MARKETING AND DISTRIBUTION SECTION

"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

NEWSDIRECT

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FEATURES

EDITOR'S NOTE

BY NANCY MANNING, EDITOR OF THIS ISSUE

Another year has flown by. It's already 2006–and the Marketing and Distribution Section is beginning to make itself known. As Council Chairman Van Beach and outgoing Section Council Chairman Rob Stone state elsewhere in this newsletter, marketing and distribution is simply an expansion of our focus.

The three newly elected council members, Rodney Hill, Thomas Huber and Steve Konnath have joined the returning six council members to begin their leadership year. Chris Hause, Brian Louth and I have joined the ranks of the "has-beens" after completing our three-year tour of duty.

The former Nontraditional Marketing Section has always been acutely aware of the relationship between marketing and product. At the New York Annual Meeting, you saw the actuaries practice marketing as they worked in the exhibit hall to make marketing and distribution more visible to the membership.

Our edition includes a summary of the Insurance Direct Marketing Forum, an annual event that the Marketing and Distribution Section co-sponsors, along with PIMA, LIMRA and others. A summary tied to one specific session at the forum offers a perspective on enterprise risk management. The forum represents just one of the ways we are practicing environmental scanning, one of the new activities assigned to the sections, under the new SOA structure and alignment.

Walter Rugland joins with Anand Deo to present "Bridging the Distribution Gap: A Dynamic New Role for Actuaries." The article provides just one more viewpoint illustrating our recognition of the relationship between marketing, distribution and product.

Familiar topics like direct mail, leveraging your brand and the challenges of implementing change appear in this edition as well. And what's the impact of 2001 CSO and 7702? Actuaries, marketers and distributors will want to stay informed as the IRS addresses issues like these.

Take a moment to let us know how you think *NewsDirect* is meeting your needs.

- Are the articles relevant and meaningful?
- Have you read articles that you believe should be reprinted to benefit the entire MaD Section Membership? (If so, please provide details.)
- Do you have ideas and topics for articles you'd like to see us publish in future issues of the newsletter? If so, provide us specifics. You can volunteer to write something, if you wish.
- Do you have an opinion you'd like to share with the MaD membership? If so, write a letter to the editor.

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NEWSDIRECT

NEWSLETTER OF THE MARKETING AND DISTRIBUTION 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.

BY VAN BEACH

WE'RE MORE THAN JUST MaD

Welcome to our first full year as the Marketing and Distribution (MaD) Section. As the incoming chair, I'd like to thank the section council for their ideas and energy as we expanded the scope of the section and positioned the section as the key thought leaders regarding the distribution and delivery of insurance products. I'd like to extend a special thanks to Rob Stone, the outgoing section chair, for his leadership through the transition. The section is fortunate to again have a tremendous council and in the upcoming year we'll be working hard to "spread the word" of the expanded section focus and further operationalize the section's mission. A key part of this initiative will be to expand the section's membership and include …

Why the Section Went "MaD"

The refocusing from the Nontraditional Marketing (NTM) Section to the Marketing and Distribution Section signals an expansion of the topics and issues that the section will address. The section will still devote energy to issues surrounding direct marketing, credit insurance and other elements of our NTM heritage. In addition, the section will address a broad range of topics and issues surrounding the delivery of insurance products—how the product and the customer are brought together. The discussions and investigations will include marketing, distribution, operations, technology, outsourcing, underwriting, intellectual property and others. Through the expansion, the section can leverage the collective "nontraditional" and "marketing" expertise as we tackle additional issues.

A Vision for the MaD Section

I'm sure many, if not all, of you are aware that the SOA leadership has placed increased responsibility on the sections to identify and address issues, conduct research and create grassroots knowledge communities. The MaD section is positioned to be one of the most dynamic and relevant sections as we create a bridge between actuaries and the insurance professionals that work with actuaries to bring products to market. In the upcoming year, I hope to accomplish three key goals:

Increase membership and industry relationships. As the bridge, we need to invite other constituencies to the table—marketers, agents, technologists, underwriters, etc.

Create focused specialty tracks within the section. To ensure that we devote energy to specific topics under the broad MaD heading, we will need specialty tracks devoted to these specific interests. Specialty tracks might include credit insurance, career agency distribution, IP protection, operations and technology, etc.

Operationalize SOA objectives. The SOA has charged the sections with broad responsibilities. We need to create a section framework that is designed to meet these responsibilities. This will involve changes to the section council as well as increased responsibilities for non-council members.

Get Involved

This is an exciting time for the SOA and for the MaD section. There is a tremendous opportunity for members to get involved and become thought leaders that shape not only the MaD section, but the new SOA. I'd encourage each of you to browse the *www.soa.org* and learn more about the strategic direction of the SOA, the initiatives we are pursuing and the responsibilities of the sections. I would then like to personally invite each of you to contact me or one of the MaD section council members to find out how YOU can contribute your knowledge, opinions and talents.

We're more than just MaD—and we want you to help prove it!

Respectfully submitted,

Van Beach, 2006 Marketing and Distribution Section Chair

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BRIDGING THE DISTRIBUTION GAP: A DYNAMIC NEW ROLE FOR ACTUARIES

by Walter Rugland and Anand Deo

Abstract

Actuaries can profitably assist in bridging the financial services distribution gap by delivering a unique solution to each customer. Bridging is accomplished by including each customer in the sales and solution design process. The technology, methods and processes are available to accomplish such bridging!

What is this distribution gap? The gap between customers' expectations in this information era, and what is actually delivered; this includes the efficiency with which customers' expectations and deliverables are met. From the providers' perspective, the distribution gap may also be defined as the gap between optimal distribution efficiency and actual distribution efficiency.

The distribution gap has three components: the customers' gap, the distributors' gap and the designers' gap.

We begin by bridging the customers' gap. In fact it will vanish, because customers will participate in the design of the solution and drive the sales process. As a result the customer will no longer face a harsh, often irrational, accept-reject choice and live with what is delivered. Neither would they have to shop for both the right company and product. They will quickly assure themselves that they have found the right company and then focus on assisting in creation of the right solution.

Next, bridging the distributors' gap eliminates distribution inefficiencies and lack of overall satisfaction. Distributors will not face the formidable task of finding the best-fit customers and placing standard one size fits all solutions into the customers' lives as the best they offer. Distributors will now focus on a partnership with the customer throughout the process.

