NEWSDIRECT

Newsletter of the Nontraditional Marketing Section

NUMBER 36

WINTER 2001

To Infinity and Beyond! The Future of Insurance

by Steve Konnath

Editor's Note: This article is reprinted with permission from the DMA Financial Section Newsletter, Spring 2000 issue.

The future for the insurance industry offers huge challenges and opportunities. The current portfolio of products and distribution methods will continue to dominate for many years, but there will likely be some dramatic changes. New processes and products, including how contracts are created and prices and benefits determined, will influence even the traditional products and distribution methods. The following is a discussion about future products, distribution, insurance laws, and contracts. Some ideas might not be possible today, but it is offered as food for thought.

The old axiom about insurance — it's sold, not bought — is still true, but it is not quite as black and white as it once was. Term insurance, Medicare supplement, and annuities have all moved toward becoming commodity products that are bought. With the slim profit margins of commodity products, target marketing, expense management and market share will determine successful players. Economies

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Chairperson's Corner

What's Up for This Year?

by James B. Smith

When it becomes difficult for me to find the time to write an article (such as this), I get my inspiration by reflecting upon the efforts of so many Council members/ friends who give unselfishly of their time to our section. This article will focus on some of these people, and the activities being sponsored by our section during 2001. I am hoping that you might also choose to participate in an activity that interests you. Volunteers are always welcomed!

At the spring meeting in Toronto, our section will sponsor a track (series of sessions) on customer relationship management (CRM). The customer is often overlooked by actuaries due to the intense focus on products and distribution channels.

The track will cover a broad array of topics — including basic principles, modeling, case studies, privacy issues, and new distribution channels. **Mike Presley,** who is serving as coordinator for the spring meeting, is also planning insightful sessions on hot topics covering bancassurance, virtual insurance companies, and credit insurance.

The planning for sessions at the Society's annual meeting in October is just beginning. If you have any suggestions for topics or would

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Chairperson's Corner
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like to participate as a speaker, **Howell Pugh** will be eager to hear from you. If you prefer to procrastinate for a few months, **Steve Cooperstein** and **Tom Bakos** will be coordinating sessions at the Society's meetings in 2002.

Given our previous success with a bancassurance seminar, our Section sponsored another seminar for a target audience of actuaries and bankers. **Steve Ostlund** and **Maria Thomson** spearheaded this effort, which was held in February. This seminar covered successful bancassurance models, sales strategies, legal environment, proper product selection, pricing matters, and facts/fiction of the English experience.

In April, our Section will co-sponsor a seminar on international nontraditional marketing. The seminar will offer a stimulating blend of presentations by experts, as well as hands-on case studies of Europe, Asia, and Latin America. (Maybe they should name the seminar "2001; A Case Odyssey") Topics will include business expectations, financial/resource commitments, regulatory matters, product development, target customer insights, and "success stories." **Theresa Resnick** is co-leading the development of the seminar.

An intriguing activity is the launch of the first Product Development Actuaries Symposium, which will be held in May. I suspect that the co-sponsored symposium may develop into an annual event, much like the Valuation Actuaries Symposium. **Jay Jaffe** and **Theresa Resnick** are leading the efforts for our section, and will welcome your ideas and participation, as they focus primarily on distribution issues.

Our new co-editors for *NewsDirect* are **Chris Hause** and **Julie Tani**. They are planning newsletter publications for January, March, June, and September. They are welcoming both veteran and first-time authors who will share their wisdom on nontraditional marketing topics. Previously published articles in non-actuarial periodicals may be suitable for re-publication in the newsletter.

In 1999, our Section published the first edition of the Product/Channel Directory. For each participating company, the directory shows the product/channel combinations that they currently utilize. Examples include variable annuities distributed by broker dealers, and (better yet) pet insurance sold through banks! The directory was originally published in hard copy and is now also available via the Society's Web site. **Mike Fix** is managing our Section's efforts in updating the directory so that it will continue to be useful for product/channel actuaries.

Our Section is also involved with the Course 7 Committee, which sponsors seminars on applied modeling for the Society's 8-exam education system. The seminar involves a hands-on business project that requires the participants to use modeling techniques to solve business problems. **Steve Konnath** is reviewing the project, and is providing input into its design.

These are the people and activities that provide inspiration as I energize my efforts in behalf of the Section. My thanks to these people, and I am hopeful about your active involvement with the section during 2001. I wish you and our Section a grand new year.

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NEWS DIRECT

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Editor's Corner

The Constantly Changing Landscape

by Christopher H. Hause

Nothing is constant, except change.

You may notice a new look for *NewsDirect* this issue. The color of the paper is not indicative of the weather we have been having lately in the Midwest, although it does match my lip shade. Rather, as I always say, "If you are going to be Nontraditional, the worst thing you can do is hide it." Hence, the colorful nature of this issue of *NewsDirect*.

It occurs to me that maybe I should leave the quoting to those who have enjoyed more success with it than I. Here is one of my favorites from Vince Lombardi, the legendary coach for the Green Bay Packers. "Teams do not go physically flat, they go mentally stale."

> *"Teams do not go physically flat, they go mentally stale."*
>
> *- Vince Lombardi*

If there is one thing that we can say about our membership, we don't go mentally stale. There are always new challenges. Marketing methods, such as bank sales and Internet marketing may eventually rewrite the book on compensation, product design, underwriting, administration, and just about everything else. This means that we must consider all aspects of our operations in our work, and we must always be moving forward. That is a full-time and continuing task, and not one for the mentally stale.

