



SOCIETY OF ACTUARIES

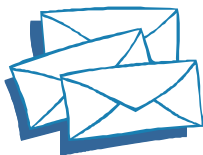
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You've Sent Mail

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?

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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.

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