Finally, the designers' gap is bridged because they will have an active role in the day-to-day distribution and delivery process. They will no longer confine themselves to the traditional role of defining standardized products and then disconnecting from the distribution process to assuming the role of the enforcer.

The result will increase distribution efficiencies, customer satisfaction and loyalty. Actuaries are well placed to play a pivotal role toward bridging the distribution gap.

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Introduction

The benefits of a comprehensive solution that bridges the financial services distribution gap are profound for all three groups: customers, distributors and providers.

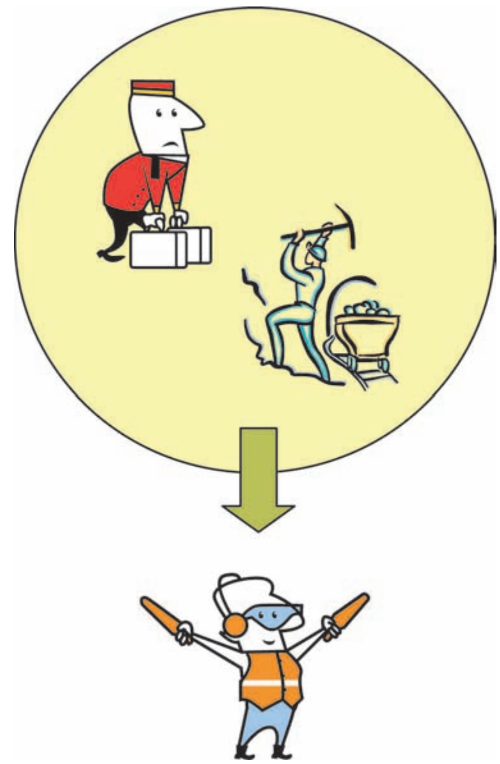
We begin by defining the customers' gap, the distributors' gap and the designers' gap.

Next, we present a case study of the Acting Agent distribution platform and how it enables the realization of this new efficient distribution process. Acting Agent (a co-winner of the Product and Process Innovation Marketing Award cosponsored by Professional Insurance Marketing Association (PIMA) and Society of Actuaries) provides a solution to quantify and bridge these gaps. Financial services providers can attain efficiencies while retaining their current distribution philosophy. This enables the providers to retain their brand value and minimize wholesale business changes.

Finally, we show practical road maps, using a few popular distribution philosophies as starting points, for providers to follow towards a more efficient and effective distribution mechanism.

The Distribution gap

The distribution gap in broad terms is an efficiency gap and an expectations gap combined. From the providers' perspective, the distribution gap is defined as the gap between the actual efficiency of distribution process and the optimal efficiency. From the customers' perspective, the distribution gap primarily represents unmet expectations.



Does a distribution gap really exist?

Of course it does.

1. Predictability of sales is illusive at best. Can any provider claim enough control over distribution? How well do management expectations translate into sales actions?
2. A disproportionate gap exists between effort required to gain sales and actually delivered sales. The 10 calls to one sale industry average is only 10 percent efficient.
3. The inability to traverse all segments of the marketplace, such as the middle market, is yet another piece of evidence.
4. The overall lack of penetration of the market - place is perhaps the most telling signal of all.

These few observations are a testimony to the existence of a distribution gap.

Three main categories of subordinate gaps, each representing one key contributor, form some of the underlying reasons for the existence of the distribution gap. We believe that to bridge the distribution gap, all three must be addressed simultaneously.

Customer's Gap

Each customer faces two main gaps that prevent him or her from fulfilling their needs. First, they spend time and energy trying to find the best combination of provider and product. Irrespective of the competence of the vendor/producer of the provider, this burden is placed on the customer. The process would become far more efficient for both the providers and customers if they did not have to shop for product. Second, customers are left with a harsh choice of either accepting what is delivered or rejecting it. Every reject decision, from a customer's perspective, represents the inability of the deliverable to meet their expectations. Currently it is estimated that 20 to 60 percent of the decisions can result in a rejection. By participating in the design of the solution customers get a product that is unique to them, and the provider can attempt to eliminate rejects and increase satisfaction and loyalty.

In summary, by simply eliminating the reject choices the provider can expect to increase distribution by three-fold. Increase in profitability due to the increase in customer loyalty is an added bonus.

Currently it is estimated that 20 to 60 percent of the decisions can result in a rejection.

In the past, one of the mitigating factors to enable bridging this customers' gap has been the expense incurred to provide such a highly customized service. Technology is now available to deliver a highly customized solution to each customer on a cost-effective basis.

Distributor's Gap

The distribution gap consists of several components: an effort-to-benefit ratio component, a product-fit component, a skill component and a lack-of-institutional-memory component.

The effort-to-benefit ratio component arises because distributors are required to find the prospect who is willing to become a customer of

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the provider. If the distributor gets to meet four out of 10 prospects that is a 60-percent-wasted effort, a major contributor to the distributors' gap.

The product-fit component is related to the customers' gap in terms of the reject choices made by the customer. The root cause of a reject choice after a contact is the fact that the distributor has to offer an existing product as the customer's only solution. Producers are often faced with the task of selling a round peg to fit the customer's square hole. This creates a gap between customers' expectations and what can be delivered, another reason for rejection and cause of an increase in the gap between the achievable revenue and actual revenue, compromising distribution efficiency.

Skill sets of individual distributors vary greatly. The burden they carry in terms of understanding product, creating solutions and practicing the art of selling are enormous. This gives an example of the application of the 80/20 rule, where 20 percent of producers, the highly skilled ones, account for 80 percent of the production. This, in turn, contributes toward the distributors' gap from a provider's perspective.

Providers often lack, or have little memory of, the actual sales dynamics that occurred to build each customer relationship. They are unable to pick-up the relationship effectively when there is change in distribution personnel. The result is a choppy experience for the customer. Providers' inability to synchronize management expectations with individual distributors' actions only adds to the gap.

In summary, the distributors' gap is multifaceted. The designers' gap, the customers' gap and the process followed by the distributors all contribute to the breadth of the distribution gap.

Designers' Gap

Designers' inability to profitably deliver a unique solution to each customer affects both the distributors' gap and the customers' gap. Today, generally speaking, they create a one-size-fits-all product then move into an enforcer role. The enforcer role often prevents them from helping in the distribution process. Inability to make profitability trade-offs at an individual case level prevents them from entering this space and hence creates the gap.

The designers' gap is also a gap in roles performed within the current system. It is completely within their control to bridge the gap by undertaking a nontraditional role.