While I do not want to overstate the importance of marketing, the ability to distribute product efficiently has always been one of the top priorities for my company (and now, my clients' companies). The inability to distribute sufficient product has led some companies to, and occasionally over, the brink of disaster. However, I like to believe an emphasis on marketing has more often brought us innovation and has brought us closer to our real clients, the insured public.

For those of you who are not yet aware, Julie Tani and I have assumed co-editorship of *NewsDirect*. We will alternate issues. I, having drawn the short straw, go first. We intend to publish once per quarter in an effort to stay timely.

I am proud to be associated with all of you as a member of this section, a few years ago as a Council member, and now in a new capacity as editor. I hope that you all join me in congratulating and thanking *Joe Brennan*, the outgoing editor. His contribution will be difficult to replace, but I will try my best.

I believe that the most important function of this newsletter is to keep the membership informed as to the activities of the council and its members. Keeping up with such a dynamic and diverse membership is not an easy task. I would like to enlist your help by bringing upcoming events of interest to our membership to our attention.

Many times, all it will take is a cc: on an e-mail. My address is *buchanan@qni.com*. Julie's is *julie.tani@transamerica.com*.

You will notice we have dedicated a large portion of this issue to the upcoming Toronto SOA meeting, as

well as several seminars and the Product Development Actuaries' Symposium premiere. It will be our hope to report information on meetings when they are on the drawing board (so you can plan ahead and/or participate), all the way through reports from the attendees after the event.

It is also our goal to be thorough in our coverage of membership activities and interests. We will try to be thorough in our coverage of the "traditional" Nontraditional arenas of Direct Marketing and Credit Insurance. But at the same time, we will be proactive in our efforts to bring you articles and information on activities in the areas of Pre-Need, Seniors, Bank and Electronic Marketing.

I thank all of the contributors to this edition of *NewsDirect*. I hope to be working with many more of you in future issues. If you have any comments, please feel free to call, write, or e-mail. I will always welcome your help and participation.

To Infinity and Beyond!

from page 1

of scale and customer relationship management will be the profit levers.

Internet Environment

The Internet will create an environment where more products are bought (vs. being sold), creating more demand for commodity products. Very few people challenge the notion that the Internet will impact the financial services industry; the question now is to what degree. Auctioning sites have already changed the forces of negotiating power for nearly all other types of products except financial

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services. It is just a matter of time before financial service products are offered in a similar manner. From a price and benefit perspective today, insurers offer only one price and benefit structure for individual policyholders within a given risk class. The individual policyholder can't change the price offered by a company. In the future, potential policyholders could have access to distribution channels that will allow the prospective policyholder or groups of policyholders the ability to negotiate both price and benefits. The industry will be challenged to ensure fair pricing structures that don't invite state regulatory action.

Prism Effect

The prism effect of the Internet on target marketing remains mostly untapped. The Internet takes the white noise of the masses and produces laser-thin streams of light, broken out by almost any demographic profile one could ask for. Internet profile mining will be a discipline in high demand by direct marketing companies. Advertising on different Web sites is already a common practice, but determining the right sites to find the right customers is a monumental task. Portals, vortals, and community forum sites will continue to refine and separate Internet traffic demographic profiles.

Market pressure from the Internet demands that the underwriting and issue process become instantaneous. Issuing and fulfilling contracts completely online will soon become commonplace. Underwriters and testing labs are racing to create non-invasive medical testing methods and other underwriting processes to shorten the fully underwritten policy process from weeks to hours. The trend in the '90s has been to move away from complete medical exams toward the use of parameds. The trend in the next decade will be processes that can be conducted completely by insurance producers without the use of a paramed. One testing lab recently discussed the conceptual design of body fluid testing modules being built into laptop PCs. This testing module, combined with a wireless Internet connection to the home office for DMV and MIB checks, would allow a producer to complete the underwriting process and issue a policy during the same visit to a prospect's home or business. Underwriters are also developing non-medical underwriting techniques that are almost as predictive as medical underwriting techniques. Direct marketers will quickly employ them as they become available.

Repackaging insurance benefits with non-insurance products will likely be a future trend. Some recent conceptual trial balloons include combining P&C coverage with a new car at the time of sale and packaging health benefits with output shares of organic farms. Unbundling and repackaging of traditional benefits will help create products that better serve niche markets and avoid the slim profit margins of commodity products.

Although products might be combined in the future, the entire insurance process is likely to be taken apart. The process of unbundling the manufacturer, administrator and producer, will occur more often. We will see more and more companies focusing on their core competencies due to pressure from Wall Street.

Direct Mail and Telemarketing

The future of direct mail and telemarketing will be dependent on the efficiency of target marketing. With the costs of mail, paper, and phone time continually increasing, identifying more qualified potential customers is critical. This is nothing new to any of us in the direct marketing business. What will likely change are some of the products offered. Today, there are a number of insurers offering guaranteed issue or near-guaranteed issue life and health products. As players in the industry learn to target market more effectively, guaranteed issue products might become less profitable because of the law of large numbers.

Guaranteed issue products work today because an insurer can acquire a pool of both good risks and not-so-good risks. As the good risks become more targeted with products that fit their needs better, the pool available to buy the guaranteed issue products will have a higher proportion of the not-so-good risks. The challenge to direct marketers will be to come up with new profitable products that meet the needs of this market.

HR-10

A discussion of marketing efficiency would not be complete without talking about some possible implications of HR-10 (a.k.a. S900 or the Financial Services Reform Act of 1999). HR-10 repeals the Glass-Steagall Act, which effectively removes the barriers of banks, insurers and security firms from owning each other. In addition, HR-10 allows subsidiaries with common ownership to exchange customer data freely. Customers must be given a chance to "opt out" of the process.

