September 2010, Issue No. 62

SOCIETY OF ACTUARIES Marketing and Distribution Section

# News DIRECT



IN THIS ISSUE



LINKS

## CHAIRPERSON'S CORNER

By Andy Ferris

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## WHERE ARE THE GREAT PRODUCT MANAGERS?

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Although the job market is rife with applicants, finding the right combination of skills and experience that will result in a first-class product management team is never easy. Full article >>

## FROM PAIN TO GAIN: LEARNING TO LEVERAGE CONFLICT

By Dr. Liz Berney

Conflict can result in project standstills at work, rigid organizational factions, interpersonal and family misunderstandings and tumult, and at its worst, war. Thus, many of us have come to fear conflict at all costs. Yet conflict provides golden opportunities for tremendous learning. Full article >>

## AUTOMATED LIFE UNDERWRITING: PHASE 2

By Maria Thomson

While the data from Phase 1 generated a wide-angle view of automated underwriting in the life insurance industry, the interviews for Phase 2 provided a much clearer picture of individual company's experiences. Full article >>

## 2010 ANNUAL MEETING MAD SESSION HIGHLIGHTS

By Marketing and Distribution Section

The Marketing and Distribution Section invites you to join us for one or more of the following sessions at the 2010 Annual Meeting in New York, October 17-20. Full article >>

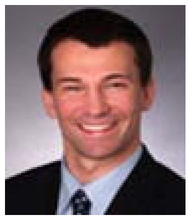
September 2010, Issue No. 62

SOCIETY OF ACTUARIES Marketing and Distribution Section

NewsDIRECT







## CHAIRPERSON'S CORNER

By Andy Ferris

Recently the Marketing and Distribution Section Council, its friends, and other volunteers have been very active in bringing you content to support our mission and to address the specific topics our members mentioned in the member survey conducted earlier this year. I wanted to take this opportunity to describe some of these initiatives that are currently underway, and to solicit your thoughts and opinions for future initiatives.

Our mission is to foster research and innovation in distribution methods for financial services products and in the interrelationship of marketing strategies with product design, underwriting and operations. In support of that mission, and as a means of hearing the specific topics that are currently of interest to you, the Section Council conducted a member survey earlier this year. We solicited your opinions and level of interest on a variety of specific topics, issues and trends. In response, you indicated strong interest in the following:

- Marketing and Distribution Trends and Issues–in particular those around agency, Internet distribution, direct response, and bank distribution.
- Electronic Commerce Trends and Issues–including aspects such as electronic applications and signatures, electronic and automated underwriting processes, electronic policy delivery, and maintenance.
- Combination Products–including life insurance and annuity products combined with long-term care and other benefits.
- Middle Market Product Needs and Opportunities–including recent product and distribution trends in this space.
- Product Management–including product portfolio rationalization and product development process improvement.
- Underwriting Trends–including traditional medical and non-medical underwriting as well as newer processes using electronic and related

underwriting methods.

- Distribution Economics–including latest trends for distinct P&L measurements for manufacturing and distribution.
- Generational/Life Stage Marketing and Product Trends–including related marketing segmentation efforts and market research insights.

In support, we have a variety of initiatives underway including the following:

- We have partnered with LIMRA to jointly sponsor an intriguing research project titled Impact of Environmental Change on Products and Distribution, with results to be summarized in Session 97 of the SOA Annual Meeting and a subsequent webcast.
- Our Section has been the lead sponsor for the research project titled Underwriting Mortality Risk Utilizing Electronic Tools, with the results of the second phase of that project to be summarized in Session 15 of the SOA Annual Meeting and a subsequent webcast.
- We're currently developing and evaluating ideas for potential additional research projects in 2011.
- For the upcoming SOA Annual Meeting scheduled for October 2010 in New York, we've planned and organized a variety of additional breakout sessions spanning the topics our members mentioned in the member survey.
- We've planned a series of webcasts on a variety of topics including webcast presentations of our ongoing research projects as well as additional topics suggested by our MaD section members.
- The council members are discussing potential partnerships of various forms with other non-actuarial organizations.
- We've established a Linked-In group titled, "SOA Marketing and Distribution." Please join our group to participate in our timely informal discussions of Marketing and Distribution topics!
- And a wide range of smaller initiatives, all aimed at delivering unique "Marketing and Distribution" content to our members!

In addition to the formally advertised sessions that we've assembled, the Section Council has scheduled a half-day working session at the annual meeting to plan for future activities of the Section Council. For that session, we'd welcome participation by anyone who is interested in getting involved with the Section Council activities. There is no requirement to be formally elected, as your mere interest in learning more about volunteer opportunities in the Marketing and Distribution Section is all that is needed! And please join us for the social events we've organized, including the Wine & Cheese Reception and the Hot Breakfast session for additional related discussions.

In closing, we continue to welcome and encourage our members to continue to contact any of the Section Council members directly via e-mail or phone with any suggestions or ideas you may have for our Section. Some of you have contacted us to offer excellent suggestions or volunteer for specific tasks, while others have inquired about participating more regularly as a friend of our Section or potential future council member. We encourage those activities to continue and look forward to seeing you at the SOA Annual Meeting in New York!

*Andy Ferris is a Senior Manager in the Chicago office of Deloitte Consulting LLP. Andy can be reached at 312.486.1469 or anferris@deloitte.com.*

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NewsDIRECT





## LETTER FROM THE EDITOR

By Juliet Sandrowicz

Welcome to the September issue of NewsDirect. I would like to introduce myself as the new editor of NewsDirect. I encourage each member to contact the council or me with your ideas, your articles, your suggested authors, or any comments that you have to make NewsDirect more useful to you. I look forward to serving as NewsDirect editor.