A Nontraditional Role for Designers

Designers can trigger a domino effect by taking on a nontraditional role in support of customers and producers. In order to master and successfully accomplish this new dynamic role they need a new set of tools and a distribution platform modification that enables them to participate in a profitable fashion.

It is impossible to cost-effectively get an actuary to sit down with each customer to design and deliver a solution. Acting Agent provides an innovative way by which an artificial intelligence-based proxy of the actuary does the interaction on their behalf in such a way that it enables them to perform their enforcer role simultaneously. Their nontraditional role would be to manage the artificial intelligence entity.

A New Distribution Platform is Essential

A new distribution protocol is essential to attain a new operating state, which bridges the distribution gap and places the providers and their distributors or producers in a continuous improvement loop.

Acting Agent as a comprehensive distribution platform

Acting Agent provides a solution to bridge the distribution gap and implement the new distribution protocols required to attain a more efficient operating state.

In a nutshell, here is how Acting Agent delivers its promise.

It helps bridge the customers' gap by:

1. Enabling the designer to provide a unique solution to each customer that he or she cannot get anywhere else.
2. Helping producers master sales dynamics, which raises baseline producer competence.
3. Providing a highly flexible action management structure that ensures that each customer's experience is unique, consistent and meets his or her expectations.
4. Establishing institutional memory of the actual relationship-building sales dynamics that occurred between the producer and customer to the provider. This enables the provider to ensure customer loyalty and satisfaction.

Acting Agent helps bridge the distributors' gap by:

1. Eliminating the producers' need to find the right customer because Acting Agent finds the most suitable customers and prospects for them. Customers' or prospects' suitability is based on the imminence of their need, their motivations, likely matching of producer's skills and personality and attraction to the provider.
2. Creating a unique solution and associated sales process for each customer.
   Each unique sales process tries to maximize producers' effectiveness and ensures that the provider's uniqueness is amplified vis-a-vis the customer. Each sales process is based on two factors: first, the strengths, weaknesses and past performance patterns of the producer, second, the reasons that drive each customer's or prospect's motivations and needs.
   Each unique solution is automatically prepared by Acting Agent based on knowledge it acquired from the actuaries' and the predicted customer needs. As a result product misfit rarely appears.
3. Reducing the administrative burden of each producer. Acting Agent allows the producer to focus on the building of relationships and mastering sales dynamics.
4. Actively participating in each customer interaction alongside the producer by providing sales chemistry enhancement support throughout the interaction. Acting Agent adapts to each producer's stream of thought and guides them through the soft side of selling. The result is increased overall productivity because some of the producers in the 80-percent group (the weaker set in the 80/20 rule) start performing with the proficiency of the 20-precent group (top producers in the 80/20 rule). In addition, it makes the customers' experience consistent and free from disconnect due to changes in personnel.
   Provider's corporate distribution experts get access to greatly expanded critical information regarding the soft side of selling and put it to active use by reinforcing successful patterns and mitigating failing patterns.

With Acting Agent designers can manage risk, create products for each customer, manage product portfolios and perform the enforcer function, simultaneously. Designers can teach and program Acting Agent's engine and let it perform these functions on their behalf.

Acting Agent's generalized learning-based event prediction mechanism makes Acting Agent unique. It is not a black box. The events predicted are not life events in the customer's life, but mutual events (such as purchase, lapse, claim etc.) that occur between the provider and the customer. Life events, if occurred, are taken into account as one of the influences in predicting mutual events. Along with other flexible infrastructure tools Acting Agent makes it possible for a provider to bridge the distribution gap.

How is the Distribution Gap Quantified and Used?

The distribution gap is unique to each provider. It works in conjunction with the desired customer value that each provider wishes to deliver. It assumes that providers' goal is to maximize the value that they deliver to each customer and that each customer benefits from both the distribution aspects and providers' other operations. Optimal delivered customer value requires the providers to achieve and maintain a delicate balance between economic value to providers' distribution components and to the providers themselves.

Thus the distribution gap is quantified as providers' economic value added (PEVA), which is

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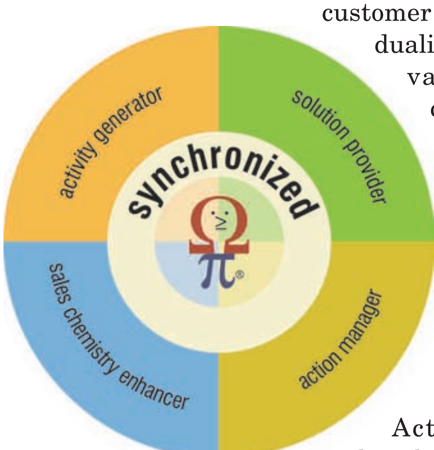
the economic value added to the provider without effect of distribution components, divided by the distribution economic value added (DEVA, which is the economic value added to the distribution components without the rest of the providers operation taken into account.

Distribution Gap = (PEVA / DEVA)

Currently it is widely estimated that this ratio ranges between 0.005 and 0.25, which is heavily slanted toward the distribution aspects. As the distribution gap is bridged, this ratio will increase.

Providers follow a two-step process to set a goal for an acceptable distribution gap. First, they determine the desired overall customer value they wish to deliver. Then they use that value to define the distribution gap that needs to be bridged to meet the customers' expectations and their own efficiency requirements.

The Acting Agent process uses a specialized customer value called the "customer duality value." Customer duality value is measured from the customers' perspective, it is prospective and allows for separation of distribution aspects from the rest of the provider's operations. The result provides a way to map customer value directly into the distribution gap.



Acting Agent addresses the distribution gap. It takes a comprehensive approach to distribution. It does it in four synchronized steps (1) activity generation, (2) solution creation and delivery, (3) action management and (4) sales chemistry enhancement. (See image above.)

Activity Generation
Acting Agent generates activity by creating an optimal coordinated sequence of actions required to generate a desired event. It drives actions creating the desired event. The distributor no longer has to go searching for the customer. Acting Agent points them toward willing customers and prospects at a time when the customer is most receptive. Lead generation is an automatic internal process of Acting Agent. Existing lead generation mechanisms may feed Acting Agent.

Solution Creation
Designers, customers and distributors together create the solution for each customer. It is not always possible to get an actuary to sit down with each customer and create a solution in a cost-effective manner. Hence, Acting Agent does that on their behalf. Without physical presence the designers effectively set boundaries and place their knowledge within Acting Agent to enable Acting Agent's engine to dynamically create and present a solution. Acting Agent acquires the knowledge by learning from both the actuaries' and customers' preferences. Only when a circumstance emerges that has not previously been encountered by the designer or learned independently by Acting Agent is the personal attention for the designer essential. Acting Agent brings all the tools necessary for a designer to both participate in each transaction and play the enforcer role simultaneously. The enforcer role includes profitability trade-off and compliance verifications as well as regulatory support.

