SOCIETY OF ACTUARIES

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NUMBER 41 SEPTEMBER 2002

Direct Insurance Sales Using Microeconomics

Improving Solicitation Management: Marginal Costs and the Value of New Business

by Robert E. Winawer

Editor's note: The following continues Mr. Winawer's article first presented in the previous issue of NewsDirect.

Features...

SECTION 3: MANAGING MARGINAL COSTS WITHIN C-TO-P

Direct response insurance companies most often manage solicitations using C-to-P (Cost-to-Premium) as a risk/reward threshold. They typically segment consumers based on the most relevant characteristic of potential interest in purchasing insurance.[1] Companies will usually continue to mail offers to the members of a particular segment who have not purchased as long as the expected cost of the mailing is less than a threshold percent of anticipated issued and paid premium (i.e. C-to-P is less than a specified value).

However, Solicitation Management, or SM, can be applied in several different ways, each with distinct economic consequences. The three most important components that distinguish any SM program are:

1. Risk/reward threshold (C-to-P, VNB, or some other),
2. Aggregation of solicitations when making SM decisions, and
3. Inclusion of acquisition costs.

Deciding how to approach each component should be done with the company's ultimate goal of maximizing risk-adjusted profits in mind.

An alternative for the first component, which relates to profit measures, is deferred until Section 5. Until then, it is assumed that management has chosen C-to-P as the risk/reward threshold. Alternatives for the last two components are reviewed in this section. Regarding these choices, solicitations may be discontinued using one of four decision criteria describing both which solicitations and what expenses to consider when making a SM decision. The four decision criteria (DC) are:

- DC1 – Stop solicitations the first time that C-to-P including fixed costs is greater than the threshold.
- DC2 – Stop solicitations when the average C-to-P over all offers including fixed costs is greater than the threshold.
- DC3 – Stop solicitations when the average C-to-P over all offers including only marginal costs (i.e. without fixed costs) is greater than the threshold.
- DC4 – Stop solicitations when the C-to-P including only marginal costs for the last (least profitable) offer is greater than the threshold.

It will be shown that while using C-to-P as a risk/reward threshold DC4 produces the highest values for the asset share pricing measures that are used to derive the C-to-P thresholds. However, it will also be shown that maximizing these profit measures does not assure that the company's ultimate goal of maximizing risk-adjusted profits will be achieved.

Example 1, summarized in Table 1 on page four, applies each of the four

(continued on page 4)

1) In the case study the most relevant characteristic of potential interest in purchasing insurance is 'time since the name was acquired' because response rates to offers decrease dramatically as time passes.

Articles Needed for NewsDirect

Your help and participation is needed and welcomed. All articles will include a byline to give you full credit for your effort. *NewsDirect* is pleased to publish articles in a second language if a translation is provided by the author.

If you would like to submit an article or be an associate editor, please contact Julie Tani, co-editor, at julie.tani@verizon.net, or Christopher Hause, co-editor, at (913) 685-2200.

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If you have questions regarding formatting, please call Joe Adduci, 847-706-3548, at the Society of Actuaries for help.

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Thank you for your help.

SOCIETY OF ACTUARIES

NUMBER 40

NEWS**DIRECT**

SEPTEMBER 2002

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

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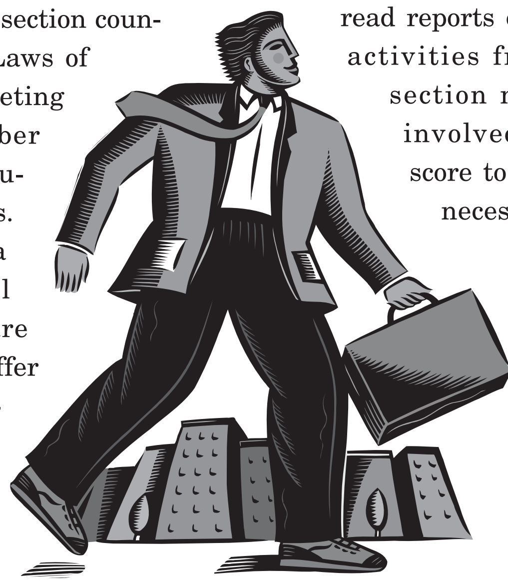
Chairperson's Corner

Looking Ahead...

by Michael L. Fix

Elections have been completed for your section council! We are very fortunate to have had six qualified candidates express an interest in serving your interests on the council. I would like to congratulate Chris Hause, Nancy Manning and Brian Louth who have been elected to three year terms; and Robert Stone, who will fill the unexpired one-year term of Tom Bakos. Thank you to the remaining candidates, who have been invited to make contributions to the NTM section in the role of friends of the council.

Friends of the council have been very helpful in the work of the section council. According to the By-Laws of the Nontraditional Marketing Section, a council member cannot serve two consecutive full three-year terms. Friends of the council is a great way for council members whose terms are expiring to continue to offer their knowledge and experience on council matters; and to help the transitioning of new members and officers. My term as a council member and my year as chairperson will be completed in October of this year. I am looking forward to continuing to be involved in council activities as "friend of the council!"



I have appreciated the service of your council members for the past year: Howell Pugh, Theresa Resnick, Tom Bakos, Steve Cooperstein, Steve Konnath, Paul Laporte, Diane McGovern and Mike Presley in particular, Howell as your Vice-chairperson and Theresa as your secretary/treasurer. Howell Pugh and Mike Presley will be completing their three-year terms as Council members in October; and Tom Bakos, who has been elected to the SOA Board of Governors (Congratulations, Tom!) will be leaving our Council as well. All of these individuals have served you well!

This past year has included a number of activities by your section. I have attempted to keep you informed of these activities throughout the year, as they were being planned and after they were completed. In this issue, you will read reports of some of the recent activities from council and/or section members that were involved. I want to underscore to our membership the necessity of continuing to be involved. None of our activities of the past year would have happened or been as successful without your efforts as volunteers. I invite and encourage you to continue (or begin) to participate in SOA and section activities. Ours continues to be an exciting and evolving profession; and there will always be new issues, as well as evolution of existing ones, that need the training and abilities of us as actuaries.

Thank you for your help and support that you gave me during my term as chairperson. I am looking forward to a smooth transition to the new Council, and my new role as a "friend."

Michael L. Fix, FSA, MAAA, is Director, Life & Health Division and Actuary at the North Dakota State Insurance Department. He can be reached at mfix@state.nd.us.

decision criteria to the case study. As expected, the example demonstrates how using DC4, considering only expenses that are marginal to the decision at hand, produces higher profit margin and ROI than any other method.

employed, company management will maximize risk-adjusted profits only by chance.

Management must use VNB (Embedded Value of New Business) in their SM analysis rather than C-to-P thresholds to assure that risk-adjusted profit will be maximized.

