# NEWSDIRECT

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

NUMBER 40 MAY 2002

## Direct Insurance Sales Using Microeconomics

by Robert E. Winawer

*Editor's Note: This excellent and timely paper will be published in its entirety over the next three issues of* NewsDirect.

### Section One: Introduction

Direct response has become an attractive alternative to traditional distribution for many insurers because of the added control over the sales process and ownership of the customer subsequent to sale. These advantages are weighed against the costs, efforts, and risks of direct response.

The greatest risk in direct response is that most of the acquisition costs are incurred before the policy is sold. First, the cost of generating lists of prospective consumers by gaining access to affiliated groups, advertising in mass media, or by purchasing names from third parties is incurred. Then, the cost to close sales either by mail, phone, or the Internet is incurred. Finally, the policy is underwritten, issued, and mailed to the policyholder.[1] Spending money before it is certain that the policy will be sold makes the financial risk in the sales process greater than in

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## Chairperson's Corner

## Looking Ahead

by Mike Fix

As I begin to write this article, my first as the Chairperson of the Non-Traditional Marketing Section, I can think of so many things to pass along to you, the readers of our publication, *NewsDirect*.

I must first thank my predecessor chairperson, Jim Smith, for his contributions to the council and his leadership for the past years. Thanks also to Steve Ostlund who has completed his term of service on the council. He has helped to make our Council and our Section better.

We have added three new members, and I welcome them to the Council: Diane McGovern, Paul LaPorte, and Steve Konnath, who was re-elected after serving a partial term. I am sure they will find their volunteer efforts very rewarding.

We are a Section that is proud to have an active and involved Friends of the Council. Many of these fine people have been members of the council in the past and continue to graciously offer their services to our members and to the actuarial profession as a whole.

I encourage all readers to volunteer in any of a number of ways to help with Section activities. In each of my

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IN THIS ISSUE

## Chairperson's Corner

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Chairperson's Corner articles, it is my intent to remind the readers of upcoming activities.

In our activities, we try to keep consistent with our mission statement. It is interesting that now we are beginning to ask ourselves what is "non-traditional." What may have been considered "non-traditional" a few years ago, may no longer be so.

A review of the agenda for a typical Section Council meeting gives you an idea as to the activities in which we, and you as members of the Section, can participate.

1) We publish this newsletter, *NewsDirect,* four times a year, providing information about upcoming Section events, reports on events recently held, and articles on topics that are timely for our profession. Chris Hause and Julie Tani are our co-editors and they are doing a fine job.

2) We sponsor sessions at the Society of Actuaries meetings. Planning is in full swing for the Annual Meeting in Boston in October. Tom Bakos is our representative on the Program committee. We will be sponsoring five sessions, all of which cover topics that are timely and "non-traditional." You will be reading about them in *NewsDirect*.

3) The SOA encourages co-sponsorship of activities among the Sections and we continue to do this. In addition to co-sponsoring sessions at the Spring and Annual SOA meetings, we co-sponsoring the successful Product Development Actuary Symposium (Tom Bakos, Maria Thomson) and will be adding a pre-seminar as well (Jay Jaffe). We are currently discussing a couple of other seminar ideas that promise to be quite exciting.

4) Representatives from the Section Council also serve on a number of SOA committees,

### In 1999, the Non-Traditional Marketing Section Council adopted the following mission statement:

*The mission of the Non-Traditional Marketing Section is to facilitate research and discussion regarding the relationship among customers, products and distribution systems. The focus of of the Section is the exploration of two particular aspects of this relationship: methods of marketing financial products to potential customers other than through conventional channels, and specialty financial products particularly well suited to alternative methods of distribution.*

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including Health Practice Council (Steve Ostlund); Life Practice Council; (Howell Pugh); Continuing Education Coordinating Committee (Theresa Resnick); and the Course 7 Committee (Steve Konnath).

5) The Nontraditional Marketing Section has published the *Product Channel Directory* which identifies product and distribution channel scenarios. This publication will be updated not only chronologically, but as to its purpose as well. We are planning to make the *Product Channel Directory* become a valuable networking tool for members.

These are some of the highlights and plans for us as a Section for 2002. I encourage you to learn what the Section is doing and to volunteer your talents! Any organization is only as good as the involvement of its members. If any of the activities described in this issue of *NewsDirect* appeal to your participation, please let us know. The section council members are listed on page two of this issue. We are always looking for fresh faces, new ideas and continued enthusiasm. I have a great group of Section members, Friends of the Council, and volunteers to work with me to make this a great year, and I am looking forward to it. Thanks in advance for your participation!

*Mike Fix is Second Vice President at Trustmark Insurance Company in Freeport, Illinois. He can be reached at 815/266-6815 or by e-mail at mfix@trustmarkins.com*

## New Credit Life Insurance Valuation Standard in the Making

by Steven L. Ostlund

The NAIC has asked the Society of Actuaries to develop a recommendation for a valuation standard for single premium credit life insurance business. The most common standard currently in existence is based upon the 1980 CSO or CET, although some states still require the 1958 CET or 1960 CSG. The Credit Insurance Experience Committee was asked to respond to this request and is planning to make a recommendation to the Life and Health Actuarial Task Force at their June meeting in Philadelphia.

The committee solicited and received experience from 30 carriers representing $146 billion of exposure for 1998 and 1999. Initially, comparison was made to the 1980 Male CSO Table to determine trends in the experience since the Credit Life Insurance Actual-to-Expected Mortality Study for 1992 was published in the 1993-94 *Transactions Reports*. Significant improvement was observed, as expected. The committee then made comparisons to the 2001 Male CSO Ultimate Table, using the blended Smoker-Non-Smoker table. After examining the distribution of experience among companies, loading factors were developed to provide an appropriate valuation table. It is anticipated that the new table, by reflecting recent experience, will result in a release of excessive reserves and a more accurate portrayal of the liabilities of the industry, while still maintaining appropriate safety margins.

One goal of the committee is to conduct this study on an annual basis, and to link the credit life mortality standard to the current ordinary life standard. That way, as future updates are made to the ordinary life valuation standard, recent data is available to establish an appropriate credit life standard simultaneously.

The work of the committee was guided by a previous study and recommendation was made to provide for a valuation standard for credit disability premium reserves. That recommendation was to base reserves on a multiple of the 1985 Commissioners Individual Disability Table. This recommendation was adopted by the NAIC and will now work its way through adoption by various states.

Members of the Experience Committee, chaired by the author, include:
Robert J. Butler
Jeanne Meeker Daharsh
Lawrence D. Fisher
Ginny Gammill*
Christopher H. Hause, Vice-Chair
Jay M. Jaffe
Gerard J. Lunemann
Elaine N. Pelletier
T. Michael Presley
Randy J. Ruplinger

**Credit Insurance Professional*

The committee has received staff support from John A. Luff, and cooperation from the American Academy of Actuaries and the Consumer Credit Insurance Association.

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# Editor's Corner
## American Beauty, Enron, and Tails
by Christopher H. Hause


*Chris Hause*

In the movie *American Beauty,* Kevin Spacey's teenaged next door neighbor makes a living selling high grade marijuana. The teenager's father was a military man and strict disciplinarian. The father apparently accepted that his son had a bedroom filled with high tech audio-video equipment using money that he earned from part-time jobs. The son's explanation for his ability to fool his father?

"Never underestimate the power of denial."

Fast forward to the congressional Enron hearings where Jeffrey Skilling, the company's former Chief Executive, is quoted as saying, "I cannot for the life of me understand how we could go from where I thought the company was to bankruptcy in such a short period of time. It's astounding."

"Never underestimate the power of denial."

> **"It is undoubtedly human nature to believe the path we are taking leads inexorably to the Holy Grail. Well maybe not the holy Grail, but at least not in the direction of ruin."**

When we hear self proclaimed plain-talkers tell us that "if it ain't broke, don't fix it," we are reminded of the fellow hurtling earthward after his parachute failed to open proclaiming that "everything is going well…so far."

It is undoubtedly human nature to believe the path we are taking leads inexorably to the Holy Grail. Well, maybe not the Holy Grail, but at least not in the direction of ruin. We may believe this even though the opposite is obvious to the clear-minded observer.

Can it be explained by something as simple as Newton's first law of physics? That we tend to stay on our current path until some external influence forcibly knocks us off course? Or, perhaps foolish pride is the culprit. At times we believe that the road we are on is correct, even though we may have come this way quite by accident.

