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Newsletter of the Nontraditional Marketing Section

NUMBER 39 JANUARY 2002

New Technology Helps Insurers Simplify Sales and Speed Issue:

Mid-Market Sales Now Feasible

by Maria N. Thomson

The survival of the vast majority of life insurers — more than 1,000 companies — will depend on their ability to sell protection products to the vast middle market that the giant companies have abandoned. There's a huge opportunity here, but only the companies that adopt new technology and processes will be able to thrive in this market.

Today just 20 conglomerates dominate the life insurance industry, writing more than 80% of new premium, according to LIMRA. These insurers sell investment products (annuities, mutual funds and single-premium life) to everybody and protection products (primarily life insurance) to the affluent.

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Chairperson's Corner

Displacing a Host of Hoary Apocrypha

by James B. Smith, Jr.

During the past year I changed jobs — more specifically, I changed industries! After thirty years of wearing suits and starched shirts while engaged in the life insurance profession, I found myself in a fortunate position that allowed me to purchase a significant interest in a commercial construction company. I was attracted to owning my own business, rather than any repulsion from my prior work or company.

You are likely asking yourself the question "why the change?" — given the apparent contrast between the actuarial skills as an employee of an insurance company and the non-actuarial skills as an owner of a construction company.

When I examined my skill set before changing industries, I felt that I possessed 25% of the knowledge necessary for running a successful construction company. The remaining 75% represented

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the esoteric knowledge of construction. To my pleasant surprise, I quickly discovered that the percentages should have been reversed. I had discovered that my business skills developed as an actuary are not confined to insurance.

In virtually every construction situation, I drew knowledge from my insurance experience. Here are some observations that displace a host of hoary apocrypha about the actuarial profession:

- **Distribution Channels:** During my early days in the construction industry, my partner and I had many discussions about the comparative effectiveness of independent and employee sales people. The need for selecting the optimal distribution channel was a major decision for us because the investment in an employee salesperson is very significant during the first year of employment. The decision was magnified because we were rapidly expanding our sales force due to the broadening of our sales territory. The numerous disc's-sions about alternative distribution channels while working in the insurance industry greatly aided our decision.

- **Capital Investments:** Another inter-industry comparison dealt with capital investments. For commercial construction, there is significant investment in equipment and buildings. The capital investments for insurance include policy acquisition costs for new policies. The capital expenditure is depreciated for construction, while amortized for insurance. Again there is a connection between the two industries.

- **Pro formas:** Given the significance of the preceding topics to the success of our construction company, we prepared a base pro forma of cash flows and earnings for the next several years. We also ran sensitivity tests using various levels of sales, expenses, and distribution channels. Again, I was reminded of the asset/liability testing and earnings projections in my life insurance days.

- **Marketing Tools:** To increase our construction sales, we needed some additional marketing tools. Consequently, we developed a training manual with construction specifications and photographs. We also decided to create an electronic database of suspects, prospects, customers and clients for thrice-a-year mailings of brochures. Although the brochures did not have the complexity of life in-

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

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

surance brochures, I was again reminded of my efforts with the insurance marketing department in developing brochures, proposals, advertisements, and training materials.

- **Sales:** Construction sales consist of ground-up construction and the re-imaging of existing sites. These sales categories for construction have insurance counterparts — namely, genuine new sales (the counterpart to ground-up construction) and replacements (the counterpart to re-image construction).

- **Product Diversification:** We launched a new product after a year of market research. Although sales were low during the first year, there were some wonderful outcomes. The exposure of the new product in trade shows increased the sales of our established products! Further, we met new salespeople who subsequently joined our sales force. While considering product diversification for construction, I thought about insurers broadening their product portfolios by adding annuities to their product offering and banks to their distribution channels.

- **Product Pricing:** Another deja vu occurred while pricing the new product for our construction company. Although the pricing for construction was not nearly as complex as asset share calculations for insurance, there were many similarities. In particular, pricing assumptions that have low visibility but significant earnings impact may lead to an improper business decision. I recalled the impact of subtle, embedded assumptions in stochastic pricing studies for insurance.

- **Opportunism:** To optimize profitability, our construction company needed to be opportunistic. An insurer might look to acquisitions for expanded sales and reduced unit expenses. Our construction company had the unusual opportunity of increasing the quality and quantity of our construction by hiring personnel from a long-time company that had experienced financial hardships because it was resting on the laurels of its successful past. In the words of a recent best-selling book, somebody had moved their "cheese," and we were adapting to change.

"An insurer might look to acquisitions for expanded sales and reduced unit expenses. Our construction company had the usual opportunity of increasing the quality and quanity of our construction by hiring personneel from a long-time company that had experienced financial hardships...."

- **Suppliers:** During meetings with the vendors of construction materials, I was reminded of my experiences with reinsurers. As a construction company, we were purchasing near-commodity products, which was virtually similar to my reinsurance experiences.

- **Cash Flow:** The last similarity deals with a fundamental of all businesses — cash flow. For insurance companies, cash flow during the entire lifetime of a policy ultimately determines profitability. The same is true of a construction company, although the time horizon is much shorter. A friend familiar with multiple industries recently told me that "CF = CF" regardless of the type of business.

Whether an actuary works an entire career within the insurance circle or migrates to another industry, the experiences and knowledge of actuaries have broad applications if recognized and utilized.

* * *

A final note — as I retire from the council of the Nontraditional Marketing Section, I would like to offer my heartfelt thanks for the hard work and accomplishments during the past year of my fellow council members — Mike Fix, Theresa Resnick, Tom Bakos, Steve Cooperstein, Steve Konnath, Steve Ostlund, Mike Presley and Howell Pugh.

James B. Smith, Jr., FSA, MAAA, is chief financial officer at SEC, Inc. in Shelby, AL. He can be reached at jbsmithjr@worldnet.att.net.

New Technology Helps Insurers Simplify Sales and Speed Issue Mid-Market Sales Now Feasible

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The percentage of households covered by life insurance has slowly declined since 1960, when it was 83%. Since 1984 this decline has been entirely attributable to dropping levels of individual life coverage. Furthermore, LIMRA surveys show a big drop in sales to people making less than $30,000 and significant increases to those making over $40,000.

European bancassurers are successfully selling insurance to the masses. Why have U.S. insurers failed to penetrate the mid-market — whether through banks, the Internet or direct mail?

Much of the problem results from the difficulty in getting underwritten products issued. In the mid-market, policies with simplified underwriting garner too much anti-selection to be cheap or profitable in most situations. Fully underwritten policies take up to two months to get issued, and the salesperson often must help the underwriters secure required information. After all this, many policies are not issued at the rate quoted. No wonder both salespeople and customers lose interest.

Fortunately, point-of-sale (POS) software promises to cut the red tape and make it profitable to sell underwritten policies to the mid-market. Here are the key features.

Needs Analysis

POS software can help mid-market salespeople without extensive financial-planning or product training sell a wide range of products. The program produces a fairly simple needs-analysis questionnaire for the customer and, based on the answers, recommends the types of products and amounts of coverage that the customer should have. This effectively sets the table for the sale. The software can be programmed to cover the entire range of insurance products, including life, health, disability and long-term care.

Electronic Application

The program asks the questions required for filling out the application, and once the salesperson enters the answers, fills out the carrier's application form. The software helps ensure complete applications because it prompts for missing data and provides "help" information.

The software then electronically transmits the completed forms and the data to the carrier — a huge savings in time and efficiency over mailing or faxing manual forms. This also saves time with paper-passing in headquarters if the carrier has an automated issue processing system in place — as it should.

Expert Underwriting

Expert underwriting software is always coupled with a Personal History Interview (PHI) that has drill-down questions about the applicant's health. This information is used both as input for the underwriting feature and to fill out the "Part 2" section of the application. The software usually specifies which lab tests are needed and even dials up the lab to make an appointment. And it usually includes a link that automatically retrieves MIB information.