Action Management
Action Management decreases producers' administrative burden and enables the providers to place themselves in a continuous improvement loop. Nothing is allowed to fall through the cracks. Providers get a real-time view of sales actions, which enables them to intervene in a timely manner so as to make the customer experience as efficient as possible. It also bridges the gap from a gross distribution perspective by ensuring that there is no disconnect between actions undertaken and corporate goals. As an overall mechanism this brings added levels of flexibility to the entire distribution process.

Sales Chemistry Enhancement
The soft side of selling is addressed by the sales chemistry enhancement. This does not eliminate the need for an individual's involvement but increases the chances of closing a sale once a contact is made. From providers'

perspectives this is an area where they have little day-to-day insight. They are often unable to manage each experience. Neither is there much institutional memory of this critical aspect of their distribution process.

The dynamics of moving the customer from a passive to an active state, and the participation of the designer, in fine-tuning the solution, is supported in sales chemistry enhancement. Acting Agent helps augment the producer's skills to help increase the probability of a close.

In summary, together these four synchronized steps bridge all the gaps and create an environment for growth.

Road maps

Prominent person-to-person financial services distribution philosophies, career distribution and independent distribution can benefit from bridging the gaps. We present these road maps based on Acting Agent as a distribution platform. Other distribution platforms may require slightly different paths. Further sub-categories of independent distribution are not discussed independently.

A common starting point irrespective of the distribution philosophy is to verify and customize the driving engine. In case of Acting Agent it is a generalized learning-based event prediction engine. Multiple levels of tests are essential to ensure that all the three main component gaps, which require different types of information and accuracies, are well supported.

Career Distribution

Providers with career distribution can then simultaneously start by partially bridging the distributors' gap and the designers' gap. Then proceed to bridge the customers' gap while completing the bridging of the distributors' gap.

Independent Distribution

Providers with independent distribution need to begin by bridging the designers' gap and the customers' gap, then provide the distributors with an optional solution to the distributors' gap with some extra loyalty toward the provider in return.

Conclusion

Bridging of the distribution gap will fundamentally alter the financial services industry. It opens a whole new path for actuaries to lead the transformation of a major client industry. Acting Agent provides a unified solution to long-standing industry problems and helps providers bridge the distribution gap.

Acting Agent Synchronizes:

- The customer's perspective with the provider's perspective, making it easier to satisfy customers and provide life-enriching solutions.
- Individual customer needs with unique solutions.
- Sales and service opportunities with unique solutions.
- Goals and philosophy set at the corporate level with actions throughout the company
- Producer performance with management expectations.
- New provider on-the-job traninng with best practices.
- Available resources with immediate customer needs.

NEW RULINGS CAN BE TAXING

BY KEITH DALL

The new 2001 CSO Mortality Table affects company taxation of life insurance policies, and one recent and another proposed revenue ruling will affect policyholder taxation of life insurance policies. This article discusses some of the new changes.

Most insurance companies have already tested the effect that the 2001 CSO Mortality Table has on the products the company is currently marketing. Just as the 2001 CSO Mortality Table will generally reduce statutory reserves, the table will also generally reduce tax reserves.

In most situations we can expect tax reserves based on the 2001 CSO Mortality Table to be less than those based on the 1980 CSO Mortality Table, but it appears as if this change may not take place immediately. The Internal Revenue Code (IRC) provides for a three-year transition period before insurance companies are required to change to the new mortality table for purposes of computing tax reserves for new policies issued. This transition period is from 2005 through 2007.

Many companies are interpreting the transition period as a time during which the insurance company may choose which mortality table to use when determining tax reserves, and they are choosing the table that produces the highest reserves. A higher tax reserve provides a larger tax deduction in the early policy years and makes the policy more profitable on an IRR or present value basis. When 2008 rolls around, all policies issued will have to use the 2001 CSO Mortality Table for tax reserves.

From a marketing standpoint, the 2001 CSO Table will reduce the amount of premium that can be paid into a universal life policy, because the lower mortality rates will decrease the guideline premiums. The table below compares guideline single premiums for a male, nonsmoker based on 2001 CSO ultimate rates and 1980 CSO rates.

GUARANTEED COIS	ISSUE AGE 35	ISSUE AGE 55
1980 CSO	$12,974	$32,217
2001 CSO	$10,714	$27,750

The Internal Revenue Service published Revenue Ruling 2005-6 on Feb. 7, 2005. This revenue ruling affects policyowner taxation of an insurance policy. This is different from the discussion concerning the 2001 CSO Mortality Table, which affected the federal income taxes for the insurance company. Revenue Ruling 2005-6 defines the way in which certain qualified additional benefits (QABs) affect the guideline premiums defined in Section 7702 and Modified Endowment Contract (MEC) premiums defined in Section 7702A of the IRC.

This revenue ruling says that QABs must follow the expense rule as defined in Section 7702 when determining the guideline and MEC premiums for an insurance policy. Essentially, this means that the current, rather than the guaranteed, charges in the contract for the QAB must be used in determining the guideline and MEC premiums.

Riders on universal life policies such as spouse riders are often affected by this ruling. The guideline premium was often determined for the spouse rider using guaranteed mortality charges for the rider, such as the 1980 CSO Mortality Table, rather than the current cost of insurance charges. Using the current charges

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rather than the guaranteed charges reduces the guideline premiums. Since the revenue ruling applies retroactively as well as prospectively, this may result in situations where contracts were ove funded in the past due to the incorrect higher guideline premium. Based on conversations with insurance companies that have QABs on universal life policies, as many as 80 percent of the companies were using the guaranteed cost of insurance rates rather than the current rates in determining the guideline premiums.

The revenue ruling provides ways of remedying the situation should the insurance company have policies in violation of Section 7702 due to using the incorrect cost of insurance rates for QABs. The IRS will allow the company to pay a penalty based on the number of contracts on the compliance system. The penalty ranges from $1,500 for 20 or fewer contracts up to $50,000 for 10,000 or more contracts. The company does not have to change the policies that are out of compliance. Instead, the policies will have to follow the revised guideline premium going forward. This remedy could create system challenges for determining how much premium can be put into these polices when creating in-force illustrations.