### Impossible Things are Happening Every Day
#### (Apologies to Rodgers & Hammerstein's Cinderella)

We are used to hearing that nothing is constant except change. I believe that statement is too weak. In looking to the future, I think you should start with the assumption that one or more major changes will occur, and be prepared to adjust.

Major dislocations are sent our way every day. Whether we can anticipate them depends on many factors. How we prepare and react to them is all our business. Sometimes a country-western attitude toward life is not what is required, because the world is a rock-and-roll place.

We tend to think of dislocations as only negative. I believe that success equally involves embracing the work of pioneers and visionaries who bring positive dislocations about.

Here are two of my favorite quotes about those who dare to think outside the norm.

"Great spirits have always encountered violent opposition from mediocre minds." *Albert Einstein*

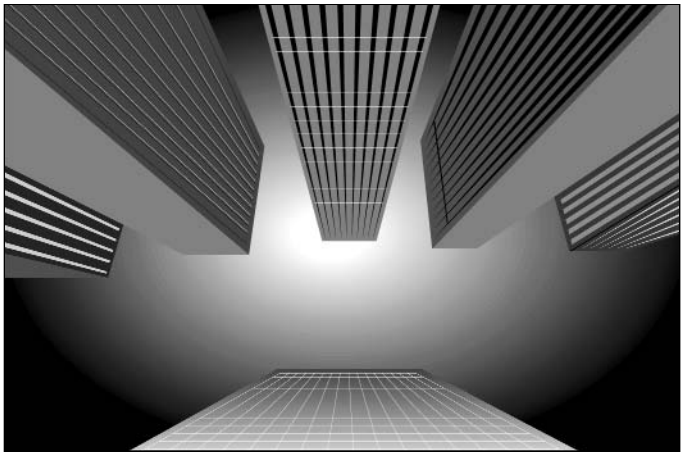
"When a true genius appears in the world, you may know him by this sign: that the dunces are all in confederacy against him." *Jonathan Swift*

How do we recognize the "great spirits" and "true geniuses" of the world? How do we distinguish between the visionary and the merely eccentric?

### The Product Development Actuary – Using Clarity and Foresight

Our job as actuaries is to provide our companies with the numerical tools to analyze emerging markets, products and opportunities. We provide the business models that demonstrate the interaction and effect of internal strategies and external force.

Experimental products, markets and business strategies require a more-than-normal dose of analysis of the ingredients required for success. Many times we can sort the



visionary ideas from the eccentric by simply applying our science to the problem at hand.

We alone have the tools to quantify a proposed course of action in the way that the securities analysts talk of investments, in terms of risks and rewards. Given proper analysis, our companies can steer clear of the high-risk-low-reward quadrant, and focus on more fruitful opportunities.

In this role, the actuary's advice helps to clarify the vision with analysis and forethought.

### Our Financial Crystal Ball and the Tails

The financial reporting actuary has a different, and arguably more crucial, role as visionary. His or her job is to anticipate the unthinkable and preparing for the unlikely.

In 1978, we measured our liabilities by twenty-year-old mortality and interest rates that resembled savings account levels. The insurance product revolution that followed caused us to look to the future in a more modern, but still largely deterministic, manner.

Now the questions that we are asked are tougher and the answers more complex. Even simple portfolios are vulnerable when major dislocations occur. The "tails" of our stochastic distributions are getting more attention, and well they should be. We are asked to protect our shareholders, our companies and our policyholders from the tails.

We used to think we could ignore the "less than 10% probability" scenarios. It is clear that we must address them. While once we may have appeared to be "Chicken Little" in the board room if we even mentioned tail scenarios, boards and CEOs want to hear more about how we can protect against them.

Perhaps some thought that the possibility of Enron failing was a "tail" occurrence. I would not want to explain to those folks who had their financial future ruined, that I could safely ignore their plight because it had a small chance of occurring. I would rather tell my clients that we are hedged against the tails, and let the world "bring it on."

As we travel down the road of life and commerce, it is rarely enough to focus exclusively on the road straight ahead. Many times the road is anything but straight.

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## YOU, YES YOU! CAN BE A PUBLISHED AUTHOR!

PLEASE SEND US YOUR ARTICLE TODAY!

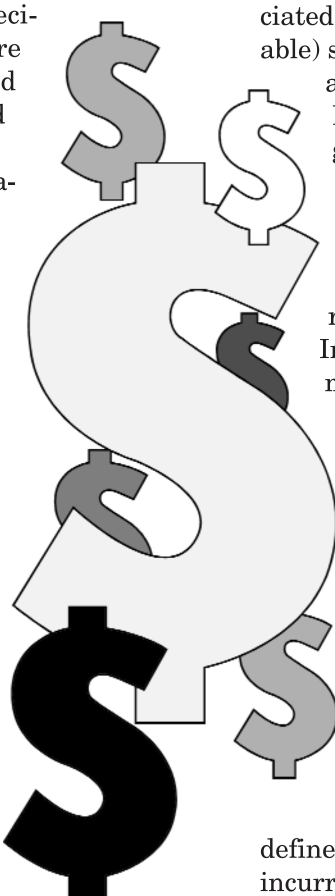
The editors of *NewsDirect* are always on the look out for articles by and for our members. Articles may range from just a few paragraphs to a three-part series, such as we have featured recently. No prior writing experience is needed. As a matter of fact, NewsDirect may be the best forum for many first time writers. We take pride in publishing articles that are important to our membership, and we look forward to publishing your article soon.

## Direct Insurance Sales...

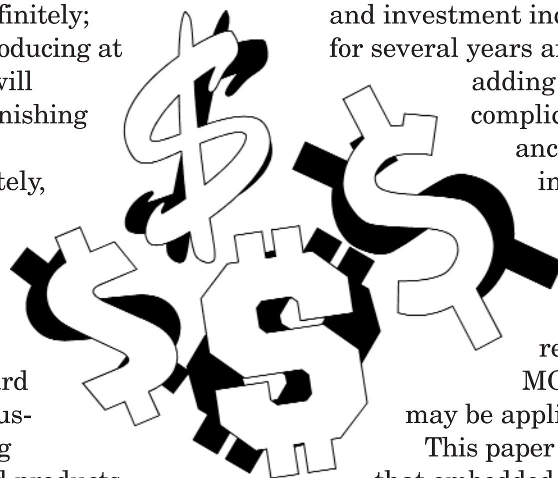
from page 1

traditional distribution. This underlies the importance of efficient use of capital for direct-marketed insurance. In fact, the primary goal of direct sales management is to allocate capital in a way that maximizes profits in relation to risks taken.

This essay shows how to allocate capital efficiently for a subset of direct sales management called solicitation management (SM) by using the microeconomic marginal cost/ marginal revenue paradigm (MC/MR). SM focuses on closing sales. In this stage of the company's decision making process, it is assumed that premium rates have already been set and a list of consumers has already been generated or procured. The decisions to be made are to whom to sell, and how much to spend to close each sale.



The MC/MR paradigm can help a company make SM decisions in light of several competing forces. The company may expect to increase sales volume either by spending more capital or by using that capital more efficiently. Conversely, as the company progressively spends more to close each sale, profits per sale will be forced downward. On the other hand, profits per sale can be bolstered if the unit solicitation, production, and delivery costs decrease because of economies of scale. However, it is unlikely that economy of scale gains will continue indefinitely; eventually, producing at full capacity will result in diminishing returns.



Unfortunately, applying the MC/MR paradigm to insurance SM is not as straightforward as it is in industries involving manufactured products such as toys or cars. For manufactured products, management is directed to expand sales by incurring proportionately more acquisition expense until the increase in aggregate acquisition expenses and production costs associated with the last (least profitable) sale equals the increase in aggregate revenue from that last sale. The change in aggregate acquisition expense associated with each sale is called the marginal acquisition cost. Marginal production cost and marginal revenue are defined similarly. In most microeconomics texts, marginal acquisition costs and marginal production costs are bundled together and called simply marginal costs. Management's goal is to expand sales until marginal costs equal marginal revenue, which means that net profit from that last sale is zero.

Applying the paradigm to direct response insurance solicitations, marginal acquisition expenses may be defined as the additional expense incurred to make the sale, underwrite, and issue the policy. Marginal production costs and marginal revenue are both more nebulous. Insurance production costs (administrative expenses and contractual obligations) and revenue (premiums and investment income) continue for several years after the sale, adding risk as well as complication to insurance SM. The insurer must find a way to define marginal production costs and revenue before the MC/MR paradigm may be applied.