TABLE 1: IMPROVING PROFIT MARGIN & ROI WITH MARGINAL COST BASIS DECISIONS
(SUMMARY OF EXAMPLE 1 RESULTS)

Decision Criteria	*Profit Margin*	*ROI*
DC1 – First Offer with Fixed Costs	Profits < $0 (N/A)	Profits < $0 (N/A)
DC2 – Average of All Offers with Fixed Costs	8.99%	19.94%
DC3 – Average of All Offers without Fixed Costs	8.99%	19.94%
DC4 – Last Offer without Fixed Costs	9.45%	21.33%

For this purpose, printing of the solicitation materials, postage, variable underwriting costs, and variable issue costs are the only costs considered marginal. The list of potential consumers has already been generated or procured. Therefore, list generation expenses are considered fixed when deciding whom to solicit. Allocated salaries and equipment costs are likewise considered fixed.

While profit margin and ROI are maximized in Example 1 by using marginal acquisition costs in the decision process (DC4), risk-adjusted profits are not. Table 2, shown below, shows that both DC2 and DC3 produce $266,876 more risk-adjusted profits than DC4, even though profit margin and ROI under DC4 are higher.

As Table 2 demonstrates, maximizing profit margin and ROI does not assure that risk-adjusted profits will be maximized. Therefore, as long as C-to-P thresholds that are based on profit margin and ROI are used, regardless of what decision criterion is

SM using C-to-P thresholds does not maximize risk-adjusted profit because the thresholds themselves are not based on risk-adjusted profits. Also, as management refines their SM decisions by reviewing smaller segments of consumers at a time, other shortcomings of C-to-P thresholds, which have not yet been discussed, emerge. Thus, refining the C-to-P analysis is discussed in the next section. Section 5 then shows how VNB resolves all of C-to-P's shortcomings.

SECTION 4: REFINING C-TO-P

In this section it will be shown that refining the thresholds used to make decisions can improve results. SM decisions can be refined in two ways:

1. By making more refined estimates of the probability of closing each sale, and/or

TABLE 2: RISK-ADJUSTED PROFIT RESULTS COMPARED TO PROFIT MARGIN & ROI
(SUMMARY OF EXAMPLE 1 RESULTS)

Decision Criteria	*Profit Margin*	*ROI*	*Risk-Adjusted Profits*
DC1 – First Offer with Fixed Costs	Profits < $0 (N/A)	Profits < $0 (N/A)	($1,950,000)
DC2 – Average of All Offers with Fixed Costs	8.99%	19.94%	$1,939,523
DC3 – Average of All Offers without Fixed Costs	8.99%	19.94%	$1,939,523
DC4 – Last Offer without Fixed Costs	9.45%	21.33%	$1,672,647

2. By making more refined estimates of the profitability of each sale, with closing the sale considered as a given.

Several companies currently use database-marketing techniques, based on demographics and other relevant information, to make more precise estimates of the probability of closing each sale. However, SM may use this information only within the confines of nondiscrimination and relevant third party wishes. For example, a social club may make their list of members available to an insurer with the stipulation that all members must be offered insurance, regardless of profitability to the insurer. On the other hand, a company that generates its own list of prospective purchasers is free to mail offers only to people in specific geographic regions. Any refinements that are practical are helpful.

Few companies work as hard to refine their profitability estimates of each sale as they do to refine their probability estimates of closing each sale. This is unfortunate because refined profitability estimates may help the company in the long run just as much, if not more than probability estimates. Perhaps there is more focus on probability estimates because sales volume, "top-line", is more easily understood than profits, "bottom-line." It is the actuary's job to clearly communicate the importance of the "bottom-line" and how it is derived.[2]

In Example 1, the threshold C-to-P ratio (120 percent) is the same for any potential sale. The same C-to-P threshold applies regardless of age, sex or any other determinant of profitability. The only distinguishing characteristic of each potential sale used to make SM decisions is the time since the name was acquired, as this is the primary determinant of consumer response.

Example 2 is summarized in Table 3 below, which shows how refinement can be used to improve results over Example 1. Example 2 highlights age as the second most important indicator of response and sex as the most important determinant of profitability. In the case study, younger people are considerably less interested in this product, hence response rates are lower. For example, first solicitation response rates are 0.25 percent for age 50 compared to 0.40 percent for age 65. At the same time, women are far more profitable to the company because the mortality cost is lower than for men while premiums stay the same. A higher C-to-P threshold implies that the company deems the sale to be more profitable. At age 50, the male C-to-P threshold is only 98 percent whereas the female threshold is 137 percent. At age 65 the difference in C-to-P thresholds is even more dramatic because the cost of mortality is higher. The male threshold is 60 percent and the female threshold is 173 percent. The results of Example 2 show that making SM decisions with C-to-P thresholds based on refined estimates of both the probability of closing each sale (response rate) and the profitability of each sale (C-to-P threshold) produces higher profit margin and ROI than in Example 1. Coincidentally, risk-adjusted profits are also improved.

TABLE 3: IMPROVING PROFITS WITH REFINED DECISIONS
(SUMMARY OF EXAMPLE 2 RESULTS)

Decision Criteria	*Profit Margin*	*ROI*	*Risk-Adjusted Profits*
Unrefined	9.45%	21.33%	$1,672,647
Refined Based on Age & Sex	11.83%	31.89%	$2,414,131

When refining SM decisions in an actual business setting, management may wish to consider several variables that are relevant to probability of sale and several variables that determine profitability after sale. However, bringing in more information to make solicitation decisions is a balancing

(continued on page 6)

2) It will be show in Section 5 that it is easier to explain how the "bottom-line" is derived using VNB than it is using C-to-P.

act. Management must be able to distinguish reliably, for any variable considered, the probability or profitability of a successful sale. Both of these judgments are customarily based on experience data that may not have been retained. On the other hand, people with adequate mathematical training and computer skills can construct very intricate models that provide appropriately summarized data. If the data is available, there should be no apprehensions about using it in SM decision models.

In this section it has been demonstrated that, in Microeconomic terms, distinguishing sales based on relative profitability can bring direct response insurers closer to an appropriate definition of marginal revenue and marginal production costs. In lay terms, it has been shown that it pays to define more carefully to whom the company ought to sell. This is common sense. However, no matter how granular the SM decisions that are made, using a threshold in lieu of an appropriate definition of marginal revenue and production costs will remain an indirect and inefficient route toward the ultimate goal, i.e., maximizing risk-adjusted profits. The next section will provide an acceptable definition for marginal revenue and production costs, one that directly measures risk-adjusted profits. With this measure insurers are able to make more direct and efficient decisions.

Robert E. Winawer, FSA, MAAA, is with Sage Insurance Group in Stamford, CT. He can be reached at Rwinawer@ sageusa.com.

NTM Section News

Election Results

Congratulations to our newly elected NTM Council members: Christopher H. Hause, Brian L. Louth and Nancy A. Manning! We'd also like to express our gratitude to the outgoing Council members, Mike Fix, Howell Pugh and Mike Presley. Thank you for your outstanding contributions. Also, Rob Stone will be taking over the seat of Tom Bakos, as Tom takes on a new role on the Board of Governors.

Attention: Newsletter Distribution to Become Electronic Only

The September 2002 issue of *NewsDirect* is being published in keeping with previous policy; i.e., in paper and online forms.

Beginning with the 2003 editions, *NewsDirect* will be available electronically only. To access NewsDirect online, please visit *www.soa.org/sections/nonnew.html*.

