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NUMBER 32

SUMMER 1999

Direct Marketing: The Mathematics of Tests

by H. Neil Lund

Editor's Note: This article is a reprint from the Fall 1993 NewsDirect *issue and is the second in a four-part series. Another article in an upcoming issue of* NewsDirect *will discuss some pragmatic approaches in testing. Various "rules of thumb" will provide an interesting contrast to the classic approach presented in this article.*

Direct marketing literature devotes a great deal of space to test mailings. This article covers the classic mathematics of testing and hopefully clarifies a few aspects of testing.

Some experts advocate including at least one test cell in every marketing effort. Such a maxim may well apply where large-scale mailings are the norm but may be impossible for small-scale mailings. Regardless of the size of an organization's mailing, some level of testing must take place. New products, product changes, new creative, or new lists certainly call for testing. Testing may also be necessary as a result of observing competitors, new technologies or regulatory change or experiencing some spark of creative genius.

Testing is used to confirm or deny hypotheses about markets, products, media, or promotions. Testing can take many forms: focus groups, surveys, simulations, or single- or multiple-cell tests. However, because this series of articles covers the analysis of solicitation, only single- and multiple-cell tests are examined. Single-cell tests are used, for example, when trying a new product, a new marker, and the like. Multiple-cell tests are used when comparing, for example, a new creative package against the standard or control package or comparing the effectiveness or a credit card list against a savers' list. Testing involves not only the analysis discussed in the June 1993 issue of *NewsDirect*, but also two other questions: How many pieces must be mailed to be confident that the test will provide meaningful information? And how

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Chairperson's Corner

New NTM Mission

by Edward F. McKernan

I expect this will be my last Chairperson's Corner article for the Nontraditional Marketing (NTM) Section. I have never considered myself an author by any means—as you have probably surmised during the past year. So, consider it a blessing that this is my last one. Coincidental with the Annual SOA Meeting, the gavel will pass on to Carl Meier, who I expect will serve the Section well in his new role as chairperson.

During this last year, the (NTM) Section Council has been very active with a variety of endeavors, many of which will have come to fruition as this newsletter goes to press. These have included:

- The "Bancassurance—Before Today, Beyond Tomorrow" and "Emerging Markets for the New Senior Citizen" seminars
- Programs and recruitment of speakers for the Annual and Spring SOA meetings
- Several *NewsDirect* editions, which have included excellent contributions

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In This Issue

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from within and without the Section membership

- The development and publication of the enclosed Product / Channel Directory
- A new Section logo (see the newsletter masthead on this page)

However, probably one of the more enduring accomplishments was the re-kindling of the mission statement of the Section.

During my tenure with the Section Council, the NTM Section's purpose and goals have often been the subject of debate considering the variety of interests we serve. If you stop and think about it, the focus of the Nontraditional Marketing Section can be quite dynamic. New nontraditional ventures continue to emerge, and products and distribution channels once considered "nontraditional" often become "traditional" by industry standards. (If the Section were in existence at the turn of the century, the career distribution channel would have been considered nontraditional—but then again, maybe that will happen once more.)

When do we begin embracing a particular facet of the insurance industry? When do we stop? Do we focus on niche products or niche distribution channels? How do we serve the Section membership in this regard? As an outcrop of the debates surrounding these questions, the Section Council began working on a new mission statement. This was a significant effort considering the different views and industry perspectives represented by your Council representatives. Nonetheless, we balanced our views and developed a statement, which we hope embraces the spirit of the Section, will endure the test of time, and will serve remind us of the Section's charge. Therefore, without further fanfare, I introduce you to the new mission statement of the Section:

The mission of the Nontraditional Marketing Section is to provide a forum for research and discussion regarding alternative means of accessing potential insurance customers when compared to conventional marketing channels. The primary focus of the Section is on the relationship between customers, insurance and financial products, and distribution channels. As a corollary, a focal point of the Section encompasses specialty products particularly well suited to alternative methods of distribution.

During our deliberations, we concluded the identity of the Section should not be the result of specific products and/or distribution channels, but rather it is the dynamics of our industry that define our Section. Dynamics that create emerging products and/or distribution channels and these emerging trends define our Section's goals.

I have been happy to contribute to the work of the Section, but have only been able to do so through the efforts of my fellow Council members and SOA liaisons, especially Lois Chinnock. I would also like to take this opportunity to thank two other outgoing members of the Council, Bob Butler and Dick Dutton. Both have made major contributions to the activities of the Section these past three years. In addition, I thank the continuing Council members and friends of the Section for their efforts on behalf of the Section membership. Without the efforts of these individuals, well … you know.

