



SOCIETY OF ACTUARIES

Article from:

News Direct Newsletter

May 2002 – Issue No. 40



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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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.

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.

- 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,


NUMBER 40NEWSDIRECTMAY 2002

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

This newsletter is free to Section members. A subscription is \$15.00 for nonmembers. Current-year issues are available from the Publications Orders Department. Back issues of Section newsletters have been placed in the Society library, and are on the SOA Web site, www.soa.org. Photocopies of back issues may be requested for a nominal fee.

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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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