This paper demonstrates that embedded value of new business (VNB) using the Embedded Value framework is the most appropriate way to quantify marginal production costs and revenue. VNB also includes marginal acquisition costs. It is defined as the present value of profits available to shareholders using a risk discount rate (RDR). RDRs are based on organizational risk tolerance and reflect uncertainty of closing the sale and subsequent profits. The RDR may be viewed as an explicit risk penalty in the VNB formula. A higher RDR produces a lower VNB, all else equal.

VNB measures marginal risk-adjusted revenue, production costs, and acquisition costs combined. Hence, management is directed to increase marginal acquisition costs until they exceed marginal revenue less marginal production costs; that is to say, until VNB is zero. This is equivalent to the traditional MC/MR paradigm which dictates that the net profits from the last (least profitable) sale is zero. This may seem to be a change in focus from the MC/MR paradigm because production costs have been combined with revenue, rather than with acquisition costs as most Microeconomics texts do. However, the end result remains—net profits from the last (least profitable) sale are zero.

The use of a case example that is described in the subsequent installments of this essay, explains how insurers can implement the MC/MR paradigm to make superior capital allocation decisions. The process is implemented in stages for clarity.

- Section 3 shows how insurers can improve SM decisions by focusing on marginal acquisition expenses rather than full or average costs. It is assumed that the insurer is using the industry's most common risk/reward threshold to make SM decisions rather than VNB. This section takes the first step toward applying the MC/MR paradigm by changing the measurement of acquisition costs without changing the measurement of production costs or revenue (i.e. the risk/reward threshold).

- Section 4 shows how some insurers have the opportunity to improve SM by making more granular risk/reward decisions, even if they do not use VNB. While the premise of this section is useful taken alone, the purpose of this section is to introduce a level of complexity that is needed to show why VNB should be used in the MC/MR paradigm.

- In Section 5 it is asserted that by replacing the risk/reward threshold that is most commonly used in the industry with VNB, every insurer can be assured that total risk-adjusted profits will be maximized. This section completes the application of the MC/MR paradigm.

- Finally, Section 6 provides a brief recapitulation and conclusions are drawn. Based on the case example constructed for this essay, the tools introduced in Section 3 produce the greatest gain in risk-adjusted profits. The tools used in Section 4 also produce significant additional risk-adjusted profits. However, the tools introduced in Section 5 do not increase risk-adjusted profits substantially. This will likely be the result when only one product is being analyzed as is done in this essay. As we will discuss in Section 6, using VNB will improve results more dramatically when several products are offered. There are also non-financial merits of using VNB, such as improved communication, which will be discussed as well.

As stated previously, the scope of this paper is limited to the application of the MC/MR paradigm to SM. Appendix 1 gives suggestions on how the principles discussed in this essay can be applied to other decisions that face direct response insurers.

**"Premiums are unisex, as it is desirable to have direct response solicitations with premium structures that are easy for the consumer to understand."**

## Section Two: Description of Case Study

A hypothetical case study of three consecutive solicitations to a list of 4,000,000 consumers is used to illustrate concepts throughout the essay. After each solicitation, people who have purchased insurance are taken off the list. It is assumed that actual responses equal anticipated. In Example 1, shown on a following page, there are 3,987,000 consumers remaining after the first solicitation (4,000,000 – 3,987,000 = 13,000 responded to the first solicitation) and 3,978,032 remaining after the second (3,987,000 – 3,978,032 = 8,968 responded to the second solicitation).

The product offered is small face amount whole life insurance designed to meet the needs of senior citizens' final expenses. Premiums are unisex, as it is desirable to have direct response solicitations with premium structures that are easy for the consumer to understand. Full details underlying the list of consumers and the product sold are shown in Appendices 2 and 3.

In the next installment, the ratio of costs to premiums is used as the risk/reward threshold. This means that the company decides to send solicitations to particular segments of their list of consumers based on the anticipated ratio of acquisition costs to issued and paid premium (Cost-to-Premium, or C-to-P). This C-to-P threshold is based on the most restrictive of two asset share pricing criteria (1) 8% profit margin and (2) 15% return on investment (ROI). In Section 5, VNB is used as the risk/reward threshold rather than C-to-P.

Profit margin is defined as the present value of statutory profits divided by the present value of premiums discounted at the investment earnings rate. Profit margin may be thought of as an average profit over the pricing period, expressed as a percent of premium.

ROI is the discount rate at which the present value of shareholder profits is equal to zero. Shareholder profits are the profits that are available to the owner, defined as statutory profits adjusted for target surplus. ROI is synonymous with the term internal rate of return that is commonly used for financial analysis.

VNB is the present value of shareholder profits using a 10% RDR. It is also used as the definition

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## Direct Insurance Sales...

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of risk-adjusted profits in this essay. The SM risk/reward threshold is that VNB must be greater than zero.

In this essay, success is measured in terms of risk-adjusted profits. They are defined as the present value of shareholder profits at the 10% RDR. Risk-adjusted profits are a convenient way to measure the worth of any sale, venture, or even block of inforce policies. Management's goal is to maximize risk-adjusted profits as this measures their improvement to total company value.

It is important to note that VNB is defined with the goal of maximizing risk-adjusted profits in mind. VNB is equal to the increase in total company risk-adjusted profits caused by a specific sale. The SM tools discussed in this essay make use of this important relationship between VNB and risk-adjusted profits. If success is measured in terms of risk-adjusted profits, then sales should be measured in terms of risk-adjusted profits as well. Therefore, VNB is the best measure of a sale's worth.

In the next installment: *Improving Solicitation Management: Marginal Costs and the Value of New Business*

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## Footnotes

1) In certain circumstances, these steps are shortened. For example, a bank that offers insurance to depositors incurs no cost to generate the list of prospective policyholders.

2) Chalke, Shane A., TSA xLIII, 1991.

## Appendix 1: Further Work/Extended Application

This essay advocated using the MC/MR microeconomic paradigm with VNB as a proxy for marginal revenue and production costs to make SM decisions. The same paradigm can and should be applied to each step in the direct response insurance marketing and sales process.

- In "Macro Pricing: A Comprehensive Product Development Process," Chalke introduces an algorithm based on the MC/MR paradigm to set premium rates.[2] Using VNB as the utility measure for alternative ventures can enhance this algorithm.

- The MC/MR paradigm with VNB can be used to evaluate consumer list generation proposals. Management needs only to develop a model of their company's network of solicitations such as was used in this essay and compare the total VNB that results under each proposal. An important subsidiary exercise is to assign a value to each name on the list of potential customers. This value is simply equal to the VNB of all anticipated future sales to that person times the probability of each sale.

- The application of the MC/MR paradigm with VNB to SM involving lists of prospective consumers who have not yet purchased insurance was discussed in this essay. The same principles apply when evaluating policyholder-marketing campaigns. In fact, it is best to include VNB from anticipated future policyholder-marketing efforts with the VNB from the initial sale when evaluating initial policy acquisition expenses. Otherwise the value of the initial sale will be understated and management will be directed to spend less to acquire policies than is appropriate. Both sales and profits will fall short of their potential maximum.

It is clear that the techniques discussed in this essay marginal acquisition expense SM decisions, refined analysis, and using value of new business in the MC/MR paradigm are well worth consideration for a wide variety of financial decisions.