This could put mutual insurance companies at a competitive disadvantage, further fueling the demutualization and consolidation trends. Industry analysts predict that it will be the banks acquiring insurance companies, as opposed to the other way around. A direct marketing insurance company that is owned by a large national bank can significantly reduce its acquisition costs if it has access to the bank's customer data.

Another interesting aspect of HR-10 deals with customer privacy issues. The privacy provisions within HR-10 can be superceded by state law if a state has stronger privacy laws than HR-10. This could give banks a taste of the environment that insurers have always had to deal with — state-special laws that increase the cost of administration. Regardless of who will be regulating privacy issues, the use of disclosure will increase for most companies.

There will be growing pressure to unify state regulation with regard to insurance products. The pressure exists today when banks can offer products that look and smell like insurance products, but escape state regulation. The cost of administering national bank products that behave like insurance products is cheaper than the cost of administering insurance products that require individual state filings and state-specific versions. This cost savings will be passed on partly to the consumer and partly to the stockholders of the banks.

The unification pressure will increase with time. States will have to learn to agree with NAIC model regulations without modification or they could ultimately lose power to regulate insurance products, either directly through legislation or indirectly through market forces.

Banks will continue to gain market share with regard to distributing insurance products. They have succeeded with annuities, but have struggled with other product lines. California Federal Bank is now successfully selling life insurance. Their success came with many failed attempts, but they now have a sales model that works. If this success spreads nationally, more products will be attempted in the future.

Insurance Contracts

As mentioned earlier, it is likely that prospective customers will gain negotiating power with regard to price and benefits through auctioning methods as well as others. This trend also could impact contract language as well. Today, insurance policies are considered contracts of adhesion, meaning that the insurance company writes the contract language and offers the contract to a prospective policyholder on a "take it or leave it" basis. Because of this, courts have sided with policyholder in the cases where there is any ambiguity in the contract language. As marketing becomes more individualized, insurers could allow prospective policyholders to participate in negotiating contract language. The insurance contracting model that's common today is the insurer making an offer with an insurance contract and the policyholder accepting the offer by making a premium payment. This model could change to one with iterations of counter offers. If this became reality, insurance contracts would no longer be considered contracts of adhesion, and we would have to hope that the courts would adjust.

Looking Ahead

It is fun speculating on the future. How will the Internet affect direct marketing? How will HR-10 affect the industry? What new products will we see? It's clear that we have many challenges ahead of us, but the next couple of decades will be exciting for those who are creative and nimble.

Steve Konnath, FSA, MAAA, IAA, is the lead actuary for the direct marketed products actuarial team at Physicians Mutual Insurance Company in Omaha, NE and a member of the Nontraditional Marketing Section Council. He can be reached at steve.konnath@pmic.com.

NAIC Receives Morbidity Table for Credit Disability

by Steven L. Ostlund

The Society of Actuaries formed a task force in September to provide a recommendation to the NAIC on the appropriate standard to use in the valuation of Credit Disability insurance. The task force made its recommendation on November 30, 2000, to the National Association of Insurance Commissioners' Accident and Health Working Group (A&HWG) of the Life and Health Actuarial Task Force.

The A&HWG will now decide how to implement the recommendation through revision to the Health Insurance Reserves Model Regulation and Statements of Statutory Accounting Principles. Following this review, the group will consider adopting the changes at their next meeting in March 2001.

Morbidity Standards

The Society of Actuaries' Task Force to Recommend Morbidity Standards for Valuation of Credit Disability built upon the work of the paper "A Credit Disability Morbidity Table" (published in the special supplement to the summer 2000 issue of *NewsDirect*).

It also relied upon techniques developed by a previous SOA task force that recommended changes to the claim reserve standard for Individual Disability Income.

Specific issues addressed by the task force included how to reconcile divergent experience of 30-day elimination period plans to that of 7-day and 14-day plans.

Another issue that needed reconciliation was the interpretation of SSAP Issue paper 59 that seemed to obviate the need for a morbidity standard. Robert Butler and Steven Ostlund, representing the task force, discussed both issues in the presentation to the NAIC.

Due to the length of the report and the several Appendices, we have reprinted the Executive Summary below and on page 7. A copy of the full report can be obtained by contacting the editor.

Steven L. Ostlund, FSA, MAAA, is a consulting actuary at Actuarial Consulting in Cordova, TN, and a member of the Nontraditional Marketing Section Council. He can be reached at osteve22@aol.com.

> ***"Specific issues addressed by the task force included how to reconcile divergent experience of 30-day elimination period plans to that of 7-day and 14-day plans. Another issue that needed reconciliation was the interpretation of SSAP Issue paper 59 that seemed to obviate the need for a morbidity standard."***

Task Force Executive Report Summary

Policy reserves for single premium Credit Disability Insurance are currently based upon gross unearned premiums. The Task Force has developed a recommendation to adjust the 85CIDA for use as a morbidity standard for these reserves. The task force built its analysis based upon the paper, "A Credit Disability Morbidity Table," and the statistical methods used by the Individual Subcommittee of the SOA's Task Force to Recommend Morbidity Standards for the Valuation of Group and Individual Disability.

We recommend that the 85CIDA be used as a morbidity reserve standard with incidence rates increased 12%. The resulting policy reserves will be approximately 72% of current unearned premium reserves, but will have a margin of approximately 44% over aggregate experience reserves. To avoid discontinuity between plans using different elimination periods, we recommend that the 14-day elimination period tables be used for both 14-day and 30-day plans.