By speeding the underwriting decision in many straightforward cases and eliminating human intervention, expert underwriting can dramatically cut costs. If there are no fluid or APS (Attending Physician's Statement) requirements, potentially a policy could be issued at time of sale. I don't know of any carriers currently using POS software to achieve field issue — but it's probably coming soon.

> *"By speeding the underwriting decision in many straightforward cases and eliminating human intervention, expert underwriting can dramatically cut costs."*

A Sampling of Software and Web Offerings

All the software now on the market uses the ASP (Application Service Provider) model — in other words, it is hosted on the web. Thus, copies of the software don't have to be disseminated among multiple offices and machines. Furthermore, since everyone is always working with the most recent version of the software, clients don't have to deal with conversions. However, if the software provider bites the dust, clients lose use of the software and may also lose their own client data as well. Because of this, many insurers are insisting on having the software hosted on their own machines.

In my view, the ideal software would provide all of the features described above and integrate illustrations as well. Thus, the salesperson wouldn't have to bounce among three or four programs to complete the sale. The ideal software would guide the mid-market salesperson through the entire sale, gather underwriting information and possibly even handle issue processing. Even if the policy isn't field-issued, the underwriting and issue processes would be sped up greatly.

Today, the product that comes closest to this ideal seems to be Worldinsure's software — which has everything except the illustration capacity. Worldinsure is only about a year old, and its product is just now in early trials with a few carriers.

With the exception of Worldinsure, all of the needs analysis software that I found were stand-alone. The needs analysis products on the market are generally geared for advanced financial planning. At least one vendor, Financial Profiles, is developing a mid-market product that does simple needs analysis for education funding, death, disability, long-term care and retirement. This product will be on the market shortly.

Several products take online applications: agentLIFE, Allfinanz and various quote services.

- agentLIFE provides a full-featured web site that provides various technology tools to connect the sales front-end with the back-end application and underwriting tools. Their core product supports the sale of permanent life insurance products by delivering an online sales process for illustrations, case analysis and marketing reports. This site is working with e-Nable to connect their sales platform with back-end underwriting tools.

- Allfinanz includes an expert underwriting feature and through e-Nable provides access to MIB and other databases of customer information.

- e-Nable, a subsidiary of MIB, does not provide point-of-sale software, but does provide underwriting support. It offers real-time access to MIB, motor-vehicle driving records and credit data. The company also will provide access to prescription medical history data soon. Additionally, it intends to offer expert underwriting software to clients. Its services are available to insurers' underwriting departments as well as point-of-sale software vendors. The hope is that the package of ready data that e-Nable provides will often let insurers dispense with other types of underwriting requirements.

Vendors of web-based technology for the insurance industry are proliferating. This is just a sampling of what is available.

The technology and services that let insurers radically speed new-business underwriting and processing are coming on-stream now. Companies that want to compete in the mid-market need to start moving forward today.

Maria N. Thomson, FSA, MAAA is Managing Principal of Thomson Management Solutions, Inc. She can be reached at mthomson@ tmsolutionsinc.com.

The Web sites for the vendors mentioned in this article are:

www.worldinsure.com

www.allfinanz.com

www.agentlife.com

www.e-Nable.com

www.profiles.com

Editor's Note

Tying it all Together

by Julie L. Tani

At first glance it may appear that this edition of the newsletter is a hodge-podge of unrelated topics. But there is a common theme (trust me on this); we're really talking about one of two things in each case; either nontraditionally marketing mainstream products, or marketing nontraditional products, or doing both, nontraditionally. If you recall the NTMS mission, by "nontraditional" we simply mean something that is not currently "mainstream," whether by design or because it is new; e.g., credit insurance is a nontraditional product, and the internet is a nontraditional marketing/distribution channel. The universe of nontraditional products and marketing processes changes through time; e.g., the internet is not yet mainstream, though in future years it may be completely integrated within our industry, at which point it would no longer be "nontraditional."

As an example of how this edition's articles address this theme, Jim Smith describes his experiences in nontraditional uses of actuarial skills — reminding us to consider nontraditional approaches in the work we do. With the stability of our industry and economy in question, it behooves all of us to assess our own skills objectively as we would be viewed by potential employers, even (and maybe *especially*) those who may <u>not</u> be in the insurance industry.

Next, Maria Thomson and David Florian discuss the hot new trends in point-of-sale software and streamlined (not the same as "simplified") underwriting. Whether for internet marketing or mainstream sales, these technological trends can help many of us in our quest for faster-turnaround, lower-risk policy issue.

You get the picture. In addition, what about using the internet or intranet for enhancements to sales office marketing? Contact management? There are some that believe "risk science" is the NBT (Next Big Thing). In essence the concept of risk science addresses (or perhaps *raises*) questions such as: what are the requirements and ramifications of furthering the use of the internet for information gathering; e.g., prescription medications, genetic testing? How does this trend toward genetic testing impact the pooling concept of insurance? How do privacy issues figure in and limit carriers' ability to use such information?

Let's expand this and discuss a somewhat different angle. Companies can use the internet in their marketing in so many more ways than simply selling insurance online. Stay with me; this is somewhat of a jump, but nonetheless in keeping with the theme — marketing to our traditional customers and distribution channels using a nontraditional method — internet/intranet technology.

As just one example of this, carriers can use the web to help them market more effectively to the end customer. Online customer service centers are sprouting up all around us. This appears to be an area where we as an industry may be catching up rapidly. But there is more to it. Inforce marketing programs. Segmenting and profiling for targeting web messages, advertising, and product design. Cross-selling. Prospecting. The list goes on. The insurance industry as a whole is very far behind other financial services in this regard.

> *"Another way to use the Internet in this vein is in providing tools that help a company segment their field force and target their field marketing efforts more effectively."*

For example, how many of you still receive your fund prospectuses via the mail? OK, maybe we're not so far behind, at that. However, I have the option on every one of my mutual funds to stop receiving practically any paper at all through the mail. I wonder how many of us even have this option from our insurance company?

Another way to use the Internet in this vein is in providing tools that help a company segment their field force and target their field marketing efforts more effectively. For example, using intranet sites to provide information on premier agent status is likely to be fairly commonplace today. This can be taken to much deeper levels, in ways limited only by our imagination (and budget), to allow stronger segmentation and more effective targeting of our marketing efforts. The goal of a truly "marketing organization" is suddenly that much easier to reach.

As well, similar tools can be used to help the field force do their own marketing. This could include web-based marketing programs that help the field target, reach, and follow up on their inforce customers and prospects. For example, policy data can be sorted, searched, and used in a mail-merge coupled with a pre-approved letter to reach many customers or prospects at once. The agent can then create his/her own marketing programs as desired, search for the customers that fit the profile for the program, mail merge with one of the canned policyholder letters, and — *voila!* — instant marketing program. Of course, the home office must maintain the control over the data provided for these programs.

I think most of you would agree that these ideas are not as glamorous as generating new sales and maintaining the support thereof from the internet. However, there is a lot to be said for using all the tools at our disposal to "get our own house in order" before reaching outside our element in full force. It was Lew Platt, former CEO of Hewlett Packard, who said, "If only HP knew what HP knows, we would be three times more productive." This phrase likely rings true for many of us.

In the midst of all this, a major disruption to all of our lives occurred on September 11 of this year, and the impacts continue.

Julie Tani

Customers appear to be trending back toward a wish for advice, perhaps a closer relationship with their life agent. Will this continue? I'd suspect this <u>will</u> continue, albeit at perhaps a slightly lower level than at current. But how will other attitudes change? One thing seems certain — as fast as things are changing these days, companies will need to leverage the internet in these and other ways in order to keep up. While keeping up with frequent changes in the market may also mean a need for speedier product development, or promotionals, I might argue that perhaps even more important might be *improved nontraditional* marketing to our traditional customers and field force, and that these can in turn enhance the product design process. We can use the internet to help our field forces market more effectively to policyholders and prospects. We can also use it to help us market more effectively to the field force and directly to policyholders and prospects. And we should.