MaD presents in this issue three articles from the "Product Development Process" mini-seminar co-sponsored with the Product Development Section at the 2010 Life & Annuity Symposium.

- If you are looking for market opportunities, you will find an excellent article on "Life Insurance Sales Opportunities in the High-Net-Worth Market" by Walter H. Zultowski, Ph.D., Principal, WZ Research and Consulting, LLC .
- Susan Loconto Penta, Co-Founder and Partner at MIDIOR Consulting, highlights attributes of great product managers in her article "Where are the Great Product Managers?"
- Product managers, if you want to learn some outstanding tips on managing conflict on any project, for any team or organization, be sure to read "From Pain to Gain: Learning to Leverage Conflict" by Dr Liz Berney. President, Barney Associates.

For those of you who did not attend the 2010 Life & Annuity Symposium or would like more in-depth information, I know you will enjoy these articles.

Part II of the Automated Underwriting research was recently completed. The report will be published on the SOA website sometime in the next two months. I have included in this issue, as a preview to the final report, the conclusion written by Maria Thomson.

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Marketing & Distribution Section

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Be sure to check out highlights of the 2010 Annual Meeting sessions and events sponsored by the Marketing and Distribution Section. Much thanks goes to Jeffrey E. Johnson for representing the Marketing and Distribution Section on the 2010 Annual Meeting Program Committee and coordinating these sessions.

MaD has been very busy over the summer. Andy Ferris will catch you up on the latest news and events in the Chairperson's Corner.

Enjoy this issue of News Direct!

*Juliet Sandrowicz is Corporate Vice President and Actuary at New York Life, Tampa FL. Juliet may be reached at Juliet_sandrowicz@nylaarp.newyorklife.com.*

GOING THE EXTRA MILE FOR ADVISORS:

# Phoenix High-Net-Worth Market Insights

JULY 2010


**WALTER H. ZULTOWSKI, PH.D.**

*Senior Advisor,*
*The Phoenix Companies, Inc.*


**Going The Extra Mile for your clients starts with walking a mile in their shoes. Our insight into the lives and minds of the high-net-worth client can be your point of departure.**

## LIFE INSURANCE SALES OPPORTUNITIES IN THE HIGH-NET-WORTH MARKET

Is it a myth or a fact that the high-net-worth market is saturated when it comes to financial product ownership? Many believe that market opportunity is limited, particularly when it comes to life insurance – the result of companies and agents going upscale in their marketing efforts in the last several decades. The 2010 Phoenix Wealth Survey debunks this myth – and clearly shows ample opportunity for life insurance sales in this market.

### Overall Ownership

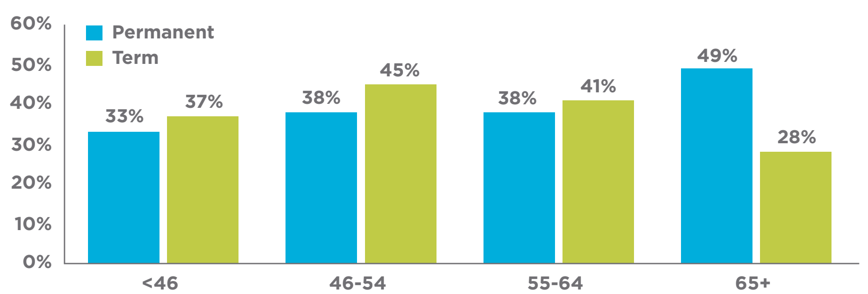
This year, we asked high-net-worth respondents if anyone in their household owns individual permanent life insurance, term life insurance or second-to-die life insurance. Overall, only 62 percent of these millionaire households reported owning one of these types of policies. That means there is no individual life insurance in force in nearly four out of ten high-net-worth households. So much for a saturated market!

The overall incidence of life insurance ownership does not vary much by the wealth level or age range of the household. The lowest level of ownership was found to be 55 percent in households 45 years of age and younger and the highest (66 percent) was among the 46-54 age demographic. Fewer than two-thirds (64 percent) of pentamillionaires (net worth of $5 million or more) report owning one of these three products.

### Type of Life Insurance Owned

While overall ownership of life insurance does not vary significantly across the various age and net worth categories in the high-net-worth market, the type of life insurance owned clearly does. For all respondents, 40 percent own individual permanent, 37 percent own term and five percent reported owning second-to-die. Clear differences in the type of life insurance owned are found by age category as shown below.

**TYPE OF LIFE INSURANCE OWNED BY AGE GROUP**




*Source: 2010 Phoenix Wealth Survey*

*Will younger consumers move to permanent products as they age?*

The low levels of permanent life insurance ownership among younger age groups raise an interesting strategic question for companies and the overall industry. Does this difference represent a generational shift, or will these younger consumers turn toward permanent product ownership as they age? Only time will tell, but if this is a permanent shift in generational product preference, there are significant implications for the industry.

We consistently find low levels of overall ownership of second-to-die life insurance, as this is a specialty product. Given the continuing potential for estate tax reform, it is not surprising to find low levels of ownership in the lower net worth ranges. But even among pentamillionaires, the ownership of second-to-die is just 15 percent.

## Reasons for Owning Life Insurance

For the first time in the eleven year history of the Wealth Survey, we asked high-net-worth households why they own life insurance.