Non-SOA Members Allowed Membership to NTM Section

At its May 7, 2002 conference call, the NTM Section Council approved changes to the section bylaws allowing section membership to non-SOA members. In June, these changes were approved by SOA's Board of Governors. Below is an excerpt of the pertinent sections of the revised bylaws:

"Full Membership in the section shall be available to all interested members of the Society. … Correspondent status, providing eligibility to attend and participate in selected section activities, and to receive all literature produced by the section shall be available to non-Society members with interests in areas relevant to the actuarial profession. Correspondents shall not be eligible for voting privileges or election to the section council. In the by-laws, 'members' shall refer to full members of the section, not correspondents of the section."

For additional information, please contact Mike Fix, section council chairman, at **mfix@state.nd.us**.

Update: New Session Added to SOA Annual Meeting Slate in October

A session of interest to actuaries working in the Credit Insurance area has been added to the program at the October 2002 Society of Actuaries Annual Meeting in Boston. The session, ***Debt Cancellation and Debt Deferment—Hot Topics and Issues***, will be moderated by Chris Hause. If your meeting attendance depended on coverage of credit insurance topics, you now have no excuse for missing the Boston SOA meeting.

This session will replace another session originally scheduled for its time slot. Unfortunately, ***Stealth Banking*** had to be cancelled because the key speakers are no longer available.

This change was made too late to be incorporated into the Annual Meeting Preliminary Program which is mailed to all SOA members with registration materials. A description of the ***Debt Cancellation and Debt Deferment*** session is shown below.

The session is designed as an Open Forum for actuaries with a moderate level of related experience and will provide plenty of opportunity to find out what is going on in this developing new, nontraditional actuarial field.

If you work in the credit insurance arena, this session will keep you current, up to date and ready to rumble. Please refer to the previous issue of *NewsDirect* for a listing of NTM-related events.

Call for Papers for Journal of Actuarial Practice

Papers may be on *any* subject related to actuarial science or insurance. Papers do not have to contain original ideas. Preference will be given to practical or pedagogical papers that explain some aspect of current actuarial practice. As an international journal, *JAP* welcomes papers pertaining to actuarial practice outside North America. *JAP* also accepts technical papers, comments and book reviews. Papers may be submitted via e-mail in Microsoft Word, WordPerfect or LaTex format. All papers are subject to a peer referee (review) process. **Deadline for submission is November 30, 2002.**

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Debt Cancellation and Debt Deferment – Hot Topics and Issues

SOA Annual Meeting – Boston –
Monday, 10/28/02: 10:30 AM – 12:00 Noon

Panel:
Christopher Hause, FSA, president of Hause Actuarial Solutions; *Thomas Durkin*, senior economist for the Federal Reserve Board; *Hugh Alexander*, President of Alexander Law Firm

This session will update attendees on the current issues regarding Debt Cancellation and Deferment and will describe methods and techniques for insuring credit insurance risks in the U. S. The expert panel will discuss the status of current law and regulations, new products, marketing and sources of experience. The actuary's role in the development and management of these programs will be discussed.

Attendees will be provided with a significant opportunity to address questions to the panel and will leave the session with an update on current activity and thinking in the Debt Cancellation and Deferment arena.

For more information, please contact Tom Bakos at tbakos@bakosenterprises.com.

Editor's Corner

Technology Improves Our Lives

by Julie L. Tani

Julie L. Tani, FSA, MAAA, is contemplating a career change and currently can be reached at julie.tani@verizon.net.

In this issue we hear from some people who are doing amazing things, and we truly do have amazing new tools available to us. We can now obtain underwriting information of much higher quality, as well as process it more efficiently, which leads to shorter processing times and in some cases even instant online binding of coverage. We can also provide improved field services and engage in more effective consumer targeting. From an external perspective, we can improve key communications for regulatory, partnering and consumer purposes.

I'm sure most of you remember the excitement created when "that fast new computer" the Pentium came out—a 586! Now, speed improvements occur so often that I cannot even tell you how many gigahertz at which the newest computers are operating. At least, I think gigahertz is still the correct unit of measurement! And what about the fax machine? This was a great boon in its time and is now often taken for granted, enhanced via electronic transmission, or bypassed altogether by scanning and e-mail. Early in my career, the veterans told me stories about computer punch cards, akin to my parents' stories of their trek to school, "Five miles uphill each way through the snow" (although the punch card stories were more likely to be true). At that time, one of my first tasks was to convert to Excel our paper-and-pencil process of calculating reserves for supplementary contracts. Fax, faster computers, electronic spreadsheets and word processing… all these new tools, as great as their impacts were really only evolutionary rather than revolutionary.

Well, I think it's safe to say that most of us agree that the Internet is revolutionary. It has the capability of helping us transform our business. And even this has been somewhat of a pendulum; first, people wondered, "will this be the next big thing in insurance sales?" As this moved more slowly than some would have liked, attention turned to the business-to-business angle; e.g., Web-based policy administration, even all-in-one packages linking pricing, valuation, policy issue and administration, or CRM systems which promise to allow you to leverage the Internet to do all your work for you! We have, of course, found that these solutions are often harder (and more expensive) to implement than some would want us to believe. So we find the pendulum swinging back—to a workable set of solutions.

Many of the authors in this issue show how we can leverage technology as well as good old-fashioned know-how in new and innovative ways. For example, Steve Konnath describes current trends in the e-term market and real solutions to channel conflict that many have thought to be impenetrable obstacles. Simon Walsh shows how American Life is a pioneer in the issue of binding coverage instantly for online customers. Bill Winterman describes how reinsurers can add value by leveraging their own resources and expertise for clients' and consumers' benefit. Maria Thomson and Nancy Behrens discuss new trends in underwriting data and bancasssurance. And to remind us not to forget the fundamentals no matter the tools we have available to us, we continue Rob Winawer's three-part article "Direct Insurance Sales Using Microeconomics." Our industry has at its disposal many new tools. How we choose to use these to maintain and improve our industry's outlook is up to us.

Internet Benefits Extend Far Beyond Distribution

by Bill Winterman

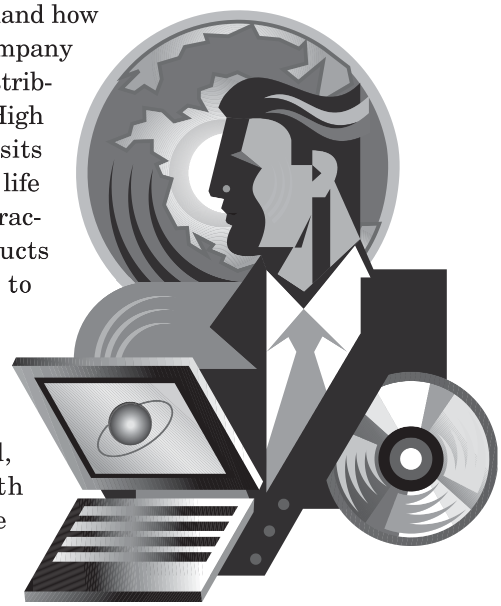
Twelve months ago, Transamerica Reinsurance completed development of a web-enabled term life insurance program for a leading mutual fund company. Our private label term life solution incorporates product development plus wide-ranging back-office support including policy administration services, underwriting and claims handling. By integrating reinsurance into the development process, we are able to provide highly competitive term rates. Transamerica Reinsurance has been providing this type of comprehensive solution to life insurance companies since the mid-1990s. Our informal motto has been, "You provide the distribution channel and we'll put you in the term life market."