The study used data provided by 17 contributing companies on single premium policies issued in 1997 to develop an exposure base. These companies wrote in excess of 70% of all Credit Disability premium in 1997. Premium and claim experience was drawn from the NAIC's Credit Insurance Experience Exhibit for these 17 companies as well as for four non-contributing companies. Based upon each company's unique distribution of insureds by age and term of insurance, we could develop an expected claim cost for each plan of insurance written by that company using the 85CIDA. We were able to develop a single actual claim cost for each company by using its distribution of insurance by term and its distribution of premium by state. We first developed a single rate by weighting the prima facie premium rates in each state by the premium volume of that company in that state. By multiplying the single rate by the prima facie loss ratio, we obtained a claim cost.

This claim cost was compared to the expected claim cost developed from the 85CIDA to develop actual to expected ratios. A statistical analysis of these ratios showed that the chosen adjustment factor would develop reserves greater than the experience morbidity reserves 85% of the companies would establish.

Beyond looking at the number of companies covered by this standard, we also determined that 94% of the premium volume for the contributing companies would be covered.

The task force did not study the effect of interest or mortality discounting in this report. Based upon the relatively short duration of credit insurance contracts, interest discounting would not have a significant effect. We recommend that interest discounting be allowed in a new standard. The benefit paid upon death is refund of premium, therefore, we recommend that no mortality discount be incorporated.

The task force did not have termination from claim experience readily available, thus, we do not make a recommendation to change claim reserve standards.

Appendix 2 in the report discusses the difference between a morbidity reserve standard and an unearned premium reserve standard and why the former should be allowed. This appendix also analyzes amounts recoverable upon refund and the actual lapse experience of the Credit Insurance Industry. Reference is made to the requirement to evaluate reserves relative to the refund liability and to establish excess amounts if needed.

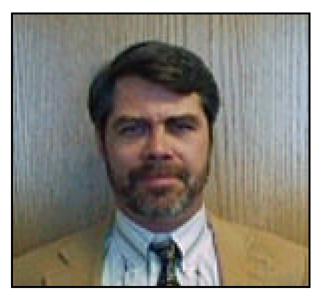
TASK FORCE REPORT EXECUTIVE SUMMARY

"We recommend that the 85CIDA be used as a morbidity reserve standard with incidence rates increased 12%."

TRADITIONAL NONTRADITIONAL MARKETING EVENT!

Wine, cheese, good company — all three made the Nontraditional Marketing Section Reception at the SOA Annual Meeting in Chicago an enjoyable time for all attendees.

Carl Meier, retiring Section chairperson, introduced the other retiring Section Council members — *Grant Hemphill* and *John Yanko*, thanking them for their service to the Section. *Joe Brennan*, in absentia, was thanked for his three years as the Section's newsletter editor. Moving on to the 2000-2001 Section Council, Carl introduced newly-elected members *Tom Bakos*, *Steve Cooperstein*, *Steve Konnath*, and *Theresa Resnick*, as well as new chairperson *Jim Smith*. Jim, in turn, introduced the new vice-chair *Mike Fix* and secretary-treasurer Theresa Resnick. Section members also met the new *NewsDirect* co-editors *Julie Tani* and *Chris Hause*.



Christopher Hause
NewsDirect *Co-editor*

Concluding the "business" portion of the reception, Jim Smith presented Carl with a framed copy of the Section's mission statement, logo, and the 1999-2000 roster of Council members.

As is usually the case, the balance of the session was given over to renewing old acquaintances and making some new ones. Our thanks to everyone who stopped by to visit. We look forward to seeing you next year in New Orleans, if not before.

The NonTraditional Marketing Section of the Society of Actuaries presents:

Successfully Selling Insurance in Banks - The Whole Picture for Bankers & Insurers

Washington, D.C. - February 8 & 9, 2001

by Maria Thomson, R. Alan Wade, Steven L. Ostlund, Barnett D. Ovrut, and Les Webb

Synopsis

Though a strategically critical development for both insurers and banks, selling insurance "protection" products through banks has been, for many, an extremely difficult thing to do. To be effective, the wide gulf between insurance and banking cultures must be faced and overcome. This seminar shows bank-insurance would-be and current practitioners how to successfully do so.

The specific areas to be covered include:

- Sales models and strategy
- Tailoring insurance products and services for the bank market
- Financial and legal issues
- The relationship between bankers and insurers.

Since Great Britain's financial services environment bears many similarities to our own, and whereas British "bancassurers" have spent at least 20 more years than their US counterparts integrating their banking and insurance industries, many useful lessons can be gleaned from the experiences of practitioners overseas. Such lessons will be fully explored in this conference.

The Faculty

Maria Thomson, FSA, MAAA
Managing Principal, Thomson Management Solutions, Inc.
Maria is a specialist in insurance product development for nontraditional distribution channels.

R. Alan Wade, CLU
Principal, Thomson Management Solutions, Inc.
Specializing in bank insurance sales operations, Alan built and managed a twelve-state insurance sales organization for a major bank.

Steven L. Ostlund, FSA, MAAA
Principal, Actuarial Consulting
Steve has an extensive background in the credit insurance field, both in product development and valuation roles.

Barnett D. Ovrut
Attorney At Law
Partner, Morisson, Mahoney & Miller, LLP
Barney specializes in insurance law, including general corporate, transactional and insurance regulatory matters.