**REASONS FOR OWNING INDIVIDUAL LIFE INSURANCE**

| | |
|---|---|
| To help provide for family needs after my/spouse's death | 69% |
| To create an inheritance for my heirs | 30% |
| For estate liquidity (i.e., to pay estate taxes) | 24% |
| As a way of saving for retirement | 18% |
| As an investment | 16% |
| For tax-sheltered savings | 11% |
| To pay for college expenses | 8% |
| For business purposes (e.g., key person, buy-sell) | 7% |
| To sell my policy at a later time | 6% |
| As a charitable contribution | 5% |
| Other | 10% |

*Source: 2010 Phoenix Wealth Survey*

The percentages in this table add to greater than 100 percent, indicating that high-net-worth consumers own their life insurance for a variety of reasons – testimony to the versatility of life insurance. Significantly, nearly seven out of ten (69 percent) high-net-worth consumers own life insurance for basic household protection in the event of a premature death of one of the breadwinners. With increasing wealth comes increasing use of life insurance for other purposes such as estate liquidity, charitable giving and business applications. But even among pentamillionaires, 51 percent still indicate that family need is one of the reasons that they own life insurance.

The second most frequently mentioned reason for owning life insurance among the high net worth is to create an estate (30 percent). We don't know for sure, but it may be a good bet that this reason has increased in the past year or two. As reported in last month's Phoenix High-Net-Worth Market Insights, a significant percentage of the high net worth agreed with the statement that they will now not be able to leave as much money to their heirs as originally planned because of the financial crisis. Life insurance, of course, can serve to fill part of this gap upon death of the insured.

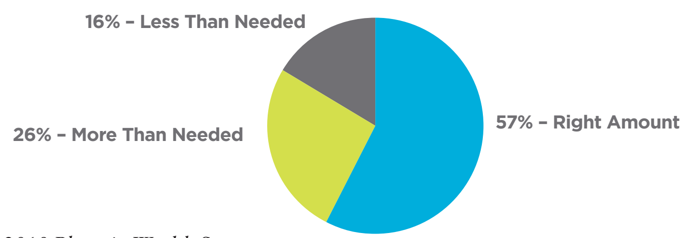
*Consumers may be underinsured if they are off-base about the right amount of coverage.*

Finally, it is interesting that six percent indicate that one of the reasons that they own life insurance is to sell it at a later time. While this percentage is not high, it does show some awareness of the life settlement concept in this market. This percentage is clearly related to level of wealth. For households at the $3-5 million and pentamillionaire levels of wealth, this percentage increases to ten percent and 21 percent, respectively.

## Adequacy of Coverage

While the life insurance ownership percentages discussed above indicate an opportunity for additional sales in this market, they may understate the opportunity if those who own policies are significantly underinsured. For the first time, this year's survey asked respondents about the adequacy of their coverage and what they believe constitutes an adequate amount of household life insurance coverage for their level of household income. The results from these questions are eye-opening.

**PERCEIVED ADEQUACY OF LIFE INSURANCE COVERAGE**

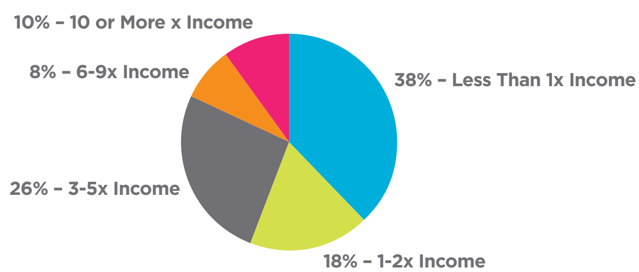



*Source: 2010 Phoenix Wealth Survey*

Sixteen percent of respondents say they need more life insurance – which may be an understatement if respondents thought the survey was a veiled sales attempt or were unwilling to admit that they are not providing for their family's needs. And, there are several demographic segments where an even greater percentage of respondents indicate they are underinsured – notably households with net worth between $2-3 million (25 percent), those age 46-54 (24 percent), and those 45 or younger and with net worth in excess of $2 million (22 percent).

Of course, these responses are a function of how respondents define "adequate" coverage. Consumers indicating they have "more than enough" or the "right amount," actually may be underinsured if their perception as to what constitutes the right amount of coverage is off-base.

**RIGHT AMOUNT OF LIFE INSURANCE COVERAGE RELATIVE TO HOUSEHOLD INCOME**




*Source: 2010 Phoenix Wealth Survey*

*Many high-net-worth households do not have an advisor for life insurance.*

It's quite surprising that 56 percent of high-net-worth households believe that two times their income or less constitutes adequate life insurance coverage for someone with their level of household income. Only 18 percent see the right amount of coverage as being six or more times their household income, which is more in line with what financial planners tend to recommend.

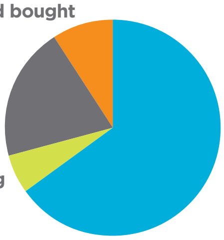
Of course, these percentages vary by demographic group and are most clearly related to age. Only 28 percent of those 45 and younger view two times income or less as being adequate, whereas 80 percent of those 65 and older see this as an appropriate amount of coverage. The group most realistic about the amount of coverage needed is made up of the young wealthy – those 45 or younger with net worth in excess of $2 million. As discussed above, they are one of the demographic segments most likely to admit needing more life insurance. Among this group, 44 percent say that six or more time income is the right amount of life insurance coverage for someone with their level of household income.

## Are They Being Served?

Our analysis clearly shows that the high-net worth market is under-penetrated for both life insurance ownership and adequacy of coverage. This suggests that the market is not fully saturated when it comes to advisory relationships. And, those who do have advisors may not be receiving adequate counseling with regard to their life insurance needs.

To explore this further, we first asked our survey respondents whether an advisor or an insurance agent had approached them about purchasing life insurance during the last 12 months.