However, our mutual fund client made our motto obsolete because they required a term life program that could be marketed to the consumer directly—without an agent. To meet their needs, we incorporated a direct distribution component into our solution using today's Internet technology. The technology was also used to automate the application process, streamline fulfillment procedures and significantly improve communication among the various groups involved in the entire process.

The solution hinges on a term life Web site we developed and branded in the mutual fund company's name. Consumers access the site from the fund company's main site—a well-branded, frequently visited site for conducting online financial transactions. High traffic and, more importantly, frequent repeat visits by internet-savvy consumers, make our client's site an excellent portal for term life sales. The program became available in the Fall of 2001 and has exceeded early expectations in terms of applications submitted and policies issued.

MUTUAL FUND VS. LIFE INSURANCE COMPANIES

This project provided useful insight into the comparative value of the Internet for mutual fund versus insurance companies. For example, we experienced first-hand how a well-branded mutual fund company can leverage the Internet to distribute term life insurance. Why? High traffic and frequent repeat visits are a prerequisite for Internet life insurance sales. Given the characteristics of mutual fund products and services, it's reasonable to expect a well-designed, well-branded site to deliver a solid base of potential customers. Life insurance companies, on the other hand, have been disappointed with initial efforts to use the Internet as an alternative distribution channel. One obvious reason is that it's very difficult for insurance companies to drive a critical mass of potential buyers to a site. Given the sporadic nature of life insurance transactions, high repeat traffic is difficult to develop, even when functional capabilities are available. Certain developments— increased consumer interest in life insurance and a growing consumer comfort with purchasing financial services online—point to the long-term potential of Internet marketing. However, many life insurance companies are wisely looking for other ways to maximize Internet technology in the near-term.



Our work on this project demonstrates that the Internet offers significant value beyond its use as a new marketing channel. Insurance companies can integrate Internet tools and technologies into life insurance processes to improve communications among multiple functional areas, achieve greater operational efficiencies, simplify application and underwriting, reduce time to issue policies and improve customer service. While these initiatives may not get companies to online sales, they can go a long way to help an existing sales force sell more life insurance.

(continued on page 10)

Bill Winterman, ASA, MAAA, is Lead Consultant, Product Consulting & Development at Transamerica Reinsurance in Charlotte, NC. He can be reached at bill.winterman@transamerica.com.

HOW WE INTEGRATE INTERNET TECHNOLOGY INTO A TERM LIFE PROGRAM

With support from Computer Sciences Corporation (CSC), our business process outsourcing partner, we created a term life program for our mutual fund company client involving fully underwritten term life insurance. Briefly, the program works as follows:

- Potential buyers can readily access the term life insurance site from the mutual fund company's primary site. Visitors looking for information on life insurance can peruse consumer-friendly educational material, including frequently asked questions.
- Visitors can calculate their needs, get a premium quote and apply online using a brief, easy-to-complete application form.
- At any time during the process, the visitor can call an '800 number' and complete the process with the help of a customer service representative.
- Within one business day of submitting the online application, an enrollment specialist contacts the applicant by phone to complete a medical history.
- A routine para-medical exam follows.
- Once all test results are received, an underwriter issues a decision regarding insurance qualification.
- Policies can be issued within 30 days.
- Producers, customer service and insured individuals can go to the site's *Policy Status* feature to check the status of a policy. They can also use this feature to check the status of an application or the inforce policy.
- Policy owners can download forms to initiate customer service transactions. Some of the simpler transactions, like address, billing and beneficiary changes, could be completed online as self-service transactions.

From the perspective of the applicant, it all happens transparently. The site looks and feels like the Web site of the mutual fund company—so no one realizes that it's being hosted by Transamerica Reinsurance.

TYING IT ALL TOGETHER

One of the most important benefits of a well-designed Internet program is the systematic interface of all related term life insurance activities: pre-enrollment marketing, policy application, evidence gathering, underwriting, policy issue and ongoing customer service. When these activities are electronically tied together, the result is better communication and faster handoffs among the different groups involved in the process.

Behind the scenes are the people and technology of CSC and Transamerica Reinsurance. CSC, working with third-party vendor EMSI, manages the application enrollment process including tele-app and para-medical procedures, as well as policy administration and policy service. Applications are uploaded from the Web site directly into CSC's CyberLife administration system, using CSC's ViLink software for processing new business transactions over the Web. In addition to creating and hosting the Web site, Transamerica Reinsurance provides product development and case underwriting services. One of our affiliated life insurance companies underwrites the policies.

SALES SUPPORT VEHICLE

To date, few insurance companies have found the Internet, by itself, to be an effective source of new business. But the Internet does offer effective tools to help drive your business. These tools can be especially useful in automating the application process, improving communication between producers and customer service employees and connecting the various 'back room' activities so that fulfillment procedures occur faster and with fewer errors.

Making Internet tools available to producers lets them focus time and effort where they add the most value, and that's prospecting and facilitating sales—not performing paper-intensive application and fulfillment procedures. For insurance companies, the Internet is proving to be far more effective today as a sales-support vehicle than as a sales vehicle.

American Life of New York Binds Insurance Using Expert Underwriting

by Simon Walsh

The American Life Insurance Company of New York (American Life) is a low-cost manufacturer of insurance products, which includes term life and variable annuities. American Life's electronic processing capability, owned by American Life's parent company, inviva, inc., incorporates many breakthrough features, such as the first-ever paperless prospectus declared effective by the SEC. The all-electronic products can be distributed with varying degrees of human intervention. American Life's proprietary electronic signature technology allows customers to apply for, review and sign an application electronically. The signature uses an encryption technology to lock the signatures in real time.

American Life's electronic capabilities enable its partners to push more volume and deepen their existing customer relationships:

- The economy and efficiency of American Life's all- or partial-electronic backbone strengthens partners' ability to sell more volume at a quicker rate.
- The ability to automate policy issuance and move it to the point of sale enables partners to cross-sell effectively.

As Maria Thomson noted in January's issue of *NewsDirect*, several features are key when marketing to the under-served middle market: needs analysis, electronic application and expert underwriting. American Life is the only insurance carrier with the ability to process life and annuity products completely electronically from application to underwriting and issuance. American Life's expert underwriting system is unique because it allows American Life to bind a policy whereas other online insurance sites merely offer quotes. American Life's system is built on a relational database design written in PL/SQL protocol with Oracle 8i policy administrative system support. Its proprietary platform electronically links all key systems, including partner front-end marketing, underwriting, policy administration, accounting, reinsurance, third-party data feeds and payment processing.