NEWS DIRECT

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Nontraditional Marketing Section
of the Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173

Phone: 847-706-3500 Fax: 847-706-3599 *www.soa.org*

This newsletter is free to Section members. A subscription is $15.00 for nonmembers. Current-year issues are available from the Publications Orders Department. Back issues of Section newsletters have been placed in the Society library, and the Table of Contents are on the SOA website, www. soa.org. Photocopies of back issues may be requested for a nominal fee.

Direct Marketing: The Mathematics of Tests

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confident are we that the test worked?

Appropriate testing is critical to the long-term success of any endeavor because the needs and desires of the market place are ever-changing. For example, suppose your company offers an AD product with a choice of $25,000 or $50,000 face amounts. Recently, 90% of the buyers have purchased the $50,000 option. Should the $25,000 option be dropped? The answer based on the given information is *not* obvious. The structure and cost differential between the two benefit levels may be pushing purchasers upward the higher amount where a $50,000 and $75,000 option may result in lower total responses and effectiveness. Should the normal offer be replaced? With what? Testing is clearly needed.

Single-Cell Test

For a single-cell test, the formula for the number of pieces to be mailed using the normal approximation to the binomial is:

$$n = \frac{r(1 - r)c^2}{e^2}$$

where

- n = number of pieces to be mailed
- r = estimated response rate
- e = error rate in responses
- c = normal factor for the desired degree of certainty (1.64 for 90% confidence)

For example, if the expected response rate is 0.5%, the accepted error range is 0.05%, and 90% confidence is desired, then:

$$n = \frac{(0.005)\,(0.995)\,(1.64)^2}{(0.0005)^2} = 53{,}523$$

That, for some companies, is an extremely large mailing. The required number of pieces can be lowered by a lower expected response rate, lower confidence (80% confidence as opposed to 90% reduces the number of pieces required by nearly 40%) or a larger error range.

Multiple-Cell Test

Similarly, if we wish to compare two solicitations, the number of pieces required for each test cell is:

$$n = \frac{[r_a\,(1 - r_b) + r_b\,(1 - r_b)]\,c^2}{(r_a - r_b{}^2)}$$

where

- n = number of mailing pieces required for each cell
- r_a = estimated response rate for cell *a*
- r_b = estimated response rate for cell *b*
- c = normal factor for the desired degree of certainty.

For example, if the expected response rate for cell *a* is 0.50% and for cell *b* is 0.55% and we desire 90% confidence, then

$$n = \frac{[(0.005)\,(0.995) + (0.0055)\,(0.9945)]\,(1.64)^2}{(0.0005)^2}$$

$= 112{,}369$ for each cell

Again, this is a large number of pieces. This number can be reduced by using a lower confidence level or by testing for a larger difference in response rates.

Solving for Confidence Level

When the available mailing universe is small, testing will have to be done on the entire universe and the question is reversed to “How confident am I in the results given that *n* pieces were mailed?”

For example, assume that a new creative package is mailed to all 12,200 mortgage holders of a bank. The response rate is an encouraging 1.10%. “How confident can we be that the result is better or at least as good as the expected 1% response? Again, using a normal approximation where r_e is the expected response rate:

$$c = \frac{r - r_e}{\sqrt{\dfrac{r\,(1 - r)}{n}}} = \frac{0.011 - 0.01}{\sqrt{\dfrac{(0.011)\,(0.989)}{12{,}200}}}$$

$= 1.054$ or about 85% confident.

Knowledge of the appropriate mailing size and confidence level is critical to confirming or denying hypothesis.

***H. Neil Lund, FSA, is vice president & chief actuary, Montgomery Ward Insurance Company in Schaumburg, Illinois. He can be reached at* nlund@sigg.com.**

Life Insurers Seek to Capitalize on Middle-Market Opportunities

by Mark L. Trencher

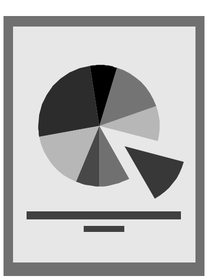
Editor's Note: This article was reprinted with permission from the Conning Commentary, *a publication of Conning and Company.*

Most life insurance companies and agents continue to focus on the upscale market for good reason; it is profitable. The middle market has adopted a "buy term and save the difference" philosophy, but term life does not generate much profit for insurers or agents. To sell more profitable products to the more desirable upscale market, carriers provide a high level of face-to-face interaction with customers. Distribution channels providing such interaction have not been cost-effective in the middle market. Thus, over the past two decades, this segment has suffered from a growing "benign neglect" on the part of the insurance industry.

Although the upscale market still has growth opportunities, it is becoming increasingly saturated. At the same time, the number of middle-market households that are either uninsured or underinsured for life coverage is growing. In this environment, some carriers are rethinking their abstention from the middle market and are grappling with finding distribution channels to cost-effectively reach that market.