**APPROACHED REGARDING LIFE INSURANCE IN THE PAST YEAR**




*Source: 2010 Phoenix Wealth Survey*

Approximately seven out of ten high-net-worth households (71 percent) were not approached by an advisor or an insurance agent about buying life insurance during the past year. Contact regarding life insurance is clearly related to both age and level of wealth. Eighty-four percent of high-net-worth households 65 or older and 77 percent of those in the $1-2 million net worth range were not contacted. However, even among pentamillionaires and households 45 and younger, the percentages not having contact were 41 percent and 45 percent, respectively.

These results suggest that many high-net-worth households do not have someone they consider to be their advisor for life insurance. And, when asked about this directly, only 26 percent indicate they have an advisor for life insurance. The groups most likely to be contacted – pentamillionaires and households 45 and younger – are more likely to report that they have an advisor for life insurance. But even among these demographic groups, the percentages are only 48 percent and 43 percent, respectively.

*There is plenty of opportunity for life insurance sales in the high-net-worth market.*

## Summary

Market myths notwithstanding, there is plenty of opportunity for life insurance sales within the high-net-worth market. This year, we found relatively low levels of ownership of any type of life insurance product, significant reporting of under-insurance, low incidence of advisory relationships for life insurance and infrequent contact by advisors to discuss life insurance needs. And, there seems to be a clear need, even among this well-educated market segment, for additional education on what constitutes an adequate level of household life insurance coverage.

September 2010, Issue No. 62

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT



IN THIS ISSUE



LINKS

# WHERE ARE THE GREAT PRODUCT MANAGERS?

By Susan Loconto Penta

Although the job market is rife with applicants, finding the right combination of skills and experience that will result in a first-class product management team is never easy. Where is the best place to look for great product managers and what type of background is ideal? Are there key signs that you can look for during the interview process that will help identify candidates who will succeed in the role?

## Match the Team with the Mission

Finding the right people goes to the heart of what defines a successful product management organization. We often use a military analogy when we are thinking about product management against a corporate backdrop; great product managers are akin to being members of a "special operations group" in the armed forces where each individual is highly skilled and has a critical role which, if not performed, can put the entire mission in jeopardy. Your success as the head of a product organization has everything to do with identifying and recruiting the people for these "special forces," honing their capabilities and configuring teams with the right complement of skills to match the "mission."

## Look for Key Attributes

We have identified five key characteristics for candidates that are more important than years of experience, job titles or educational degrees. As you consider applicants, put aside the resume for a moment and look for this hierarchy of attributes:

- Energy–the best product managers lead by example, have no staff and hold themselves accountable for every aspect of product success. Instrumentality is the DNA of the successful product manager and persuading the organization to support the right outcome takes boundless energy.

- Enthusiasm–if you can get someone else excited about your product anywhere in the world, you will get mindshare for the mission. A born product manager looks at every situation encountered in everyday life from a product point of view. He/she should easily be able to tell you about their list of favorite products and what puts them in that category.
- Intelligence–defined as being aware of what you need to know, having the intellectual capital to think on his/her feet, understanding how to get things done. Balancing the here and now with a long-term view takes practical intelligence. Without innate brain power, a product manager will struggle to tackle the unexpected daily problems while at the same time, being able to chart and execute a course that aligns their product with the larger corporate objectives.
- Organization–it's all about fit with your culture, or at least your vision of where the culture is headed. In the interview ask how the candidate addressed challenges within a team and across functional boundaries.
- Understanding–background in the technology, competitors and customers will get you off to a quick start. But specific domain expertise is not always critical to success. If candidates have enough energy to be the last "man" standing, enough enthusiasm to get a rock excited about their product, enough intelligence to know what they don't know, and enough cultural savvy and grace to gain the support of the most skeptical executives, they should be able to master the subject matter.

## Motivate the Team

One of the problems with conventional, hierarchical organization models is that they motivate people to increase their span of control and to think of themselves as reporting to a supervisor or department. Successful product managers see themselves as accountable to their product. This view of the world has significant implications for reward systems and, in many businesses, promotion polices are not aligned with motivating successful product people. Incentives and recognition must be tied to measurable product success, not to span of control or budgetary responsibility.

Product managers are a very self-motivated species. If you find that motivating the team is a chronic problem then consider that you may not have the right players.

One note about career paths. Don't expect to hold on to the product superstars for more than a handful of years because they won't be challenged by doing the same thing year after year. Moving up the corporate ladder in the conventional sense is not their driving goal. Unless you can create an opportunity or new challenge such as spinning out a new business or giving them responsibility for a division or an acquisition, these entrepreneurs will eventually move on to bigger and better challenges.

### Advice for the Coach

The best way to take the motivation out of a product manager is for you to jump in, make the decisions and do the job. We find the best management style for the product group leader is that of a coach–call the play, when the play isn't working, rework the play and hold the individuals accountable for getting the job done. Come to think of it, maybe that's why the best coaches are rarely former Heisman trophy winners.

Finding great product managers is never easy, but the good news is that when you find the right attributes in a candidate, you can grow the talent by supporting a culture that reinforces the right behaviors.