This system enables immediate binding of policies and initiation of automated underwriting and third-party data requests. The all-electronic expert underwriting system is based on an inference engine that virtually eliminates the need for human intervention. This engine uploads the underwriting rules (specific to a product, partner and reinsurer), and then evaluates user-derived and third-party data to accept, reject or seek more information. Further, at each step the engine determines the most cost-effective path, the cost of obtaining additional information, the likelihood such information will result in a decision and the expected profitability of the policy. All activity is clocked in real time and all versions of key policy documents are accessible by all parties at all times.

American Life believes electronically enabled insurance products are here to stay. Shane Gleeson, American Life President says, "Term insurance is evolving from a product that is 'sold,' to one that is 'bought.' Industry statistics continually affirm that most consumers, especially middle-income, remain woefully under-insured and are thus prime candidates for additional term coverage. Electronic platforms, by eliminating layers of expense, make such coverage profitable."

With the accelerating confluence in the financial service industries, insurance agents and brokers are rapidly evolving from product-specific salespeople to personal financial advisors representing a growing array of financial products and services. Electronic issuance of insurance frees such advisors from tedious paperwork, enabling them to broaden and deepen their client relationships without a lot of training.

Improving electronic capabilities, such as those utilized by American Life, are quickening the close process and are boosting success rates while driving costs down. By giving partners the capability to specify the level of human intermediation, such firms can transition from partial- to all-electronic at their own pace.

At American Life, the mission is to facilitate the sales, marketing and administration process for partners through our electronic platform and varying degrees of human intervention.

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E-term:

Channel Management and Other Implications

by Steve Konnath

Many interesting trends are occurring in the insurance marketplace with respect to e-term insurance. It is especially interesting to notice how these ventures have impacted or worked with existing distribution systems. I'll cite a couple of examples below and talk about some emerging trends.

For the purpose of this article, I'll define e-term insurance as term life insurance that is either Web-influenced or completely fulfilled using the Web. This is a broad definition, but it should be noted that there are really only a couple of companies that are truly doing everything, including contract fulfillment, on the Web. Most companies are using the Web for lead generation only. The most common practice is the use of Web aggregators for lead generation and off-line processes for fulfillment of contracts.

Companies are trying nearly every conceivable combination of processes, but a few of these paths appear to be more successful than the others. When companies use Web aggregators for lead generation and their face-to-face distribution systems for fulfillment, results have been poor or mixed. The hypothesized reason for these poor results is that the consumers who start this process on the Web really do not want an agent in their home.

When companies use Web aggregators for lead generation and their face-to-face distribution systems for fulfillment, results have been poor or mixed.

Another path some companies have pursued is to use Web aggregators (e.g., InsWeb, Reliaquote, Quotesmith) for lead development and their own telemarketing departments or outsourced tele-agents to fulfill contracts (e.g., Producers America and Matrix Direct). This model appears to be one of the successful paths bubbling up to the top. Most of the aggregators actually do this themselves by providing both the lead generation and contract fulfillment services wrapped together (e.g., Reliaquote and Quotesmith). Both of these paths present channel management challenges since they essentially eliminate the use of face-to-face representatives from the fulfillment process. Many agents and brokers have complained that these processes take customers away from them and food off their tables. I'll challenge this view later in the article.

True, full-blown e-term insurance is really being done by only a couple of companies. Inviva, using their recently acquired American Life Insurance Company of New York, is one of them. Inviva offers complete, start-to-finish Web-based term life insurance offerings. With their Web-based processes, a consumer can apply for coverage and the company can actually fulfill the contract completely online. *[Editor's note: see article "American Life of New York Binds Insurance Using Expert Underwriting" on page 11.]*

Channel management comes into play when these products are being priced. Do you price your term portfolio using the cost structures of face-to-face distribution systems and make it available on the Web? Or, do you price for Web-based processes and make it available to your face-to-face distribution systems? Clearly in real life this is not necessarily an "either/or" type of question. The answers can fall anywhere along a wide spectrum of solutions. As always, the market will answer these questions for us.

John Hancock developed its new term product portfolio to be sold both online through aggregators and face-to-face through its producers. The portfolio differs only in policy fee and conversion period. Hancock uses a tele-application/tele-underwriting process backed up by off-line underwriting and policy fulfillment processes. "Term insurance sales have increased steadily over the last several years both through our direct and face-to-face channels," says Michele Van Leer, senior vice president, Retail Product Management at John Hancock. "Having one of the most competitive term products in the market increased the value proposition that our producers could offer to their existing and potential clients."

Western-Southern has a process very similar to John Hancock's. They offer Web-based quoting and application processes and follow-up with off-line underwriting and fulfillment processes. Western-Southern has taken a very creative approach to channel management. They recently made their e-term products available to their face-to-face distributors, but in an innovative way. "Our agents can offer our e-term products," says Harry Lyons, vice president and senior financial officer, "but they must refer the client to our Web site. On the Web site, the client can then indicate if a particular agent referred him to the e-term product and the Web site, and then we pay the agent a referral fee. We have also made our e-term product available to the agency force of one of our affiliated companies in a similar fashion."

It is likely that over the next decade or so, more and more companies will be moving slowly toward models similar to the ones mentioned above for a wide variety of reasons. Here are a few important trends observed in recent months that fuel this speculation:

- Term insurance is gradually moving from a product that is sold to one that is being bought by a significant number of people (though still only a minority). The agent will never be completely disintermediated by the Web, but more and more consumers are trying to "do it themselves" using Web-based processes.
- Tax-preferenced investing options grow almost every year, eating away at the value proposition held by permanent life policies. In addition to all of the existing retirement vehicles including the Roth IRA, 401(k), etc., we now also have tax-preferenced education savings vehicles with the Coverdell IRA and the state-sponsored 529 plans. The old axiom of "buy term and invest the difference" gains strength almost every time the tax code is changed, especially for middle-income households. Permanent life insurance contracts will always have market appeal to more affluent customers unless the IRS attacks the inside build-up of these contracts.
- Insurance agents and brokers are transforming from representatives that sell insurance products into financial services professionals offering financial planning advice. Those representatives that are betting their personal financial futures completely on just selling products, with little advice offered to clients, should take a quick look around to make sure that there are no tar pits nearby.
- Web aggregators recognize the power that customer expectation has on lead close rates by increasing the amount of up-front qualification and filtering. More and more aggregator sites are pre-qualifying lead prospects by asking health questions before they give a quote. In the past, they simply quoted the best rates available without any health questions. That led to dissatisfaction and low close rates.

All of the above trends support and fuel the growth of e-term sales. Companies will have to manage and educate their face-to-face distribution systems about the changing environment and use these forces of change to their advantage. The days of an agent making a living on just term insurance sales are likely nearing their end. However, a highly competitive term product is a great door opener or lead for agents/brokers. They can use it to get in front of clients and offer financial advice for more complicated products. The biggest challenge for insurance carriers is working with their face-to-face distribution systems to convince them that Web-based or Web-influenced term sales are not a threat, but a new opportunity if managed properly. As a matter of fact, there is some evidence that the do-it-yourself consumers are not doing it correctly. Even after the purchase of a term life policy, they are often underinsured. Here is one of the many future opportunities for the face-to-face distributors. Their value proposition for the future has to be one that revolves primarily around sound financial advice.