A second, proposed revenue ruling was published this year that addresses the attained age that must be assumed when determining Section 7702 death benefit factors for life insurance policies. As an example, the revenue ruling says that the true age of the insured must be used for the Section 7702 factors. This may seem like an obvious ruling, but it may affect policies in force that were "rated up" where the policy values assumed an age higher than the true age of the insured. Some products were designed to rate up the age as a substitute for table rating based on the true age of the insured.

Policies that are "rated up" will have to use the true age for Section 7702 factors. For example, a 70-year-old insured that was rated up to age 75 will have to use corridor factors based on the true issue age of 70 rather than the assumed issue age 75. This may affect illustration systems and administration systems for some companies.

Similarly, last survivor and first-to-die policies were affected by this proposed revenue ruling. Last survivor policies cannot use an age older than the youngest age of the insureds when determining Section 7702 death benefit factors. Likewise, first-to-die policies cannot use an age older than the oldest of the insureds. This may affect the illustration and administration of these types of policies.

Tax rulings such as these are often under the radar screen of professionals working in the marketing and distribution areas of insurance companies. However, it is necessary to be aware of these rulings in order to maintain compliance with Sections 7702 and 7702A of the IRC.

Section to Co-Sponsor Product Development Actuary Symposium

The Marketing and Distribution Section will once again co-sponsor the Product Development Actuary Symposium with the Product Development, Actuary of the Future and Reinsurance Sections. The event is slated for June 26-27, 2006 at a location still to be determined. Please contact Rob Stone, MaD Section representative on the planning committee, at Rob.Stone@milliman.com for additional details as they become available.

Section to Co-Sponsor 2006 Life Conference

The Marketing and Distribution Section has volunteered to help plan the 2006 Life Conference, a meeting jointly sponsored by LIMRA, LOMA, the SOA and the ACLI. The event takes place April 3-5, 2006, at the Hilton in the Walt Disney World Resort. For additional conference information, please visit any of the sponsoring organizations' Web sites.

UPDATED REGULATIONS DEFINE ELIGIBILITY FOR STANDARD MAIL RATES

BY MITCH HISIGER, DESIGN DISTRIBUTORS

In June of this year the U.S. Postal Service updated the regulations defining the material that is eligible to be mailed at standard mail rates. This update focused largely on the use of personal information in mailings, reflecting the growth in personalization technology since these regulations were last updated more than 20 years ago.

The new regulations aim to better define when personal information can be used as part of a standard mail mailpiece.

Postal regulations have always identified material that must be mailed at first-class rates (for example, bills and statements of account). Mail having the "character of actual and personal correspondence" has been included in this group.

The new regulations aim to better define when personal information can be used as part of a standard mail mailpiece, and when that information requires the mailpiece to be mailed at first-class rates. [The Postal Service has said that for mail classification purposes, the name and address, mailpiece date or an account (or other identification) number will not generally be considered personal information.] In order to be eligible for standard mail rates, the use of personal information must conform to the following three-point test:

- The mailpiece contains explicit advertising for a product or service for sale or lease, or an explicit solicitation for a donation.
- All of the personal information is directly related to the advertising or solicitation.
- The exclusive reason for inclusion of all of the personal information is to support the advertising or solicitation in the mailpiece.

Keep in mind that the postal service has the right to examine the content of your mailpiece to determine whether it qualifies for the rate claimed. As you can see, the determination of whether a mailpiece is eligible for standard mail rates is based on both what *personal* information is included and *the* context in which it is used.

<u>What can a mailer do to avoid running afoul of the new regulations?</u>

The Postal Service has issued a number of Customer Support Rulings (CSR) that offer more detailed guidance regarding how it will interpret the new Standard Mail eligibility rules. These rulings are available on the Web at *http://pe.usps.com/text/CSR/csrtoc.asp*. These CSRs are great sources of information when you are designing a new mailpiece.

In CSR #PS-321 the Postal Service said that annual summary mailings by credit card issuers do NOT qualify as standard mail because the personal information does not have a direct relationship to the advertising and the personal information has purposes other than supporting the advertising.

In a revision to CSR #PS-275, the Postal Service offers guidance regarding frequent-flyer statements and other loyalty ("points") programs. In this ruling the Postal Service stresses that the determination of whether the personalization used in such a mailing meets the three-point test for eligibility must be made on a case-by-case basis. For the test piece highlighted in this ruling it is determined that the frequent flyer statement DOES qualify as standard mail because:

- The personal information is related directly to the advertising. In this case, the piece states how double miles and additional points may be earned to attain those miles toward redemption for tickets.
- The personal information does not serve purposes other than supporting the advertising.

The Postal Service goes on to cite examples of language that it feels indicate the presence of other purposes for the personal information:

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- language indicating the information "should be kept for the member's records" or can be used for "business planning" or "tax" purposes;
- directions to "verify" or "check" the information;
- labels such as "shares."

Another source of guidance is the Postal Service's Pricing Classification Service Center (PCSC). Mailers can submit pieces for pre-production review with the National Customer Rulings office of the PCSC. Submissions can be sent either electronically or as hard copy. This process is especially helpful if you will be mailing from multiple locations. A ruling from the PCSC applies throughout the postal system. To begin the process contact Greg Hall, the manager of national customer rulings at *gregory.a.hall@usps.gov*. Mailers should provide information about the type of mailings, typical volumes, locations where mail is entered, how and where mail is produced and any current USPS contacts, such as your national account manager.