*Susan Loconto Penta is Co-Founder and Partner at MIDIOR Consulting in Massachusetts. Susan can be reached at* slpenta@midior.com

September 2010, Issue No. 62

SOCIETY OF ACTUARIES Marketing and Distribution Section

News DIRECT



IN THIS ISSUE



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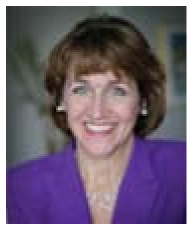

# FROM PAIN TO GAIN: LEARNING TO LEVERAGE CONFLICT

By Dr. Liz Berney

Conflict can result in project standstills at work, rigid organizational factions, interpersonal and family misunderstandings and tumult, and at its worst, war. Thus, many of us have come to fear conflict at all costs. Yet conflict provides golden opportunities for tremendous learning. Whether conflict results in a negative or positive outcome depends on the process by which it is resolved.

Mergers and acquisitions (my dissertation topic) are a case in point. Their extremely high failure rate is in good part, a function of how the integration is managed. Consider this scenario: the buyer company wants to acquire another company because it offers something different and unique. Perhaps the buyer company is large and bureaucratic, even a little slow moving. So it purchases a small, fast growing, new, high-tech company to overcome these weaknesses; it can then respond much more quickly to external changes in the environment. Yet, despite this intention, the buyer company often superimposes its old policies and procedures that make it hard for the acquired firm to be responsive to the external environment. The very aspects the buyer firm once coveted in the seller are the same ones it now impedes. Note the similarity of these dynamics in love relationships; individuals often choose spouses or partners different from them because they find these differences attractive, yet they spend a good deal of time trying to get them to become more like them during the course of the relationship.

## Definitions

Conflict occurs when two or more parties, be they individuals, teams, even organizations, perceive that they have different needs, goals, or interests that cannot be resolved. The word "perception" is key because the parties may make a number of assumptions about each other that are not valid. Parties often create stories about each other that are inaccurate and based on their own view

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of the world. With these assumptions, the parties make choices, sometimes unconsciously, that lead to either functional or dysfunctional conflict. Functional conflict involves "parties" listening to each other, checking out their initial assumptions and then voicing and working through their differences to a mutually agreeable solution. Dysfunctional conflict involves parties acting "positional," i.e., each insisting on getting what it wants and failing to attend to the other party's needs. Their fear that they will not get their needs met, leads to their acting "positional" and thus unwilling to compromise. Once positional, parties often engage in power battles, making it nearly impossible to reach any kind of mutually acceptable "third way." Power battles are characterized by oppositional and rigid behavior.

Similarly, once partners or spouses in a couple engage in a power battle, there is little hope for resolution. The old adage that couples should not go to bed angry is not true; once engaged in a power battle, parties become increasingly positional and rigid, eliminating any opportunity of inventing effective solutions. Better to get some sleep than to escalate the argument! As a matter of fact, Fisher and Ury, from the Harvard Negotiation Program, suggest that once escalation occurs, parties should "go to the balcony" (metaphorically!), i.e., end the discussion for the time being, take time alone to reflect and calm down, and set a time to reengage with the other party to continue the discussion.

### Regression Enhances Conflict

Rather than focusing on the overarching goal of the merger and its inherent opportunities, individuals often regress to survival mode, clinging to what they have done in the past. They need to reframe their thinking and ask, "How are we going to reach our new goals? What new strategies will get us there?" Clinging to old ways, acting positionally, insisting on one's own culture prevailing, will only yield the exact opposite of the merger goals–failure! Ironically, when we fear and resist change, we do the exact opposite of what will benefit us–we regress to our fallback position, i.e., how things used to be. We view the world from a child's eyes, as if it is black and white; and then options fail to exist. We polarize and thus are rarely able to step back and see the big picture. At the very time we most need to be open to new possibilities, we regress and contract to earlier stances that no longer serve us. We do a great deal of displacing and projecting onto others daily. They bring anxieties, fears and stories from their past to present day interactions and displace these onto anything that either reminds them of family behaviors (displacement) or of parts of themselves of which they are none too fond (projection). Once they do this, their capacity for listening, brainstorming and joint problem solving is diminished severely. The only way to resolve conflict is for both parties to be curious and learn as much as they can about each other's needs. Listening actively with curiosity also strengthens the relationship between parties because it demonstrates interest in each other, often leading to greater openness from both parties. Buoyed by their understanding and appreciation of the other's needs, both parties are often quite capable of creating inventive solutions to extremely challenging problems.

## Strategies

The tenets and strategies from the mediation literature, particularly the Harvard Negotiation Program, are extremely useful in both helping to resolve conflict and to provide people with a fuller range of conflict management skills. In particular, interests-based negotiation from the Harvard Negotiation Program, offers specific strategies to identify individual, team and organizational interests, as well as strategies for finding joint solutions based on these interests. Key to interests-based negotiation are listening and empathizing before moving to fact-based problem solving.

It is important to discern between interests and positions. A position is what someone has to have, be it a new computer or a larger budget. If both you and I want the only orange left in the refrigerator, each of our positions is that we have to have the orange. An interest underlies someone's position and can be identified by asking, "Why do you want that? What is most important about that to you? There are usually multiple interests underlying a position. In the orange example, after asking these questions, we learn that I wanted the orange to eat the inside and you wanted the rind to bake a cake. Even when situations do not dovetail as neatly and easily as this one, once interests are identified, many more options are possible.

Individuals engaged in conflict are often reticent to listen to others for fear that they will be perceived as pushovers. They often assume that in order to get what they want, they have to fight and push and demand. Paradoxically those very behaviors yield the opposite result. In contrast, when parties are truly curious about each other's needs, they obtain crucial data, usually allowing them to find a mutually acceptable solution.