** Editor's Note: Please look to the next several pages as they contain supporting charts and tables for this article.

## EXAMPLE 1: COMPARISON OF FOUR BASIC DECISION CRITERIA

| | First Offer with Fixed Costs | | Average of All Offers with Fixed Costs | | Average of All Offers without Fixed Costs | | Last Of without Fixe | |
|---|---|---|---|---|---|---|---|---|
| | Formulas | Values | Formulas | Values | Formulas | Values | Formulas | |
| **List Generation** | | | | | | | | |
| 1. Fixed Costs | | $3,000,000 | | $3,000,000 | | $3,000,000 | | $3,000,000 |
| 2. Names Generated | | 4,000,000 | | 4,000,000 | | 4,000,000 | | 4,000,000 |
| **Offer 1 Anticipated Costs & Sales** | | | | | | | | |
| 3. Marginal Costs | | $2,000,000 | | $2,000,000 | | $2,000,000 | | $2,000,000 |
| 4. # Mailed | | 4,000,000 | | 4,000,000 | | 4,000,000 | | 4,000,000 |
| 5. Response Rate | | 0.325% | | 0.325% | | 0.325% | | 0.325% |
| 6. # Issued | 4.* 5. | 13,000 | 4.* 5. | 13,000 | 4.* 5. | 13,000 | 4.* 5. | 13,000 |
| 7. Avg Premium | | $284.46 | | $284.46 | | $284.46 | | $284.46 |
| 8. Premium Issued | 6.* 7. | $3,698,000 | 6.* 7. | $3,698,000 | 6.* 7. | $3,698,000 | 6.* 7. | $3,698,000 |
| Decision Criteria | | *Offer 1 Fixed & Marginal Costs* | | *Offer 1 Fixed & Marginal Costs* | | *Offer 1 Marginal Costs* | | *M* |
| 9. Costs Included | 1.+ 3. | $5,000,000 | 1.+ 3. | $5,000,000 | 3. | $2,000,000 | 3. | $2,000,000 |
| 10. Premium Included | 8. | $3,698,000 | 8. | $3,698,000 | 8. | $3,698,000 | 8. | $3,698,000 |
| 11. C-to-P | 9./ 10. | 135.21% | 9./ 10. | 135.21% | 9./ 10. | 54.08% | 9./ 10. | 54.08% |
| 12. Treshold C-to-P | | 120.00% | | 120.00% | | 120.00% | | 120.00% |
| Decision | *11. < 12. ?* | *Offer 1 Not Acceptable, Do Not Consider Offer 2* | *11. < 12. ?* | *Offer 1 Not Acceptable, Consider Offers 1&2* | *11. < 12. ?* | *Offer 1 Acceptable, Consider Offers 1&2* | *11. < 12. ?* | *Offer 1 A* |
| **Offer 2 Anticipated Costs & Sales** | | | | | | | | |
| 13. Marginal Costs | | | | $1,993,500 | | $1,993,500 | | $1,993,500 |
| 14. # Mailed | | | | 3,987,000 | | 3,987,000 | | 3,987,000 |
| 15. Response Rate | | | | 0.225% | | 0.225% | | 0.225% |
| 16. # Issued | | | 14.* 15. | 8,969 | 14.* 15. | 8,969 | 14.* 15. | 8,969 |
| 17. Avg Premium | | | | $293.11 | | $293.11 | | $293.11 |
| 18. Premium Issued | | | 16.* 17. | $2,628,756 | 16.* 17. | $2,628,756 | 16.* 17. | $2,628,756 |
| Decision Criteria | | | | *Offers 1&2 Fixed & Marginal Costs* | | *Offers 1&2 Marginal Costs* | | *M* |
| 19. Costs Included | | | 1.+ 3.+ 13. | $6,993,500 | 3.+ 13. | $3,993,500 | 13. | $1,993,500 |
| 20. Premium Included | | | 8.+ 18. | $6,326,756 | 8.+ 18. | $6,326,756 | 18. | $2,628,756 |
| 21. C-to-P | | | 19./ 20. | 110.54% | 19./ 20. | 63.12% | 19./ 20. | 75.83% |
| 22. Treshold C-to-P | | | | 120.00% | | 120.00% | | 120.00% |
| Decision | | | *21. < 22. ?* | *Offers 1&2 Acceptable, Consider Offers 1,2&3* | *21. < 22. ?* | *Offers 1&2 Acceptable, Consider Offers 1,2&3* | *21. < 22. ?* | *Offer 2 A* |
| **Offer 3 Anticipated Costs & Sales** | | | | | | | | |
| 23. Marginal Costs | | | | $1,989,016 | | $1,989,016 | | $1,989,016 |
| 24. # Mailed | | | | 3,978,032 | | 3,978,032 | | 3,978,032 |
| 25. Response Rate | | | | 0.125% | | 0.125% | | 0.125% |
| 26. # Issued | | | 24.* 25. | 4,968 | 24.* 25. | 4,968 | 24.* 25. | 4,968 |
| 27. Avg Premium | | | | $315.72 | | $315.72 | | $315.72 |
| 28. Premium | | | 26.* 27. | $1,568,504 | 26.* 27. | $1,568,504 | 26.* 27. | $1,568,504 |
| Decision Criteria | | | | | | | | |
| 29. Costs Included | | | 1.+ 3.+ 13.+ 23. | $8,982,516 | 3.+ 13.+ 23. | $5,982,516 | 23. | $1,989,016 |
| 30. Premium Included | | | 8.+ 18.+ 28. | $7,895,260 | 8.+ 18.+ 28. | $7,895,260 | 28. | $1,568,504 |
| 31. C-to-P | | | 29./ 30. | 113.77% | 29./ 30. | 75.77% | 29./ 30. | 126.81% |
| 32. Treshold C-to-P | | | | 120.00% | | 120.00% | | 120.00% |
| Decision | | | *31. < 32. ?* | | | | | |
| **Final Decision Profit Statistics** | | | | | | | | |
| Conclusion | | *Send No Offers* | | *Send Offers 1,2&3* | | *Send Offers 1,2&3* | | *Send Offers 1&2* |
| Cost | 1. | $3,000,000 | 1.+ 3.+ 13.+ 23. | $8,982,516 | 1.+ 3.+ 13.+ 23. | $8,982,516 | 1.+ 3.+ 13. | $6,993,500 |
| Premium | | $0 | 8.+ 18.+ 28. | $7,895,260 | 8.+ 18.+ 28. | $7,895,260 | 8.+ 18. | $6,326,756 |
| Margin | | N/A | | 8.99% | | 8.99% | | 9.45% |
| ROI | | N/A | | 19.94% | | 19.94% | | 21.33% |
| Risk Adjusted Profits | | ($1,950,000) | | $1,939,523 | | $1,939,523 | | $1,672,647 |