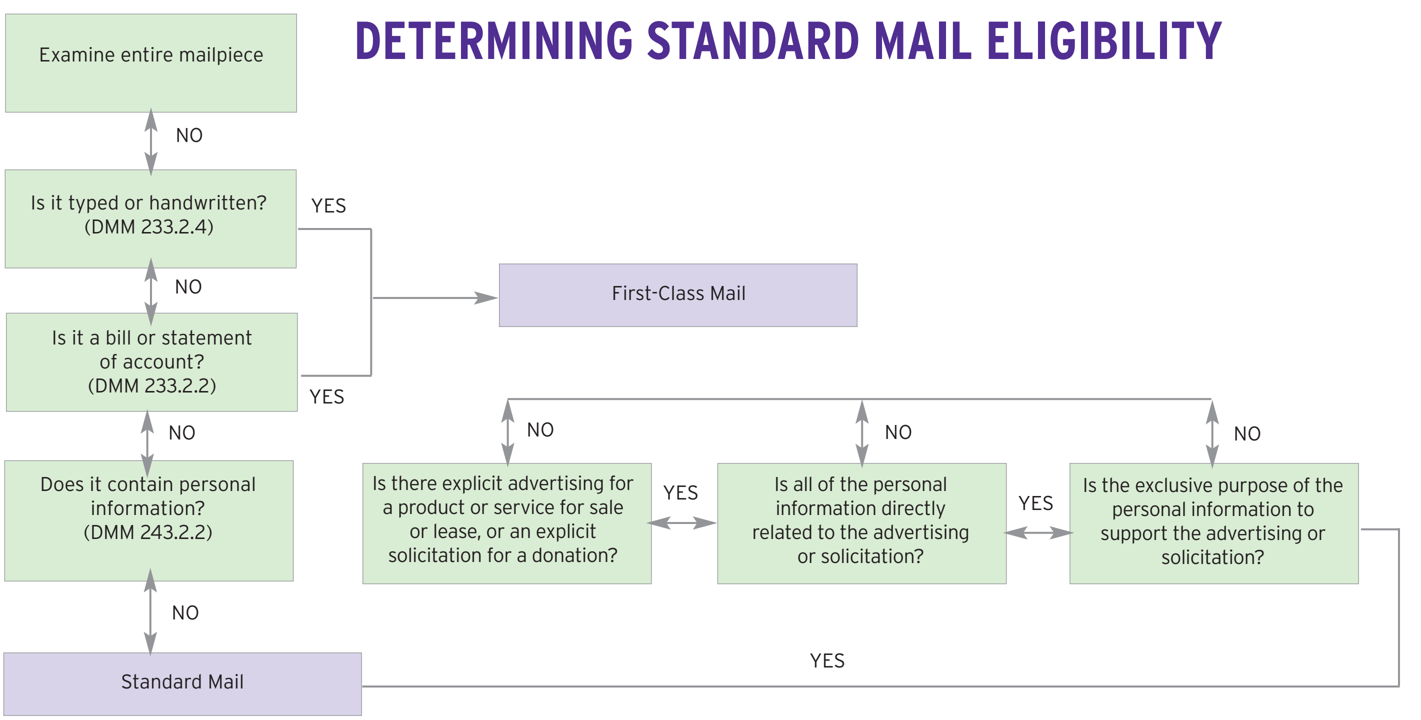
If you are mailing from a single location, you can also submit your mailing to your local mailing standards specialist for a pre-production review. These specialists are very knowledgeable about many different types of postal regulations, although their rulings can be challenged by postal officials in other parts of the country. On the other hand, a ruling from the PCSC applies anywhere in the country.

Don't forget to ask your mailing services provider for support. Your vendor works closely with the Postal Service on a day-to-day basis and can help guide you through the maze of sometimes confusing regulations.

If you are in doubt about whether your mail-piece is eligible for Standard Mail be sure to work with your mailing services vendor, check out the CSRs for design guidance and get a preproduction review from the PCSC or your local specialist. Taking proactive steps to comply with these new regulations can help you avoid a nasty surprise when it is time to present your mail for acceptance.

This article is based on a presentation by Mitch Hisiger at the Summer Conference of the Professional Insurance Marketing Association (PIMA). Mr. Hisiger is vice president of sales with Design Distributors, a fully integrated direct mail production company located in Deer Park, N.Y. He can be reached at mitch@designdistributors.com *or 631-242-2400. Visit the Professional Insurance Marketing Association at* www.pima-assn.org.

DETERMINING STANDARD MAIL ELIGIBILITY



THE CHALLENGE OF EFFECTIVELY IMPLEMENTING CHANGE

BY CHARLIE THALHEIMER

Executive leadership in almost every organization traditionally expects fully functional deployment of change initiatives on-time and on-budget. They also expect those impacted by the change—the "targets"—will jump on the bandwagon, accepting and embracing the change in the name of the overall good. More often than not executive leadership is disappointed. Successful change in infrastructure and business operations requires employees, suppliers, and sometimes even customers, to overcome significant issues of resistance to be in a position to accept and, better yet, embrace the change. Successfully moving the organization to acceptance of this "Desired State" is defined by many as "getting results."

Gaining and optimizing these "Results" has been defined by the following equation:

$$R = Qs \times A$$

where R = Results; Qs = Quality of the Solution; and A = Acceptance of the Solution.

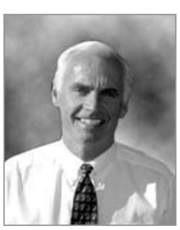
Too often organizations invest all of their resources, energy and budget in creating and implementing elegant solutions (the "Qs") designed to maximize benefits (cost savings, productivity improvements, functional additions, etc.) of the investment. In their zeal to deliver the "perfect solution," they often short-change or overlook the importance of gaining acceptance of the change by the targets of the change (the "A" factor). Their acceptance is too often taken for granted. Their logic is that the benefits of the solution to the company will be so self-evident that after one communication meeting, individuals in the organization will automatically accept and embrace the change.

By ignoring this component of the equation, this "Qs-focused" approach will naturally spawn organizational and personal resistance to the change. Over time, this resistance will fester and grow within the organization. Silent and/or overt resistance to the change during the transition/implementation (the "Delta State") can ultimately cause the project to extend beyond the original timeframe, run over budget, underperform in terms of improved functionality and, ultimately, prevent the sustainability of a well-reasoned change.

In reality, even the most elegant solution can be undermined because there was no investment made in identifying and mitigating this organizational resistance. In the end, senior management will look at the change as a major irritation, an underperformance or an abject failure on the part of the project team. Once that happens, moving the project or process forward toward its original "Desired State" will be difficult at best.

To help ensure the success and sustainability of a change initiative, companies must take a proactive approach to managing the change. That is, they must identify sources of potential resistance and then develop action plans designed to mitigate or eliminate this resistance. By taking these steps, the organization can help to minimize the risk that is associated with this resistance and to facilitate acceptance of the change at a more rapid pace.

This article is based on a presentation given at the Professional Insurance Marketing Association's (PIMA) summer conference. For more information about PIMA, visit www.pima-assn.org.



Charles Thalheimer is president of LaMarsh & Associates Inc. He can be reached at 847.374.1542 or via e-mail at cthalheimer@lamarsh.com

OPTIMIZING THE PROSPECT'S BRAND PASSAGE

BY SUSAN LINDER, LINDER ASSOCIATES

With direct response rates declining, leveraging the value of your brand to boost acquisition is the next new horizon for insurance marketers.