People become threatened by these differences and the potential impact on themselves. They may wonder, "Will I have to make major changes? Will these changes knock me off balance? Will I lose any power or influence from the change?" It can be threatening to have to change and try new strategies. That's why people often become positional and insist there is only one possible solution–theirs! The only way to move from that narrow and narcissistic view is to expand one's thinking and reframe the conflict–to realize that there are a host of solutions that can meet each party's goals. Listening does not mean accommodating; to paraphrase Fisher and Ury from the Harvard Negotiation Program, parties need to be "soft" on the relationship (listen and empathize) and "hard" on the issues (no agreement is allowed until most interests are met). Never should parties agree to solutions that do not meet the majority of their interests.

Until we resolve any kind of dynamic with which we struggle internally, the universe will continually offer us opportunities to address that very dynamic. Let's say that I don't like conflict and passively agree to help others and sacrifice myself regularly. It is likely that I will attract people into my life who take advantage of others, including me. In this case, I am sending clear signals that I will do whatever others need and ignore my own needs. Enter the demanding, controlling boss. This boss is likely to take advantage of those employees like me who allow it. And this dynamic will continue to occur in my life until I learn to set boundaries and limits and pay more attention to my own needs. In The Law of Attraction, Esther and Jerry Hicks suggest that we attract to us those people from whom we most need to learn. So in this example, I unconsciously "invite" in controlling people until I learn how to set limits and take care of myself.

## A Case Study

As a consultant, I once worked with a group of managers who struggled with a terribly controlling boss. After I interviewed each of them, I found that one of the five group members, whom I will call Steve, wasn't experiencing this same problem with the boss. I asked the entire group, "Why doesn't the boss behave this way with Steve?" They didn't have a clue. I then asked them to consider whether Steve acted differently from the rest of them. Eventually, group members concluded that Steve, while willing to work hard, would not tolerate rudeness or any kind of abuse. So the boss didn't waste his energy imposing on Steve. Unconsciously, or perhaps consciously, the boss chose to impose on those in the group who appeared less comfortable saying, "No." The team members thus colluded with the boss by allowing the boss's behavior, thus co-creating the conflict. Why would you ask Susie (i.e., Steve) to try Life cereal when you know that Mikey (the other four managers) will?

There is a great deal of learning possible in these dysfunctional conflicts we co-create. In this case, the managers who failed to set appropriate boundaries were "invited" by their boss to learn how. This boss offered them the opportunity to learn a new skill that they had not yet developed. One can view this scenario in one of two ways. The team members can choose to feel victimized and helpless. Or, they can ask themselves what they could learn about themselves. Once they start setting better limits, the boss is forced to address his own behavior. She or he can learn to manage his or her own aggression and anger rather than dump it on others. So a choice is involved–moan about one's powerlessness or focus on developing one's own skills. Until the managers stop allowing the boss's inappropriate behavior, the boss is likely to continue this behavior. I can promise you that this victim-abuser dynamic will continue to get recreated in different situations for both the boss and the employees until all involved learn to develop their anger management and limit setting skills respectively.

## Opportunity to Learn

Challenging work situations often offer us the opportunity to develop new skills.

For example, let's say that I am often excluded from important meetings at work. Each time I don't get invited, I could complain to others and feel sorry for myself. Little headway will occur. But if I can wonder how I might have helped create this exclusion, I might learn that people find my behavior overly aggressive. I then have a choice–to temper my behavior and gain inclusion or to refuse to do so and be powerless. We have far more power focusing on what we can change in ourselves rather than what we cannot in others. Many of my clients disagree when I tell them they co-created a problematic situation. They point to the egregious behavior of the other party or parties and tell me that sometimes it really is all the other person's fault. I would argue that these egregious behaviors are never random; we attract them to us so that we can develop parts of ourselves requiring growth. In the previous example, had I not been excluded from meetings, I would not have been challenged to address my aggressive behavior.

Part of what makes conflict so difficult for people to address is breaking organizational and cultural norms, i.e., being direct with feedback about their concerns. Most people are more comfortable complaining to a friend about someone at work rather than addressing the person directly. This indirectness, referred to as triangulation, only makes the problem worse. It is paradoxical (and human) that managers tell me they can't confront someone because they don't want to hurt their feelings. Triangulating by talking to third parties often ends up being far more damaging.

Many clients will tell me they are upset with someone at work but not upset enough to talk to that person directly. Let's say that Jorge is upset with Ming, a colleague who manages a different department. Jorge feels that Ming takes advantage of some of his staff. Rather than deal with Ming directly, he seethes, which his staff notices. Soon after, Jorge's staff and Ming's staff become engaged in conflict. Staff in both departments unconsciously pick up the tension between the department heads. Now, not only is Jorge upset with Ming, but also two departments are no longer cooperating with each other. Had Jorge spoken to Ming directly with his concerns, the conflict between departments could have been prevented. In order for this directness to become a norm in the workplace, employees need to receive "hands-on" training in which they practice giving and receiving feedback, as well as receive feedback on their own feedback skills.

## The Need for Feedback

Part of giving feedback includes two behaviors rarely mentioned in feedback training: (1) listening and being curious about WHY the feedback receiver did what she or he did and (2) the feedback giver's examining his or her own contribution to the feedback receiver's behavior. For example, when Marge, who likes interacting with others through debate and challenge, communicates with George who prefers harmony and connection, George experiences her as abrasive and argumentative. George may even assume, from Marge's behavior, that she does not like him. Conversely, Marge may assume George has no interest in connecting with her since he avoids her whenever she tries to communicate with him. Both are inferring intention that does not exist. If George asked Marge about her behavior, he would learn that she was trying to connect with him. Her intention was not to be difficult. George's assumption about Marge was based on a story he told himself. Part of feedback requires being curious about others' intentions. George, who prefers finding commonality with others, read Marge's intentions through his own filter and thus misinterpreted her intentions. When George gives Marge feedback about her behavior, he needs to ask her about her intentions without assuming he already knows them. That is not to say, however, that Marge is not responsible for the impact of her behavior. She is!