continued on page 10

# Direct Insurance Sales...

from page 9

### EXAMPLE 2: COMPARISON OF AGE/SEX DISTINCT C-TO-P TO AGGREGATE C-TO-P DECISIONS

| | Refined C-to-P Decisions Based on Age & Sex | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Formulas for A,B,C&D | A. Male Age 50 Values | B. Female Age 50 Values | C. Male Age 65 Values | D. Female Age 65 Values | Combined Formulas | Combined Values | Forn | |
| **List Generation** | | | | | | | | | |
| 1. Fixed Costs | | $750,000 | $750,000 | $750,000 | $750,000 | A.+ B.+ C.+ D. | $3,000,000 | | $3,000,000 |
| 2. Names Generated | | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | A.+ B.+ C.+ D. | 4,000,000 | | 4,000,000 |
| **Offer 1 Anticipated Costs & Sales** | | | | | | | | | |
| 3. Marginal Costs | | 500,000 | 500,000 | 500,000 | 500,000 | B.+ C.+ D. | 1,500,000 | | 2,000,000 |
| 4. # Mailed | | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | B.+ C.+ D. | 3,000,000 | | 4,000,000 |
| 5. Response Rate | | 0.250% | 0.250% | 0.400% | 0.400% | 6. / 4. | 0.350% | | 0.325% |
| 6. # Issued | 4.* 5. | 2,500 | 2,500 | 4,000 | 4,000 | B.+ C.+ D. | 10,500 | 4.* 5. | 13,000 |
| 7. Avg Premium | | $180.00 | $180.00 | $349.75 | $349.75 | 8. / 6. | $309.33 | | $284.46 |
| 8. Premium Issued | 6.* 7. | 450,000 | 450,000 | 1,399,000 | 1,399,000 | B.+ C.+ D. | 3,248,000 | 6.* 7. | 3,698,000 |
| Decision Criteria | | *Offer 1 Marginal Costs* | *Offer 1 Marginal Costs* | *Offer 1 Marginal Costs* | *Offer 1 Marginal Costs* | | *N/A* | | |
| 9. Costs Included | 3. | $500,000 | $500,000 | $500,000 | $500,000 | 3. | $1,500,000 | 3. | $2,000,000 |
| 10. Premium Included | 8. | $450,000 | $450,000 | $1,399,000 | $1,399,000 | 8. | $3,248,000 | 8. | $3,698,000 |
| 11. C-to-P | 9./ 10. | 111.11% | 111.11% | 35.74% | 35.74% | 9./ 10. | 46.18% | 9./ 10. | 54.08% |
| 12. Treshold C-to-P | | 98.00% | 137.00% | 60.00% | 173.00% | | *N/A* | | *120.00%* |
| Decision | 11. < 12. ? | *Offer 1 Not Acceptable, Do Not Consider Offer 2* | *Offer 1 Acceptable, Consider Offer 2* | *Offer 1 Acceptable, Consider Offer 2* | *Offer 1 Acceptable, Consider Offer 2* | | *Varies by Age & Sex* | 11. < | |
| **Offer 2 Anticipated Costs & Sales** | | | | | | | | | |
| 13. Marginal Costs | | | 498,750 | 498,000 | 498,000 | C.+ D. | 996,000 | | 1,993,500 |
| 14. # Mailed | | | 997,500 | 996,000 | 996,000 | C.+ D. | 1,992,000 | | 3,987,000 |
| 15. Response Rate | | | 0.150% | 0.300% | 0.300% | 16. / 14. | 0.300% | | 0.225% |
| 16. # Issued | 14.* 15. | | 1,496 | 2,988 | 2,988 | C.+ D. | 5,976 | 14.* 15. | 8,969 |
| 17. Avg Premium | | | $180.00 | $349.75 | $349.75 | 18. / 16. | $349.75 | | $293.11 |
| 18. Premium Issued | 16.* 17. | | 269,325 | 1,045,053 | 1,045,053 | C.+ D. | 2,090,106 | 16.* 17. | 2,628,756 |
| Decision Criteria | | | *Offer 2 Marginal Costs* | *Offer 2 Marginal Costs* | *Offer 2 Marginal Costs* | | *N/A* | | |
| 19. Costs Included | 13. | | $498,750 | $498,000 | $498,000 | 13. | $996,000 | 13. | $1,993,500 |
| 20. Premium Included | 18. | | $269,325 | $1,045,053 | $1,045,053 | 18. | $2,090,106 | 18. | $2,628,756 |
| 21. C-to-P | 19./ 20. | | 185.19% | 47.65% | 47.65% | 19./ 20. | 47.65% | 19./ 20. | 75.83% |
| 22. Treshold C-to-P | | | 137.00% | 60.00% | 173.00% | | N/A | | 120.00% |
| Decision | 21. < 22. ? | | | | | | | | |
| **Offer 3 Anticipated Costs & Sales** | | | | | | | | | |
| 23. Marginal Costs | | | | 496,506 | 496,506 | D. | 496,506 | | 1,989,016 |
| 24. # Mailed | | | | 993,012 | 993,012 | D. | 993,012 | | 3,978,032 |
| 25. Response Rate | | | | 0.200% | 0.200% | 26. / 24. | 0.200% | | 0.125% |
| 26. # Issued | 24.* 25. | | | 1,986 | 1,986 | D. | 1,986 | 24.* 25. | 4,968 |
| 27. Avg Premium | | | | $349.75 | $349.75 | 28. / 26. | $349.75 | | $315.72 |
| 28. Premium | 26.* 27. | | | 694,612 | 694,612 | D. | 694,612 | 26.* 27. | 1,568,504 |
| Decision Criteria | | | | | | | | | |
| 29. Costs Included | 23. | | | $496,506 | $496,506 | 23. | $496,506 | 23. | $1,989,016 |
| 30. Premium Included | 28. | | | $694,612 | $694,612 | 28. | $694,612 | 28. | $1,568,504 |
| 31. C-to-P | 29./ 30. | | | 71.48% | 71.48% | 29./ 30. | 71.48% | 29./ 30. | 126.81% |
| 32. Treshold C-to-P | | | | 60.00% | 173.00% | | *N/A* | | *120.00%* |
| Decision | 31. < 32. ? | | | | | | | | |
| **Final Decision Profit Statistics** | | | | | | | | | |
| Conclusion | | | | | | | | | |
| Cost | | $750,000 | $1,250,000 | $1,748,000 | $2,244,506 | A.+ B.+ C.+ D. | $5,992,506 | | $6,993,500 |
| Premium | | $0 | $450,000 | $2,444,053 | $3,138,665 | A.+ B.+ C.+ D. | $6,032,718 | 1.+ 3.+ 13. | $6,326,756 |
| Margin | | | | | | | 11.83% | 8.+ 18. | 9.45% |
| ROI | | | | | | | 31.89% | | 21.33% |
| Risk Adjusted Profits | | | | | | | $2,414,131 | | $1,672,647 |

## EXAMPLE 3: SM DECISIONS WITH VNB AND MARGINAL COSTS

| | A. Male Age 50 | | B. Female Age 50 | | C. Male Age 65 | | D. Female Age 65 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Formulas | Values | Formulas | Values | Formulas | Values | Formulas | Values | | |
| **List Generation** | | | | | | | | | | |
| 1. Fixed Costs | | $750,000 | | $750,000 | | $750,000 | | $750,000 | A.+ B.+ C.+ D. | $3,000,000 |
| 2. Names Generated | | 1,000,000 | | 1,000,000 | | 1,000,000 | | 1,000,000 | A.+ B.+ C.+ D. | 4,000,000 |
| **Offer 1 Anticipated Costs & Sales** | | | | | | | | | | |
| 3. Marginal Costs | | $500,000 | | $500,000 | | $500,000 | | $500,000 | A.+ B.+ C.+ D. | $2,000,000 |
| 4. # Mailed | | 1,000,000 | | 1,000,000 | | 1,000,000 | | 1,000,000 | A.+ B.+ C.+ D. | 4,000,000 |
| 5. Response Rate | | 0.250% | | 0.250% | | 0.400% | | 0.400% | 6./ 4. | 0.325% |
| 6. # Issued | 4.* 5. | 2,500 | 4.* 5. | 2,500 | 4.* 5. | 4,000 | 4.* 5. | 4,000 | A.+ B.+ C.+ D. | 13,000 |
| 7. Avg Premium | | $180.00 | | $180.00 | | $349.75 | | $349.75 | 8./ 6. | $284.46 |
| 8. Premium Issued | 6.* 7. | $450,000 | 6.* 7. | $450,000 | 6.* 7. | $1,399,000 | 6.* 7. | $1,399,000 | A.+ B.+ C.+ D. | $3,698,000 |
| Decision Criteria | | *Offer 1 Marginal Costs* | | *Offer 1 Marginal Costs* | | *Offer 1 Marginal Costs* | | *Offer 1 Marginal Cc* | | |
| 9. Costs Included | 3. | $500,000 | 3. | $500,000 | 3. | $500,000 | 3. | $500,000 | 3. | $2,000,000 |
| 10. Premium Included | 8. | $450,000 | 8. | $450,000 | 8. | $1,399,000 | 8. | $1,399,000 | 8. | $3,698,000 |
| 11. VNB @ 10% | | $29,315 | | $156,124 | | $620,991 | | $1,589,657 | A.+ B.+ C.+ D. | $2,396,087 |
| 12. Threshold VNB | | $0 | | $0 | | $0 | | $0 | | *N/A* |
| Decision | *11. < 12. ?* | *Offer 1 Acceptable, Consider Offer 2* | *11. < 12. ?* | *Offer 1 Acceptable, Consider Offer 2* | *11. < 12. ?* | *Offer 1 Acceptable, Consider Offer 2* | *11. < 12. ?* | *Offer 1 Accep Consider Of* | | |
| **Offer 2 Anticipated Costs & Sales** | | | | | | | | | | |
| 13. Marginal Costs | | $498,750 | | $498,750 | | $498,000 | | $498,000 | C.+ D. | $498,000 |
| 14. # Mailed | | 997,500 | | 997,500 | | 996,000 | | 996,000 | C.+ D. | 996,000 |
| 15. Response Rate | | 0.150% | | 0.150% | | 0.300% | | 0.300% | 16./ 14. | 0.300% |
| 16. # Issued | 14.* 15. | 1,496 | 14.* 15. | 1,496 | 14.* 15. | 2,988 | 14.* 15. | 2,988 | C.+ D. | 2,988 |
| 17. Avg Premium | | $180.00 | | $180.00 | | $349.75 | | $349.75 | 18./ 16. | $349.75 |
| 18. Premium Issued | 16.* 17. | $269,325 | 16.* 17. | $269,325 | 16.* 17. | $1,045,053 | 16.* 17. | $1,045,053 | C.+ D. | $1,045,053 |
| Decision Criteria | | *Offer 2 Marginal Costs* | | *Offer 2 Marginal Costs* | | *Offer 2 Marginal Costs* | | *Offer 2 Marginal Cc* | | |
| 19. Costs Included | 13. | $498,750 | 13. | $498,750 | 13. | $498,000 | 13. | $498,000 | 13. | $498,000 |
| 20. Premium Included | 18. | $997,500 | 18. | $269,325 | 18. | $1,045,053 | 18. | $1,045,053 | 18. | $1,045,053 |
| 21. VNB @ 10% | | ($111,241) | | ($35,346) | | $383,537 | | $1,107,131 | C.+ D. | $1,107,131 |
| 22. Threshold VNB | | $0 | | $0 | | $0 | | $0 | | *N/A* |
| Decision | *21. < 22. ?* | *Offer 2 Not Acceptable, Do Not Consider Offer 3* | *21. < 22. ?* | *Offer 2 Not Acceptable, Do Not Consider Offer 3* | *21. < 22. ?* | *Offer 2 Acceptable, Consider Offer 3* | *21. < 22. ?* | *Offer 2 Accep Consider Of* | | |
| **Offer 3 Anticipated Costs & Sales** | | | | | | | | | | |
| 23. Marginal Costs | | | | | | $496,506 | | $496,506 | C.+ D. | $496,506 |
| 24. # Mailed | | | | | | 993,012 | | 993,012 | C.+ D. | 993,012 |
| 25. Response Rate | | | | | | 0.200% | | 0.200% | 26./ 24. | 0.200% |
| 26. # Issued | | | | | 24.* 25. | 1,986 | 24.* 25. | 1,986 | C.+ D. | 1,986 |
| 27. Avg Premium | | | | | | $349.75 | | $349.75 | 28./ 26. | $349.75 |
| 28. Premium | | | | | 26.* 27. | $694,612 | 26.* 27. | $694,612 | C.+ D. | $694,612 |
| Decision Criteria | | | | | | | | | | |
| 29. Costs Included | | | | | 23. | $496,506 | 23. | $496,506 | 23. | $496,506 |
| 30. Premium Included | | | | | 28. | $694,612 | 28. | $694,612 | 28. | $694,612 |
| 31. VNB @ 10% | | | | | | $1,481 | | $629,026 | C.+ D. | $629,026 |
| 32. Threshold VNB | | | | | | $0 | | $0 | | *N/A* |
| Decision | | | | | *31. < 32. ?* | | | | | |
| **Final Decision Profit Statistics** | | | | | | | | | | |
| Conclusion | | *Send Offer 1* | | *Send Offer 1* | | *Send Offers 1,2&3* | | *Send Offers 1,2&3* | | |
| Cost | 1.+ 3. | $1,250,000 | 1.+ 3. | $1,250,000 | 1.+ 3.+ 13.+ 23. | $2,244,506 | 1.+ 3.+ 13.+ 23. | $2,244,506 | A.+ B.+ C.+ D. | $6,989,012 |
| Premium | 8. | $450,000 | 8. | $450,000 | 8.+ 18. 28 | $3,138,665 | 8.+ 18. 28 | $3,138,665 | A.+ B.+ C.+ D. | 7,177,330 |
| Margin | | | | | | | | | | 11.06% |
| ROI | | | | | | | | | | 29.89% |
| Risk Adjusted Profits | | | | | | | | | | $2,575,810 |

