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The First Product Development Actuary Seminar

by Jay Jaffe

The SOA's first Product Development Actuary Symposium was held May 14-15, 2001 in Chicago. The program was co-sponsored by three SOA sections: Product Development, Reinsurance, and Nontraditional Marketing.

There were about 115 program participants, making the meeting one of the most successful SOA new seminar programs. The seminar provided Professional Development (PD) credits and some participants also recorded Continuing Education (CE) credits.

The NTM Section was responsible for one of the symposium's concurrent sessions. The special program devoted to nontraditional marketing was entitled "Actuarial Aspects of Nontraditional Marketing."

The first half of the "Actuarial Aspects" session, presented an introduction to the pricing of direct response insurance programs. The second half of the program was a presentation by Doug Bennett which provided an introduction to pricing of worksite marketing life insurance programs.

Some of my major points included:

- Marketing costs are the most important risk factor in a direct marketed program rather than mortality or morbidity because marketing dollars are committed prior to any sales
 - Customers buy offers rather than products
 - Direct marketed programs have a customer rather than a product orientation
 - Programs often involve the direct sponsorship of another organization
 - Testing and retesting are essential to the success of direct marketed programs
- I concluded my presentation with

several observations about those factors which make programs successful:

- Market ownership rather than rental greatly helps to maintain control over all aspects of a program and ensures a long term relationship with the program
- Telemarketing is probably the most successful media currently being used
- Quality customer service is a vital component of a successful program
- Low cost operations make programs more profitable
- A constant flow of new offers and products is a key ingredient to sustaining a direct marketing operation
- Superior market knowledge is another necessary factor which leads to long-term success

Doug Bennett's presentation dovetailed nicely with my remarks. Doug repeatedly emphasized that there are opportunities to take conventional programs and make them better over time.

To make his point, he presented an example of a worksite marketing program which has been able to accomplish significant reductions in lapse rates by taking several simple and fundamental steps. As a result, the company has been able to increase agent compensation to reflect improved results and the company has also been able to achieve its profit objectives.

Several years ago, Doug's worksite marketing agent client was experiencing typical worksite marketing lapse rates. In policy year 1 the lapse rates were near 30% and declined to around 10% in the 6th year. Over a several year period, by making modifications to the program including improving customer service and personalized policyholder marketing, the agent's



lapse rates have declined to about 20% in the first policy year and under 10% starting in the second policy year.

Doug's client is dedicated to the concept that "a current customer is your best customer." The agent repeatedly resolicits existing customers for new life insurance. As a result, these insureds do not have the normal high lapse rates in the first policy years because they already are familiar with the program. The reduction in lapse rates which the agent has is remarkable!

In the future there will be repeat Product Development Actuary Symposiums. Members of the Nontraditional Marketing Section are encouraged to attend these sessions to obtain both general knowledge about product development and more detailed information about some of the products which are more typical of the NTM Section's markets.

If there is demand, one possibility would be to have an advanced NTM Section product development session either at the end or beginning of the Symposium. The session would probably last about half a day. If this advanced session would be of value to you, please contact me and I will pass along your request.

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