Small Talk Newsletter

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How to Succeed
continued from page 11

Although this list of challenges may seem daunting, the increasing popularity of the worksite marketplace has spawned a wide variety of cost-effective solutions. Thinking through these alternatives and developing a cohesive enrollment strategy for your company can yield attractive results. Here are some approaches to consider:

- To avoid having to build a staff of enrollers, contract out for enrollment services or simply promote your products to producers who specialize in the voluntary market.
- When creating promotional materials or other communication tools, be sure they can be re-used in a variety of media, so your message doesn't have to be continually "re-invented."
- Be selective in what cases you will write — define your niche clearly — so that you don't incur acquisition costs for accounts that won't be profitable.
- Implement procedures that assure you have employers' commitment. They are the most important partner that you can have in marketing voluntary products to employees.
- Be sure you can service the business efficiently. If your organization is not prepared to do this, then consider contracting for services or forming strategic partnerships.

With appropriate focus, voluntary products can be very profitable business. Getting into this market should start by developing a clear strategy for your company — and then taking advantage of the many services that are available to make this strategy efficient.

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So What's New with the AOMR?

by James R. Thompson

No one's life or property are safe while the legislature is in session.

History

Currently, asset adequacy analysis is required annually only for companies with admitted assets over $500 million. Below that figure, there are exemptions based on asset size and various ratios.

In a memo of July 23, Larry Gorski of the Illinois Department of Insurance made a proposal on revising this approach. It is a complete change in that the Actuarial Opinion and Memorandum Regulation (AOMR) would not specify the detailed requirements, such as the seven scenarios. It will require the appointed actuary to opine on the adequacy of reserves based on actuarial judgment. The American Academy of Actuaries will set the actuarial standards to provide guidance. The proposal concentrates on risk profits of assets and liabilities and applies to all size companies.

The Academy believes this proposal is a "positive change in paradigm." The National Alliance of Life Companies and the National Fraternal Congress of America (NFCA) have expressed concern as to the possible cost of this proposal. We should all be watching this.

Due to new assets, Collateralized Mortgage Obligations (CMOs) and new liabilities, Equity Indexed Annuities (EIAs) for example, there has been constant talk among regulators of broadening the AOMR in various ways. Some concern was that any presence of certain products or assets should require testing. In the May 1998 issue of *small talk*, there was an article by Joel Lantzmann on modeling investments in the banking industry and how that is being simplified. It may be possible that the risk profile approach will make tools other than cash-flow testing available. Of course, it might involve more complex testing and higher cost, as the National Association of Life Companies (NALC) and the NFCA have expressed concern about. The Life and Health Actuarial Task Force (LHATF) is following this.

At a recent meeting, the members got into a lengthy discussion on the AOMR. A big issue is the state of domicile versus the state of filing. If there is a difference, which standards apply? The State Variations Task Force of the Academy evaluated four alternatives. Its memo to Leslie Jones of LHATF of August 18 outlines these. The discussion centers around the difference in valuation standards between states. It is natural that a life company should file its memorandum according to the standards of its home state. Should different standards be used for its AOMR filed in different states?

The minutes state that "no definitive conclusions were reached" but that two seemed to be the preferred choices of the members — the state of domicile plus a benchmark and the state of domicile plus disclosure. Jones said there will be further discussion as to actuarial liability for company actuaries and regulators.

Either way, the state of domicile seems to be preferred. The Academy's memo lists as least preferred the proposal of state of filing plus disclosure.

The benchmark calculation is based on codification standards. If a state of domicile is not on codification standards, the company will be required to report reserves as if it were. This would affect business sold after codification becomes effective. The Academy recommends a window period of effective dates rather than a single effective date to provide regulators with meaningful comparisons. If there is a single effective date for the benchmark, there will be differences due to different effective dates.

Disclosure applies to those foreign states that want their own laws and regulations complied with. This presumes that the appointed actuary knows that these states have different laws from the state of domicile. This requires the foreign states to make an effort to inform those companies licensed to do business that compliance is required. This takes the burden off the appointed actuary of guessing or exhaustively researching which states have which regulations.

Late Development

As this newsletter was going to print, the members of LHATF following this issue held another conference call. In it, they

continued on page 15, column 3

Collaborative Database Marketing
continued from page 14

have the ability to customize the fields to meet your needs. The second step is to have your technology people or a data management company clean the data — correct name and addresses, and then populate it with outside information so you can profile your customers.

Based on that profile design, a collaborative service-based questionnaire should be distributed, to see which customers wish to "raise their hands," to ask for information and service. It is important to be sensitive to life cycle events that could trigger a desire on the customer's part to review their current choices. An in-house or outsourced team of database account verification representatives can call (having been invited) to discuss the questionnaire and choices available.

Normally, if we are working with an orphan database that hasn't had contact in five years, we can achieve 30% response on questionnaires and 10% new transaction purchases. The cost versus benefit analysis varies from company to company and product to product. In most cases outsourcing this work for a pilot makes the most sense unless you already have the service in place. Once the pilot is complete, it will be an easy decision to ramp up the process up or decide it doesn't work for you.

Also, since we are doing a large portion of the pre-qualification work an agent is paid to do, we often can charge them for these leads. In most cases, that charge varies between $10 and $25 per lead, and if the process is designed well they will consider this a bargain.

Benefits of a well-designed process include:

- Taking the drudgery out of the delivery of financial services
- Increasing productivity
- Reducing turnover using technology to get to know your customer one to one
- Efficiently using technology to build relationships with customers

Anticipating their expectations for the future will help position you to be the carrier or agency of choice with your present customers, and also will return to profitability the acquisition of new customers.

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So What's New with the AOMR?
continued from page 12

decided to eliminate the state of domicile plus disclosure. The feeling is that it would be very difficult to track all the state variations.

Larry Gorski suggested another possible approach. He pointed out that a regulator can use flexibility in accepting state of domicile. If a foreign company sells a negligible amount in Illinois, an opinion based on their state of domicile is acceptable. But if that company sells a lot in Illinois, and if their home state has a lower reserve requirement than an Illinois domestic, it will get a competitive advantage. In such a case, an opinion based on the state of filing would be required. Should there be some guidance on what additional considerations would affect which opinion would be acceptable? There will be a further report on this. There should be further discussion at the December meeting. We should all be following this to see what may happen.

If you have any opinions, let LHATF know. Contact Leslie Jones at the South Carolina Department of Insurance.

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Worksite Marketing

by Norman E. Hill

The field of worksite marketing is growing at a fairly significant pace. More insurance companies are entering the field, and competition for agents and brokers with experience in these types of sales is becoming more intense. Worksite marketing combines features of traditional group and individual lines of business.

Definitions

In worksite, individual life and health products are sold to employees with the help of employer endorsements. At the employer's place of business, insurer representatives attempt to enroll employees for voluntary coverage. Sometimes, agents perform the solicitation themselves. On other occasions, enrollment specialists handle the process. These latter specialists may be agents receiving commissions or salaried representatives. Usually, employees pay the entire premium, although some employer contributions are possible.

Products in worksite include:

- term life
- short-term disability
- dental
- cancer
- hospital indemnity

Because this coverage is often supplemental to base group coverage, premiums per policy are usually no more than $100 per month. Lately, there has been some interest in selling long-term-care coverage on a worksite basis. For ages under 65, premiums for this coverage are significantly less than for higher issue ages.

Background

In the past, one complaint against the worksite concept was its inflexibility in employer situations. It was sometimes called a square peg in a round hole, i.e., an attempt to force individual products into group situations, while still paying higher rates of individual commissions to agents.

continued on page 16, column 1