## Direct Insurance Sales...

from page 11

| | Age 50 | | | | | |
|---|---|---|---|---|---|---|
| | Male | Female | Combined | Male | | |
| **Pricing Statistics** | | | | | | |
| Average Premium | $180.00 | $180.00 | $180.00 | $349.75 | $349.75 | $349.75 |
| Profit Margin | 3.86% | 13.64% | 8.83% | 21.00% | 15.15% | 8.04% |
| ROI | 9.77% | 21.02% | 14.99% | 647.00% | 34.77% | 18.13% |
| VNB @ 10% | ($6) | $267 | $261 | ($115) | $563 | $448 |
| Total Profits | $714 | $1,414 | $2,128 | $437 | $1,778 | $2,215 |

| | Age 50 | | | | | |
|---|---|---|---|---|---|---|
| **Threshold C-to-P Ratios** | Male | Female | Combined | Male | | |
| Threshold C-to-P | 98.00% | 137.00% | 120.00% | 60.00% | 173.00% | 120.00% |
| Profit Margin | 8.10% | 10.47% | 8.83% | 8.07% | 8.85% | 8.04% |
| ROI | 17.52% | 14.94% | 14.99% | 46.92% | 15.07% | 18.13% |

| | Age 50 | | | | | |
|---|---|---|---|---|---|---|
| **Response Rates** | Male | Female | Combined | Male | | |
| Offer 1 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Offer 2 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Offer 3 | 149625.00% | 149625.00% | 149625.00% | 298800.00% | 298800.00% | 298800.00% |

**Other Solicitation Program Assumptions**

List Fee or Cost to Acquire Each Potential Consumer Name: $0.75

Cost to Produce & Mail Each Solicitation Package: $0.50

### APPENDIX 3B: FIVE YEAR TERM INSURANCE PRICING STATISTICS

| | Age 65 | | |
|---|---|---|---|
| | Male | Female | Combined |
| **Pricing Statistics** | | | |
| Average Premium | $296.25 | $296.25 | $296.25 |
| Profit Margin | -0.44% | 16.24% | 7.99% |
| ROI | 5.32% | 57.28% | 28.69% |
| VNB @ 10% | ($50) | $418 | $368 |
| Total Profits | $70 | $633 | $703 |

## APPENDIX 2: SAMPLE PRODUCT PRICING ASSUMPTIONS

**Sample Products and Issue Ages**
Whole Life Insurance - Issue Ages 50 & 65
Five Year Term Insurance - Issue Age 65

**Unisex Gross Premium (per $1,000 Insurance)**

| | |
|---|---|
| Whole Life Issue Age 50 | $36.00 |
| Whole Life Issue Age 65 | $69.95 |
| Five Year Term Issue Age 65 | $59.25 |

**Reserves and Nonforfeiture Values**
Whole Life Cash Values: 1980 SNFL Minimum, 80CSO M/F ALB Ultimate Table, 5.75%
Five Year Term Cash Values: None
Whole Life & Five Year Term Statutory Reserves: CRVM 80CSO M/F ALB Ultimate Table, 4.50%
Whole Life & Five Year Term Tax Reserves: Equal to Statutory
Whole Life & Five Year Term Target Surplus: 5% of Statutory Reserves

**Mortality**
Whole Life & Five Year Term: 90% of 6570 M/F ALB Ultimate Table

**Withdrawals**
Applies to both Whole Life & Five Year Term:

| Duration | Issue Age 50 | Issue Age 65 |
|---|---|---|
| 1 | 60.00% | 30.00% |
| 2 | 25.00% | 15.00% |
| 3-4 | 10.00% | 7.00% |
| 5 | 8.00% | 5.00% |
| 6+ | 4.00% | 3.50% |

**Expenses**
Applies to both Whole Life & Five Year Term:
% Premium at Issue Marketing: 120.00% (Varies by Sales Program)
Per Policy at Issue Underwriting: $20.00
Annual Per Policy Maintenance: $10.00 with 3.00% Inflation
Annual % Premium Collected: 3.25%

**Federal Income Tax**
Applies to both Whole Life & Five Year Term:
Corporate Tax Rate: 35%
DAC Tax: 7.7% of Premium Collected, Amortized Over 10 Years

**Timing of Cash Flows**
Applies to both Whole Life & Five Year Term:
Premiums, Maintenance Expenses and Withdrawals: Annually
Deaths: Monthly
Marketing Program Costs Incurred at Issue
No Time Lag Between Marketing Programs

# The 2nd Annual Product Development Actuary Symposium & Special NTM Seminar

by Jay M. Jaffe

The 2nd Annual Product Development Actuary Symposium will be held June 13-14 in Chicago at the Westin Hotel (O'Hare). This meeting will be preceded by a special one-day seminar (June 12, also at O'Hare) specifically directed to enhance the knowledge and skills of NTM product development actuaries.

The SOA and NTM Section have arranged for a special reduced meeting fee for both meetings. However, either program can be attended separately.

## Special NTM 6/12 Seminar

The program has been designed to be highly interactive between the presenters and the participants. The program will begin at 11 AM (so that most participants can fly in that morning) and conclude with a networking reception late in the afternoon.

The program will concentrate on four key areas relating to NTM products including, but not be limited to, discussions of the following:

TOPIC 1: An overview of the product development process for NTM products

- Learn how to tell if the dogs will eat the dog food
- Selecting pricing assumptions for new products
- Speed to market or how to feed the dogs quicker
- Risk management including minimizing losses from failed products

TOPIC 2: Insurance Products as Intellectual Property

- What work can be protected
- How to protect intellectual property
- Avoiding infringements on patented and copywrited works

TOPIC 3: Using Nontraditional Resources for Creating New Nontraditional Products

- Joint ventures
- Consultants
- Participation partners
- TPAs
- Reinsurers

TOPIC 4: Legal and Regulatory Issues for New Nontraditional Products

- Policy form development and filing issues
- Compliance with applicable rules and regulations
- Loss ratio requirements
- Reserving
- Risk based capital and similar issues

The outstanding faculty (if I do say so myself) for the meeting, (Maria Thomson, Tom Bakos and Jay Jaffe, plus a patent attorney for the intellectual property issues), has about a century of experience working with nontraditional insurance products from a variety of perspectives. The faculty is not a shy group and will be available during and after the meeting to answer any questions.

