SOCIETY OF ACTUARIES

NEWSDIRECT

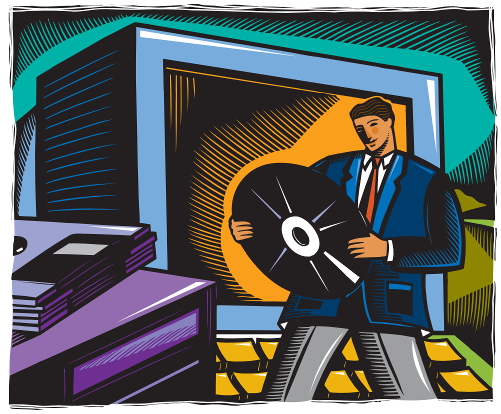
NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

NUMBER 42 JANUARY 2003

Editor's Viewpoint:

Stepping into the All-Electronic Future...

by Brian L. Louth



Welcome to the first all-electronic edition of *NewsDirect*. This is the beginning of a new approach to keep you abreast of the Nontraditional Marketing Councils' activities, of bringing interesting and educational topics to the membership, and in creating an opportunity for you to contribute your thoughts and ideas toward making this a vibrant and informative communication vehicle.

This also represents a new beginning for me in working with Julie Tani as co-editor for *NewsDirect*. As a new member of the Nontraditional Marketing Council, and the first one from Canada, I am hoping to bring some perspective from north of the border. I also look forward to learning a great deal in supporting the future editions of *NewsDirect*.

I have enjoyed many articles from *NewsDirect* over the last few years. I have to admit that there have been times when I didn't get to it right away. In the past it was very easy to let it mature with other items in my reading basket. Invariably there has been at least one item that I have been eager to pass on to colleagues in order to facilitate discussion and thought.

What does it mean for the newsletter to be 'all electronic?' First off, there won't be any hard copy reaching my reading pile. Instead there will be an e-mail notification and if you are like me, there are days when the last thing you want to see or open is another e-mail from anyone. I certainly hope that I catch myself before I delete the note with the link to the newsletter.

I am also not prone to reading through page upon page of a PDF file. I still like to have a hard copy for longer articles, to make notes and highlight key points while I am trying to absorb and consolidate new information. I am not that keen to read off my computer screen.

There will need to be changes in the format of the electronic form of *NewsDirect*. This first edition resembles the hard copy format we have seen in the past. You can expect this to evolve over the next year to take greater advantage of the electronic medium. There will be greater use of links to full articles with summaries to facilitate a quicker review and to pique interest. Keep watching and reading—the evolution should be very exciting.

Going all-electronic is only part of the story. Timely and informative content is still the key. I have already discovered that it is very different to be directly involved in putting the newsletter together. Getting people to develop articles and put their ideas to print is

(continued on page 5)

Features...

Articles Needed for *NewsDirect*

Your ideas and contributions are a welcome addition to the content of this newsletter. 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 Brian Louth, co-editor, at (416) 408-7721.

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Preferred Format

In order for us to efficiently handle articles, please e-mail your articles as attachments in either MS Word (.doc) or Simple Text (.txt) files. We are able to convert most PC-compatible software packages.

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

Please e-mail your article to: Julie Tani at: *julie.tani@verizon.net* or Brian Louth at: *Brian_Louth@sunlife.com*.

Thank you for your help.

NUMBER 42

NEWS**DIRECT**

JANUARY 2003

NEWSLETTER OF THE NONTRADITIONAL MARKETING SECTION

This newsletter is now electronic and can be found on the SOA Web site, www.soa.org. Back issues of Section newsletters have been placed in the Society library, and are on the SOA Web site as well.

Chairman's Corner

Are We Meeting the Goals of our Mission Statement?

by Diane McGovern

Stepping into the chairpersonship of the Nontraditional Marketing Section Council, I find myself wondering how I can best contribute to the section's goals. To come up with an answer, I took a step back from the day-to-day workings of the council to get a better view of its direction. Why does it exist? How should it be performing? I did this by taking a fresh look at the section's mission statement.

Nontraditional Marketing Section Mission Statement

The mission of the Nontraditional Marketing Section is to facilitate research and discussion regarding the relationship among customers, products and distribution systems. The focus 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 products particularly well-suited to alternative methods of distribution.

I believe that the section's existence has been very effective in facilitating discussion on nontraditional topics. The council, working for the benefit of the section, has brought many speakers with diverse backgrounds to Society meetings and seminars. This continues to be one of the council's primary tasks as we prepare for the 2003 season of meetings. For the coming year we have chosen to set a theme for our sessions. The theme will be "The Middle Market." Many of the sessions we sponsor will relate to products and channels that fit strategies to penetrate the middle market. Watch for more information as the year progresses, or help us out by suggesting specific topics or speakers.

The council has also been very effective in bringing product and channel information to the section members through the distribution of *NewsDirect*, our section's quarterly publication. The council members bring the work of the many authors together into a format that all section members can appreciate and utilize. *NewsDirect* will be a function the council will continue to support wholeheartedly as we move forward into the electronic era. It may take on a different style as we adapt to Internet accessibility, but we will stay focused on delivering meaningful and timely articles to the section's readers.

What else is the council currently doing to meet the section's mission?

- Updating our Web site, so it is easier to find information when you need it

- Looking into an annual section CD that will allow you instant access to many fine articles from the past and in the present.

- Co-sponsoring activities with other sections where there is an overlap of interests.

- Supporting SOA task forces and committees.

- Developing a product channel directory for our membership.

After reviewing the section mission statement and the current efforts of the council, I am convinced that the council is on the right track. My objectives as chairperson will be to keep the council moving forward on its current efforts, continue to look for new ways to expand the council's impact and encourage others to contribute to the knowledge transfer through direct participation. So volunteer to be a panelist, provide an article or just provide your thoughts by contacting a member of the council—help us meet our mission.

Diane McGovern, FSA, MAAA, is vice president and actuary at Teachers Insurance & Annuity in New York, NY. She can be reached at Dmcgovern@TIAA-CREF.org.

A Niche Product and Its Marketing —

A Tale of Trials, Tribulations and Rewards

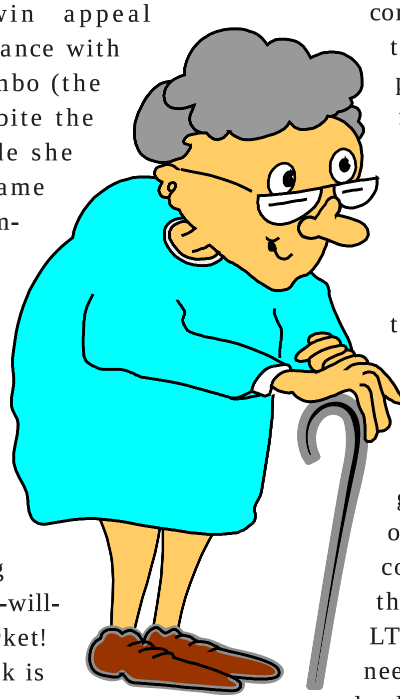
by Steve P. Cooperstein

As an aside she moaned that it was a shame she could not get long term care insurance for her tax client who was just starting to use a walker.