Teams just make the whole equation more complicated because of the larger number of individuals. Since teams are typically composed of members who are different along a variety of dimensions, there are more opportunities for team members to misunderstand and make incorrect assumptions about each other. These assumptions can lead to polarization and entrenchment into one's own worldview. When team members manage conflict functionally by listening, exploring and understanding various viewpoints, they become increasingly productive. This task of managing individual differences is central to Tuckman's group stage of "storming." But if team members get locked into positions, they will get stuck and be unable to function productively.

### Identifying Conflict Sources

We need to pay more attention to diagnosing the sources of the conflict before trying to resolve it. A doctor doesn't prescribe an antibiotic without first culturing the bacteria. Often when employees squawk at one another, their managers assume the source of conflict must be personality differences. While the symptoms may look like incompatible personalities, the source may not be. For example, the two could be arguing over different interpretations of their roles; without clarification, the conflict will not be resolved. This confusion may very well be an issue for others in the team as well. Clarifying team member roles, team goals, procedures, policies and norms can help prevent conflict. If the manager doesn't make the roles and responsibilities clear, one team member may think that a particular task is her responsibility while another thinks it is his. More commonly, team members may have different understandings of a project's goals or of team decisions.

Patrick Lencioni, "The Five Dysfunctions of a Team," relays the frequency by which leaders leave meetings after reaching an office-wide decision, only to later learn that they had interpreted the decision differently from one another. Once they realize this, the damage has often been done because they had already shared this decision with their staff members, who in turn were already comparing their department's decision with that of other departments. Once an agreement is reached, it is important to go around the room and hear everyone's version of the agreement and then discuss it until everyone has the same version. Think of how often one's significant other understands an agreement the couple made in a way completely different from you.

### Understanding Systems Dynamics

In a similar vein, two people arguing may be "acting out" the argument for the group as a whole. For this reason, when I have been asked to coach a "difficult" manager, I am cautious. While this person indeed appears difficult, she or he often voices a need or hurt for the entire group. When these group-level dynamics are at play, focusing the blame on an individual never resolves the conflict. When one person looks like the "bad guy," it is important to check how others in the group feel about the issue too. Often the person scapegoated is the one with the courage to voice the group-level issue affecting everyone. One should always assume that all team members need to participate in group resolution even when only a few voice concerns. The "hard knocks" way of learning about group-level dynamics is working with the "identified" person or persons, only to find that different individuals in the group are quietly upset about the same issue. An "identified patient" or individual focus allows dangerous scapegoating and, at the same the same time, fails to solve the overall problem. Remember getting in trouble complaining to a teacher when your friends "forgot" to back you up? The teacher thought only you had the concern and may have become angry with you. The teacher failed to realize that this was a group-level issue involving the whole class, one that might impede learning. Perhaps the teacher's explanation was unclear; and the students, while wanting clarity, feared the teacher's potential anger. Had the teacher realized that this might be an issue for the whole class, she or he would have asked other students individually if any had related concerns. It is imperative to consider a group-level perspective when solving team conflict.

Rather than forcefully demanding what one wants, one should use curiosity and active listening resulting in far more leverage in conflict resolution and negotiation. Once one party listens, the other typically returns the favor. After both parties discuss what is important to each of them, they can create space for creative problem-solving to meet both their interests. There are always multiple ways to problem-solve when one moves from what she or he needs to what both parties need.

### Negotiation Case

When I consulted to a small engineering firm that manufactured custom-fit valves, the president was extremely concerned that his marketing director was going to leave. The marketing director needed cash, and the president had none to provide. The president asked me to help the two of them discuss their underlying interests to find a way to satisfy both of them. I didn't expect the resolution to be particularly challenging–all I had to do was learn why the marketing director needed the cash. I knew the president would be amenable to getting him a loan or providing him with additional resources. However, the marketing director would not share his underlying interests, i.e., why he needed cash immediately. Even when I couldn't identify his underlying interests, a "win-win" was achieved. While the final solution wasn't perfect, it met most of both of their interests. The president agreed to double the marketing director's commission for six months. Even though the director wouldn't get cash immediately, he would quickly make money because the industry was picking up and his commission was doubled. The president got to keep his director; and, despite his paying him a double commission, he would reap plenty of profits, given the marketing director's huge incentive.

## Conclusion

Often a facilitator helps move people from their positions to joint problem-solving around their interests. By getting people to step back, listen, identify underlying interests and focus on the team's goals, the facilitator creates space to jointly identify inventive solutions. Conflicts aren't that hard to solve technically; what's difficult is managing individuals' feelings and reactions. Ultimately, conflicts are not solely problems to resolve; they provide opportunities for us to learn more about ideas, frameworks, ourselves and others. They also provide fertile ground for finding synergies among parties through which people can share resources, leverage their differences and create innovative solutions. By viewing and treating conflict as an opportunity for learning and innovation, organizations can potentially enhance employee satisfaction as well as individual, team and organizational productivity.