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The Survival of Most Insurers Hinges on Underwriting Faster, Cheaper, Better

by Maria Thomson

Editor's note: The following is drawn from the Society of Actuaries seminar on Feb. 28 – March 1, 2002 entitled: "Underwriting to Expand Market Share: Faster, Cheaper, Better." Faculty members were the authors as representative of the actuarial profession and three underwriters: Hank George, SVP of Lab One, Kathleen Elzeer, VP of Great American and Mary Fernald, SVP of Scottish Re.

Insurers Love the Affluent

Statistics tell the story of disturbing trends in the industry. From 1989 to 1999 the number of individual policies in the United States declined from 180 million to 162 million, according to the ACLI. The average policy size more than doubled, from $27,553 to $56,749. Additionally, LIMRA surveys show a big drop in sales to households with less than $30,000 in income. But sales to the affluent have increased, and one-third of all life sales now are to households with incomes above $100,000, according to LIMRA, and two-thirds of sales are to the over-$60,000 income group, according to Conning & Company surveys. The IRS announced that in 1999 the top 10 percent of taxpayers had at least $88,000 in taxable income—so about 50 percent of all life insurance production today is to the top 10 percent of the market.

The consequence of this narrow market focus is shocking:

30 insurance conglomerates write over 70% of the life insurance industry's new premium!

This statistic from LIMRA raises the stark question: how will the remaining 1,300-plus insurers continue to survive living off the crumbs of the remaining 20 percent? Clearly, the paradigm for the industry must change to re-claim the neglected 90 percent of the market.

Is Alternative Distribution the Answer?

To expand distribution and cut costs, the industry has looked beyond traditional agents since the 1970s. The cost of acquiring $100 of new first-year premium is $135 to $160 through an agency, compared to $105 to $115 via a bank or stockbroker, $100 on a direct sale and about $15 through the Internet, according to figures compiled by the consulting firm Booz-Allen & Hamilton and LIMRA. The great surplus strain created by generating new business has driven insurers to pursue increasingly higher premium per sale through their agency systems in order to boost their ROEs.

Alternative efforts have included direct mail, affinity-group marketing, worksite, bank distribution, and selling through mass media. As a result, today's distribution systems are diverse, and alternate distribution methods are maturing. However, what do we have to show for it? Only about 12 percent of Americans buy direct (this includes mass media and the internet), about 8 percent buy voluntary insurance at work, and about 7 percent buy through banks. Thus, alternate distribution accounts for about one-quarter of all insurance production after over 30 years of effort—split almost evenly over three different channels.

These channels have demonstrated success in penetrating the mid-market. Two-thirds of all direct mail sales and three-quarters of all worksite sales are to the mid-market, according to Conning & Company. Sadly, the bottom line is that in spite of the growth of alternate sales channels and their success in the mid-market, total sales to the mid-market continue to shrink.

The Final Barrier

Why have efforts to reclaim the mid-market met with such limited success? I believe there is still one significant hurdle to be overcome—traditional underwriting, which makes sales difficult and policy issue expensive. The process is cost-effective, from both the insurer's and the salesperson's point-of-view, only for large policies.

Some insurers have tried to solve this problem by turning to guaranteed-issue or simplified-underwritten policies for low face amounts. This provides fast, cheap issuance, but mortality is so high that most carriers still lose money, despite high premiums and low benefits.

On the other hand, classic "extreme" underwriting is slow. Requirements for attending physician statements (APS), paramedical exams, or fluids slow down the evaluation process and are a major cause of the lengthy issue process, six weeks on average. About 15% of the business is lost due to withdrawals, incomplete information or not-takens. To minimize not-takens, particularly if a policy is rated, the agent must re-sell it upon issue. Furthermore, the agent is burdened with helping to acquire underwriting information—a big distraction from selling. The underwriting requirements, the application fallout and the paper-intensive processing combine to create high direct and indirect costs.

Today, though, the choice isn't limited to either guaranteed issue or full underwriting. With revolutionary new underwriting tools now becoming available, faster, cheaper underwriting and issuance can be combined with quality risk selection. By slashing costs and boosting speed, 21st-century underwriting lets insurers sell to average people and make a profit.

New Underwriting Tools to the Rescue

Obtaining the APS is a time-consuming, expensive process that significantly slows underwriting and issuance. The underwriting faculty argued that insurers need the APS less often with tele-underwriting and new tools like pharmaceutical databases. The latter is arguably the most important underwriting development in many years.

Knowledge of the pharmacological treatment, coupled with follow-up explanations provided by the applicant in a personal history interview, can provide the underwriter with all the information required in most circumstances. Thus, learning the applicant's prescription history is the starting point for obtaining medically significant information in a fast, far cheaper manner.

In many situations, it is very clear what the implications are of a particular prescription history, coupled with the applicant's divulged medical history. For example, as Kathleen Elzeer pointed out, a divulged history of heart palpitations coupled with a prescription of alprazolam is minor and can be issued standard. However, if this applicant is taking amiodarone, a serious medical condition is indicated which will have to be rated or rejected.

The development of pharmaceutical databases is a breakthrough that is a win/win situation for insurers and consumers. Consumers will have fewer insurance carriers reading their private medical history obtained from their physicians. Insurers benefit because the pharmaceutical database is fast and electronic. The information can often allow the insurer to avoid obtaining further medical information. If the database and the personal history, coupled with a fluid sample, provide sufficient information, we would expect that a company could issue a policy within 11 days, on average, for fully underwritten business—instead of the normal six weeks. If fluids are not required, a policy could be issued in less than a week, as pharmaceutical data is available within 24 hours.

(continued on page 16)

Hank George touted tele-underwriting as another major tool that helps speed issuance, while removing from the agent the burden of taking a personal history. Tele-underwriters typically use reflexive (drill-down) medical questions (a PHI) to get an accurate picture of applicants. Hank argued that experienced tele-underwriters have learned that a neutral third-party interview is far superior to an agent or an underwriter interview in the quality of information obtained. There's no need for an agent to ask an applicant medical questions—only to have a tele-underwriter do it again. One high-quality interview is enough. George also urged underwriters to secure information on nutritional supplements in the PHIs, as these can be as revealing of medical conditions as pharmaceuticals are.

Other tools that speed underwriting and issuance include electronic applications/electronic signatures and use of the Medical Information Bureau, which makes its information available electronically. Motor vehicle records (MVRs) are another fast-emerging, powerful tool for speedy underwriting. They respect privacy because they use public records, are cheap (as low as 75 cents apiece) and fast (turnaround with about 24 hours). MVRs are particularly useful for lives below age 40, where accidents are the number one cause of death.

Blood tests are valuable at older issue ages because they let underwriters pin down risk for coronary disease and diabetes. However, for lives under age 40, blood work can often be replaced by less-expensive oral and/or urine tests, which detect the most serious health risks for younger people: HIV infection, tobacco use, and abuse of drugs and alcohol. Even without blood tests, the use of parameds is usually not essential. George argues that ECGs, X-rays, inspections and physician exams are outdated underwriting tools that have less value than modern data sources. APSs may soon prove to be rarely necessary as well.