Les Webb, FCII, FLIA, FInstSMM
Strategic Marketing Director, NMG Europe
Les, based in London, is a member of NMG, a multinational actuarial/ distribution consultancy with branches in over 15 different countries. He has advised bancassurers in Europe, Asia, South Africa, Australia, and North America.

Overview - Day 1

1:00 - 1:15 pm
Why Sell Insurance in Banks at all?
The strategic reasons for, and benefits of, selling insurance through banks will be outlined and examined.

1:15 - 2:30
Observing the Law: Understanding The Current Legal Environment
This session includes an overview of the impact of the GLB bill and privacy regulations, and will allow time for audience questions surrounding legal issues relating to various insurance and banking combinations.

2:30 - 2:45
Break

2:45 - 3:30
Relationship Structures Between Banks and Insurers: Options and Overview
An overview of the buy, build or partner options, with pros and cons.

3:30 - 4:30
Setting Things Up:
Bancassurance Models that Work
Effective sales and organizational structural models provided in this session.

4:30 - 5:00
Tailoring Sales Strategies:
Each Bank is Different
How and why sales models and product offerings should vary based upon the characteristics of a particular bank.

5:00 - 6:00
Break

6:00 onwards
Dinner After-dinner speaker
Les Webb will speak on British bancassurance models and developments.

Day 2

8:00 - 8:30 am
Breakfast

8:30 - 10:00
Bancassurance in England:
Facts and Fiction

This session covers the many lessons that can be learned from the British experience.

10:00 - 10:30
Break

10:30 - 12:00
The Match Game: Creating & Offering the Right Products
This session tells how to:

- Match products with target groups in a bank's customer base
- Identify and select appropriate distribution approaches
- Tailor products and support services for bank distribution

12:00 - 1:00
Lunch

1:00 - 2:30
Pricing and Finance:
Issues to Consider

This special session focuses on:

- Bank vs. insurer methods of reserving
- Uses of reinsurance
- Compensation
- Pricing & other financial issues

2:30 - 3:00
Banks & Insurers:
Ways to Play Nicely Together
The cultural differences between the two industries will be outlined here, including how to avoid the most common mistakes.

Who Should Attend:

Professionals working in the area of selling insurance through banks who want to learn more about how to do it successfully.

What You'll Learn:

Knowledge and techniques for building effective bank insurance sales operations or for expanding the success of existing operations. Both insurer and banker perspectives will be addressed and audience participation will be actively encouraged. All participants' questions will be addressed, and you will benefit, too, from the experiences and ideas of others in attendance.

Though the full range of issues will be addressed (sales models and strategy, tailoring insurance products and services for the bank market, financial and legal issues, the relationship between bankers and insurers), an advanced version of this seminar is also being planned as a follow-up.

Level of Difficulty:

Some experience in this field is suggested.

Attire:

Business casual attire is appropriate for this seminar.

Editor's Note:
This seminar was successfully presented prior to this issue being released. A report will be provided in a future issue. More than 50 people attended the seminar. Interestingly, nearly two-thirds of the registrants came from non-actuarial disciplines. For more information on Bancassurance, please note several sessions at the Toronto meeting will deal with this subject (see page 12), and the report beginning on page 14 describing an Annual Meeting session on Bancassurance prepared by one of the seminar panelists, Maria Thomson. Copies of the handouts and slides from the seminar can be purchased by contacting Barbara Choyke in the Continuing Education Department of the Society of Actuaries.

Quantitative Marketing for Actuaries

by Jay M. Jaffe

Approaching the marketing (of any product) from a quantitative perspective should be natural for actuaries because of our inherent abilities, background, and training.

Unfortunately, most actuaries in the insurance or related financial business are never exposed to the actual marketing of the products they develop or are not involved with product marketing on a daily basis, and so our quantitative marketing skills have either never been developed or probably have atrophied.

On November 11, 2000, the Nontraditional Marketing Section of the SOA sponsored a seminar in New York expressly for the purpose of either refreshing or providing actuaries with an exposure to "The New Direct Marketing." This type of marketing relies heavily on quantitative skills and thinking.

The session leader was David Shepard. David is a very articulate and entertaining speaker, so learning rather detailed subjects was very enjoyable. David was accompanied by one of his associates, Richard Deere, who is an expert in market segmentation.

Perhaps the most important general point which David made during his presentation was his description of the insurance business. From his perspective, insurance is not unique and resembles any other continuity program.

Probably the most famous continuity program is the Book-of-the-Month Club. The BOMC is very much like the insurance business because it markets an initial product (several books at very low cost) at a loss and relies on renewals to make it money. Similarly, in the insurance business, as any actuary knows, the initial premium payment doesn't pay for the cost of marketing and issuing a new policy, and so the company must rely on the renewal premiums to recover its initial outlays.

While it may reduce the glamour of insurance to think of insurance as simply another continuity marketing program, when viewed in this light, it may make it easier to apply the techniques used by other businesses to help improve insurance operations.

The broad topics covered at the meeting included:

- Predictive modeling
- Building response models
- Practical modeling issues
- Market segmentation

The materials covered by David and Richard are not just applicable to the front end or response facet of marketing. The techniques they presented at the meeting are just as applicable to retention and are used in other business expressly to predict which customers will continue.

Even in companies which do not use direct marketing, there are many other applications of the concepts presented at the seminar. For example, a company might use the types of predictive models presented by David to identify which insureds are most likely to lapse and take preemptive action to minimize the probablility of lapse. Such a program could also incorporate an evaluation of how much it is worth spending to retain each insured.