Julie L. Tani, FSA, MAAA, is Director of Marketing Research & Development at Transamerica Insurance & Investment Group in Los Angeles, CA. She can be reached at julie.tani@transamerica.com.

Part III of III

Managing Non-Life-Insured Products Sold Through Auto Dealers

by John H. Kerper

Introduction

Auto dealers offer several insurance and insured products through their finance and insurance (F&I) departments other than credit life and credit A&H. Vehicle service contracts (VSCs), Gap, and Finance Reserve are three other products offered by F&I departments that are often insured by property & casualty insurers. We have examined VSCs and Gap coverage thus far in this three-part series. This third and final installment covers Finance Reserve.

Background

When an auto dealer originates the loan used to purchase a vehicle from the dealership, that dealer usually is not the financier of the contract. Either a bank or finance company will fund the loan. The dealer typically offers the car purchaser a higher interest rate (the "sell rate") on the finance contract than that which is available to the dealer (the "buy rate"). This difference or spread provides income to the dealer, the excess of the customer payment (at the sell rate) over the payment required (at the buy rate).

For example, if the amount financed is $20,000, the term is 60 months and the dealer buy rate is 5.00%, the applicable annuity factor is 52.9907 and the monthly payment is $377.42. However, if the dealer offers, and the customer accepts, a rate of 7.00%, the annuity factor is 50.5020 and the monthly payment is $396.02. The extra monthly payment of $18.60 is income to the dealer. It is customary for the finance company to make a lump sum payment to the auto dealer rather than monthly payments. This lump sum is the excess payment multiplied by the buy rate annuity factor. In this example that amount is $18.60 x 52.9907 or $985.59. This lump sum origination fee is commonly called the "finance reserve".

Because the dealer gets paid up front, in the case that the loan terminates early (via pre-payment, refinance, repossession, or total loss), the finance company must recover the unearned portion of the finance reserve that it paid the dealer. It does this via chargebacks. In order to avoid financial uncertainty for the auto dealer, the finance companies will waive all chargebacks* in exchange for a reduced up-front fee. Typical reductions ranged from 20% to 35%.

*Actually, loans that terminate before three payments are made are charged-back at any rate, to reduce the risk that dealers make loans that are highly likely to be refinanced or repossessed.

Product Basics

In the mid-1990s, some product innovators saw an opportunity to use an insurance product to provide the same financial certainty to the auto dealer using an insurance

program. A typical finance reserve insurance program will have the following features:

- Dealer receives 100% of the fee from the finance company and is subject to chargebacks
- Dealer pays insurance company a portion of the insured finance reserve as a premium
- Insurance company reimburses dealer for chargebacks of insured finance reserves that occur after a specified number of payments are made on the underlying finance contracts (generally three as in the finance company program that was replaced)

There are two common program variations — participating and non-participating. A participating program usually includes a premium charge equal to the finance companies' fee reductions, a portion of which is set aside in a claim fund for each dealer from which claims (chargebacks) are paid and to which interest is credited. Any excess funds remaining in this fund are paid to the dealer (either as earned according to a schedule or as contracts mature). The non-participating program costs less and does not involve dealer participation in a claim fund. In either case, the dealer, not the retail finance customer, is the insured.

Rates: The entire amount paid to the insurer is premium. Since retail customers are not involved in this insurance transaction, premiums are not refundable.

Reserves: Since Finance Reserve Insurance is sold for a single premium, the unearned premium reserve represents the bulk of required reserves. The same NAIC requirements that apply to VSC and Gap unearned premium also apply to Finance Reserve Insurance, namely that the aggregate reserve held must equal or exceed the larger of three quantities for each year of issue (3 year-old and older contracts can be aggregated): (1) the amount of insurance premium refundable to contract holders, (2) premium multiplied by future expected claims and expenses, divided by total expected claims and expenses, and (3) the present value of expected future claims and expenses. Claim reserves include both claims in course of settlement and IBNR. Claim notification usually occurs only once each month for each dealer and would include the prior month's loan termination statements from each finance company serving the dealer. Thus usual reporting lag is about 2 months, but a significant percentage of incurred claims (10% – 20%) will trickle in for the next several months after actual loss.

Managing Finance Reserve Insurance

A significant portion of the early termination risk is avoided by requiring that at least three payments be made before a specific finance contract is covered under a Finance Reserve Insurance contract. Other means commonly employed to manage the exposure to early terminations include:

- Limiting the allowable rate spread on insured contracts (e.g. excluding all finance contracts if the spread is greater than 3.0%)
- Excluding finance contracts below a certain level of credit quality
- Excluding contracts beyond a certain term or charging different rates (as % of finance reserve) by term

The rationale behind the first two of these risk management techniques are intuitive; high spread contracts are likely to be refinanced as soon as the buyer realizes lower rates are available from another source (i.e. credit union or bank) and low quality loans are, by definition, more likely to default. In either case, the loan terminates and the finance reserve is subject to chargeback.

Excluding finance contracts beyond a certain term (or differentiating rates) requires more analysis. First let's look at the exposure to claim.

> *"The exposure to claim for each finance contract is the sum of the potential claim for each month, or the sum of the monthly unamortized balances of the finance reserve."*

Estimating Exposure

If a finance contract terminates, the claim amount due to the policyholder is the unamortized balance of the finance reserve (the amount of the chargeback). There are two components needed to determine this amount — the unamortized balance of the "finance reserve loan" and the excess of the loan payoff at the sell rate versus buy rate. Using the earlier example, if the finance contract terminates at the end of the 10th month, the unamortized balance of the finance reserve loan of $985.59 after 10 months (5.0% interest and monthly payment of $18.60) is $837.92. The payoff amount of the loan required from the borrower is $17,131.94 (sell rate — 7.0%), but the payoff amount at the 5% buy rate is $17,003.33. Therefore, the unamortized balance of the finance reserve at the end of 10 months is $709.30; i.e., $837.92 – ($17,131.94 – $17,003.33).

The exposure to claim for each finance contract is the sum of the potential claim for each month, or the sum of the monthly unamortized balances of the finance reserve (using zero for the initial months in which no claim is possible). Since the premium usually is a percentage of the finance reserve, it is convenient to express the exposure as a multiple of the finance reserve by dividing the exposure by the finance reserve so that the premium can be related to the exposure.

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Again using the same example, the sum of the unamortized balance at the beginning of months 4 through 60 is $18,516.18 and the multiple of the finance reserve is 18.79.

What if the loan was the same, except that the term was 36 months? Or 48 months? Or 72 months? In those cases, the exposure as a multiple of the finance reserve would have been 10.19, 14.44 and 23.23 respectively. If these exposures are discounted using the buy rate (to account for the time value of money), the discounted exposure multiples for 36, 48, 60 and 72 months are 9.73, 13.62, 17.49, 21.35. Changing the buy rate or the spread will change these multiples, but not much (the spreadsheet used to do these calculations is available by request to *jkerper@bellsouth.net*). Thus, the term of the loan has a significant impact on the exposure to claim under the contract. Also note that the increase in exposure is slightly faster than a linear increase (e.g. compare the increase from 36 to 72 months — it is more than double).

Estimating Claim Frequency

If an insurer has been writing Finance Reserve Insurance for a few years, it is possible to derive a monthly claim frequency. An alternative source for claim estimates is cancellation data for credit life insurance, although that rate would tend to overstate loan terminations because a borrower who cancels credit insurance is not necessarily terminating the loan. In either case, the insurer is likely to find that the cancellation rate, beyond the initial three to six months, is relatively constant from month to month regardless of term.