Conning surveyed life insurers in November 1998 to assess where they are focusing their distribution efforts. Many insurers expect this focus on the upscale market to persist over the next five years but are experimenting with new markets and new channels.

Channels With Middle-Market Potential



The gap in middle market individual life insurance will not be closed through heavy reliance on agents. So the problem remains: how can term life be "pushed" to the middle-income consumer—together with enough interactivity and financial planning support—in a cost-effective manner?

The levels of interactivity and financial planning support provided to buyers by the various distribution channels correlate with financial position (e.g., income and net worth) and financial needs. The middle market and lower markets will not have access again to the level of face-to-face interactivity they had 20 or 30 years ago and that is common in the upscale market today.

But a new set of distribution channels is emerging that may present a viable compromise by delivering a less labor-intensive form of interactivity to meet consumers' basic needs. Several of these (direct marketing, Internet, quote services, worksite marketing and bank distribution) have a significant middle-market orientation.

A growing number of carriers have adopted or are testing these channels. We expect insurers' middle-market individual life premiums generated by these channels to grow 19% annually, from $4.5 billion in 1998 to $10.8 billion by 2003.

Direct Marketing

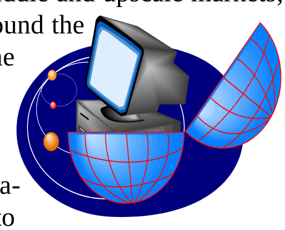
Direct marketing is one of a group of channels that we have collectively dubbed *Direc/Tech*—which also includes the Internet and quote lines—because they are more or less direct approaches that rely on technology to identify and interact with prospects. Also known as direct response, direct sales and direct mail, direct marketing has grown enormously in recent years, with $153 billion spent in the U.S. in 1997.

Many insurance companies are using direct marketing—most often direct mail—to sell certain products or generate leads for agents. While this sounds like an easy approach to adopt, success in this business is very much based on technology (the ability to segment and develop quality databases) and efficiencies of scale (which drives down the cost). The challenge for insurers lies in both areas. In particular, insurers will need to be better at using databases and data-mining tools to target their markets, as opposed to the current, often-used scattershot approach.

We forecast that direct marketing individual life sales in the middle market will reach $4.9 billion by 2003, representing 12.4% of the market, compared to 8.8% in 1998.

Internet and Quote lines

The Internet and toll-free quote lines straddle the middle and upscale markets; households around the $75,000 income level have higher-than-average computer sophistication, are used to buying products over the phone and typically are more interested in the type of products such as term life that these channels offer.



In most cases, the Internet is being used today for lead generation and to provide company and product information. Lead generation will continue to be more of a factor than Internet sales over the 1998-2003 period, although we see a gradual shift toward sales. Typically, quote services are run by what are essentially insurance agencies/brokerages. They use technology (e.g., quote-generating programs, linkages to carrier databases and back-office systems) to offer consumers a broader array of choices and greater assurance that they will find a good value.

Carriers have ambivalent attitudes toward the Internet. On one hand, they know that there is growing consumer activity on the Web. On the other hand, there is fear and uncertainty about where this new technology will take them. Fear of alienating current distributors is a major factor behind many companies' slow adoption of the Internet. (Insurers tend to think they are unique in this regard, but the fact is that every industry that relies on distribution staff is wrestling with this issue.) While the Internet can make agents more productive by lessening prospecting and administrative loads, it also can lead to the commoditization of products. Thus, one concern for insurers is how to add value so they are not seen as simply selling a commodity.

We forecast that individual life combined sales and leads generated via the Internet in the middle market will reach $1.5 billion by 2003, representing 3.8% of the market, compared to 0.2% in 1998. We expect quote services to grow to $0.6 billion by 2003, representing 1.5% of the market, compared to 0.3% in 1998.

Worksite Marketing

Worksite marketing is predominantly a middle-market channel; three-fourths of current sales through this channel are in this market. The issue for insurers is how to get this channel to work better than it has in the past. Distribution involves two steps and requires expertise at both the wholesale (obtaining an employer's permission to offer voluntary insurance with a payroll deduction option) and retail levels (enrolling individual employees). As a result, worksite marketing of life insurance is different from the traditional life sale, because the agent is not used to going through an intermediary.

While its potential has not been realized, a number of carriers are rethinking their approaches and the resources they will need to succeed in worksite marketing. The field still is wide open for this distribution channel; the number of companies selling via worksite marketing is growing, and a vast majority of carriers that offer products in the workplace are small players.

We forecast that this channel will continue to grow, although at a slower rate than the Direc/Tech approaches. We expect worksite-marketed individual life sales in the middle market to reach $2.1 billion by 2003, representing 5.3% of the market, compared to 3.6% in 1998.