Pushing the Envelope with Technology

Mary Fernald and I discussed the use of technology to further speed the issue process. Fernald stated that the Internet is primarily being used today to generate quotes, but showed one example of how an insurer, inviva, is using it to take an application and issue a temporary policy within 15 minutes. Inviva's online software has links to underwriting (including an expert system), administration, accounting, reinsurers and payment processing. *[Editor's note: see article, "American Life Binds Insurance Using Expert Underwriting," on page 11.]*

Four vendors exhibited Internet-based point-of-sale software that expedites new business and underwriting processing. Such software, coupled with readily accessible underwriting data, could ultimately make instant issue of fully underwritten policies feasible (for more on this, see my article on technology in *NewsDirect*, Jan. 2002).

It's estimated that about 30-50 percent of mid-market applicants can't be underwritten immediately by the computer because of age or health conditions; these have to be handled by human underwriters. But insurers using the rapid-issue techniques discussed in the seminar will still provide faster, lower-cost underwriting and issuance.

The faculty agreed that faster, better, cheaper underwriting and issuance is the key that will enable insurers to again profitably sell policies to average Americans. The cost savings can be passed onto clients in the form of more-competitive products. Facing fewer hassles and delays, agents can afford to sell average-sized policies, and alternative distribution through the Internet, banks, worksite and direct marketing becomes more attractive and feasible. The mid-market can and will be reclaimed by companies that move ahead of the pack by instituting cutting-edge underwriting and sales software now.

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Bancassurance Session at March ICA Conference

by Nancy Behrens

In March 2002, I had the privilege of attending the International Congress of Actuaries for the first time. I had always assumed that the ICA was for actuaries who practiced internationally. Instead, I found topics of great interest even for those of us who are primarily practicing in the United States and Canada. The SOA sponsored sessions at the ICA, including the session summarized below regarding bancassurance. I was very proud of the SOA for committing the resources to do this, and especially thank Jim Toole for moderating this session.

This session is best summarized by the statement made by Jim Toole in his opening comments: "We are here to dispel the myth that success in one (bancassurance) market can be applied in a cookie-cutter approach to different areas of the world." With that prelude, the panelists proceeded to prove Jim's point.

In the French market, the first bancassurance business began in the 1970s, but did not become a substantial part of the life insurance industry until regulation changes in 1984. With the French market being the fifth largest life insurance market in the world, banks increased market share in life insurance from 39 percent in 1990 to 61 percent in 1997. While the penetration in other lines of business is much lower, health, auto, and household insurance are all being targeted by the banks. The approach being taking by the industry is to offer simple, standard products to customers, with low prices. The focus now is on new clients with middle or small estates. The trend in France now is toward financial conglomerates, all under the same set of regulations.

Kim Chung Chan reported on the Hong Kong market, saying that many insurance executives there believe that bancassurance is an unavoidable trend of the future, especially when using a broad definition to include mortgage insurance and direct marketing to credit card databases. Partnering with banks may be a way for insurance companies to realize their strategic objectives of building distribution, moving away from tied agencies and looking at new market segments while increasing the quality of the business. At the same time, such arrangements can suit the strategic objectives of the banks, by making more efficient use of their infrastructure, replacing loss of income due to the compressed margins in the banking industry, and providing the bank customers with one-stop shopping. Consumers are receptive to the face-to-face buying experience, and the dominant product is whole life.

In Chile, the benefits of bancassurance to banks, insurers and customers are driving the bancassurance trends. In this market, few annuities are sold, with the primary life products being term and simple universal life.

Maria Thomson discussed the situation in the United States, giving a number of statistics showing that life insurers have abandoned the middle market to focus on the affluent. Perhaps most notably, half of life insurance sales are now to people in the top 10 percent of income. Banks have seen the most significant inroads in the annuity market, with P&C also showing large increases. The slow, cumbersome underwriting process probably limits the rapidity of banks' expansion into life insurance. Thompson believes that new developments such as electronic applications and underwriting, as well as increased use of MIB, MVR and prescription drug databases, may be the answer. Someone will figure out how to market to the middle market, and she believes that the banks are best positioned to do so.

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What We Did On Our Summer Vacation:

The Joint Regional Seminars In The Far East

by Jay M. Jaffe

It was the trip of a lifetime because of the warmth and hospitality of all the actuaries we met during the seminars.

The following is a diary of the trip, which Mary-Bahna Nolan, Al Klein and the writer of this article took to four cities in Asia to represent the SOA at the Joint Regional Seminars. The seminars were held in Singapore, Shenzhen (People's Republic of China), Taipei (the Republic of China) and Seoul (Korea). It was the trip of a lifetime because of the warmth and hospitality of all the actuaries we met during the seminars. The purpose of this article is to share our excitement and pride at the reception we received as representatives of the SOA.

Our voyage was sponsored in part by the Nontraditional Marketing, Product Development and Reinsurance Sections. The trip was an extension of the June 2002 Product Development Seminar (Chicago).

The purpose of the seminars was twofold; first, to provide a way for many of our members in the Far East to obtain Professional Development credits without having to travel to North America, and second, to help many of the younger actuaries in Asia learn about some of the methods and concepts being used by actuaries in other nations for creating and developing new life and annuity products.

Two representatives of the Faculty/Institute of Actuaries who are based on Hong Kong joined the three of us from the SOA.

June 28, 2002

We depart O'Hare for Singapore. Nothing prepares you for the 24-hour trip and the crossing of the International Date Line. The only way to describe the feeling is to compare it to an all-night study session in college. It feels great to disembark from the plane in Singapore and breathe fresh air, even though it is after midnight local time and extremely warm and humid.

June 30, 2002

We missed June 29 when we passed the International Date Line. Today is one of our few free days on the trip. We know we are physically in Singapore but our bodies are somewhere closer to North America. After a night's sleep and a shower, we spend the day exploring one of the main attractions of Singapore called Sentosa. It is an island with many different types of recreational facilities, a pavilion with a historical exhibit of Singapore and many other attractions. There is a familiar feel to the area because Singapore is a new city with wide streets, skyscrapers, and so forth.

In the late afternoon we meet the Singapore organizing committee for refreshments. This meeting has to end early because the World Cup final (Brazil 2, Germany 0) starts at about seven p.m. and our hosts want to be in front of the TV. For dinner we went to one of the many "honker" areas, or outdoor markets, for a seafood dinner. Afterward we wandered around one of the major shopping streets and watched the end of the football (not soccer) game on a gigantic outdoor screen with thousands of Singaporeans.

July 1, 2002

The first seminar begins about 9:30 a.m. The audience includes actuaries not only from Singapore but also from Malaysia, Philippines and India. We quickly observe that the actuaries with a Singapore business address come not only from Singapore but also from the U.K., Australia, India, South Africa, Indonesia and other countries. It is truly an international audience of actuaries.

It is announced that the session is the largest actuarial meeting in at least five years in Singapore. Our presentations go well and the organizing committee hosts us at an Indochinese dinner. The evening allows for an exchange of personal information and, not unexpectedly, we discover many common non-actuarial interests. By the end of the evening we've made several new friends. This experience will be repeated throughout the trip.