The Prospect's Brand Passage™

Between the articulation and expression of your brand or Brand Central Station (to begin a metaphor) and your CRM strategy or Brand Terminal endpoint, lies a territory uncharted by most of us. It is this territory through which the prospect journeys to become a customer.

Your prospect travels from station to station (your various channels) in an attempt to learn about your product, try it, buy it and initiate use. You are their conductor, the one whose job it is to keep them on track to become a loyal customer.

To optimize the value of this Prospect's Brand Passage so that both your company and the customer benefit, you will need to leverage your brand at each passage, channel, and at each point of contact or station (the phone, mail, and your physical and virtual locations) as he/she travels through the buy cycle (learn, try, buy, and use). Unless you help keep the prospect on track to buy, you will not pay off the investment in your brand nor pay off your marketing investment in sales.

Only by fully exploring (auditing) these passages with dogged objectivity will you be able to leverage brand attributes to optimize the Prospect's Brand Passage in furthering new sales.

Here's Why Brand Matters

All product particulars or service claims being equal (as unfortunately they often are), immediate recognition of your brand as well as the demonstration of brand values in every thing you say, write or do will positively influence the prospect's decision to buy.

Why does brand matter? For companies with increasing brand differentiation, profit margins and net operating profit after tax (NOPAT) is better in both good and bad times than for companies with decreasing brand differentiation.

Now, many of us tend to think of brand in design terms. But your brand is more that just the company name and its symbols, colors, logos, taglines and design requirements. Your brand is the sum of the emotional associations, expectations, company personality traits and the processes by which prospects and customers experience your company.

Auditing and Improving the Prospect's Brand Passage

There are four stages to an audit that will help you formulate winning prospect strategies.

Describe the current state and define the most valuable passages. Map all the passages for each point of entry channel. Define who conducts prospects on their passage and the actions prospects take which signal readiness to move through the process. Calculate how much the prospect's passage costs your company and the prospect time, money and effort. Determine what you need to communicate each step of the way.

Establish which routes are most frequently traveled. Discover who or what could derail the Prospect's Passage. (See Illustration 1 on pg 16)

> NOPAT for companies with increasing brand differentiation was +35% in good times and - 4% in bad times. NOPAT for companies with decreasing brand differentiation swung between +24% and -24%.*

Prescribe best-case strategies for each passage. Determine what skills and tools are needed at each station. Define the processes you need to facilitate the prospect's passage and the marketing and sales aids required.

Implement the practical people, process and communications requirements. Translate brand keywords—those words that embody your brand values—into concrete and practical actions for each station along the way. If a keyword of your brand is "easy," what is the

CONTINUED ON PAGE 16

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* BrandAsset® Valuator - Proprietary Y&R/Landor

proof of "easy"? Short forms, no jargon, sample fill-in forms, pre-filled forms, single-click entry, reduced turnaround times?

Measure the change and improve. Determine and prioritize passages targeted for improvement and create a report card to track your results.

Illustration 1

Buying is a Process

Buying is not a transaction—a discrete action at a point in time. It is a journey during which you need to deploy the people, processes and communications that pay off your brand values. Optimizing the Prospect's Brand Passage—making that process truly reflective of your brand, removing potential derailments —means more satisfied prospects turn into satisfied customers.

This article is based on a presentation by Susan Linder at the Summer Conference of the Professional Insurance Marketing Association (PIMA). Ms. Linder is a seasoned strategic business planning and marketing consultant with more than 25 years of experience. She is the founder and president of Linder Associates, which develops strategy, marketing process assessment, and provides implementation of marketing and sales programs and tools for clients in insurance, banking, financial services, small business services and pharmaceuticals. Ms. Linder can be reached via e-mail at srlinder@srlinder.com. *Visit the Professional Insurance Marketing Association at* www.pima-assn.org.

ARTICLES NEEDED FOR *NEWSDIRECT*

The Marketing and Distribution 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:

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May 2006	February 15, 2006
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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.

180 INSURANCE DIRECT MARKETERS ATTEND SEPTEMBER INSURANCE DIRECT MARKETING FORUM 2005 IN PHILADELPHIA

The Insurance Direct Marketing Forum 2005: "The Ways and the Means of Direct-to-Consumer Programs" was held Sept. 12-13, 2005, at The Park Hyatt at the Bellevue in Philadelphia. In its third year, this conference is considered by the delegates to be the insurance direct marketing event of the year.

The forum offered delegates what they are most interested in—two full days of extensive, relevant discussions and real-world insurance direct marketing case studies. This year's agenda included case studies from AAA Life, American Bar Endowment, American Insurance Administrators, Capital One, CUNA, Driasi, Hartford Life, Met Life Auto & Home, National City Insurance Group, RBC Liberty Life, Mutual of Omaha and The Credo Group with Matrix Direct.

Don Jackson, author and chairman of JCG opened the forum with a limited-attendance, highly interactive and engaging Advanced Insurance Direct Marketing Symposium: "Creating Competitive Advantage." Delegates participated in a lively discussion on product, positioning, offers, media buying, creative, process, and techniques—and how to integrate innovation into a successful marketing strategy.

John Harrison, founding partner and executive director for The Keystone Equities Group, presented the keynote address, "Back to the Future: The Future is Here—It's Just Unevenly Distributed." In his presentation Harrison noted, "You'll be able to see the future when people, process and technology are equal." He offered an in-depth retrospective of the insurance direct marketing industry from its roots in the 1920s to present day.

In addition to robust case studies, the agenda also included presentations on:

- New Product Development—Creating the Big Idea!
- The Seven Deadly Sins of Insurance Direct Marketing
- The Outsourcing Option
- Telemarketing Metrics

Other speakers on the docket included: Jim Eddington, CUNA Mutual; Jeff Roedel, American Insurance Administrators; Warren Hunter, DMW Worldwide; Ryan Sysko, The Credo Group; Jay Jaffe, Actuarial Enterprises; Jim Sharkey, RBC Insurance; Tom Munoz, National City Insurance Group; Kelly Abeles, American Bar Endowment; Kris Arritt, Mutual of Omaha; Bobbie Hagen, JCG Group, Ltd.; Gabe Cabrera, Hartford Life; Dodi Iverson, Driasi; Brian Christensen, TPG Telemanagement, Inc.; Tony D'Errico, MetLife Auto & Home; John Hoey, The Peter Group; Raj Shroff, CitiGroup; Wayne Rosenberger, Harte-Hanks Direct; Walter Szafranski, Hartford Life; Michael Bruner; Marsh Affinity Group Services; Marc Womack, CapitalOne Auto Finance; and Amy Glass, CapitalOne Auto Finance.