Niche products, almost by definition, have risks and difficulties, though they can also have rewards. Here is a tale of a niche product you may be able to profit from.

It's 1985. My mother almost lands in a nursing home. It becomes apparent to me that more needs to be done in providing long term care insurance coverages—not an uncommon experience of those who become involved in the broad field of long-term care.

Over the next few years I developed several coverage innovations, though only a couple made it modestly to market. Then in 1994, I was talking with a financial planner who liked the win-win appeal portrayed by a life insurance with long-term care rider combo (the market doesn't want to bite the LTCI bullet). As an aside she moaned that it was a shame she could not get long-term-care insurance for her tax client who was just starting to use a walker. The client was ready for LTCI, and yet they wouldn't cover her! I wondered if substandard might be a possibility, but ended up confirming that nothing was available for this now-willing buyer. An obvious market! The care cost longevity risk is no longer in question for someone already receiving care. And just covering a very conservative percentage of those privately paying in a nursing home would be a $100++ million market. But is there a practicable product response? In what form? How or could it be "underwritten?" Priced? Was there data?



It quickly became apparent that the product might take the form of a very substandard LTCI policy or a seriously impaired annuity. Policy filing, as well as tax and marketing considerations, tilted towards the impaired annuity route, even though there was serious surplus strain then associated with impaired annuities. We found an underwriter with some data for rate making and underwriting lined up reinsurers for both the longevity risk and surplus relief, and defined a marketing plan with strategic affiliates.

Five years later, lots of interest by insurers targeted as already in the structured settlement market, unfortunate reorganizations by a company ready to do it in three weeks, and finally almost stumbling on a company not involved with structured settlements that saw the product as a strategic marketing, financial, and distribution fit, and the product was on the market. Well it wasn't quite that easy, but it did get there about three years ago.

Along the way we discovered that a seriously impaired annuity was already being marketed in England. Yes, in England. While they have universal health insurance, their government opted, similar to ours in forming Medicare, to not cover long-term care. England thus has a comparable market for LTCI as well as this uncovered "at need" market as they call it. Their lead has been helpful, though regulatory, tax and cultural differences, as well as the niche nature of the market, still required/require first-to-market efforts here.

As a market developer, my firm's mission is to not only invent breakthrough products, but to also market them as the opportunity offers. We saw getting a strong leg up on distribution as this product's biggest opportunity, as the niche nature of the market and the product suggested that it would be hard to distribute it through brokerage channels at a significant and sustained level. As usual, there were bumps in the road—we couldn't negotiate the exclusive marketing arrangement we sought and also lost a major part of the financing for our efforts because of "administrative hitches." These impediments seriously impaired (pun intended) our marketing, relegating most of our efforts to small local "feeling out" of the various doors we saw to the market rather than more aggressive marketing and selling. Nevertheless, the results of "feeling out" the market have been instructive and now form the basis for more extensive marketing by us (the company continues to market the product through its brokerage channel).

Our primary tests have been focused on the various providers in the geriatric care field—nursing homes, assisted living facilities, geriatric care managers, retirement communities, Elder Law attorneys, as well as accountants, trust departments of banks and some specialized brokerage firms.

Our biggest early disappointment was nursing homes. They had and continue to have more major problems, including rampant turnover of administrators, though we are seeing some turnaround here. Assisted living facilities were a pleasant surprise, though some product gaps were experienced. Elder care attorneys and accountants were also not very productive. Geriatric care managers, though, seem to hold some potential. Several new niches have also been developing, among them, a charitable giving play. Direct approaches to the market also seem to hold some promise. And as experience is developed both at the customer and center of influence level, there seems to be potential for even greater success. And as originally anticipated, helping people with these problems opens up trust and cross-selling opportunities—certainly for the LTCI and the investments of the impaired person's offspring.

Moreover, as with the initial development of this product (and others), being in the market uncovers potential for additional product innovations. We are already seeking insurance companies interested in a second stage product and, perhaps more significantly, for refurbishing the basic LTCI package into a much more consumer-friendly offering. I also trust, as I have from the outset, that this work at the extreme edge of elder needs will be instrumental in bridging the gap beyond the products now receiving attention at the beginning of an elder years' market (such as LTCI and payout annuities).

The moral of this tale—stay attuned to changing needs in the market, be persistent, adjust for inevitable bumps in the road, be flexible and remain focused.

Steve P. Cooperstein, FSA, MAAA, is a market developer in Pacific Grove, CA. and a Nontraditional Marketing Section Council member. He can be reached at SC@IS4Life.com.

Editor's Viewpoint: Stepping into the All-Electronic Future • from page 1

challenging. I feel very fortunate to have an excellent framework to start from as developed over the last year by Chris Hause and Julie Tani. As editors we are very fortunate to be able to work with an engaged group of authors and contributors.

This edition includes a message from Diane McGovern, the new Chairperson of the Nontraditional Marketing Council, which outlines our focus for the next year. We have also included overviews of sessions from the annual SOA meeting in Boston that were sponsored in whole or in part by the non-traditional marketing section. From a field trip to Babson College to learn about entrepreneurship to a session in patenting insurance products, these sessions were very thought-provoking. For good measure, there are some excellent articles, including the third installment from Robert Winawer, "Direct Insurance Sales Using Microeconomics" and a piece from Bob Smith, "Outlooks for Using the Internet in the Distribution of Life Insurance."

I look forward to working with Julie over the next year to bring you interesting new issues of *NewsDirect*. Should you have any thoughts or ideas on how to improve the newsletter, both Julie and I would be very interested to hear from you. The path starts with a willingness to participate.

Brian L. Louth, FSA, FCIA, is vice president at Sun Life Assurance of Canada in Toronto, Ontario and a member of the Nontraditional Marketing Section Council. He can be reached at Brian_Louth@sunlife.com.

Outlooks for Using the Internet in the Distribution of Life Insurance

by Robert L. Smith

Editor's note: Bob Smith is the senior vice president responsible for special markets (including direct marketing business) and New York Life's Internet strategy. He is also a member of New York Life's Executive Management Committee, which directs the management policies and procedures of the company. Under his leadership, New York Life has attained the leading position in direct-mail sales of life insurance in the United States. Bob recently addressed attendees of the Society's Spring Meeting in Colorado Springs on "Using the Internet for Insurance Marketing." This article is adapted from his speech.