Because exposure to claim increases with term, claim frequency doesn't vary much by term and the ultimate cost of claims is the exposure times frequency of claims, it is now clear that loan term should be incorporated into the rating scheme for this coverage. However, the rating structure is still constrained by the rates available to the auto dealer directly from the finance companies.

Administration

Most of the administrative work for Finance Reserve Insurance is done by the finance companies and provided on the monthly statements that they send to the auto dealer. New loans with amount, rate and term and finance reserve as well as terminated loans with the chargeback amount are shown on these statements. However, the finance companies are not likely to provide this information in a form that the insurer can use easily (i.e. electronic files) because the insurer has replaced the finance company for this coverage. So all of the pertinent information must be entered from the statement into the insurer's administration system. As an added benefit, the insurer could perform checks on the finance company data to ensure that the finance reserve and chargeback calculations are accurate. In effect, administration of this coverage does not involve much more than recording information from the statements and monitoring results to ensure that the rates charged are adequate.

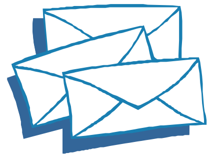
Summary

Finance Reserve Insurance is chargeback protection insurance for the covered dealer and is a replacement for a similar coverage traditionally provided by finance companies. So long as finance companies overcharge for this coverage, insurance companies have an opportunity to provide a profitable service to their auto dealer clients.

John H. Kerper, FSA, MAAA, is a consulting actuary at JHK Company in Birmingham, AL. He can be reached at jkerper@bellsouth.net.

You've Sent Mail

by Robert E. Winawer



Editor's Note: the following is a summary of an essay written by Mr. Winawer. Please contact Mr. Winawer at rwinawer@sageusa.com or Julie Tani at julie.tani@transamerica.com for an electronic copy of the full text.

Many insurance companies have found direct response to be an attractive alternative to traditional distribution because they gain control of the sales process and ownership of the customer. For these companies, the majority of their acquisition costs are spent before any policies are sold. Frequently, their greatest risk is that this expense will never be recovered. This essay shows how to take these advantages and risks into account when making financial decisions. Specifically, the essay shows how to allocate capital to maximize profit in relation to expense and other risks.

Microeconomics is applied to manage insurance solicitations in a hypothetical case example. By using Value New Business from Embedded Values to quantify marginal costs and revenue, risk-adjusted profits are maximized.

This essay answers the following questions:

1. Which costs should management consider when evaluating new ventures? For example, should management try to "cover overhead?"

2. How many times should management solicit prospective customers? Is it best to stop solicitations the first time that acquisition costs exceed the pricing allowable, when on average, acquisition costs exceed the pricing allowable, or when the acquisition cost of the last policy sold exceeds the pricing allowable?

3. What is the value of a name? That is, what is the financial worth of the potential relationship with a policyholder including both initial and subsequent sales?

4. What is a simple and effective way to communicate the profitability of each sale to people who are not actuaries?

5. Why do cost-to-premium ratios, which are currently used by many direct response companies, prevent management from maximizing risk-adjusted profits?

Robert E. Winawer, FSA, MAAA, is Vice President and Financial Actuary at Sage Insurance Group in Stamford, CT. He can be reached at rwinawer@seageusa.com.

Toronto SOA Meeting Offers NTMS "Theme" Sessions

by Mike T. Presley

The Spring SOA meeting continued the tradition of spotlighting NTMS "themes". Held at the Royal York Hotel in Toronto, June 20-22, 2001, the meeting featured joint sessions with the CAS (Canadian Actuarial Society) and included eight sessions designed specifically for NTM members.

The "theme" for this meeting encompassed four sessions on CRM, customer relationship management. The first session explained the basics of CRM and why companies are doing it. The second focused on who is doing what in the field, describing new channels of distribution as well as how CRM plays a role in these channels and addresses the issue of channel conflict. The third session dealt with the actuarial basis of modeling customer relationships. The fourth session addressed privacy issues regarding CRM and how these are incorporated.

In addition to the "themed" sessions, two NTM sessions were of international interest; the first, Virtual Insurance Company, examined the changing business models for insurance companies over the next few years and explored the place of the virtual insurance model as a low-cost alternative. The second session with cross-border interest was a workshop dealing with credit insurance differences between Canada and the US.

The final NTM session was a follow-up on bancassurance sessions offered by the NTMS in past meetings and featured current trends in Europe, focusing on Interpolis Re (a subsidiary of Rabobank, a Dutch company) and Bank of Ireland Lifetime Assurance. Both these companies have shown significant progress in the bancassurance market.

NTM sessions featured a variety of formats to heighten interest. In addition to the familiar Panel Discussion format, the NTMS offered a Workshop, a Case Study, a Teaching Session, and an Interactive Forum. This diversity, not only in content but also in session format, provided attending NTM Section members an interesting and informative set of sessions for their particular interests.

The NTM Council is always interested in your feedback on NTM-sponsored sessions to assure the quality and applicability of the sessions to your work. Please contact any officer, chairperson, or newsletter editor with your comments.

Mike Presley is Vice President and Actuary at Protective Life in Birmingham, AL and a member of the Nontraditional Marketing Section Council. He can be reached at mike_presley@protective.com.

"Real Time" Insurance Sales: Jet Issue Life

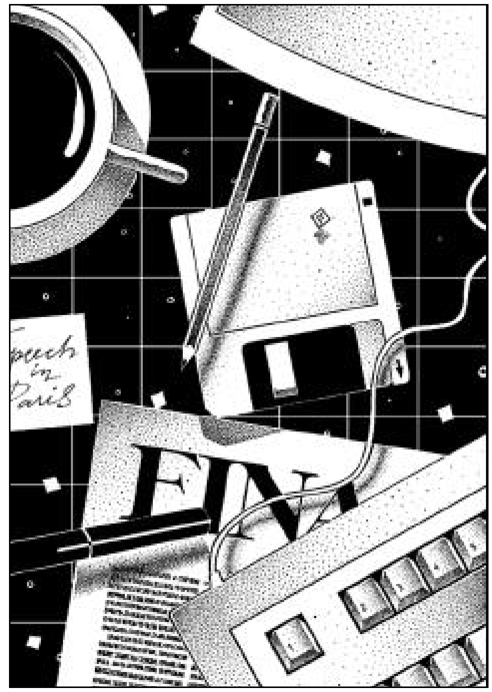
by David C. Florian

Banks, brokerage houses and other financial institutions are eager to sell life insurance and other insurance products to their customers. However, the vast majority of life insurance policies offered by insurance carriers require time-consuming underwriting as well as inconvenience and delay for the insurance applicant. This translates into lost sales, not to mention frustration and consternation on the part of the consumer. Financial institutions are not interested in alienating their valuable customers in an attempt to generate a little extra revenue by selling life insurance. Customer relationships are hard-won and should be continually cultivated, not potentially compromised.

Financial institutions are desperate for a competitively priced life insurance product which can be issued quickly, with little hassle and without the invasive procedures routinely performed in the paramed exam required by many insurance carriers. While traditional simplified issue term life insurance products have been around for some time, financial institutions are less than enthusiastic about the limitations contained in most such products, such as high premiums and limited face amounts. What's really needed is a product that capitalizes on the pricing of a traditionally underwritten product but which jettisons the hurdles of the run-of-the-mill simplified issue policy. Fortunately, the Internet and today's advanced electronic capabilities provide an opportunity for the development of just the sort of product financial institutions are hungering after, a jet issued product.

Jet issued life insurance marries the speed and simplicity of a simplified issue product with the higher face amounts and competitive premiums of a fully underwritten product. Importantly, the product does not require a Paramed exam, thus obviating the need for a blood draw and the time required to submit to such an exam, not to mention the four to six weeks it typically takes an insurance carrier to underwrite and act on a submitted application.

Jet issued products start with the premise that the insurance applicant possesses most of the information that the insurance carrier needs to make an underwriting decision. If the applicant answers all of the questions posed by the insurance carrier truthfully, then the carrier can usually decide whether to issue a policy and what premium to charge.