Banks and Financial Service Providers

Financial intermediaries are selling life insurance today. As agents have moved upscale, their clients have required such services as financial planning, investment advice and execution, retirement planning and wealth transfer. Thus, agents in the upper market and even at the upper end of the middle market face growing competition from financial advisors, stockbrokers and mutual fund firms, which already provide these services and see life insurance sales as another service to integrate in their total customer package.

A growing number of agents are becoming integrated providers by moving upscale themselves—e.g., getting licensed to sell securities—with the result that insurance-selling sometimes becomes a smaller part of their business. For example, John Hancock Mutual Life Insurance Co. announced in February that all of its 850 agents will become full-service independent financial advisors, joining the 2,150 independent contractors that are affiliated with the company already. This change will broaden the portfolio of products that the agents can sell, including those of other insurance companies.

On the other hand, banks have less opportunity to sell insurance in the upscale market, but have greater potential to sell in the middle market. Coming off their success in selling annuities and their search to increase revenues, more and more banks are trying to sell life insurance to the middle market. This represents an opportunity for carriers and agencies that can partner with banks.

Several challenges remain, however. One is the fact that banks have a history of—and are very good at—selling credit life, which is a more profitable product for them; some view term life as a competing product. Another challenge is to reach customers better. While banks have good databases of customer information and have been using these in direct marketing of insurance, they also are trying to "kick" customers out of their branches—preferring that they use ATMs. This obviates the sale of products in their ubiquitous branch offices—one of the strong inherent advantages of the banking industry.

But expected federal regulatory changes could change this environment drastically and open up new avenues of opportunity for cooperative bank/insurance ventures. We forecast that bank and financial service providers' individual life sales in the middle market will reach $3.5 billion by 2003, representing 9.0% of the market, compared to 7.4% in 1998.

Will The Gap Be Closed?

While the middle-market life under/uninsurance problem is not as widely publicized as the problems in health care availability, it is a problem that the insurance industry needs to address from both public policy and market opportunity perspectives. The array of distribution channels discussed in this article provides new—albeit not fully tested—potential to meet those needs. Over the next few years, we will learn which of

"Carriers have ambivalent attitudes toward the Internet. On one hand, they know that there is growing consumer activity on the Web. On the other hand, there is fear and uncertainty about where this new technology will take them."

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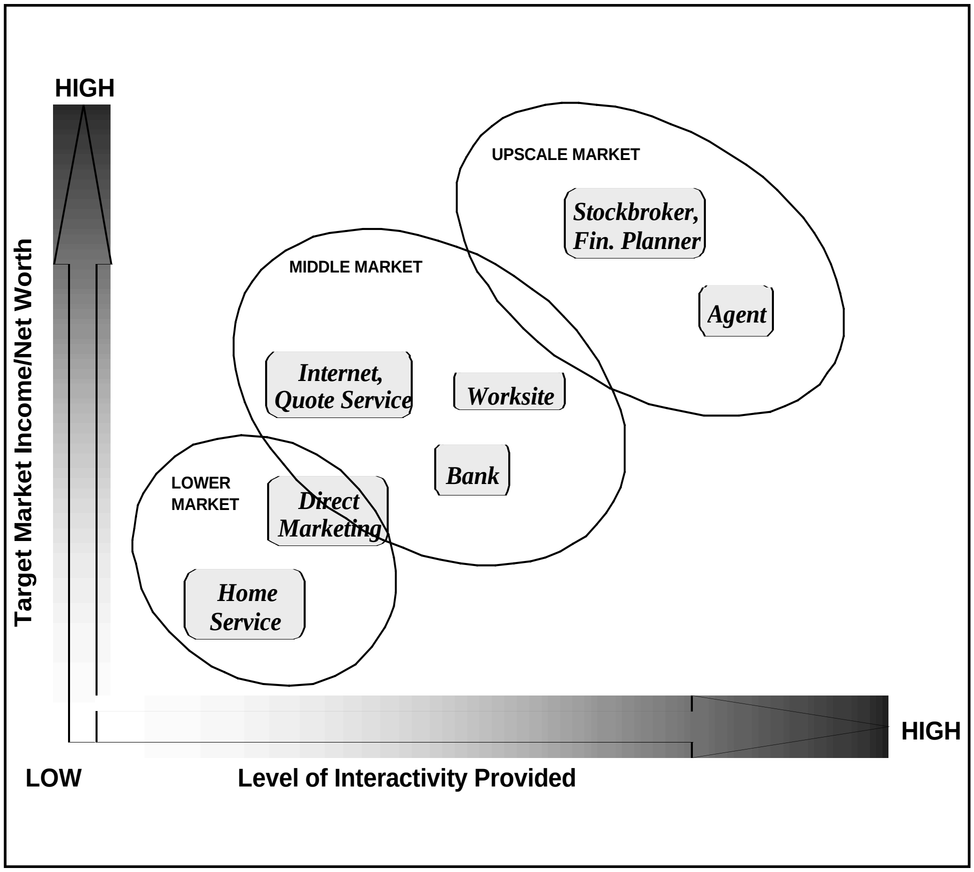
these channels are successful, and which carriers—the ones that adopt the right channels—will be the middle-market life distribution winners.