In 1999, I opened a New York Life Executive Management Committee meeting with the following quote:

> ***"The Internet will affect everything…***
> *Despite the hype, the Internet will prove to be the most powerful driver of change across industries in decades. Affecting everything in our business means: sales, issue, service, communication, education, marketing and branding."*

I still believe that, but the much-hyped "new economy" of the Internet never emerged.

- The Internet bubble of 1999 burst.
- The giddiness over new visions and millions of site visitors faded as sales and earnings didn't develop to levels expected.
- People ultimately realized that companies with no earnings probably weren't worth more than Ford and GM—and Internet stocks crashed.

Which brings us to a 2002 re-statement of the 1999 quote:

> *"The Internet is a powerful new business tool, offering previously unimagined opportunities to:*
> *• Improve service and communication, and*
> *• Enhance efficiency of producers and employees."*

But those opportunities will primarily be in supporting, not replacing, current distribution.

Let me start by stepping through a short history of New York Life's Web activity:

Pre-1999
- Initial New York Life site launched in 1996.
- 50+ product and functional sites by 1999.
- No company-wide strategy.

1999—Internet Mania
- Assessed general market and industry trends
- Reached certain conclusions:
  - It wasn't about technology—it was about changing the way companies communicate and interact with their customers and producers.
  - The Internet would be a disruptive technology that would change business models.
  - Other industries were beginning to set our customers' and producers' expectations of us.

We felt the Internet would prove to be a tremendous enabler. Many things that would have been impossible a few years ago have become not only possible, but practical and efficient. There are few things that you can't figure out how to do better, faster and cheaper with the Internet. The Internet and its use by other industries were raising customer and producer expectations of us for convenience, responsiveness and personalization.

We also believed that the Internet posed some clear threats for our industry:
- Readily available information on products and prices and the activities of aggregator sites will tend to commoditize our products. This will lead to increased pressure on prices and profits.
- We believed we would see new competitors emerge. Aggregators—one form of new competitor—would attempt to disenfranchise our agents and diminish the value of our brand.
- And, in the long term, we have to be concerned about generational shift—how will today's children and young adults, growing up in the Internet environment, expect to purchase and access service for our products in the future?

Developing the Internet Vision

We developed New York Life's Internet vision within this environment to:

- Project a cohesive, "one company" image/brand to all of New York Life's diverse audiences. Enhance and project the brand online.
- Focus on world-class capabilities in:
  - Communication (retail, producer, employee)
  - Service (retail, producer, employee)
  - Education (retail, producer, employee)
  - Lead generation (supporting agents).
- Prepare for the possibility of e-commerce.

We did not expect a big movement to Internet sales, but we wanted to hedge our bet in case we were wrong or the next generation came to purchase differently. Our main thrust was to be supporting sales and service. Our Internet goals were:

Service

- Provide clients and agents with information and self-service capabilities:
  - Improving customer service by offering it in a complementary new medium;
  - Strengthening customer relationships and loyalty;
  - Reducing costs (long-term) by encouraging client and producer self-service on the Web.

Communication and Education

- Provide prospects and customers with:
  - Online information and planning tools;
  - Company and agent communication.
- Provide agents with:
  - Product information and training tools (NYLIC University);
  - Company and customer communication.
- Provide employees with:
  - Job information and job training tools;
  - Company communication.

E-commerce

- Support agents sales with online sales tools.
- Support online sales for our direct businesses (e.g., the AARP Life Insurance program).
- Support the online sales of mutual funds and securities.
- Support lead-generation and cross-selling opportunities.
- Prepare for broader e-commerce, should market conditions dictate.

Why did we not have a greater belief in direct Internet sales of insurance? After all, much of my career has involved direct response marketing. New York Life is the number one writer of direct response life insurance in the United States. Well, I believe most people buy on the Web for convenience, instant gratification and low price. Even with intrusive media-like direct mail, only 10 percent to 15 percent of life insurance purchasers buy through direct response—so what were the prospects of a passive medium, in terms of percentage of total sales from all channels?

I believe most people buy on the Web for convenience, instant gratification and low price.

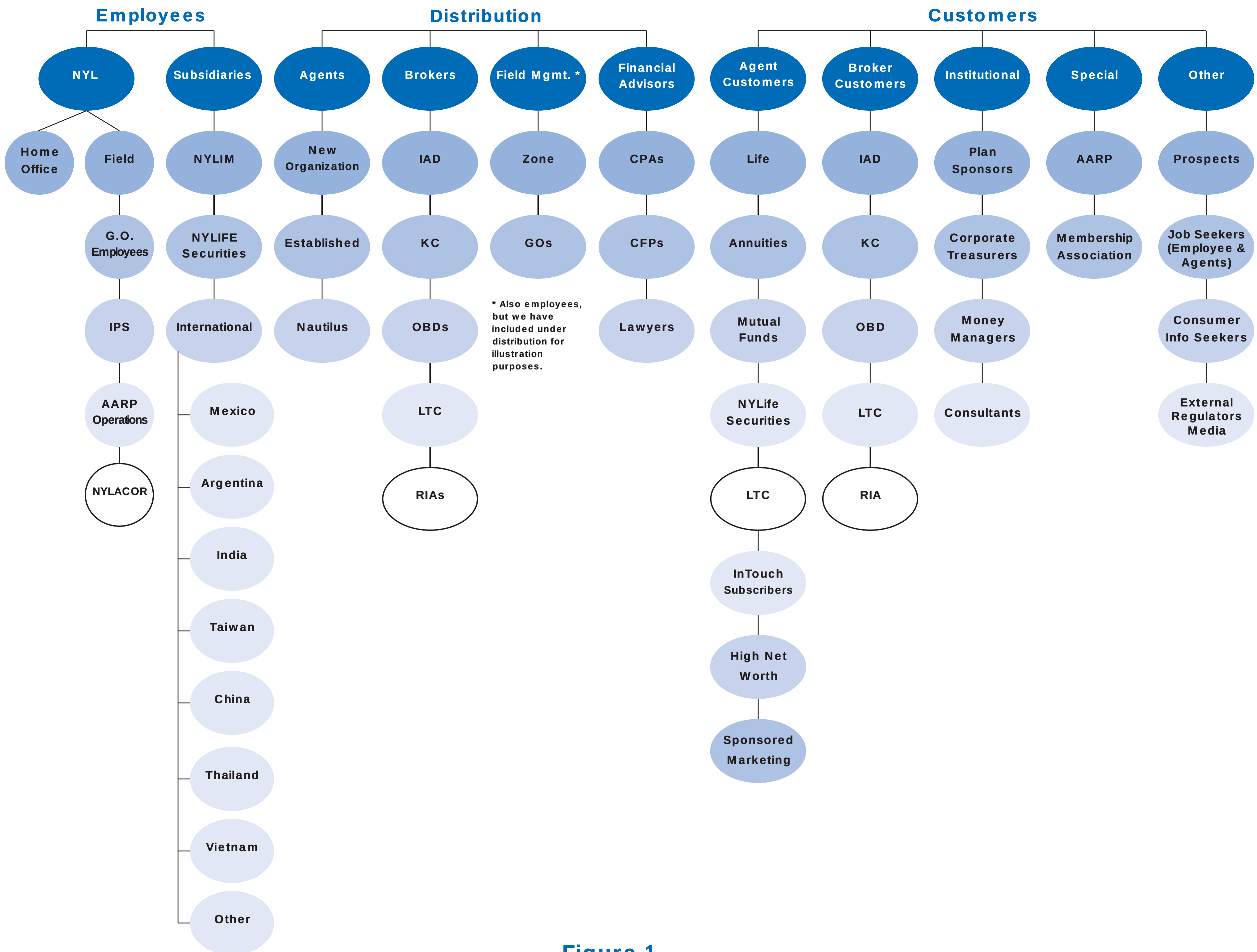
We saw several inhibitors:

- The Internet is not intrusive—it is passive. Direct response is primarily an impulse purchase in "direct response" to an intrusive piece of mail or advertising.
- We cannot underwrite online, which eliminates the instant gratification of many Internet transactions.
- The client faces the difficulty of sorting through and interpreting the oceans of information on the Web. Who do I trust? How does this fit my situation?
- Most people don't have the skills or patience to fill out more than a very simple form on the Web.
- There is still no real enforceable e-signature.

These inhibitors led us to focus primarily on supporting current distribution with the Internet.

We developed Internet sites for each of our primary audiences: customers, distributors and employees. Dividing into these audiences may make it seem simple enough, but if you look under the covers and drill down into the sub-audiences served, the need for personalization and complexity accelerates quickly, as Figure 1 shows on page eight.

(continued on page 8)


Employees
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Customers
NYL
Home Office
Field
G.O. Employees
IPS
AARP Operations
NYLACOR
Subsidiaries
NYLIM
NYLIFE Securities
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Mexico
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IAD
KC
OBD
LTC
RIA
Institutional
Plan Sponsors
Corporate Treasurers
Money Managers
Consultants
Special
AARP
Membership Association
Other
Prospects
Job Seekers (Employee & Agents)
Consumer Info Seekers
External Regulators Media

Figure 1

Newyorklife.com, the retail portal site, illustrates elements of the tactical implementation of our strategy (see Figure 2, below):

1. Persistent banner branding
2. Persistent navigation bar
3. Persistent product bar
4. Service center
5. Education and planning tools
6. News sections
7. Call to action: Consult an Agent (by 800 number or Web form)

NYL.com has 35,000 visits per week, from 20,000 new and returning visitors, and the average visitor views four to five pages and spends approximately 14 minutes per visit. The sections most frequently visited are:

- Customer service and Fund values 38%
- Products (Life Insurance, Annuities, Mutual Funds, LTC) 21%
- Careers 18%
- Education center 12%

Figure 2

(continued on page 10)

Figure 3

All of this activity generates only about 1,000 leads/month that we can track; we currently have no way of knowing how many visitors call a local agent after using Our Agent and Office Locators.

The producer portal has similar look and feel. Content is different, including Customer contact management functions, performance and compensation and new business development tools (lead management, illustrations).

Our employee portal also has a similar layout but has information and functionality designed for this population (see Figure 3, above).

How do employees use the site?

The sections most frequently visited are:

- Work life and benefits 40%
- Workplace news 25%
- Promotions/retirements/obituaries 15%
- Training and company policy 10%

This site also gets about 35,000 visits per week from 7,500 employees with access, with an average of three pages viewed per visit.

Managing these sites is like running a large publishing enterprise—it's a real challenge to keep thousands of pages of content fresh and current.

Our efforts in developing these three sites over the last few years have been rewarded with numerous awards from organizations that evaluate our industry's Web sites. This is something we're proud of, but admittedly we don't measure ROI in terms of awards or millions of dollars invested.

How have internet sales developed?

Our experience over the last three years supports the view that Life Insurance is sold, not bought, (it requires the intrusion of the agent, mail and/or advertising).

Today, New York Life is the nation's leading direct marketer of life insurance, yet:

- <10 percent of total life sales are direct.
- <.1 percent of total life sales come through the Internet.

Our AARP Life Insurance Program (direct-marketed) alone generates on average 7,000 applications per week, yet only 25 of these are from the Internet. Most people are using the Web to gather information. The next generation may be more comfortable buying insurance actively on the Internet, but the best prospects for Internet sales remain products that:

- Have high perceived need, or are mandatory (auto insurance);
- Are "simple";
- Are price sensitive;
- Require limited underwriting;

How about return on investment?

The Internet imposes an additional layer of expense. We have found that the Internet requires significant investment in Web infrastructure, in linkage to legacy systems for data and transaction processing and for security. Today you are expected to support your business with a solid Web presence—it's become "table stakes" to be in the game. Sales through the Internet channel, either directly or through leads for producers, will only pay a small portion of these costs for most companies. In the longer term, we expect that significant efficiencies and cost savings will be recognized through communication, education and service, for customers and producers, if Internet investments are made wisely. But right now, ROI is TBD.

2002—Where are we going?

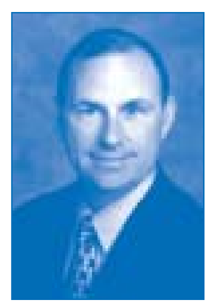
We are continuing to implement our strategy, adding breadth and depth to the topics covered on the Internet. We are adding increased personalization to customer, agent and employee sub-segments. And we are integrating more elements of our consumer and producer sites. More generally, we are gradually migrating processes to the Web in ways that will support traditional processing and transactions. We need to merge legacy activity and the Internet for long-term economies—we cannot continue to maintain two sets of systems!

In conclusion, our experience has reinforced our views that:

- The Internet is an important new business tool.
- The Internet provides new opportunities for enhancing:
  - Communications and service;
  - Producer and employee efficiency.
- The Internet supports, but does not replace, existing distribution.
- While it was once viewed as innovative, customers, producers and employees now expect it.

Developing a strong Internet presence has become critical for most companies. But it can be complex and expensive to do so. Invest wisely in ways that support your brand and distribution.