Applicants are initially queried about basics such as height and weight, prescription drug treatments, blood pressure and cholesterol levels, and family history, as well as aviation, driving, travel and avocation. These are basically the same questions contained on most insurance carriers' standard applications.

Most traditional underwriting is consumed with attempting to confirm the accuracy of the information supplied by the applicant. This can take weeks as the insurance carrier gathers lab test results, attending physician statements, investigative reports, credit reports, motor vehicle reports (MVRs), court records, MIB results and other information deemed relevant by the underwriter. In the end, the applicant is either found to be truthful or not. Occasionally, some additional information is discovered which was unknown to the applicant when he or she completed the application, but this is generally the exception, not the norm. However, the insurance carrier sometimes uncovers some piece of information which the applicant was trying to conceal through false or misleading answers.

Jet issued products effectively address the latter situation by submitting the application completed by the insurance applicant to a comprehensive yet relatively quick "integrity check." This is where the Internet and current electronic capabilities come into play. In a matter of a few hours, or at most, a couple of days the insurance carrier can perform a number of database searches which will validate or refute the vast majority of information supplied by the applicant. In particular, databases containing information on the applicant's credit, motor vehicle and prescription drug histories can be accessed and reviewed as can information contained in the MIB's database. If all of the databases searched confirm the information supplied by the applicant, the insurance carrier is in a position to issue coverage. If any information is discovered which contradicts or raises questions about the information supplied by the applicant, then the applicant is merely afforded the opportunity to have his or her application underwritten in the traditional manner, which may include a paramed exam.

By dispensing with the costly accumulation of traditional underwriting documents, the insurance carrier has more leeway to increase the mortality charges in a jet issued product without a concomitant increase in the premium. It has been Pivot's experience that approximately 70% of life insurance policies are already issued as applied for. The motivating force behind jet issued life is the desire to take advantage of this seventy percent without paying for all of the underwriting costs. Consider the pricing basics for a 20-year term policy as shown in the table below.

	YR 1	**YR 2**	**YR 3**	**YR 4**
Premium	$300	$300	$300	$300
Paramed	$90			
Labs	$50			
Mail/Image	$25			
Underwriter	$25			
Mortality	$75	$80	$85	$90

Assuming a seventy percent placement rate, $270 is the cost of underwriting (the $190 of up-front underwriting costs in the table above divided by the 70% placement rate), while the present value of mortality over four years is $250 at a 15% discount rate. Therefore, if we are able to eliminate traditional underwriting cost and replace it with prescription drug database, MIB, credit reports, etc. at an approximate cost of $20 it would allow for a 100% increase to mortality costs, without increasing the premium. In other words, the present value of mortality can be increased from $250 to $500 without impacting premium, because the present value of underwriting costs has been reduced from $270 to $20. The above example uses a four-year policy duration rather than the traditional six years because it is reasonable to assume that policyholders will replace policies more frequently than they do today if they are not required to undergo invasive and time-consuming testing in order to procure a new policy.

Beyond customer retention and convenient technology, another key benefit to the jet issue product is control. Carriers do not have to sacrifice important control factors while they gain online technology capabilities. The loss ratio is controlled by adjusting the underwriting class mix; the risk is controlled by adjusting the integrity filter, and limiting age, face and duration guarantees.

Banks and brokerage financial centers have not captured a significant share of the total life market to date. Jet issued life insurance products could be just what they need to dramatically increase revenues in this market. Insurance carriers willing to move rapidly to the forefront with jet issued products will establish valuable and potentially long-lasting relationships with key banks and other financial institutions.

David Florian, ASA, MAAA, is President of Pivot, in Columbus, Ohio. He may be reached at dflorian@pivot.com.

Summaries of New Orleans NTMS Sessions

Editor's Note: The following is a collection of brief summaries from the Nontraditional Marketing Section-sponsored sessions at the SOA Annual Meeting in New Orleans, Oct. 21-24. Additional detail on the discussions will follow in a future newsletter.

Session 11, panel discussion, The Growing Seniors Market (Steve Cooperstein)

John N. Migliaccio, Ph.D., President of Maturity Mark Services Co., a marketing and human resources consulting company, and co-author of *77 Truths About marketing to the 50+ consumer* (which was given to attendees), discussed some of these truths as well as the demographics of the market.

He also overviewed studies of boomer vs. current senior attitudes and buying patterns for senior insurance products such as long-term care insurance.

Cary Badger, Director of Marketing & Database Services at AARP Services, Inc., a for-profit subsidiary of AARP, discussed and gave age and ethnic examples of innovative segmenting in the seniors market and promotional materials used to achieve these purposes.

Steve Cooperstein, President of Steve Cooperstein & Affiliates, showed the degree of insurance penetration to date of various subsections of 5 primary senior needs served to date. He also outlined potential new subsections, products, and services that seem ripe for marketing over the next few years.

Session 33, Internet Marketing and Underwriting (Howell Pugh)

Distribution costs reduced 50%. Time to underwrite and issue cut by 50%. Underwriting performed without human intervention. The first U.S. policy issued with an electronic signature. Internet term put in force without a Temporary Insurance Agreement.

No, this was not a science fiction convention, but the real success stories of two pioneer companies who distribute term through the Internet. One company is a 100-year-old mutual. The other issued its first policy in March, 2001. Both described their efforts and breakthroughs in selling solely on the Internet.

Session 61, panel discussion, Distribution Channel Management (Steve Konnath)

Tom May, CMO for the Investment Products Group at ING, talked about ING's experience with managing multiple distribution channels. He talked about the impacts of industry consolidation, producer systems vs. intermediary systems, and the "myth of uniqueness."

Michele Van Leer, Senior VP and head of the Product & Market Management at John Hancock, talked about product development challenges and opportunities when pricing products across multiple distribution systems.

Evan Hirsh, a partner and channel management consultant at Booz-Allen & Hamilton, presented a macro level view of channel management and discussed the impact of the Internet on managing distribution channels. He focused on customer path choices and how these path choices will vary depending on where a given customer is within the entire policy life cycle.

Session 78, panel discussion, Financial Services Modernization - One Year On (Tom Bakos)

The enthusiasm of the speakers at this session offset any handicap created by the failure of the video portion of the program.

Tom Bakos presented a brief overview of Gramm-Leach-Bliley Act signed into law on 11/12/99 for the benefit of attendees not current on all of GLBA's provisions. The full text of GLBA can be found at: *www.senate.gov/~banking/conf/*. Essentially, it was pointed out that GLBA eliminates the legal barriers between the affiliation of banking, securities, and insurance firms but reaffirms the state regulation of insurance.

Bill Carroll focused the privacy rules created by GLBA discussing differences between the Fair Credit Reporting Act and GLBA. GLBA addressed the need to keep non-public personal information private. He provided reasons for an "opt out" approach on information sharing, privacy policy disclosure requirements, and prohibitions on pretext calling. He strongly encouraged companies to utilize information that can be found on the ACLI Web site (*www.ACLI.com*).

Elaine Pelletier described the role of debt protection-type products provided directly through banks and how these products have been replacing traditional credit insurance products in the insurance market. Bank debt protection products date from March, 1964 and were recognized as a lawful exercise of the powers of a national bank by the OCC in 1971. There was little activity until the late 1980s and debt protection products grew dramatically beginning in the 1990's. GLBA has further stimulated growth in the last two years. Proposed regulations from the OCC on dept protection products are expected in the 4th quarter of 2001.

John Hartnedy focused on the threat of the creation of the National Association of Registered Agents and Brokers (NARAB) by GLBA and the influence its creation had on the state regulators to adopt uniform laws and regulation regarding agent licensing and reciprocity. He anticipates that 45 states will be GLBA compliant by December, 2001, heading off the activation of NARAB. John expressed the belief that this was a very effective way to get states to work together. He remains a strong supporter of state regulation of insurance, in contrast to some activity of the ACLI. This difference provided for some spirited debate between Bill and John.