As a bonus for attending the meeting, everyone received a copy of the 3rd edition of *The New Direct Marketing* by David Shepard Associates (published by McGraw-Hill, $79.95). This book is a comprehensive review of direct marketing, data bases, modeling, and the economics of direct marketing including lifetime value. It is a must addition to the library of any actuary with an interest in marketing and, specifically, direct marketing.

Jay M. Jaffe, FSA, FCIA, MAAA, is president of Actuarial Enterprises Ltd. in Highland Park, IL. He can be reached at jayjaffe@compuserve.com.

NonTraditional Marketing, Product Development, and Reinsurance Sections Sponsor the Product Development Actuary Symposium

May 2001, Chicago, Illinois

We are looking forward to this first of many "Product Development Actuary Symposiums." The intent of this symposium is to provide product development practitioners with a venue to learn, network, interact, and hone their skills. This is especially important in today's rapidly changing regulatory and business environment. To give you a flavor of the session, below is an advance preliminary agenda. Many thanks to Jay Jaffe and Theresa Resnick for this pioneering effort.

Day 1

12:00 pm - 1:15 pm	Box Lunch General Session State of the Industry
1:30 pm - 3:00 pm	Financial Services Reform
3:00 pm - 3:30 pm	Break
3:30 pm - 5:00 pm	Concurrent 1,3,5
6:00 pm - 7:30 pm	Reception

Day 2

8:00 am - 9:30 pm	General Session Product profitability – target and actual
9:30 am - 10: 00 am	Break
10:00 am - 11:30 am	Concurrent 2,4,5
11:30 am - 1:00 pm	Lunch
1:00 pm - 2:30 pm	Concurrent 2,3,4
2:30 pm - 3:00 pm	Break
3:00 pm - 4:00 pm	The Future of the Industry

Concurrent Sessions

1	Distribution
2	Modeling techniques Pricing tools and methods Assumption setting
3	Regulatory environment
4	Risk management Capital markets solutions Negotiating reinsurance
5	Product development process/speed to market

Additional sessions under consideration:

A Asset retention

B Competitive environment

NTM Sponsors a Variety of Sessions in Toronto

Your Nontraditional Marketing Section will be very busy and visible at the spring Society of Actuaries' meeting in Toronto, Canada. Here is a sneak preview of each session. Congratulations and thanks to Mike Presley, the spring meeting coordinator. As always, we invite any or all of you to speak, moderate, record, attend, and otherwise support these sessions.

Bancassurance - Notes From Europe

Specialty Track: Non Traditional Marketing/ International

Format:	Panel Discussion
Moderator:	Paul Nitsou
Panel:	Toon Bullens

This session provides an overview of trends in the European bancassurance market and a case study of one successful Dutch company. At the conclusion of this session, participants learn forces affecting bancassurance in a different market including the experiences of a successful bancassurer. *This session is designed for attendees who have no experience with the subject.*

Session Coordinator: Paul Nitzou

Customer Relationship Management (CRM) - A Case Study

Specialty Track: Non-Traditional Marketing
Format: Case Study

Case studies are presented on the way successful companies manage and leverage customer relationships to sell multiple products to their customers over time. The case studies emphasize what works today in CRM and current trends.

At the conclusion of this session, participants learn:
* Benefits of CRM
* Practical techniques for applying CRM
* The application of CRM in your environment

This session is designed for attendees who have moderate experience with the subject.

Session Coordinator:
Maria Thomson

Customer Relationship Management (CRM) - Opportunities in the New Economy

Specialty Track: Nontraditional Marketing/Product Development

Session Format: Interactive Forum

Moderator:	David Florian
Panel:	Eric Denham
	Kevin McKenna
	David Florian

Participants are introduced to new channels of distribution for insurance products: the Internet, Bancassurance, in-house orphan management and customer retention. Direct contact with the customer is different from working through a traditional agent. A well-conceived CRM strategy is required. This session explores the opportunities a direct relationship with the consumer affords. They also address channel conflict risk.

At the conclusion of this session, participants understand new channels of distribution and how a well thought-out CRM model permeates all aspects of a new business strategy. This session is designed for attendees who have no experience with the subject.

Session Coordinator:
David Florian

Customer Relationship Management (CRM) - How Do You Model a Customer?

Specialty Track: Nontraditional Marketing/Computer Science

Session Format:
Teaching Session
Instructors:
Michael Shumrak
Paul Turner

Why does CRM matter?
Participants learn how CRM can leverage your company's distribution channel(s), increase sales volumes and lead to greater customer persistency.

How do you model a customer?
Actuaries are accustomed to modeling products and policies. CRM requires modeling customer relationships and actuaries need new tools and thinking in order to achieve a strong understanding of the financial value that current and potential customers represent to their company. At the conclusion of this session, participants learn state of the art modeling techniques and which CRM strategies promise the highest return. *This session is designed for attendees who have no to moderate experience with the subject.*

Session Coordinator:
Paul Turner

Customer Relationship Management (CRM) - Privacy Issues

Specialty Track: Non-Traditional Marketing
Session

Format:	Panel Discussion
Panel:	Mark Gorman

With the passage of the Graham/ Leach/Bliley Act and other legislation affecting privacy, CRM must adjust to new challenges and requirements. This session considers:

- Updates on national and state-specific privacy legislation
- The impact of privacy concerns on direct marketing and other CRM models
- "Safe harbors" for CRM in the US and Canada

Participants have the opportunity to share individual company approaches relating to privacy issues.

At the conclusion of this session, participants have enhanced knowledge on a timely and controversial topic and learn policies and processes that can minimize a company's risk. This session is designed for attendees who have moderate experience with the subject.

