn. In response to your

demands for "off site" events, we have planned a visit to an ad agency on Tuesday. The space is limited, so please call your request in quickly. The ad agency visit will be followed by the Section reception at 5:30 p.m. I urge you to come and meet the council members as well as other practitioners and have fun in a relaxed atmosphere (sipping wine and sampling cheese and crackers is optional). Carl Meier has organized a wonderful program for our Section with seven hot sessions. His detailed writeup appears on page 7.

Till then we wish you happy lazy days of summer of 1998.

*Kiran Desai, FSA, is President of Swiss Am Financial Consultants in Cherry Hill, New Jersey, a member of the Nontraditional Marketing Section Council and editor of NewsDirect.*