The program also included interactive roundtables assembled around subject areas including creative Internet concepts, modeling, product development and new ideas. The forum ended with a bonus session, "Creative Solutions…Creative Opportunities," moderated by Rick Norris, president of Norris Creative.

Institutional sponsors of The Insurance Direct Marketing Forum 2005 included the Marketing and Distribution Section of the Society of Actuaries, the Philadelphia Direct Marketing Association (PDMA), Professional Insurance Marketing Association (PIMA), Insurance Newscast, LIMRA International and *Target Marketing* magazine.

The 2006 Insurance Direct Marketing Forum is scheduled for Sept. 11-12 in Tysons Corner, Va. For more information on this and other JCG Conference, Ltd. events, visit www.jcg-ltd.com or call Don Jackson at 866.450.7005.

DANTE'S *INFERNO* AND RISK MANAGEMENT

BY JAY M. JAFFE

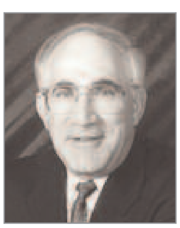
Dante Alighieri's *Inferno* identified seven mortal sins. In case you've forgotten, the seven sins are pride, wrath, envy, lust, gluttony, avarice and sloth. During my career in the direct marketing insurance business I've observed that we've committed several new sins to add to Dante's list.

My favorite sins from among the many I've seen by insurance direct marketers and actuaries are:

- Mixing up lapse and persistency rates
- Ineffective new product development
- Failing to modernize the way business is done
- Losing sight of how and why people buy insurance
- Playing the role of the "800 pound gorilla"
- Not paying commissions on time
- Working on minor rather than "deal-breaker" problems

We could work on correcting these specific sins, but that would take our focus away from understanding our real occupation is being an enterprise risk manager or ERM. From this point forward we need to adopt a wider perspective and understanding of what it means to be in the insurance direct marketing business and to improve how we use the concepts of risk and reward when we make our daily business decisions.

Doing business is, by its very definition, risky. You can choose to take poor risks or good risks. A large part of being an ERM is learning which risks which are worth taking and which should not be accepted. We need to learn to manage not only marketing risks but claim and persistency risks. For some companies a major profitability factor and risk is the level of general administrative costs. Then, there are market-conduct risks, asset-investment risks and any other risk relating to the insurance business.



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Being an ERM is not the same as being the manager or an actuary of a direct marketing campaign. It is wider reaching, but if we master the concept of being an ERM, it will enable us to create products and programs with a different and safer outlook. I believe that in the long run, the financial results of looking at this business as a risk manager will be better than if we see ourselves simply as a product manager or an actuary.

In the process of becoming an ERM you will start to recognize that you may be committing one or more of the seven deadly sins I described at the opening of this short article or, better yet, you will begin to see the potential for correcting what you're doing before your actions take you past the point of no return.

If you're not totally convinced about the need to become an ERM, think of the situation in terms of living at the intersection of risk and opportunity. Once you're at this intersection, you have a choice of four directions, but selecting the right road is not always simple and straightforward. But as an ERM you will be able to make a better choice of direction because of your ability to assess the situation from a more global perspective. Without the ERM perspective you will be operating in a world that is more comparable to a single-lane trail at the bottom of a box canyon, which means there is only one way in and one way out. Of course, in the box canyon you don't have to make any choices about which way to head, but you also don't have any the ability to explore new opportunities.

Note: this article is derived from the author's presentation to The Insurance Direct Marketing Forum 2005, which took place in Philadelphia in September 2005.

OUTGOING CHAIRPERSON'S COLUMN

BY ROB STONE

As the outgoing chair of the Marketing and Distribution Section, I want to thank you for the opportunity to be a part of this section's leadership. It has been an exciting year to be closely involved with all of our section activities. I especially want to thank the other council members for their help with all we accomplished this year: Van Beach, Ian Duncan, Chris Hause, Nancy Manning, Brian Louth, Jeanne Daharsh, Juliet Sandrowicz and Leonard Mangini. These are the people who have helped make decisions, and they continue to volunteer their time to lead our efforts.

This has been a year of change. As the Society of Actuaries continues its restructuring and development, your next section chair, Van Beach, plans to parallel that development within our section. We underwent a change in name and mission. Going from Nontraditional Marketing to Marketing and Distribution is as much about repackaging ourselves as it is a about signaling our intent to embrace all marketing-and distribution-related issues. It's all a part of us marketing our new take on marketing!

Our name change is indicative of movement that has occurred in our industry. Recently I was reviewing the results of some industry research on distribution trends over the last 35 years or so. One of the points made was how relatively simple the product offerings were in the early 1970s and how high the profit margins were on each product sold. The rest of the research underscored the changes that have taken place since then and the ramifications of those changes. The sweeping generalization is that product offerings have become wider and more complex, competition has increased and profit margins have become rather slender.

Our name change is indicative of movement that has occurred in our industry.

These ideas don't come as a surprise. And with a larger variety of products, greater complexity and stiffer competition, it is also not surprising that marketing activities have taken an increased role in the financial services industry. The key for us as actuaries, then, is to step up to the table and take our place among marketing decision-makers in the same way we've always been a part of the financial decision-making process. Marketing roles like these are ones some of you already fill. Those positions that haven't met the right actuary yet, however, will have plenty of choices going forward.

I invite you all to join Van and the rest of the Section Council in planning and implementing the next year's activities. I'm looking forward to another year of being part of it all, too.

Robert P. Stone, FSA, MAAA, is a consulting actuary with Milliman, Inc. in Indianapolis, Ind. He can be reached at 317.524.3534 or via e-mail at rob.stone@milliman.com.

Editorial Correction

NewsDirect gratefully acknowledges the contributions of authors who have made presentations or have been published previously. Our September issue included incorrect information about the identity theft article by Greg Vlazny. Here's the full, corrected information.

Identity Theft: The Problem and the Solution
By Greg Vlazny

This article is based on a presentation made by Greg Vlazny at the Annual Conference of the Professional Insurance Marketing Association (PIMA). Greg Vlazny is regional sales director for Coverdell and Company. He can be reached at (502) 895-8944 or *gvlazny@coverdell.com*.