On speed-to-market issues, CARFRA was discussed by both Bill and John.

Session 114, Wine and Cheese Reception (Jim Smith)

At the SOA's annual meeting in New Orleans, the NTM Section sponsored its annual wine and cheese reception for its members. Attendance was strong, and it was great to visit with old friends.

The outgoing chairperson, *Jim Smith*, welcomed the attendees. He solicited their involvement with program sessions, newsletter articles, and seminars that are sponsored by the section. Jim recognized Steve Ostlund, who is retiring from the council this year, for his contributions this year with regard to the bancassurance seminar, health practice committee, and new credit table.

Mike Fix was introduced as the 2001/2002 chairperson for the section. Mike introduced the newly elected council members — Diane McGovern and Paul LaPorte. Additionally, Mike congratulated Steve Konnath who was re-elected to the council, having completed a partial term this year. Thanks were also expressed to Chris Hause and Julie Tani regarding their efforts as co-editors of *NewsDirect.*

Session 134, Experience Tables (Steve Ostlund)

On Wednesday morning of the meeting, the authors (Bob Butler, Chris Hause, and Steve Ostlund) of "A Credit Disability Morbidity Table"[1] presented a well-attended session provided advice on how to develop a valuation table from industry experience. They provided background on their efforts over the last four years which have resulted in adoption by the NAIC of a valuation standard for Single Premium Credit Disability.

Bob described the technical construction of the table, relating the challenges presented by limitations in available data, the search for an appropriate existing morbidity table to use as an expected standard, and the resolution of several anomalies in the results. He then described the development of margins and various supporting studies required to gain acceptance of the recommendation.

Crucial to the development of any industry study is the collection of data from many companies. Chris detailed the challenges associated with collecting information from different companies relative to data conversion and the need for flexibility and personal contacts. Organization, understanding, dedication, and resources were described as critical requirements to success.

Finally, the best technical work can go for naught if political considerations are ignored. Steve noted that three levels of sponsorship are required for success: Industry, Professional, and Regulatory. Industry sponsorship was provided by a trade organization, the Consumer Credit Insurance Association, but involved lobbying of their actuarial committee, staff, and board of directors. The NTM section brought initial sponsorship of the Society of Actuaries, but progress was slow until the Health Practice area provided support from the experience studies actuary and the board. Finally, sponsorship of the Life & Health Actuarial Task Force moved the recommendation through to adoption by the NAIC.

Footnote

1 See NewsDirect, Spring 2000, Number 34 Special Issue archived in The Actuarial Library on the SOA Web site.

Are Internet Term Sales on Track?

by Howell Pugh

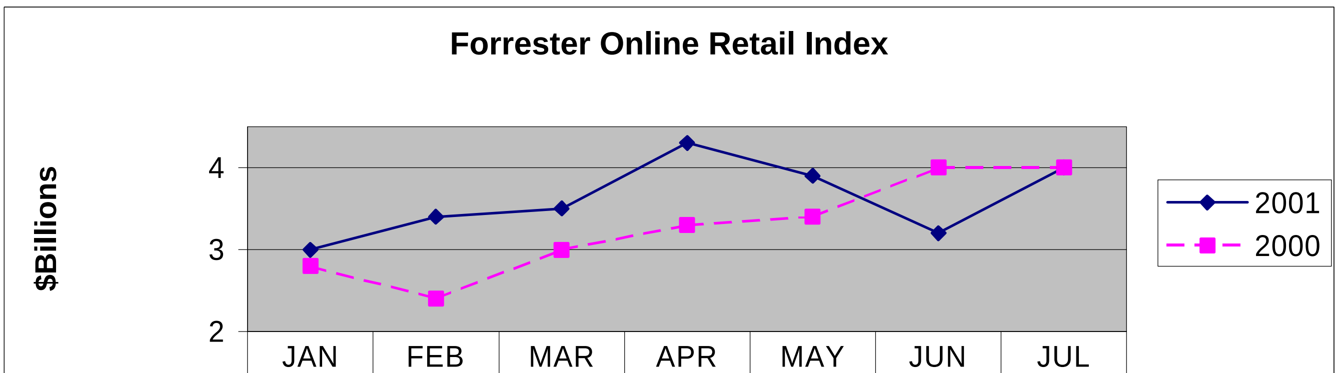
Term insurance sales on the Internet are thriving. The common view is, however, that term sales from this channel are in decline. This is based particularly on data from one insurance mall site. While we really are operating with extremely scanty information, I hope to convince you that the pessimistic case is overstated. Term sales on the Internet continue to thrive.

Futurecasts

Most market research firms are still predicting increased penetration of the insurance market by Internet distribution. The forecast is for today's 1% market share to grow to about 5% over the next 4 to 5 years.

Online Sales in General

So far in the calendar year of 2001, the crash of "dot-com" firms has not eroded online sales, according to Forrester Research, as shown in the graph of online retail sales below.

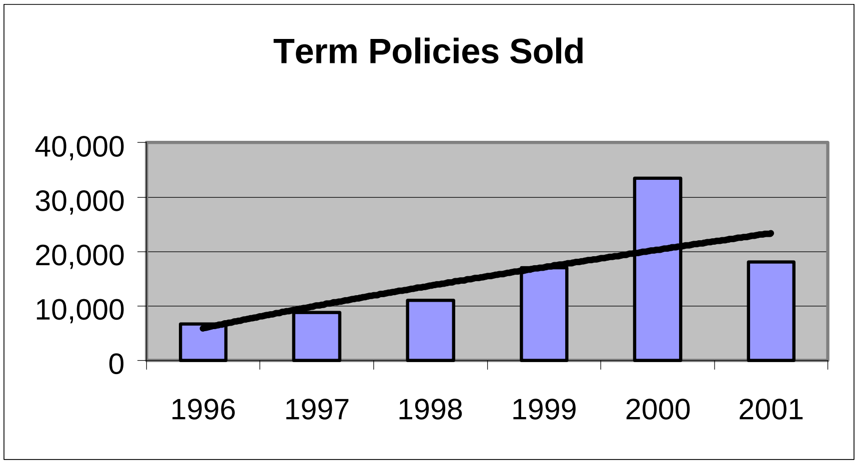


	JAN	FEB	MAR	APR	MAY	JUN	JUL
2001	3	3.4	3.5	4.3	3.9	3.2	4
2000	2.8	2.4	3	3.3	3.4	4	4

Insurance Mall Sites

It is instructive to review financial results of insurance mall web sites. There are two such sites, Insweb and Quotesmith, which are publicly-owned firms. Using quarterly and annual filings, we can examine their results.

Both firms have had to curtail their advertising costs. Insweb cut their advertising in mid-2000; Quotesmith did likewise in January 2001. The results are dramatic for Quotesmith; through June 30th 2001, Quotesmith has experienced a 46% drop in sales. However, the long-term trend is still favorable. From 1996 through 2001 (est.), Quotesmith has experienced 22% growth in sales of term policies, as shown in the chart on the next page.



Source: 10K reports

For Insweb, the breakout of term data is very sketchy. We have access to only three-quarters of sales information, but this data shows a strong growth pattern:

2nd Quarter 2000:	$422 million
1st Quarter 2001:	$970 million
2nd Quarter 2001:	$1142 million

The Internet as a Distribution Channel

The Internet will not wither as we go forward. It may emerge as a strong distribution method for certain kinds of insurance.

There will be an upper limit to the commonly-seen S-curve pattern of growth, but it is too early to know where Internet term sales will top out. Of interest is that John Hancock reports that in the year 2000, over 70% of their term sales came from online ventures. That could be an early harbinger of the true ultimate scale of Internet term sales.