Conning's recent study, "Life Insurers' Distribution Strategies—Testing the Waters," discusses these challenges and provides more details from our survey.

More information on research by Conning & Co. can be obtained from Kevin Gough at (888) 707-1177. Mark L. Trencher is assistant vice president of Insurance Industry Research, Conning & Company in Hartford, Connecticut.

Life Distribution Channels Interactivity vs. Target Markets



NTM Sessions at Annual SOA Meeting Offer Something for Everyone

by Carl E. Meier

Have you had a chance to review the packet announcing this year's annual SOA meeting in San Francisco yet? This 50th anniversary meeting promises to be something very special, and we hope you're planning to be in attendance.

As always, the session topics cover a wide range of interests, both general and very specific, no matter what your specialty. We would particularly like to direct your attention to the presentations that the Nontraditional Marketing Section is sponsoring. Rather than sticking to any one overall theme, we've tried to provide a little something for everyone, and we've lined up some first-rate presenters to conduct these sessions as well. Take a look at what we have to offer:

Monday, October 18

10:30 AM - 12:00 PM
Session 131
Nontraditional Marketing:
The Next 50 Years

Interviewer:
Jay M. Jaffe, FSA, President, Actuarial Enterprises Ltd.

Interviewees:
John C. Adiletti, Senior Vice President, Civil Service Employees Insurance

Walter H. Roder, II, Rodering, Inc.

Dan Snyder, President, Abacus Direct Corporation

Not too many years ago, worksite marketing of life and health insurance was considered "nontraditional." Today, bancassurance would be classified that way. Direct marketing probably still qualifies as "nontraditional," but the techniques being employed there have changed markedly from what they once were.

In this session, the interviewees will share their insights into how such nontraditional methods of distributing our products are continuing to evolve and will offer their views on what sort of future that evolution may lead to for our industry.

This session will increase your understanding of how technology, demographic shifts, changes in the regulatory environment and other factors are continuing to reshape nontraditional distribution methods. It will also expose you to some of the important implications these changes have for our industry's future.

2:00 - 3:30 PM
Session 43 OF
Successful Bancassurance Programs
A Look Behind the Scenes

Moderator:
James B. Smith, Jr., FSA, Senior Vice President and Chief Actuary, American General Life & Accident Insurance Co.

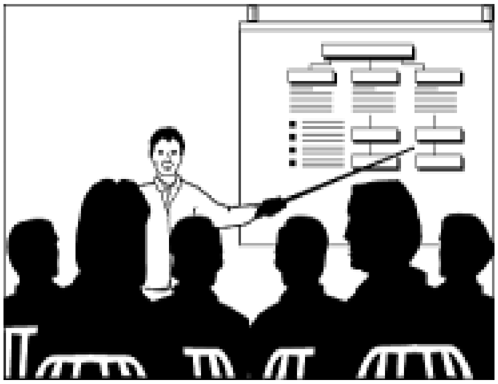
Panel:
Insurer's Perspective: Bruce W. Ferris, Assistant Vice President — Investment Product Sales, Hartford Life Insurance Company

Banker's Perspective: Jack LaSalle, Senior Vice President, Sales Manager, Cal Fed Investments

Third Party Marketer's Perspective: Kevin Crowe, Chairman & Chief Executive Officer, Essex Corporation

With over $28 billion of insurance sales in 1998, banks have demonstrated that they are significant distributors of insurance, utilizing a wide range of products and distribution channels. Each of our panelists for this session will discuss a case study involving a successful bancassurance program, focusing on:

- targeted customer segments
- insurance products involved



- distribution channels utilized
- selling/underwriting/issue processes
- refinements to the initial offering
- key success factors
- sales results

This session explores how the various parties in a bancassurance venture differ in their assessment of and approach to the opportunities and challenges involved in such a program. It also provides some very practical insights into what the different parties feel it takes to conduct a successful bancassurance program.

Tuesday, October 19

10:00 - 11:30 AM
Session 88L
Developing Customer Intimacy

Moderator:
Carl E. Meier, FSA, Second Vice President and Actuary, PanAmerican Life Insurance Co.