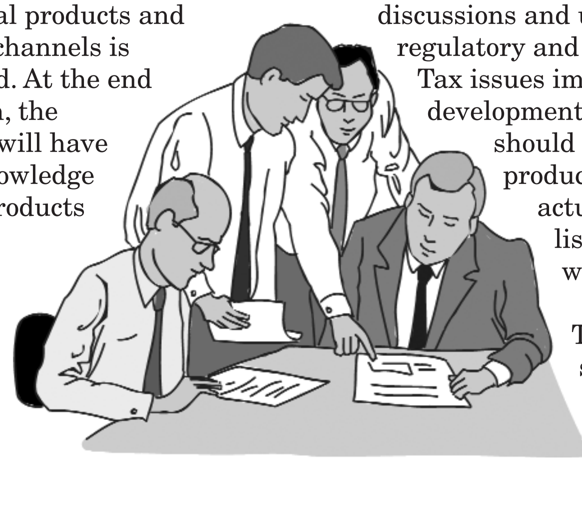
There is no prescribed level of experience expected of the participants. However, familiarity with nontraditional products and distribution channels is recommended. At the end of the session, the participants will have increased knowledge developing products for nontraditional distribution channels. This meeting will be particularly valuable for NTM product development actuaries who are either just getting into the area or have been involved for only a few years.

## Product Development Actuary Symposium 6/13-14

These two days will be devoted to the actuarial aspects of developing a variety of life and annuity products. Several topics will be covered on a fairly detailed basis, so be prepared for an intense learning experience. The symposium is complementary to the special NTM one-day meeting.

The program will open with a general session featuring an insurance industry executive discussing new insurance products and the role of actuaries in the product development process. Later that day there will be a lunch presentation by Professor Arnold Barnett of MIT who will concentrate on actuarial and numerical communication skills. Arnie Barnett is an outstanding teacher and his perspective on how to improve the way actuaries communicate quantitative concepts will be of great value to any actuary who has to work with non-actuaries.

This year's PD Actuary Symposium will also feature a special program that will include discussions and updates on regulatory and Federal Income Tax issues impacting product development. This session should provide all product development actuaries with a list of "things to watch out for."



The other sessions at the Symposium will include:

- Modeling techniques for life insurance and annuities
- Multichannel product development issues
- Underwriting topics
- Reinsurance for annuities
- The impact of the new CSO table on new products
- Financial reinsurance and new products
- Emerging mortality issues
- Life insurance HOT topics
- Speed to market techniques
- Agent related issues
- Problems created by low interest rates
- The development of hybrid and life cycle products

## Special Discount

The NTM has arranged for a special package discount for anyone attending both the special NTM session and the PD Symposium.

Should you have any questions about either meeting, feel free to contact Jay Jaffe at 312-397-0099 or *jayjaffe@compuserve.com*.

# Nontraditional Marketing Section Council Meets to Discuss Activities and Future

The Nontraditional Marketing Section Council met on Tuesday, March 19 at the Sheraton Gateway Suites, O'Hare. In attendance were Theresa Resnick, Mike Kaster(SOA), Jay Jaffe, Mike Presley, Tom Bakos, Chris Hause, Steve Konnath, Diane McGovern, Lois Chinnock (SOA), Mike Fix, Paul LaPorte, Howell Pugh, Brian Louth, and Karen Gentilcore (SOA).

Here are some highlights that may be of interest to members.

### *NewsDirect*

*NewsDirect* will continue to be released quarterly. We want to keep the practice of including a series of articles over more than 1 issue. We will actively seek out articles in areas that have been underrepresented in recent issues, such as pre-need and bancassurance.

### 2002 Annual Meeting

Sessions have been slotted and the current session descriptions have been distributed by e-mail to the group. Tom Bakos has an outstanding slate planned, including a field trip to the Babson School os Business. We will invite the faculty members that participated to the Wine and Cheese reception if the reception is held at Babson. The Society is looking into the costs of having it there. The Section Council meeting will be Sunday afternoon.

### Product Development Actuary Symposium

It is scheduled for June 13 and 14. Recruiting is complete, but the brochure had not yet been mailed. The fee structure provides a discount for attending both the pre-seminar and the seminar.

### Pre-Seminar to Product Development Symposium

This pre-seminar is designed for those with moderate experience NTM product development actuaries.

### Mini-PD Actuary Symposium-Far East

Jay Jaffe, Al Klein, Mary Bahna-Nolan will take an abbreviated version of the Symposium to the Far East with 2 actuaries from the UK. They will present it in Singapore, Hong Kong, Taipei, Seoul, China (if they can get approval to enter). The NTM Section has granted $2,000 in a prior meeting to support this effort.

### Update on Task Force on Practice Areas/Sections

Mike Kaster described his role as Managing Director of the Practice Areas (Health, Life, Finance, Retirement). The SOA has increased resources to address the role of the Practice Areas, including a Task Force designed to coordinate and improve the efficiencies of the Practice Areas and the Sections. They hope to make recommendation to the Board in June 2002. Section chairs will be the conduit for information to the sections on the progress of the Task Force.

### Section Council Elections

Section council elections will be held this summer (July) with electronic voting by default, but members can request a paper ballot. We are losing three members, Mike Fix, Mike Presley and Howell Pugh. We will do a blast e-mail to request candidates.

### Product/Channel Directory Update

This updated version will allow for Access to report via automated query the individuals including the contact information matching the various product and distribution channel criteria. NTM members only will be in the database and members only will have access to the database. It will be updated by way of an annual invitation to update the information through the web site. The Council approved an expenditure for the development of a prototype of a Product/Channel Directory update. The Council will review the grid and the use of experience to refine the process and output.

The Next teleconference was set for 10:00 a.m. C.D.T. on Tuesday, May 7, 2002.

In all, the meeting was a great opportunity to discuss how we can best serve you, the members. As always, we appreciate your ideas and input. Please contact Mike Fix if you have any ideas or suggestions.

# Nontraditional Marketing Sessions at SOA Meeting in Colorado

Steve Cooperstein has done an outstanding job assembling a varied and interesting slate of programs for the Colorado meeting. We congratulate and thank him for all of his hard work.

I hope you all will start off the meeting by attending the Thursday morning breakfast. I urged Steve to offer a simpler breakfast, so that no experience with the subject was needed.

If you have any questions, you can reach Steve at 831/655-8670 or by e-mail at *SC@IS4Life.com.*

See you in the mountains!

***Thursday, 7:30-8:30 AM*** ***Session 419 SM***

*Specialty Track: Nontraditional Marketing*

## Nontraditional Marketing Networking Continental Breakfast

Chairperson: Steve Cooperstein

This session allows Nontraditional Marketing Section members an opportunity to network with each other and to learn about the sessions offered at the meeting for Nontraditional Marketing Section members. Session presenters are on hand to give brief introductions on their respective topics to enhance interest and attendance.

*This session is designed for attendees who have **no experience** with the subject.*

Session Coordinator: Steve Cooperstein

***Thursday, 10:30 AM-12:00 Noon*** ***Session 9 PD***

*Specialty Track: Nontraditional Marketing*

## Outlooks For Using The Internet In The Distribution Of Insurance

Moderator: Ian Duncan
Panel: Jenny Emery

The first generation "business to consumer" promise of the Internet has evaporated in many industries. What is the current outlook for using the Net in the insurance world, not only for sales, but for other supportive functionality as well? Surprisingly, very robust!

Panelists discuss current perceptions, prospects, and plans of top insurance executives and technology experts for use of the Net for insurance in the next few years. Prospects for real returns are reported and discussed for marketing, distributing, promoting, selling, and administrating using the Net.

Attendees gain a better understanding of how top management is beginning to understand the Net as a core competency to help their business grow and prosper, and specific actions that companies will, and will not, take.

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

**Follow-up Session: NTM06**

Session Coordinator: Ian Duncan

***Thursday, 10:30 AM-12:00 Noon*** ***Session 10PD***

## Debt Protection Product Development In The Aftermath of Gramm-Leach-Bliley

Moderator: Mike Presley
Panel: Chris Hause

The passage of Graham-Leach-Bliley changed the landscape for credit related products offered through financial institutions. Credit insurance, long the mainstay in this venue, is being supplanted by a vast array of products designed to meet the particular needs of borrowers without the encumbrance of confining regulation. An explosion of product innovation is taking place in the vacuum of new consumer demand.