July 2, 2002

We are up before sunrise for the flight to Hong Kong. Because Singapore is near the equator, daytime and night are roughly equal in length there. There is also constant heat and high humidity.

We arrive on time in Hong Kong. The flight on Singapore Airlines was delightful. The immigration line in Hong Kong is long and it takes nearly an hour to clear. When we leave customs, Sarah Hui from the SOA Hong Kong office is there to greet us and lead us on the next two stops of our trip. She has arranged for a very brief tour of Hong Kong including a visit to Victoria Peak and a quick lunch. The view from the peak is spectacular.

From there, we travel to Shenzhen in the People's Republic of China. It takes nearly 2 hours to make the trip even though it is not that many miles. Part of this time is spent clearing Chinese immigration. Fortunately, all of us had obtained the required visas in Chicago, and we pass immigration without a problem. We arrive at the hotel in Shenzhen just in time for a Chinese banquet with the participants. Almost immediately we are greeted by familiar faces as several of the participants have worked in the United States or Canada. It truly is a small world considering we're about 10,000 miles from home.

July 3, 2002

The meeting in Shenzhen has over 100 participants from both the PRC (People's Republic of China) and Hong Kong. As mentioned before, Shenzhen is close to Hong Kong, and, judging by the traffic on the road, there appears to be very open commerce between these two cities.

When we sit down, there is tea at each chair and the cups are refilled regularly. Wouldn't it be great to have coffee or tea delivered to each seat at the next SOA meeting? (This probably won't happen because we couldn't agree on the blend of coffee, regular or decaf, cappuccino or latte.)

The presentations go more smoothly than in Singapore. We are all now more comfortable with the program and the time allotted for each presentation.

During the Q&A one of the actuaries from China asks how to manage a company that is growing exceptionally rapidly. It has been a long time since any of us from North America have been faced with this matter. The responses to this question are centered on adopting good financial management techniques, but these may be difficult to implement in an environment which is "top-line" oriented. The Q&A session ends just before six p.m.

It has been a long day. We now have to drive back to the Hong Kong airport (the new airport is magnificent) for the flight to Taipei, Taiwan. One of the Hong Kong actuaries has told us he is the number-three ranked flyer for Cathay Pacific Airlines, and as soon as we enter the terminal he is greeted by name. We all go to the airline lounge for dinner (yes, Cathay Pacific provides good food for its first and business class flyers in its lounges) and then take a leisurely stroll to the gate. The plane leaves on time.

Our plane makes two or three attempts to land in Taipei. A typhoon has just hit Taipei and prevents our landing. We fly back to Hong Kong and finally deplane well after 1:00 a.m. The next stop is the airport hotel for a room (it is about 2:30 a.m. when we get to our rooms) and to await a call as to when we'll depart in the morning. We are all worried about the Taipei seminar because it is scheduled to start about 9 a.m. and there is no way we can make the meeting.

July 4, 2002

Sarah has alerted the seminar contacts in Taipei of the problem. The two Hong Kong actuaries with us are able to take a very early morning flight (because they are carrying only hand baggage) and arrive in Taipei about 10 a.m. Obviously, the seminar starts without the rest of us. We finally arrive in time for a box lunch and the afternoon session.

We are beginning to understand how life products are developed in many parts of the Far East. It seems that the insurance authorities require a net premium to be calculated and then the net premium is loaded. At this point there appears to be very little profit- or cash-flow-testing, as in North America or the United Kingdom.

We all note that we're missing Independence Day back home and all the celebrations. Our hosts in Taipei invite the speakers to a special dinner with the local organizing group. It is another very friendly evening that ends on the early side in consideration of our travel problems from the prior evening. The fireworks will have to wait until next year.

July 5, 2002

The meeting continues in the morning. Taipei's program is a one-and-a-half-day session and includes case studies. There is a very high level of energy from the audience during the case study discussions.

(continued on page 20)

We end in the early afternoon and make plans to go to one of the local night markets for dinner and exploring. Getting to the night market involves using Taipei's public transportation system, but we manage without a hitch. Actually, we have no problem because one of the local organizers has asked her assistant, who is from Taipei, to escort us to the market on the subway. The night market is a beehive of activity with stall after stall of merchandise and hundreds of food stands. We particularly like an unusual ice cream dessert and wonder how it could be franchised in North America.

After the night market we go to the famous Palace Hotel, which has been host to U.S. presidents and other foreign dignitaries and events. We tour the hotel and linger for a rest in the hotel's 60s bar before returning to our hotel.

July 6, 2002

Saturday is a totally free day. We've arranged for a guided tour of Taipei. The first part of the day is spent on the outskirts of the city, and then we visit the Chiang Kai-shek memorial during a torrential rainstorm caused by one of the many typhoons, which hit Taipei each year. The afternoon is spent with our guide at the National Palace Museum that houses perhaps the finest collection of Chinese paintings, ceramics and sculpture in the world. This is a must stop on any trip to the Far East.

Sarah departs for Hong Kong, and we're now on our own. We appreciated having Sarah to help us, especially when we needed someone who could converse in the local language.

Dinner is at a local restaurant recommended by one of our hosts; we eat typical Taiwanese food. Fortunately, the restaurant has a menu with pictures so we are able to order in spite of not speaking the local language.

July 7, 2002

The president of the Actuarial Institute of Republic of China and his wife pick us up early for a very special treat. We are going to one of the famous Taipei dumpling restaurants. We plan to be the first in line because we need to depart for the airport immediately after the meal. When we arrive at the restaurant, there is already a line of people waiting to enter.

Everything works out perfectly. The dumplings are unique and delicious. We can be seated in the first sitting. Our hosts explain all that we are eating and have ordered a wide variety of dishes for us to taste. The texture and taste of the dumplings will linger all day.

Our plane for Seoul departs as scheduled and we arrive at the hotel around dinnertime. The hotel is near tomorrow's meeting site and in a very active section of Seoul. All around us are reminders of the World Cup, which finished just one week ago. For dinner we select a Korean barbecue, which is different from North American barbecue. This is also our first encounter with all the condiments served with Korean meals.

July 8, 2002

Another 100+ audience is in attendance at the seminar. There are several familiar faces in the audience, and our final session goes off smoothly. By this time we feel we could deliver each other's presentation but resist the temptation to switch topics.

One difference in Seoul is that the session is conducted with simultaneous translation. This is the only session where English was not the only language used. Having simultaneous translation means that we need to keep the presentations simpler and avoid most attempts at humor.

The Korean Actuarial Association has arranged a special dinner for us at a very traditional Korean restaurant. Afterward, there is an exhibition of several Korean folk dances and songs. We return to the hotel and meet in the Irish pub to say farewell to our fellow speakers from Hong Kong.

July 9, 2002

The formal part of the trip is over. Mary and Al head to Beijing for a couple of days of sightseeing. I head home. We all have special memories of the trip and hope that we have contributed to the actuarial knowledge of those who attended the sessions. The trip home seems short (scheduled for only 12-14 hours) as compared to our outbound journey. We know we will have jet lag when we return to Chicago, but this is a very small factor considering the many new friends we've met during the past 12 days.

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