Session Coordinator:
David Seidel

Customer Relationship Management (CRM) - A Primer

Specialty Track:
Nontraditional Marketing
Session Format: Teaching Session

This session addresses the techniques, methods, and processes that make the most efficient use of an insurer's investment in its client base. It also addresses how to maximize customer value.

Instructors define CRM and its necessary place in any modern marketing program. They discuss:

- Tools and techniques
- Approaches to maximize customer value to the firm
- Areas in which improvement in life insurance marketing can be made
- The importance of defining and focusing on the "customer"
- The effect of alternative distribution means (e.g. Internet) on customer relationships

At the conclusion of the session, attendees leave with a better understanding of what CRM is and why its mastery is important in order to be a successful company.
This session is designed for attendees who have no experience with the subject.

Session Coordinator:
Tom Bakos

Hot Topics in Credit Insurance

Specialty Track:
Nontraditional Marketing
Session Format: Workshop

Participants have the opportunity to discuss specific topics on items of critical interest including:

- Recent regulation
- Dynamics within the industry
- The newest thoughts on actuarial concerns
- Canadian vs. US practices

Participants ask questions, raise issues, and gain a better understanding of current thinking among their peers. Please come prepared to contribute to this discussion. *This session is designed for attendees who have* ***all levels of experience*** *with the subject.*

Session Coordinator: Steve Ostlund
Co-Chairs:
E.Perry Kupferman and
Jean-Francois Paulin

Is The Next Generation Insurance Business Model The "Virtual Insurance Company?"

Specialty Track: NonTraditional Marketing/Product Development
Session Format: Panel Discussion
Moderator: Ed McKernan
Panel: Ihor Hron (Guest)

Over the past several years, there has been an emergence of low cost insurance providers. Does this create a new playing field, which becomes fertile ground for the virtual insurer? During this session, the panelists address:

- What is a virtual insurance company?
- Is it a more efficient means of manufacturing?
- Are functional costs truly variable? Does this mean low cost?
- Are time frames collapsed for the various insurance functions?
- Does delivery speed and convenience diminish branding?
- How does it affect the overall sales distribution strategy?
- Risk management
- "Security" and privacy concerns

The session challenges participants to consider the insurance landscape over the next five to ten years, and how existing business models need to evolve to meet the challenges facing the industry. *This session is designed for attendees who have* ***no to moderate experience*** *with the subject.*

Session Coordinator:
Ed McKernan

Products and Services for the Bancassurance Market:
SOA Annual Meeting Panel Insists "Tailoring A Must"

"Insurers must tailor their products and services to meet the needs of banks and their customers," said Maria Thomson, FSA, MAAA, a panelist at a session addressing this issue at the year 2000 SOA Annual Meeting. "This approach is essential for insurers wishing to form successful partnerships with banks and sell effectively in the bank insurance market." Managing Principal of Thomson Management Solutions, an international bancassurance consulting firm based in Brimfield, Massachusetts, Thomson was directing her remarks specifically at the matter of how to tailor products for the bank market. Her two co-panelists, Alan Wade, CLU, also of Thomson Management Solutions, and Belinda Monat, President of Mynd's outsourcing division, explored related areas, including bank insurance sales (Wade) and service requirements for the bank market (Monat).

Reviewing the sales perspective, Wade explained how banking and insurance have been steadily converging as computers and the Internet replace banks' traditional businesses, and as insurers struggle with distribution and shrinking margins. "Though insurance and banking can provide real solutions for each other, this convergence isn't happening as quickly as it could," Wade said, "chiefly because of mistakes being made on both sides."

Wade then listed a variety of typical insurer mistakes, including:

- **Unreasonable expectations for short-term results** – there must be a long-term commitment to this market, Wade said

- **Neglecting to consider, "What's in it for the banker?"** – Wade said to remember to enlist the support of the branch managers

- **Failure to understand banking culture** – "Most insurers don't!"

- **Traditional products & underwriting** – nontraditional distribution approaches require special products and servicing, according to Wade

- **Servicing as a product provider only** – "Banks need lots of help with selling."

- **Confusing life with annuities** – protection products are a tougher sale for banks than investment products, Wade explained

- **Being difficult to deal with** – "Remember to make it easy for a bank to work with you."

- **Long-term only** – the insurer should be willing to wait for prof its, even while trying to get their bank partners a quick return. Bankers' business tends to be oriented around quick profits, Wade explained.

- **Overreacting to Europe** – "While we can learn from Europe's successes in bancassurance," Wade commented, "their environment is quite different from ours. Be very cautious in drawing conclusions from their experience."

To work well with banks, insurers really must consider just how banks are different, Wade added. For example, they are generally more conservative and risk averse than insurers, and also much more concerned about offending their customers. Bankers are transaction-oriented too, not very sales-oriented, and they think short-term and fail, for the most part, to fully understand the insurance market. They are also often reluctant to "fact-find."

To ease the merger between these two differing operations, Wade stressed the importance of matching insurance products to the businesses of the banks. For retail banking, an insurer should offer easy issue Life & DI, personal lines P&C, Annuities and LTC. The Trust/Private Banking area, on the other hand, is good for traditional upscale Life, traditional DI, LTC and Annuities while the commercial/small business banking area could sell COLI, Group and voluntary worksite, and commercial P&C products. For lending, Term Life, Homeowners and Auto are likely options. Finally, Wade remarked that a bank's credit card area could be used to offer direct mail products.

Tailoring Products for Banks

Concurring with Alan Wade's remarks on the need for product tailoring, Maria Thomson next led a discussion of product features most attractive to banks and their customers.