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## AUTOMATED LIFE UNDERWRITING: PHASE 2

By Maria Thomson

Sponsored by Marketing and Distribution Section, Product Development Section, Committee on Life Insurance Research Of the Society of Actuaries

While the data from Phase 1 generated a wide-angle view of automated underwriting in the life insurance industry, the interviews for Phase 2 provided a much clearer picture of individual company's experiences. This insight motivates several general impressions about which companies are more or less successful with automated underwriting. First, the interviews contained some genuine success stories with life insurers that are very satisfied with automated underwriting. These companies were among those using automated underwriting for simplified issue and non-medical underwriting, and to a slightly lesser degree, for flagging certain items in the traditional underwriting process. In particular, multiline insurers found the advantages of automated underwriting particularly compelling for their small- to medium-sized policies and agents not specializing in selling life insurance. The life insurers experiencing less success were among those attempting to replicate medical underwriting with an automated system. These firms found that an often overwhelming amount of work is necessary to implement and maintain the automated systems, and were disappointed that human underwriters still review many applications.

These experiences shared during the study were not entirely uniform as both statements of support and opposition were made for automated underwriting in each of the three applications. However, as an overall trend, using systems to automate portions of the underwriting process, such as simplified issue, non-medical underwriting, or monitoring acceptable ranges for individual requirements, is a key to success. Underwriters often have concerns about increased automation, but are generally accepting when they come to understand these targeted uses of automated underwriting allow them to focus their energy on more complex cases where human judgment is most valuable.

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Finally, it is interesting to analyze several additional elements of the Phase 1 study in the light provided by the Phase 2 interviews. Consistent with the Phase 1 findings, the insurers interviewed expressed differing levels of satisfaction with their automated underwriting systems. For example, insurers using automation of simplified and non-medical underwriting reported overall satisfaction of 3.5 out of five in Phase 1, while insurers using automation as a flag scored three, and insurers using automation for paramedical and medical underwriting scored two. These results are also related to how much business is handled by the automated system. As gleaned from the Phase 1 data, insurers using automation for simplified and non-medical underwriting received final or recommended decisions on 80 percent of applicants, while the other classes of automated systems only were able to deliver final or recommended decisions in just over 10 percent of cases. These insights serve as further examples of how automation is more adaptable to certain types of underwriting processes and applications.

To view the Underwriting Phase 2 Report, please click here.

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## SPONSORED BY MAD

The Marketing and Distribution Section invites you to join us for one or more of the following sessions at the 2010 Annual Meeting in New York, October 17-20.

Sunday October 17, 5:00–7:00 p.m.
Marketing and Distribution and Health Sections Joint Wine and Cheese Reception
At this evening reception attendees will meet friends, make new acquaintances and share valuable information with fellow actuaries in a relaxed setting.

Monday October 18, 7:15–8:15 a.m.
Marketing and Distribution Section Hot Breakfast
*Presenters include Andy Ferris and Mike Kaster*
Take advantage of this opportunity to network with members of the Marketing and Distribution Section and learn about Section activities while enjoying a delicious and hot buffet breakfast. Section council members will share recent and ongoing initiatives, and they will solicit your feedback. Outgoing and incoming council members will be recognized.

Monday October 18, 10:30 a.m.–Noon
Electronic Commerce in the Life Insurance Industry
*Presenters include John Lucas, David Moore and Michael Palace*
Are you thinking about marketing your term or final expense product directly to consumers via the Internet? Or maybe you already have Internet sales that aren't delivering the top-line or bottom-line results you expected. The fact is it's not "business as usual" on the Internet–consumers and companies play by different rules. Technology continues to advance; regulations continue to evolve. Attend this session and learn the "state of the art" when it comes to selling life insurance on the Internet.

Monday October 18, 2:30–4:00 p.m.
So You Want to Offer Combination Products
*Co-sponsored by the Long Term Care Insurance Section*
*Presenters include Jeff Drake and Bruce Moon*

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Does your company or a client want to introduce a product that combines long-term care insurance with life insurance or an annuity? You are very familiar with LTC, life insurance, or annuity needs and constraints, based on your background, but the "other product" may feel like a foreign language to you. You may even feel you know so little that you're not sure where to start. How do the separate risks interact? What are the appropriate assumptions? What are the reserve and capital requirements? What set of statutes and regulations will regulators use to review the product for approval? How are these products marketed and sold? If you attend this session, you will learn the most important design, pricing and marketing considerations for product success and the pitfalls you need to avoid.

Tuesday October 19, 2:30–4:00 p.m.
The Future Effects of Emerging Changes on Life Insurance Products and Distribution
*Presenters include Richard W. Hekeler, Ph.D. and Lucian Lombardi*
Many factors currently influence life insurance distribution and product designs: society, technology, regulation, consumerism, economic trends, consumer attitudes and behaviors, and more. LIMRA and the Marketing and Distribution Section recently partnered to study these factors with the goal of understanding their probable impacts now and for the next five years on consumers' risk protection needs and their expectations regarding product delivery. Research findings will be presented to attendees, who will leave the session with a better understanding of consumers' future product and distribution needs.

Wednesday October 20, 10:45 a.m.–Noon
Serving the Middle Market
*Presenters include Brian Grigg, and Jeff Shaw*
Selling products to the "middle market" isn't easy. Consumers in this market have many competing financial priorities, and they do not have much discretionary income, so getting them to buy insurance before spending it on a product with a more immediate feel-good impact is a tall order. First, the market must be clearly defined. Then the product offering must be one that "middle market" consumers can affordably prioritize against their myriad of competing economic goals. Finally, product delivery must occur in a mode that these consumers frequent. Panelists will compare definitions of the "middle market," share profiles of consumers that live in that market, suggest products that interest those consumers, and identify insurance needs in this market that are not being met. Attend this session and learn what it takes to be a successful "middle market company."

Thank you Jeffrey E. Johnson for representing the Marketing and Distribution Section on the 2010 Annual Meeting Program Committee and coordinating these sessions.

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