We have found that the Internet requires significant investment in Web infrastructure, in linkage to legacy systems for data and transaction processing and for security.



Robert L. Smith, CLU, is senior vice president responsible for Special Markets and New York Life's Internet Strategy. He can be reached at rlsmith@newyorklife.com.

Nontraditional Marketing Sessions

Comments on Boston Annual Meeting Sessions

30 PD: Patenting Insurance: Making First to Market Really Mean Something

At this session, Nick Triano, an intellectual property attorney from Mintz, Levin, Conn, Ferris, Glovsky and Pope PC provided the legal background on how individuals and companies can protect their intellectual property through copyright, trademark, trade secrets and patents. Two inventors of insurance products, Dean Potter and Steve Cooperstein (an actuary and an NTM Section Council member), described what they went through to invent, develop, patent and market their insurance product inventions.

Through examples provided by the inventor panelists, attendees gained a better understanding of the genesis of a patentable idea and the advantages and the difficulties of seeking patent protection. Also, in an industry not too familiar with the use of patents to protect intellectual property, a new area of opportunity or concern was brought to light.

This session was taped, so if you could not be present at the meeting, a recording is available. Feel free to contact the session moderator, Tom Bakos, if you have any questions.

88 FT: Field Trip to Babson College of Business: Putting the Spirit of Entrepreneurship to Work For You

This field trip took the 74 registrants to Babson College in Wellesley, MA, just a short drive from the Marriott, and deposited them in a college learning environment. There, Dean Mark Rice of the F. W. Olin Graduate School of Business defined and explained entrepreneurship in an interactive exchange with the attendees.

By understanding what entrepreneurs do and what it takes to sell an idea, the attendees gained a better understanding of how entrepreneurship could play a role in their corporate environments. Despite what you might have thought, the venture capital market rates the people who will be responsible for implementing an idea of great importance. They will always take a grade A team with a grade B idea over a grade B team with a grade A idea because they know it is the people that will drive the success.

Professor Rice also discussed how entrepreneurship can find a place in a corporate culture through radical innovation project teams.

A reception was held immediately following the lecture at Babson's Executive Education Center. There attendees were able to pursue questions on entrepreneurship with Dean Rice and other professors from the Executive Education Center. Based on comments from attendees. Feel free to contact the Session Moderator, Tom Bakos, if you have any questions.

Session 14 OF: Debt Cancellation and Deferment: Hot Topics and Issues

The Panel consisted of Dr. Thomas A. Durkin, chief economist for the Federal Reserve

Board, Hugh Alexander, an experienced insurance lawyer from Alexander Law Firm, and Chris Hause.

Chris began the discussion by familiarizing the audience with the terminology and chronology of debt cancellation coverage.

Tom Durkin followed with a rundown on recent activity at the federal level relating to Regulation Z review and the role of credit insurance and debt protection products in the regulation. Tom presented three studies that have been done on credit insurance by the Federal Reserve Board on penetration rates, consumer behavior, attitudes and trends in these factors over the last 25 years. The first study was done in 1977, the second in 1985 and the third study was completed in 2001. One of the more remarkable trends was in the area of installment loan credit life placement rates. In 1977 and 1985 studies, the penetration level was approximately 60 percent. In the 2001 study, the penetration was approximately 20 percent.

Hugh Alexander then covered the area of regulation of debt protection products. He started with a brief history of debt cancellation law, regulation and opinions since the inception of the concept. However, until Gramm-Leach-Bliley formalized the acceptability of banks entering into such agreements, programs of this type were few and far-between. Recently, the Office of the Comptroller of the Currency (OCC) released long-awaited regulations governing primarily the form and disclosure requirements for national banks offering these products. A primary focus of the new regulation centers on the "soundness" of these programs. One of the most important issues to actuaries is the prohibition of financing of debt cancellation fees on real estate secured loans. On the installment side, if there is a financed single fee structure, there must be a bonafide monthly payment alternative.

Chris Hause ended the prepared comments by summing up the regulations relative to current insurance practice, and relative to emerging debt cancellation practice. The various types of benefits and premium structures were discussed, as well as the pricing peculiarities of each option. As the new regulation makes it clear that national banks are required to offer sound programs and properly reflect them in the bank's financial statements, it would appear that the expertise of an actuary will be necessary in assessing and allocating risk.

Several questions were then taken from the floor, mostly about the tax treatment of debt cancellation arrangements for the bank, as well as for the customer. It is clear that many aspects of these programs have yet to be clarified.

Attendees were enthusiastic about the quality of the speakers and the timeliness of the topic. If any of you have questions or comments about the session or debt cancellation in general, please contact me (Chris Hause) and I will be happy to assist.

Session 57 PD: Expanding Product Lines for Nontraditional Distribution

A session was held at the recent SOA Annual Meeting on the topic of "Expanding Product Lines for Nontraditional Distribution."

John Fenton of Tillinghast provided an overview of the current role of nontraditional distributors in the individual life and annuity market. He also provided some perspectives on keys to success in selling variable life insurance through nontraditional distributors.

Jeff Koll of Colonial Life & Accident provided an overview of the worksite market, including health and life products. He outlined key success factors in the product and distribution areas in this market.

Bret Benham of Fidelity Investments provided perspectives on his company's role in life insurance. Fidelity has sold term insurance for several years now, and has more recently started selling variable life insurance. Fidelity utilizes a variety of distribution approaches, including telephone, Internet and branches.

Complete copies of the presentations can be found through the SOA annual meeting site. For more information, you can reach John Fenton via his yearbook address.

Session 61 I/IF: Emerging Technology: Its Impact on Insurance Products and Processes

The impact of emerging technologies on insurance products and processes was presented in a talk-show format. The guest speakers were John Hele, president, CEO & founder of WorldInsure; Rich Carreau, EVP Strategic Solutions at CSC; and Chuck Johnston, VP Insurance Services at Dell. The discussions on emerging technologies covered a wide range of topics, from high-level business process improvements, to the efficient use of data and data management, to how technology is changing peoples' view of privacy and the trade-off of privacy for value.

Chuck Johnston talked about the concept of the technology "tipping point," where the return on investment in a new technology is low until adoption and usage reach the "tipping point." John Hele talked about how technology is dramatically changing new business processes. He demonstrated how automated underwriting decisions can be used on as much as 70 percent of new policies without human intervention. Rich Carreau talked about how technology is changing enterprise organization and processes.

The panel was very impressive in providing the audience with a lively discussion and interesting observations on how technology will need to be considered for future success.