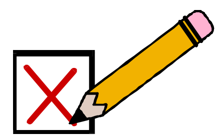
Howell Pugh, FSA, MAAA, is Second Vice President and Director, Client Products Innovation, at Lincoln RE in Fort Wayne, IN, and a member of the Nontraditional Marketing Section Council. He may be reached at (219) 455-3820 or by e-mail at whpugh@LNC.com.

NTMS NEWS

Congratulations to New NTMS Officers and Council Members!

The Nontraditional Marketing Section would like to extend a warm welcome to the 2001/2002 Section Council and officers, whose terms officially began with the SOA Annual Meeting, October 21 - 24, 2001.

New officers are:
Michael L. Fix, Chair
W. Howell Pugh,Vice-Chair
Theresa Resnick, Secretary/Treasurer (continuing her term)



Newly-elected Council members are:
Steven E. Konnath (returning for a three-year term), Paul D. LaPorte and Diane McGovern.

Thank you and Farewell to the Outgoing NTMS Officers and Council Members

We would also like to thank the outgoing officers and council members for their service and outstanding contributions. Thank you, Jim Smith (NTMS Chair) and Steve Ostlund (council member).

Product/Channel Directory *by Mike Fix*

The previous edition of the Nontraditional Marketing Section's Product Channel Directory was released in 1999. Our Section is planning to release an update to that edition. In recent meetings of your Section Council, we have discussed (1) more efficient ways to request, capture and tabulate the data; (2) additional product categories and distribution sources; and (3) perhaps changing the focus of the Directory from serving primarily as a "Who Writes What" type of publication to one that could provide information on who is selling what; who has an interest in the various product/channel cells; and possible resources to contact.

Product/Channel Directory (cont.)

By Mike Fix

These are exciting and useful changes that are being discussed for the Product/Channel Directory! We will keep you updated on our progress. If you have any suggestions you would like to share with us, feel free to e-mail them to me at *mfix@trustmarkins.com.*

Rescheduled Seminar by *Maria Thomson*

The SOA Seminar Covering Life Insurance Underwriting for Alternative Distribution that was to be held Dec. 6 and 7 in Orlando is being RESCHEDULED.

This seminar will cover state-of-the-art life underwriting and risk management methods. It is tentatively being rescheduled for Feb. 28 - March 1, 2002, at a location to be announced.

The seminar will cover critical issues in effective underwriting, for life insurance sold via banks, the Internet, direct mail and telemarketing and other alternative marketing modes. This will be an invaluable professional development opportunity for actuaries, product development specialists, nontraditional marketers and reinsurers.

"Attendees will learn how to provide underwritten products to larger markets more cost-effectively, with rapid turnaround and satisfactory mortality," states Maria Thomson, managing principal of Thomson Management Solutions, Inc., a leading consulting firm.

In addition to Thomson, the faculty includes Kathleen Elzeer, Director of Underwriting with ING Life; Mary Fernald, Vice President and Chief Underwriter with Scottish Re; and Hank George, Senior Vice President, LabOne, Inc.

Please look for future announcements about this event. For more information, you may contact Maria Thomson at (413) 283-5316, *mthomson@tmsolutionsinc.com.*

The Annuity Conference 5th Annual

Three *Great* Associations. One *great* conference

April 10-12, 2002, Contemporary Resort - Orlando, Florida

Don't miss the 5th annual Annuity Conference, where you will learn about every day issues that effect the annuity and investment professional. This year's conference kicks off with a dynamic general session that provides strategies for success in a low interest rate environment. The concurrent sessions are a great way to find out about the latest developments in the annuities with a variety of topics to choose from. Plus, you'll have many opportunities to network with your peers and other industry leaders.

About the associations:

LOMA is committed to a business partnership with its worldwide members in the insurance and financial services industry to improve their management and operations through quality employee development, research, information sharing, and related products and services. Founded in 1924, the association's membership roster boasts over 1,000 member companies in 70 countries.

LIMRA International, Inc., was founded in 1916 to support and enhance the marketing functions of life insurance companies through original research, as well as products and services based on that research. Today, LIMRA is the premier marketing research organization in the financial services industry with more than 700 members - life/health insurance companies and financial services companies in nearly 60 countries.

The Society of Actuaries is an educational, research, and professional organization dedicated to serving the public and Society members. Its mission is to advance knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business, and societal problems involving uncertain future events.

NASBA

Registered with the National Association of State Boards of Accountancy as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses. Complaints regarding sponsors may be addressed to NASBA, 380 Lexington Ave., New York, NY 10168-0002, 212/490-3868.

Session Schedule

Wednesday, April 10
Reception

Thursday, April 11
8:30 a.m. - 10.15 a.m.
General Session
Product/Market Strategies in Low Interest Rate/Poor Equity Environment

10:30 a.m. - 11:45 a.m.

Concurrent Session
(Select One)

1.1 SPDA Product Features/Innovations
Speaker Name, Title, Company Name
Speaker Name, Title, Company Name

1.2 The Move to Web-based Product Delivery and Service Platforms (PD)
Debbie Ullman, LLIF, Phoenix
Steve Dunlap, Annuitynet Inc.
Warren A. Eastman, The Depository Trust & Clearing Corporation

Learn about the implications of electronic order entry, appless processing, and Web transaction processing for the annuity business. Explored will be the positive implications, as well as some potential downsides, from the perspectives of the insurance carrier, the broker/dealer and the investment professional.

1.3 Proactive Conservation: CRM
Bill Hogan, Title, Company Name
Speaker Name, Title, Company Name

1.4 Product/Market Strategies in Low Interest Rate/Poor Equity Environment
Eric Sondergeld, Assistant Vice President, LIMRA International

(General Session Follow-up)

1:15 p.m. - 2:30 p.m.

Concurrent Session (Select One)

2.1 Providing Value While Controlling Costs
Rick Pretty, Title, Company Name
Speaker Name, Title, Company Name

2.2 Firm Relationship Management (PD)
Moderator: Rob Scheinerman, FSA, MAAA, Allmerica Financial Life Insurance Company
Michele Cleary, Allmerica Financial
Mark Tully, PHL Variable

The panel will discuss ways in which annuity companies address the needs of their various distributors.

2.3 Payout Marketing Approaches
Rich Murphy, Title, Company Name
Speaker Name, Title, Company Name

2.4 Proactive Conservation : CRM (repeat)
Bill Hogan
See Session 1.3 for description

2:45 p.m. - 3:45 p.m.

Concurrent Session (Select One)

3.1 Annuity Suitability (PD)
Moderator: Kerry Guerkink, CLU, CEBS, CHFC, Minnesota Life Insurance Co.
James Doyle, Info-One/ the VARDSâ Report
Maureen Joy Dziewt, Northwestern Mutual Life Insurance Company
Judith Hasenhauer, Blazzard, Grodd and Hasenhauer, P.C.

The regulatory environment has left us with important questions to deal with: When is an annuity the "right" product to sell and when is it not suitable? Are there circumstances when other products, such as life insurance, might be the better answer, or vice versa? Does a suitability obligation lie solely with the distributor or does the manufacturing entity carry a responsibility? How can we realistically address these questions in today's regulatory environment? Learn answers from several perspectives . . . regulatory, manufacturing, distribution and one company's practical application of these issues.

3.2 Unbundled VA Features: Are They Right for Your Company? (PD)
Moderator: Eric Shawn Hendersen, FSA, MAAA, Nationwide Financial
Merle Gehman, Morgan Stanley

Is unbundling ahead of its time, or is now the time to act? Discover why some companies have chosen to unbundle most of their VA features, while others have chosen to stay with the bundled approach. Hear the pros and cons from a distributor's point of view.