Lecturer:
James M. Lattin, Associate Professor, Marketing/Management, Graduate School of Business, Stanford University

Professor Lattin will discuss the concept of a sustainable competitive advantage, and why it is critical to success in a competitive market such as the one for financial services. He will then explain the concept of customer intimacy and

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NTM Sessions at Annual SOA Meeting Offer Something for Everyone
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how it can help a company maintain a viable position in a competitive market. Finally, he will cover the information, product/ delivery, organizational and performance measurement strategies that company should follow to achieve customer intimacy. His presentation will focus particularly on a case study involving a firm within the financial services industry.

Come find out how achieving customer intimacy can help your company improve its competitive position, and what sort of strategies your company should be pursuing to develop customer intimacy.

2:00 - 3:30 PM
Session 103PD
Give Some Credit! The 50-Year History of Credit Regulation

Moderator:
Robert J. Butler, ASA, Vice President and Appointed Actuary, American Bankers Group

Panel:
Bruce Camacho, Senior Marketing Officer, American Bankers/ American Securities

William F. Burfeind, Executive Vice President, Consumer Credit Association

Gary Fagg, President, CreditRe Corp.

A lot has changed over the last 50 years with respect to credit insurance. This presentation will review some of the highlights of this history, including:

- How credit insurance regulation has developed over the years since the first such regulation was passed in 1949

- How consumers' attitudes toward credit insurance have changed since the first survey of such attitudes was conducted by the state of Colorado in 1951

- How the products and marketplace have changed and grown over the years

- How the Consumer Credit Insurance Association has evolved since its founding in 1951

Our panelists will then turn their focus to the future and where the credit insurance industry is heading in such areas as the development of new products, consumer attitudes, further changes in regulation, and new methods of marketing the products.

This session is the perfect way to gain a better understanding of the evolution of credit insurance in the U.S., where the industry stands today, and the outlook for the near future.

4:00 - 5:00 PM
Session 117SM
Reception

Once again, the Nontraditional Marketing Section provides an excellent opportunity to network with other Section members at our wine and cheese reception (beer and other munchies also provided). There will also be a brief business meeting at which the new Section Council members will be introduced.

Wednesday, October 20

8:00 - 9:30 AM
Session 138I
Life Insurance and the Internet: Where Do We Go from Here?

Interviewer:
Steven L. Ostlund, FSA, Actuarial Consulting

Interviewees:
Warren Cohen, FSA, Vice President and Actuary, CIGNA Group Insurance

M. Gordon Gaddy, Founder and Board Member, InsWeb Corporation

Kevin Gough, Vice President, Conning & Co.

Gregory M. Mateja, Vice President, Internet Distribution Group, Hartford Insurance Group

Internet marketing represents the next frontier for the life insurance industry. Included in the panel are representatives of companies that are making use of the Internet today and which plan to do even more in the future. The panelists will share with the audience their companies' past successes and failures, as well as what is happening currently, and offer their views on how this distribution channel will impact our industry in the next few years.

This session will increase your appreciation of both the opportunities and the potential problems that the Internet might hold for life insurers. This understanding could be quite valuable to you as you face the issue of how your own company can utilize the Internet to its best advantage.

There you have it. And those are just the NTM Section offerings. This is a meeting you don't want to miss. Sessions are filling up fast, so act quickly or you may be disappointed!

***Carl E. Meier, FSA, is second vice president & actuary at Pan-American Life Insurance Company in New Orleans, Louisiana. He can be reached at* cmeier@exchange.palic.com.**

New Product Development Tool: The Product/Channel Directory

by James B. Smith, Jr.

Question: In the early stages of product development, market research is used to gather information about the competition. Although such research offers helpful insight into product features, its value is limited because there may be only sketchy information about the distribution channels employed by the competition. Typically, product features have been customized for the channel that distributes the product. Is there an informational source that identifies both products and distribution channels that are utilized by insurance companies?

Answer: One of the difficult aspects of unbiased market research is the identification/understanding of product features, which can vary significantly depending on the needs of the distribution channel. For example, a universal life product sold on an individual basis may have significantly different underwriting, surrender charges, commissions, and cost of insurance rates than a universal life sold via work-site marketing.

Because product/channel combinations being utilized by insurers have not been readily available, the Nontraditional Marketing (NTM) Section has developed a *Product/Channel Directory* of 200+ companies showing combinations of products and channels for each company.

The directory includes categories for life, annuity, health, disability income, credit, and niche products. Within each product category, there are many specific products; e.g., the life category has 20 products.

The directory also shows nine distribution channels, which include career agents, independent agents, banks, broker dealers, direct marketing, telemarketing, Internet, worksite, and other channels.

For each company in the directory, a contact name and his/her phone number are provided so that actuaries can discuss common issues that are not confidential.

The directory is being mailed to Section members/survey participants with this *NewsDirect.* In addition, the directory can be ordered through Beverly Haynes (phone: 847/706-3526; e-mail *bhaynes@soa.org*) at the Society office for $10 for NTM Section members and $22 for non-members.