Direct Insurance Sales Using Microeconomics

Overcoming Asset Share Pricing Criteria

by Robert E. Winawer

Section 5: Overcoming Asset Share Pricing Criteria / Throwing Away Threshold C-to-P

C-to-P (cost-to-premium) thresholds based on asset share pricing criteria are an inadequate proxy for marginal revenue and production costs in the MC/MR paradigm because they have three shortcomings:

1. **SC1** – When C-to-P thresholds are applied to combinations of solicitation management (SM), decisions management may draw different conclusions than when each part is evaluated separately.
2. **SC2** – Management sets the C-to-P threshold for each venture based on the uncertainty of marginal revenue and production costs in that specific venture rather than using the same benchmark (that incorporates risk directly) for all ventures.
3. **SC3** – Asset share pricing criteria customarily used to derive C-to-P thresholds do not directly incorporate duration.[1]

These shortcomings are symptoms of the fact that asset share pricing criteria, which are translated into C-to-P thresholds, are an indirect way of evaluating a direct question: how does management maximize risk-adjusted profits? Unless management starts to directly evaluate the impact that solicitations have on their goal, rather than indirectly with asset share pricing criteria, they will always be prohibited from reaching their goal.

The impact of each C-to-P shortcoming is discussed in this section. In each instance it is shown that using VNB (Embedded Value of New Business) resolves the problem. Then the case study network of solicitations is re-analyzed using VNB in place of C-to-P. Using VNB, risk-adjusted profits are maximized. Therefore, the problems caused by C-to-P thresholds are cured.

SC1 – A Combination of SM Decisions Based on C-to-P May Be Different Than When Each Part Is Evaluated Separately

In order to make consistent SM decisions, the calculation of each asset share pricing criteria that create C-to-P thresholds must be able to be combined easily, preferably just by adding them. As described in Section 1, the microeconomic definition of marginal revenue from a sale is the change in aggregate revenue caused by the sale. Likewise, the definition of marginal production cost is the change in aggregate production cost. In order for any revenue/production cost proxy to be valid, the value of the proxy when used to evaluate the worth of a sale must be the same as the change in value of the proxy applied to the company in aggregate before and after the sale. Asset share pricing criteria do not meet this need; they simply do not add together.

Since the asset share pricing criteria are not additive, it is cumbersome to quantify the improvement in the aggregate picture caused by each sale. For this reason it is also more difficult for the actuary to communicate the relative worth of each sale to others. Tables 4A and 4B illustrate these problems. The prospect of selling the case study whole life product to a group age 50 and a group age 65 are first evaluated separately and then on a combined basis. Acquisition expense for each sale is equal to the pricing allowance (120 percent of premium). The profit margin and ROI for the combination of the two ventures is neither the arithmetic average nor the sum of the statistics for each venture evaluated separately. The average profit margin and

(continued on page 16)

Editor's note: The following concludes Mr. Winawer's three-part article presented in previous issues of NewsDirect.

1) Duration here refers to Macaulay's time weighted present value statistic (i.e. how long the policy persists). [Frederick Macaulay, Some Theoretical Problems Suggested by the Movement of Interest Rates, Bond Yields, and Stock Prices in the U.S. Since 1856 (New York: National Bureau of Economic Research, 1938)] It is not intended to refer to the interest sensitivity of the value of the business.

ROI shown in Table 4A are close but not equal to the actual combined result (e.g. 8.44 percent average profit margin vs. 8.36 percent actual). As actuaries would expect, the sum of the profit margins and ROIs shown in Table 4B are quite different from the actual values (e.g. 16.88 percent average profit margin vs. 8.36 percent actual). The calculations of both the combined profit margin and ROI are more complex. On the other hand, VNB for any group of ventures is always simply the sum of the VNB statistics for each venture evaluated separately. This is shown in Table 4B below.

Tables 4A and 4B illustrate that combinations of SM decisions can be distorted when only one asset share profit criteria is used. Combinations of SM decisions are also distorted because the most restrictive of multiple asset share pricing criterion is often used. When evaluated separately, each SM decision may fail certain criteria and at the same time pass others with excess. When the SM decisions are combined, the excesses of each SM decision may compensate the shortfall of others. Combined, they may pass all of the criteria.

Table 5 on page 17 shows the evaluation of two ventures that are the same as those analyzed in Tables 4A and 4B, except that acquisition expenses are slightly greater than pricing allowances (122.4 percent of premium). Both fail one of the asset share pricing criteria. Even though profits and risks are independent, when the ventures are considered together they pass both criteria. Table 5 also illustrates that VNB produces congruous conclusions because only one statistic is used and it is additive.

SC2 – C-to-P Thresholds Do Not Incorporate Uncertainty of Sales Success and Profits Directly

The risk of ventures not realizing anticipated profits because of uncertain response rates and/or profits after sale varies from venture to venture. Management should require ventures with higher levels of uncertainty to achieve higher levels of profitability to compensate for the extra risk taken. At the same time, in order for the MC/MR paradigm to be practicable, management must be able to accurately measure the impact to aggregate profitability from each venture they undertake. C-to-P thresholds based on asset share pricing criteria do not meet the combination of these needs, but VNB does.

TABLE 4A: Margin & ROI Are Cumbersome To Combine; Neither Combine Using Arithmetic Averages.

	Age 50	*Age 65*	*Average*	*Actual*
Premium	$2,000	$2,000	$2,000	$2,000
Margin	8.84%	8.04%	8.44%	8.36%
ROI	14.99%	18.13%	16.56%	16.64%

TABLE 4B: Margin & ROI Are Cumbersome To Combine; Neither Combine Using Addition, Except For VNB.

	Age 50	*Age 65*	*Sum*	*Actual*
Premium	$2,000	$2,000	$2,000	$2,000
Margin	8.84%	8.04%	8.44%	8.36%
ROI	14.99%	18.13%	33.12%	16.64%
VNB @ 10%	$260	$450	$710	$710

TABLE 5: Combining Margin & ROI Can Produce Incongruous Conclusions; VNB Does Not.