3.3 VA Death Benefits (PD)
Moderator: Julia Raven, Merrill Lynch Insurance Group
Michael W. Pado, FSA, MBA, MAAA, AXA Corporate Solutions Life Reinsurance Company
Timothy C. Pfeifer, FSA, MAAA, Milliman USA

We all know that a death benefit is a key distinguishing element of a variable annuity. Hear about recent trends in death benefit designs, including earnings related death benefits. Also covered will be issues and approaches for managing death benefit risk.

4:00 p.m. - 5:00 p.m.

Concurrent Session (Select One)

4.1 Role of Annuities in the Move to a Fee-based Planning Environment
Speaker Name, Title, Company Name
Speaker Name, Title, Company Name

4.2 Reinsurance Uses: Ways to Enhance Distribution and Product Offerings, and Ways to Minimize Risk
Bill Waldie, Title, Company Name
Speaker Name, Title, Company Name

4.3 VA Death Benefits (repeat)
Moderator: Julia Raven, Merrill Lynch Insurance Group
Michael W. Pado, FSA, MBA, MAAA, AXA Corporate Solutions Life Reinsurance Company
Timothy C. Pfeifer, FSA, MAAA, Milliman USA

See Session 3.3 for description

Thursday, April 11

8:30 a.m. - 9:30 a.m.

(continued on page 22)

5th Annual Annuity Conference

from page 21

Concurrent Session (Select One)

5.1 EIA's: Can You Afford to Ignore? (PD)
Moderator: Joel A. Prough, FSA, MAAA, Conseco
Noel J. Abkemeier, FSA, Milliman USA
Jack Marrion, The Advantage Group

Although still relatively new, Equity Iindexed Annuities have established a solid position in insurers' annuity offerings, which cannot be ignored. Learn about what has brought this sales success, and gain insight into the pricing, design, and risk management steps that help make EIAs a financial success.

5.2 Asset Allocation Approaches
Steve Putterman, Title, Company Name
Speaker Name, Title, Company Name

5.3 Variable Immediate Annuities: Design Update 2002 (PD)
Moderator: Robert K. Leach, FSA, American Skandia Life Assuance Corporation
Timothy C. Pfeifer, FSA, Milliman USA

Variable immediate annuities have recently gained increased attention in the financial and retirement planning marketplace as demand for these products seems to be increasing substantially. Find out how insurance companies are using product innovation to capitalize on growing demand, starting with a review of features being offered in variable payout products and insight into emerging product design trends. Learn about how insurance companies can use guarantees to stabilize expected streams of monthly income while maintaining prospects for continuing upside growth in monthly benefits, and how to manage risk exposures created by VIAs.

5.4 Implications of EGTRRA on the Qualified Markets (PD)
Moderator: William Keller, CLU, FLMI, Variable Annuity Life Insurance Co.
Larry Stein, Variable Annuity Life Insurance Co.
Richard Turner, Esq., Variable Annuity Life Insurance Co.

Learn about legal aspects and marketing opportunities for the following EGTRRA provisions:

- Increases in contribution limits for defined contribution plans and IRAs, coupled with the repeal of the 403(b) Maximum Exclusion Allowance; Enhancement to employer deduction;
- Ultimate creation of after-tax Roth 403(b) & 401(k) accounts
- Opportunities for more portable retirement savings; Simplification of certain plan requirements
- Creation of nonrefundable tax credits
- Availability of 457(b) plans along side 403(b) plans and rollovers from 457(b) plans to qualified plans
- Enhancements to tax incentives for college savings, and extension to primary & secondary education.

9:45 a.m. - 10:45 a.m.

Concurrent Session (Select One)

6.1 MVA's: Standalone and VA Subaccounts
Speaker Name, Title, Company Name
Speaker Name, Title, Company Name

6.2 Short CDSC Products
Mike Winterfield, Title, Company Name
Speaker Name, Title, Company Name

6.3 Asset Allocation Approaches (repeat)
Steve Putterman, Title, Company Name
Speaker Name, Title, Company Name

See session 5.2 for description

11:00 a.m. - 12:00 p.m.

Concurrent Session (Select One)

7.1 Fixed Payouts and Trends to Shorter Period Certain Payouts
Bob Ozenbaugh, Title, Company Name
Speaker Name, Title, Company Name

7.2 Short CDSC Products (repeat)
Mike Winterfield, Title, Company Name
Speaker Name, Title, Company Name

7.3 Offshore and International Markets (PD)
Josee Deroy, Moderator, AXA Corporate Solutions Life Reinsurance Company
Ron Tani, SunAmerica

Demographics, regulations and the capital markets environment are factors contributing to the emergence of and growth and innovations in the Variable Annuity world. A few years ago, the industry had identified trends and potential markets where variable annuities could be introduced. Now, in the early days of the Variable Annuity world, it appears that American companies have a strategic advantage over the domestic companies, and are exporting their expertise overseas.

Competitive landscapes, marketing, product development, underlying guarantees, and distribution channels may vary from what we are accustomed to seeing. Our panelists will share some of their findings on international markets.

Meeting Details

Register Now

Online: *www.loma.org*

Fax
Send the attached form to 770-984-6419. Call 770-984-3764 for another form.

Mail
Send the form to LOMA Meetings Dept., 2300 Windy Ridge Pkwy., Suite 600, Atlanta, GA 30339-8443.

Sign up by March 11 and save $75!

LOMA, LIMRA and SOA Members

By March 11: ($725)	Nonmembers ($995)
After March 11: ($800)	Nonmembers ($1,070)

Hotel Reservations

The hotel rate is $229.00 per night single/double, plus 11% tax. Concierge rooms are $315.00 plus 11% tax, based on availability. There is a $25.00 per night plus 11% tax charge for a third adult in the room. These rates are available from April 5 to April 16, 2002. **Reservations must be made by March 11, 2002 to receive this rate.** The hotel requires that all reservations be guaranteed by credit card or check. To guarantee, the hotel requires first night's deposit. Cancellation must be made 5 days prior to the arrival date to avoid a charge of one night's room and tax.

For more information, or to make reservations, please call the Group Reservation Office at Disney's Contemporary Resort at 1-407/824-3869. The hotel address is:

Disney's Contemporary Resort
4600 North World Drive
P.O. Box 10,000
Lake Buena Vista, FL 32830
Phone 1-407/824-3869
Guest Fax Line 1-407/824-3539

Flight Reservations

WorldWide Travel Services offers meeting attendees maximum savings on airfares. To obtain these savings, complete the form found at www.limra.com/pdf/airfare.pdf and fax it to 1-860-298-4186.

Car Rental

Hertz is the official car rental agency for this meeting. Reserve a car by calling Hertz at 1-800-654-2240. Refer to meeting discount number CV# 01230005.

Attire

The dress code for this conference is business casual.

For more information:
James Huffman, FLMI, ACS
LOMA
770/984-6446
huffmanj@loma.org

Eric T. Sondergeld
LIMRA International
860/285-7754
ESondergeld@limra.com

John Riley
Society of Actuaries
847/706-3500
jriley@soa.org

Register by March 11, 2002 and Save!

Society of Actuaries

2001 Annual Meeting in New Orleans

When Theresa speaks about finances during the section council meeting in New Orleans, everyone listens!

Left to Right - Diane McGovern, Steve Ostlund, Steve Cooperstein, Tom Bakos, Steve Konnath, Jim Smith, Mike Fix, Mike Presley, Paul Laporte, Theresa Resnick

Thanks, Jim! Incoming chairperson Mike Fix (left) presenting a gift of appreciation to outgoing chairperson Jim Smith (right) with the section council looking on at the section reception in New Orleans

*Left to Right - Steve Cooperstein, Diane McGovern, Tom Bakos, Theresa Resnick, Steve Konnath, Chris Hause (*NewsDirect *co-editor)*

2001-2002 Section Council members posing at the Nontraditional Marketing Section Wine and Cheese Reception in New Orleans

Left to Right - Tom Bakos, Steve Konnath, Diane McGovern, Theresa Resnick, Mike Fix