The NTM Section is hopeful that the *Product/Channel Directory* will be helpful to actuaries as they deal with an ever-expanding breadth of product and channel combinations.

James B. Smith, Jr., FSA, is senior vice president & chief actuary of American General Life and Accident, Nashville, TN. and a member of the Nontraditional Marketing Section Council.

Bowles Symposium on Financial Services Integration

by Anne Chamberlain Shaw

The Department of Risk Management and Insurance at Georgia State University in Atlanta, Georgia, will host the 4th Bowles Symposium on December 9-10, 1999. The symposium, entitled "Financial Services Integration: Fortune or Fiasco?" will be led by current Bowles Chairholder Harold D. Skipper, Jr., Ph.D., CLU.

The two-day program will host an interdisciplinary array of experts in insurance and finance:

- Allen N. Berger, senior economist at the Board of Governors of the Federal Reserve System and Senior Fellow at the Wharton Financial Institutions Center.
- Peter Kuys, general manager and group chief actuary of the ING Group
- Robert E. Carlson, executive vice president of the Northwestern Mutual Life Insurance Co.
- Jean-Pierre Daniel, owner of VIGIE, a Paris-based company which provides insurance marketing
- Ian R. Harper, Professorial Fellow in the Melbourne Business School. Robert St. Jacques, a senior consultant with Tillinghast-Towers Perrin in Toronto
- Joseph M. Belth, professor emeritus of insurance in the Kelley School of Business at Indiana University (Bloomington) and editor of *The Insurance Forum*
- Ravi Kalakota, director of the Center for Digital Commerce Research at Georgia State University
- Michael Thom of the Insurance and Pension funds division at the Internal Market and Financial Affairs Directorate-General's office at the European Commission

For more information and registration materials, visit the Bowles Chair Web site at: *http://www.gsu.rmi.edu/bowles/b-chair* or contact Anne Chamberlain Shaw, conference manager, at 404-651-0931 or by e-mail at *achamberlain@gsu.edu.*

Anne Chamberlain Shaw is the marketing and conference services manager in the Department of Risk Management and Insurance in Atlanta, Georgia.

Your Book Purchase Can Help the Profession

Through an arrangement with amazon.com, your purchase of a book or CD from that Web site can add to the fund that encourages qualified minority students to enter the actuarial profession.

This arrangement was made soon after the March/April *Contingencies* magazine produced by the American Academy of Actuaries featured a cover story by Robert Randall. He was the first African-American Fellow of the Society of Actuaries, and the article told of his experiences as a pioneer black actuary and the instigator of the SOA's minority recruitment program. Randall's article received a tremendous response, with many letter writers agreeing that the profession should do more to encourage minority recruitment.

At about the same time, *Contingencies* editor Steve Sullivan signed an agreement with bookseller amazon.com to allow readers to purchase books directly through the *Contingencies* Web site, *www.contingencies.org.* Under the deal, *Contingencies* receives 15% of the price of books reviewed or recommended in the magazine. *Contingencies* receives 5% of the price of all other books and CDs purchased. *Contingencies* has agreed to contribute 25% of all revenues earned to the work of the CAS/SOA Joint Committee on Minority Recruiting. Since 1977, this committee has been funding scholarships for qualified African-American, Hispanic and American Indian students interested in actuarial science. It awarded $29,500 in 1998 for scholarships and also contributed to several summer high school actuarial programs at universities.

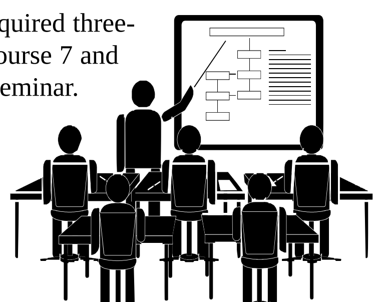
How to purchase

Here is how to be sure your amazon.com purchase is credited toward the minority recruiting effort. It only takes three double clicks. First go to *www.contingencies.org*, then to the Book Link page. Select a reviewed or recommended book with a direct link to amazon.com or scroll to the bottom of the page for the amazon logo. This puts you in the amazon.com virtual bookstore, where you can browse or make a purchase right away.

The *Contingencies* site will be featuring an expanded selection of recommended books in the areas of insurance and risk management, finance, and general business titles. But if you're not interested in checking out the recommended titles, you can skip the Book Link page and go to amazon.com directly from the *Contingencies* home page. Remember, you must enter amazon.com through the *Contingencies* Web site to ensure your purchase is credited to the fundraising effort.

Help the profession attract diverse talent and help qualified students with their expenses to prepare for a career in actuarial science.