	Age 50	*Age 65*	*Combined*
Premium	$2,000	$2,000	$4,000
Margin	8.39%	7.74%	8.00%
Criteria	8.00%	8.00%	8.00%
ROI	14.23%	17.32%	15.84%
Criteria	15.00%	15.00%	15.00%
Decision	Do Not Send	Do Not Send	Send
VNB @ 10%	$230	$419	$649
Criteria	$0	$0	$0
Decision	Send	Send	Send

In order to reflect risk in C-to-P thresholds, the asset share pricing criteria for each venture must change based on the risk present. For example, while the case study criteria for whole life insurance is set at 8 percent profit margin and 15 percent ROI, the criteria for long-term-care insurance that has greater claim uncertainty may be 10 percent profit margin and 20 percent ROI. However, assigning different criteria for each venture makes it difficult to quantify the change in aggregate profitability as the appropriate criteria to apply in aggregate changes the with product and sales method mix. Continuing the example, if the company chooses to sell only whole life insurance, then the appropriate aggregate benchmarks are eight percent profit margin and 15 percent ROI. On the other hand, if the company sells 50 percent whole life and 50 percent long term care insurance, then aggregate profitability should be measured against criteria that would be roughly nie percent profit margin (50 percent * 8 percent + 50 percent * 10 percent) and 17.5 percent ROI (50 percent * 15 percent + 50 percent * 20 percent). As we saw in Table 4A, the precise benchmark is more difficult to derive. It is easy to see how calculating the marginal value of SM decisions (defined as the change in aggregate profitability) is difficult to say the least.

For VNB, different risk discount rates can be used for each venture as the level of uncertainty of profits and probability of sale varies. The sum of these VNB statistics, even though they are based on different risk discount rates, is still an appropriate benchmark for aggregate profitability. The change in aggregate VNB caused by any SM decision is equal to the VNB for that decision. Ventures that produce positive VNB increase aggregate VNB and ventures with VNB less than zero decrease aggregate VNB. Thus, marginal values are readily available.

SC3 – Asset Share Pricing Criteria Do Not Directly Incorporate Duration

Forward-looking management is concerned with more than just the short-term profit picture of a venture; they are also concerned with how long the profits will continue. Unfortunately, C-to-P thresholds based on asset share pricing criteria create SM decisions that do not take the duration of profits directly into account. On the other hand, VNB reflects duration explicitly.

The two most common asset share pricing criteria are profit margin and ROI. Neither of these criteria directly incorporate duration. For example, the sale of a five-year term insurance policy could theoretically have the same profit margin and ROI as a whole life policy issued to the same person. Under the

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C-to-P approach the two sales are deemed equally advantageous. Management would be ambivalent about which product to offer even though they anticipate receiving several times as much absolute profit from the whole life policy over the entire policy's term.

VNB takes duration directly into account because it is an absolute dollar value that relates to profits rather than a rate of return (as is ROI) or a measure of profits that is in terms of revenue (as is profit margin). With VNB, management explicitly assigns the relative worth of future uncertain profits through the risk discount rate. Increasing risk discount rates has two effects; the total value assigned to a venture decreases and the relative worth of more distant profits is reduced.

Table 6A provides an example in which asset share pricing criteria does not reflect duration well, whereas VNB does. A whole life policy and a five-year term policy issued to the same person have the same anticipated premium and acquisition cost. The ROI for the five-year term policy (28.69 percent) is actually higher than for the whole life policy (18.13 percent) and the profit margins are essentially the same (8.00 percent term vs. 8.04 percent whole life). Therefore management teams that use profit margin and ROI would prefer the term policy over the whole life policy. However, total profits for the whole life policy are more than three times as high as for the term policy. In order for management to enjoy the term policy's higher ROI over the same duration as the whole life policy, more sales must be made in the future. This adds both effort and risk to the prospect of offering term insurance.[2] On the other hand, management teams that use VNB at the 10 percent risk discount rate would prefer the whole life policy ($450 whole life VNB vs. $368 term VNB).

Table 6B on page 19 graphically illustrates how VNB explicitly takes duration into account as management consciously sets the risk discount rate. The VNB for both the whole life and term policies decrease monotonically as management increases the risk discount rate. For example, the whole life VNB starts at $2,250 at zero percent risk discount rate. As the risk discount rate increases to 10 percent, VNB decreases to $450. VNB continues to decrease to zero at the 18.13 percent risk discount rate level and becomes increasingly negative thereafter. If management feels that the appropriate risk discount

TABLE 6A: Margin & ROI Do Not Reflect Duration;VNB Does.

	Whole Life	*Five Year Term*
Premium	$2,000	$2,000
Marketing Cost	$2,400	$2,400
Margin	8.04%	8.00%
ROI	18.13%	28.69%
Total Profit	$2,215	$702
VNB @ 10%	$450	$368

2) Of course the decision to sell term or whole life should consider available capital. If the company does not have enough capital for the whole life policy at this time, they may be forced to offer term insurance until an adequate capital base is formed.

TABLE 6B: Margin & ROI Do Not Reflect Duration; VNB Does

	Whole Life Issue Age 65	*Five Year Term Issue Age 65*
Premium	$2,000	$2,000
Marketing Cost	$2,400	$2,400
Margin	8.04%	8.00%
ROI	18.13%	28.69%
Total Profit	$2,215	$702
VNB @ 10%	$450	$368
VNB @ 15%	$131	$245
VNB @ 18.13%	$0	$178
VNB @ 28.69%	($271)	0

TABLE 7: Summary Of Results Under Various SM Methods

SM Method	Risk-Adjusted Profits	
Example 1 —	Unrefined Analysis — DC2 or DC3	$1,939,523
Example 2 —	Refined Analysis — Marginal Costs — C-to-P Thresholds	$2,414,131
Example 3 —	Refined Analysis — Marginal Costs — VNB in Lieu of C-to-P Thresholds	$2,575,810

rate is greater than 18.13 percent, then selling the whole life policy would decrease the company's aggregate risk-adjusted profits because its VNB is less than zero. With the risk discount rates this high, management would not sell the product.

Also, as management increases the risk discount rate, the risk penalty for more distant profits increases, making the term policy more preferable. Up to the 10 percent risk discount rate level, whole life is preferred ($450 whole life vs. $368 term). Management's preference changes between 10 percent and 15 percent. And, at the 15 percent risk discount rate level and beyond the term policy is preferred ($131 whole life vs. $235 term at 15 percent). On the other hand, management may feel that term insurance is more risky and assign different risk discount rates to each product. For example, they may compare the whole life VNB at 10 percent ($450) to the term VNB at 15 percent ($245).

VNB is always equal to zero when the risk discount rate is equal to the ROI. The ROI for the whole life policy in Table 6B is 18.13 percent. The whole life VNB at this risk discount rate is zero. The term policy's ROI is 28.69 percent and its VNB is zero at 28.69 percent as well. At these points, the company is indifferent about relative duration. For example, if management deemed that the appropriate risk discount rate for the whole life policy in Table 6B is 18.13 percent, then management would view any venture of similar risk that has an 18.13 percent ROI to be worth the same. This would be true regardless of the policy's duration.