Our panel imparts an insightful look at this market segment in reviewing:

- Products recently introduced or on the drawing board including debt cancellation, suspension and deferment agreements

- Actuarial methods and techniques
- Market and experience sources for contingencies not traditionally considered

Attendees gain a new appreciation of the activity in this long neglected segment of the insurance industry as well as concepts that might transfer to other related instruments.

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

Session Coordinator: Mike Presley

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***Thursday, 1:30-3:00 PM*** ***Session 30 PD***

*Specialty Track: Nontraditional Marketing/Product Development*

## Stand Alone vs. Integrated With Brick & Mortar Marketing Initiatives Using The Internet

Moderator: Rob Stone
Panel: Ronald D. Ryan

To date, most Internet life insurance distribution has been directed at term insurance. The real crux of the life insurance business, though, lies in permanent coverage.

Panelists discuss:
- Initiatives for web-based distribution of permanent insurance
- Stand alone vs. integrated strategies
- Product design and pricing
- Product promotion, explanation, closing, and handling

Attendees gain an appreciation of potential venues in pursuing web-based permanent life insurance sales.

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

**Follow-up Session: NTM06**

Session Coordinator: Greg Jacobs

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***Thursday, 1:30-3:00 PM*** ***Session 31 PD***

*Specialty Track: Nontraditional Marketing/Health*

## Opportunities For Funding Future Health Care Needs

Moderator: Sunit Patel
Panel: Sunit Patel

Today most health care benefit programs are 'pay as you go,' thus do not set aside funds for future health care expenses. Innovative companies are using consumer-driven personal care accounts, retiree medical accounts and other methods to address future health care costs.

Questions addressed by the panel include:
- What accumulation vehicles are available for employees to save for their retirement health care?
- How can personal care accounts, flexible spending accounts and medical savings accounts be used for both current and future health care expenses?
- Which investment options are permitted in health care accounts?
- What are the beneficiary and portability features of these accounts?
- What entities are participating in this market, and what product/service are they providing?

Attendees learn the answer to these questions and gain a better understanding of potential opportunities in this emerging marketplace.

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

Session Coordinator: Sunit Patel

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***Thursday, 3:30-5:00 PM*** ***Session 52 WS***

*Specialty Track: Nontraditional Marketing*

## Internet-Enhanced Distribution

Facilitator(s): Steve Cooperstein

Participants share their experience and perspectives with Internet supported marketing and distribution, discussing areas of interest such as:

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# Summaries of Boston NTMS Sessions

## October Sessions in Boston Take Shape

As you can see by the descriptions below, Tom Bakos has done an outstanding job assembling a slate of NTM sessions for the fall Society of Actuaries meeting in Boston. A partial list of session is shown below. Please support these sessions by attending or participating.

You can reach Tom at Tom Bakos Consulting Inc., (717) 877-5003 or by e-mail at *tbakos11@home.com*

See you there!

**PD**

*Specialty Track: Nontraditional Marketing*

### Assurebanking—Full Service Insurance Company Banks

Moderator: Sim Segal
Panel: TBD

Assurebanking refers to insurance companies forming full service banks. Essentially, this is the inverse of Bank Assurance or banks getting into insurance.

This panel discussion will address the financial services industry "convergence" from the insurance side.

- How Gramm-Leach-Bliley makes it possible (briefly)
- Who's involved – insurers, strategies, …
- Product dynamics – checking, savings, home equity loans, …
- Opportunities for insurers – revenue, profit, ROE and shareholder value, implications, …
- Risks to non-players
- Future outlook on Assurebanking

Participants will be alerted to this new direction for insurance companies, its potential effect on the financial services industry, and the risks to an insurer of not embracing it.

*This session is designed for participants who have* ***no experience*** *with the subject.*

Session Coordinator: Tom Bakos

**Interview/IF**

*Specialty Track: Nontraditional Marketing*

### Emerging Technology—Its Impact on Insurance Products and Processes

Moderator: TBD
Panel: TBD

This Interview session will allow for significant questions from the audience. It will focus on the emerging technologies that are currently enabling or have the potential to enable new, nontraditional product designs and processes which can fill new niches or compete more efficiently in old market segments. This would include risk selection processes and tools, administrative systems, delivery systems, distribution channel development, consumer acceptance, etc.

Attendees will leave with an understanding of:

- New technology developments that may impact their businesses in the near future; and
- How they or their competitors may capitalize on these new opportunities.

*This session is designed for participants who have* ***no experience*** *with the subject.*

Session Coordinator: Tom Bakos

**FT**

*Specialty Track: Nontraditional Marketing*

### Entrenpreneurship—Putting the Spirit of Entrenpreneurship to Work for You—Field Trip to Babson College School of Business

Chairperson: TBD

Entrepreneurship is not just a useful attribute for individual new business development. It can be useful in a corporate environment as well where creative problem solving, recognizing opportunity, and creating value through innovation can have a substantial financial reward. The application of entrepreneurship principles can have an important advantage in the development of both nontraditional and traditional products or marketing methods.

This Field Trip to hear Dean Mark Rice at Babson College School of Business will expose participants to a college educational environment, business school teaching and research practices.

Presentations by experts on the cutting edge of entrepreneurial thinking will explain why it is important to see change as opportunity, how to take measured risks, operate in dynamic environments, and balance successes and failures.

Attendees will take away an understanding of how the principles of entrepreneurship can be applied to recognize opportunities that others have overlooked and how to harness insight, self-esteem, and knowledge to act where others have hesitated.

*This session is designed for participants who have* ***no experience*** *with the subject.*

Session Coordinator: Tom Bakos

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**PD**

*Specialty Track: Nontraditional Marketing*

## Nontraditional Approaches To Getting Products To Market — FAST

Moderator: Maria Thompson
Panel: TBD

This panel discussion will focus on the methods and techniques being employed to bring fully underwritten products to market quickly, cost effectively, and with little or no impact on mortality (or, at least, bottom line premium).

Panelists will present a description of the new underwriting tools and processes available – their advantages and disadvantages – and how they are being used. The impact on:

- Pricing,
- Product delivery,
- Opportunities created, and
- Competitive advantages

will be discussed.

Attendees will leave the session with a better understanding of the new underwriting tools and services available and how they could effect the competitive future.

*This session is designed for participants who have* ***no experience*** *with the subject.*

Session Coordinator: Tom Bakos

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**PD**

*Specialty Track: Nontraditional Marketing*

## Patenting Insurance Products—Making First To Market Really Mean Something

Moderator: Tom Bakos
Panel: Steve Cooperstein

Recent changes in the way the USPTO reviews insurance patent applications has given a boost to the patenting of insurance products. Patenting your insurance idea provides protection against competition and an exclusive marketing opportunity.

- The basics of patent law and the distinction between patents, trademarks, and copyrights will be discussed. The nature of the protection received will be described.
- Examples will be given of actual patented insurance products and concepts and what makes them unique.
- The value of a patent in marketing insurance products will be assessed.
- The practical impact on future product development will be discussed.

The participant will have a better understanding of what should be a new area of concern for every product development actuary – patent infringement.

*This session is designed for participants who have* ***no experience*** *with the subject.*

Session Coordinator: Tom Bakos

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## NTM Sessions in Colorado...

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- In what sectors has the Net been effective? What have been the key drivers of success?
- How are companies broaching distribution channel conflict objections?
- Is Customer Relationship Marketing working? Where?
- How is Internet development cost being amortized for a profitable bottom-line?
- Where are advanced underwriting techniques being built into Internet-enabled sales?
- How are companies overcoming underwriting and regulatory problems and what approaches are still under study?
- What pet new approaches do participants think are worth exploring?

This session is designed for participants who have **moderate to substantial experience** with the subject.

**Follow-up to Sessions: NTM04, NTM05**

Session Coordinator: Steve Cooperstein

***Thursday, 8:30-10:00 AM*** ***Session 62 PD***

*Specialty Track: Nontraditional Marketing / Product Development*

### Design And Pricing Of Products For Internet Distribution

Moderator: Howell Pugh
Panel: Howell Pugh

The Internet has the potential to become a distribution method for life insurance that can significantly supplant existing methods. What makes it unique and how has this been reflected in product design and pricing to date?

Join the panel as they discuss how the following differ for companies marketing from their own sites versus companies using aggregator/third party sites:

- Products and features
- Underwriting models and techniques
- Nuances in distribution
- Pricing assumptions

Attendees gain a better understanding of the issues and experience in this emerging market.

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

Session Coordinator: Howell Pugh

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