Volunteer for the New Course 7 Advisory Group



Beginning in 2000, the new SOA Education and Examination system will include a required three- and one-half day intensive seminar on applied actuarial modeling. This seminar is Course 7 and candidates will have to pass Courses 1-6 and a seminar pretest before attending the seminar.

The interactive approach of the seminar allows candidates to build upon knowledge from the basic courses and learn applied modeling skills in a "hands-on" environment. The seminar also emphasizes communication skills, teamwork, and the synthesis of subjects in an applied setting.

The Section is looking for a volunteer with nontraditional marketing experience to represent the practice area on the Course 7 Advisory Group. It is intended that the Advisory Group consist of appropriate practice area experts who will formally review and help finalize the case studies being developed, and more importantly, the projects to be assigned. The Advisory Group will be part of the SOA Education and Examination Committee structure and function much like the content consultants for SOA exams. The Course 7 Working Group considers it very important that practice area content experts be involved in a formal review of the day-long case studies and the seminar project.

If you have any questions or if you would like to volunteer, please contact Kathie Peters (847-706-3574; *kpeters@soa.org*) or Warren Luckner (847/706-3572; *wluckner@soa.org*)at the SOA office.

Actuaries Respond

The following question came to the NTM Section via the Society of Actuaries Web site. What response would you have given?

Question:
I am the CEO of a small media market research and direct marketing company. Our direct marketing division doesn't sell anything to consumers other than attempting to convince them to listen to a radio station. We are seeking to offer our customers, radio stations, a guarantee that their ratings will increase if they use our services (recent history suggests that their ratings do increase). Can actuarial science be employed to quantify the business risk inherent in guaranteeing performance of a direct marketing campaign? If so:

1) How many data points would be the minimum required to give us a high level (say 95%) of confidence that we priced the service correctly?
2) How many contracts would we need to offer to protect ourselves against the 5% that would go bad?

Answer:
Your question was referred to members of our section of the Society of Actuaries, the Non-Traditional Marketing Section. Members of our Section deal with mass marketing, and other new ways to market life insurance. We are confident the answer to your first question, "Can actuarial science be employed to quantify...," is yes. Many of our members use tools which could be directly transferred to such an analysis.

Your following questions demonstrate a good understanding of the process involved (i.e., how many data points are required to establish a frequency distribution, and how many contracts would be required to "guarantee" favorable results).

The approach selected to answer these questions is contingent upon the amount of data you have available. Presuming that you have sufficient data to develop a frequency distribution, which is appropriate to the question, but do not have enough data points to develop a high degree of confidence, you could try to use a "Monte Carlo" approach to smooth out the information. ("Monte Carlo" analysis employs a methodology which simulates random events under a specified set of circumstances.)

Using the Monte Carlo approach, you could use the distribution and apply a random number generator to replicate a large number of trials. This larger result could then be used to model your new guarantee program. By looking at the tail of the distribution, you can take the percentage of failures times the cost of each guarantee to determine the "risk premium" you should accumulate over all contracts to protect yourself against a loss. Note that there are many factors in the data that need to be considered for any approach to work, and that we have presumed since this is a new "product," that there is a limited amount of past data to draw upon.

As a Section of the Society of Actuaries, we are not legally allowed to actually provide consulting services to potential clients, but we feel that we can assist you in developing an approach to solve this problem. Please be aware that other approaches could be used, and in fact may be better suited to this problem.

50th Anniversary Update

by Cecilia Green

Registrations are coming in for the SOA 50th Anniversary Celebration and Annual Meeting in San Francisco October 17-20. This meeting is expected to break past annual meeting attendance records and to cause early sell-out of hotel rooms. If you have not received your preliminary program, please call 847/706-3545. Also, if you have not reserved your hotel room, do that now, even if you have not registered. The main hotel, the San Francisco Marriott, is already full. Overflow hotels are the Palace (415/512-1111), the Argent (415/974-6400), and the Westin St. Francis (415-397-7000). Be sure to say you're attending the SOA meeting to get the special rate.

The Actuarial Career Information Fair is going to be held on October 20 for area high school and college students and teachers, after the annual meeting adjourns at noon. If your company can be a lunch sponsor or wants an ad in the program, please call Linda Blatchford, 847/706-3564. Booth space and other sponsor categories are sold out.

Election Results of the Nontraditional Marketing Section Council Election

1) **Michael L. Fix,**
   Trustmark Insurance Company, Freeport, IL

2) **T. Michael Presley,**
   Protective Life Insurance Company, Birmingham, AL

3) **W. Howell Pugh,**
   Lincoln Reinsurance, Fort Wayne, IN

• *These three new members of the Council will serve three-year terms.*

475 North Martingale Road, Suite 800
Schaumburg, IL 60173-2226
(847) 706-3500
www.soa.org