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Maximizing Risk-Adjusted Profits Using VNB in Lieu of C-to-P

The shortcomings of C-to-P thresholds have been discussed and it has been shown that VNB overcomes each shortcoming. It still remains to be demonstrated that using VNB in lieu of C-to-P thresholds maximizes risk-adjusted profits. Exhibit 3 provides the demonstration using the case study solicitation network. In this exhibit, VNB is used in place of C-to-P to make SM decisions and risk-adjusted profits are maximized. Therefore, it is clear that VNB, rather than C-to-P, should be used to make SM decisions. Risk-adjusted profits from Example 3 on page 25 are compared to the maximum value of risk-adjusted profits from Examples 1 and 2 in Table 7 on page 19. In the next section the results from each exhibit are discussed in more detail.

Section 6: Summary and Conclusion

In this essay it has been shown that management can maximize risk-adjusted profits by:

- Including only marginal costs in SM decisions (as shown in Example 1),
- Refining the analysis (as shown in Example 2), and
- Using VNB, rather than C-to-P thresholds (as shown in Example 3).

In Example 3 the case study solicitation network was re-evaluated using decision criteria 4 as this was shown to be the best approach in Example 1. The analysis was refined based on both probability of sale (time since the name had been required and age) and profitability (male vs. female) which was shown to improve results in Example 2. Finally, the criteria that VNB based on a 10 percent risk discount rate must be greater than zero was used to make SM decisions in lieu of threshold C-to-P ratios as was suggested in the last section. Table 8 compares the results from each of these examples. Risk-adjusted profits under Example 3 are $2,575,810, which is greater than under any other method.

TABLE 8: Summary of results under various SM methods

SM Method		*Profit Margin*	*ROI*	*Risk-Adjusted Profits*
Example 1 — Unrefined Analysis — Tested Marginal vs. Fixed Costs — C-to-P Thresholds				
DC 1 —	First Offer with Fixed Costs	Profits <$0 (N/A)	Profits <$0 (N/A)	($1,950,000)
DC 2 —	Average of All Offers with Fixed Costs	8.99%	19.94%	$1,939,523
DC 3 —	Average of All Offers without Fixed Costs	8.99%	19.94%	$1,939,523
DC 4 —	Marginal Costs	9.45%	21.33%	$1,672,647
Example 2 — Refined Analysis — Marginal Costs — C-to-P Thresholds		11.83%	31.89%	$2,414,131
Example 3 — Refined Analysis — Marginal Costs — VNB in Lieu of C-to-P Thresholds		11.06%	29.89%	$2,575,810

The case study examples in this essay were constructed to illustrate concepts and not to evaluate the worthiness of the techniques advocated. As such, caution should be taken when interpreting these results.

A hypothetical network of solicitations to a simple illustrative population of consumers was analyzed. Actual results will vary based on demographics of the consumer base and product profitability profile. Only one type of product, whole life insurance, was offered.

The relative worth of each technique was greatly dependent upon the order in which they were introduced.

With these precautions in mind, management can draw some interesting conclusions by comparing the results in Table 8 on page 20.

Using fixed costs in the decision process and stopping at the first campaign produced very poor results. Risk-adjusted profits were ($1,950,000). Without better information, it is unlikely that the company would ever have decided to spend the money to generate a list of consumers. In fact they would likely leave the market altogether. This shows how important marginal expense analysis can be.

In Example 1, using marginal costs in SM decisions actually decreased risk-adjusted profits from decision criteria 2 and 3. Risk-adjusted profits under decision criteria 2 and 3 are both $1,939,523 and only $1,672,647 under decision criteria 4. This would not have happened if VNB was introduced at the same time. While not illustrated, risk-adjusted profits using an unrefined profitability model, marginal acquisition expenses and VNB produces the same risk-adjusted profits as decision criteria 2 and 3. This highlights the importance of having an appropriate measure of marginal revenue and production cost when applying the MC/MR paradigm. Without VNB to serve as the measure of marginal revenue and production costs, only acquisition expenses were handled appropriately. Thus the MC/MR paradigm failed to maximize risk-adjusted profits.

Refining profitability estimates was shown to be worthwhile. Risk-adjusted profits were increased to $2,414,131, which is 24 percent greater than the best outcome in Example 1. This should be true for any company that has products with profitability that varies significantly among insured lives and where response rates to offers vary greatly among consumers. Any insurer that has the opportunity to distinguish solicitation decisions by profitability and probability of sale should do so.

Using VNB in lieu of C-to-P after profit estimates had been refined did not improve results significantly, as the advantages of VNB are more subtle. Risk-adjusted profits increased from $2,414,131 in Example 2 to $2,575,810. With more refined profitability estimates, and with decisions that involve only one product, this result may occur rather often. On the other hand, using VNB when more than one product is involved will often make significant improvements. VNB provided several intangible advantages as well. Analysis was made more practical to conduct. The resulting information relating to the specific network of solicitations was easier to interpret and communicate to others. Also, objective comparison to other ventures of different risk was made possible.

This essay has shown how using the MC/MR paradigm with VNB as a proxy for the combination of production costs and marginal revenue produces superior SM decisions. These principles can also be applied to improving other business decisions that face direct response management. The interested reader may refer to Appendix 3 of this essay.

APPENDIX 3: 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.[3] Using VNB as the utility measure for alternative ventures can enhance this algorithm.

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3) Chalke, Shane A., *TSA* XLIII, 1991.

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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 that used in this essay and compare the total VNB that results under each proposal. An important subsidiary exercise is assigning 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 variety of financial decisions.

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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		w	
	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*		
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 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*		
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. ?*		*21. < 22. ?*		*21. < 22. ?*	
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

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							Unrefin	
	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	Formulas	
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. < 12. ?*	
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 Costs*		
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 Acceptable, Consider Offer 2*		
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 Costs*		
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*	*21. < 22. ?*	*Offer 2 Not Acceptable, Do*	*21. < 22. ?*	*Offer 2 Acceptable*	*21. < 22. ?*	*Offer 2 Acceptable*		
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

Boston 2002 Annual Meeting

NTM Section Meets to Plan for 2003

(RIGHT) The Nontraditional Marketing Section Council and Friends gathering at the Annual Meeting to plan future section activities:

Front Row – left to right – Carl Meier, Diane McGovern (incoming section chairperson), Nancy Manning, Mike Fix (outgoing section chairperson), Steve Cooperstein, Ian Duncan.

Back Row – left to right – Brian Louth, Mike Presley, Rob Stone, Steve Konnath, Leonard Mangini, Chris Hause, Jay Jaffe.

(BELOW) Nontraditional Marketing Section Council members showing their appreciation to retiring chairperson, Mike Fix:

Front Row – left to right – Nancy Manning, Diane McGover (incoming chair), Mike Fix, Steve Cooperstein.

Back Row – left to right – Brian Louth, Rob Stone, Steve Konnath, Chris Hause