Bank management prefers proprietary products, she said, either designed to their specifications or wrapped around bank funds. Revenue enhancements also appeal to banks and can be offered by letting the bank do some of the

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policy servicing, by providing profit sharing, and via production bonuses.

For upscale and corporate market customers, standard products work fine, Thomson said. The downscale market, however, requires products be simple and affordable, and the sales process faster. Sales reps like a faster issue process, both because compensation comes more quickly and because a speedy process means less likelihood they'll lose a sale due to lengthy waiting periods. Sales can be speeded up in a number of ways: limiting the volume of medical questions, utilizing simple needs-analysis software, or employing sophisticated point-of-sale software (a developing area). Improved POS programs will feature, in addition to needs-analysis, underwriting capabilities, an MIB link, and policy printing ability.

Thomson feels that an additional key to affordable products is to streamline them by offering fewer bells and whistles. Thus any special features should be placed within riders tacked on to a base policy. This allows the agent to further tailor a product offering in a complex sale situation. The riders can also be added on post-sale via direct mail marketing or by the salesperson during a follow-up review with the policyholder.

Winding up her comments, Thomson explained that flexible products (universal life, for example) can be packaged into a few basic premium and benefit combinations that, once again, will simplify the sale. Distribution techniques should be tailored, she said, to the type of product: face-to-face distribution for upscale products and somewhat complex downscale products, seminars for LTC, and direct response for term life and auto.

Tailoring Services for Banks

Belinda Monat explained how insurers can offer superior service for the bank market. "Market expectations for bank service now consist of self-service (the ATM model), connectivity (consolidated financial services), speed (zero time), and knowledge (available, accessible)," she said. To meet these expectations, insurers must strive for point-of-sale service, integration with banking functions, and service customization by product.

To speed up the sales process, qualify prospects with a few simple questions, she said. Applications can be filled out on computers, with bank data utilized to pre-fill some of the fields, and by electronically transmitting signatures directly to the insurer, along with a fund transfer or electronic check of the initial premium. Both premium and application can then be in an insurer's hands on the same day as the sale.

As regards underwriting, Monat maintained this can be accelerated with tele-underwriting, expert systems, and a paramed service. Applications can be routinely approved at time of sale, either by utilizing point-of-sale software or via a ready link to the insurer's underwriters. A policy can then be printed at the bank or e-mailed.

For in-force service, which the insurer must provide directly, Internet access can provide links to and from the bank Web site, giving the customer ready access to his/her policy data and values. This also allows transactions to be performed online. When the customer calls, interactive voice response technology can permit the customer to enjoy most essential services on a self-service basis. However, live CSRs must be available, too, for callers who want human access. These CSRs should be trained in the "bank view," that is, they should know what bank the customer is with.

For insurers who do not yet have technology or processing procedures in place to provide superior bank service, Monat explained that there are many outsourcing solutions available. Also, when services are developed internally, insurers should remember to take advantage of existing bank facilities and technologies.

All three panelists agreed that people will definitely buy insurance from banks, listing many reasons everyone has a bank relationship, people trust banks sufficiently, banks have convenient locations, and banks are perceived as a natural fit for insurance product sales. If insurers only take proper steps to provide tailored, desirable products and services for bank customers, the panel concluded, both banks and insurers, and customers of both, will come out clear winners.

Summary of 2000-2001 Activities

One of the primary reasons for the *NewsDirect* is to keep our membership apprised of the activities of the membership. We are listing below the responsibilities of the hard-working people who will be your representatives at seminars, meetings, newsletter, and SOA activities. Please join me in thanking these people for volunteering, and support their efforts any way you can.

1. *NewsDirect* Editors - Chris Hause and Julie Tani
2. Direct Marketing Seminar - “Magic or Science: Quantitative Marketing for Actuaries” - Jay Jaffe
3. 2001 Spring Meeting Coordinator - Mike Presley
4. 2001 Annual Meeting Coordinator - Howell Pugh
5. 2002 Spring Meeting Coordinator - Steve Cooperstein
6. 2002 Annual Meeting Coordinator - Tom Bakos
7. Product Development Actuary Symposium Coordinator - Jay Jaffe and Theresa Resnick
8. International Nontraditional Marketing Seminar - Theresa Resnick
9. Bancassurance Seminar Coordinators - Steve Ostlund and Maria Thomson
10. Course 7 Committee Representative - Steve Konnath
11. Continuing Education Coordinating Committee Representative - Theresa Resnick
12. Web Master - Howell Pugh and Chris Hause
13. Life Practice Representative - Mike Fix
14. Health Practice Representative - Steve Ostlund
15. Technology Coordinator - Steve Cooperstein
16. Product/Channel Directory Update - Mike Fix

2001 Nontraditional Volunteer Meeting Editors Wanted

Review *Record* manuscripts from SOA meetings (that have already been edited for grammar, style, and format) for actuarial content and accuracy. Work with SOA staff and moderators to help us get the *Record* sessions onto the SOA Web site faster. Contact Rich Cruise at *rcruise@LincolnDirectLife.com* or 402-421-5677.

NTM Council Teleconference Schedule for 2000 - 2001

The following telephone conferences will begin at 10:00 Central Time. The call will last at least one hour, but will not continue beyond 1 ½ hours, unless there is a critical issue that cannot be postponed.

December 5, 2000
January 31, 2001
May 8, 2001
July 11, 2001
September 11, 2001

Our semiannual face-to-face meeting is scheduled for 10:00-3:00 Central Time on **March 20** at the Chicago O’Hare airport.