"Sustain": An Industry Speech About Success As A Niche Player In 2020

by Sharon Giffen

It is with great pride that I speak to you about our fraternal benefit society, The American Society for Sustainable Living or "Sustain." How did we surpass our own expectations for success over the past decade?

Some background—Sustain sells life insurance to support our members' families in times of great need; in turn, the tax-free profits we generate are dedicated to furthering our mission of enhancing America's desire and ability to lead lives that will sustain our planet. Regreening of the earth is a goal we can all relate to today; Sustain sponsors activities, programs and education to engage member families to change their daily lives. Living a "greener" life has become increasingly popular since the turn of the century; people are willing to volunteer and to pay more for goods and services that support sustainable living.

In the last 10 years, virtually every facet of our business has changed—distribution and administrative operations and, importantly, how we assess and manage risks to better use our capital.

In 2010, we committed to truly align every activity to our mission. Our market demographic is the Internet generation who transact their personal business and social lives online, and who want to contribute to sustaining our earth for future generations. This is the middle-income market—ordinary people with straightforward insurance needs. With a low average face amount and premium and a limited product line including term and whole life insurance, we had to become a low-cost provider to survive.

Armed with that vision, we retooled our new business and administrative processes to automate everything possible. In 2011, we introduced electronic applications—the application is completed online during the sales call. We used tele-underwriting during the application process along with electronic underwriting tools. With that, we achieved about 50 percent of issues requiring no further intervention. In 2013, we introduced artificial intelligence (AI) into the process, reducing to 5 percent the applications that cannot be processed automatically. For those cases, the judgment of a skilled underwriter is needed; we buy that expertise from a service provider on a variable cost basis. From 2015, we eliminated the need for a sales intermediary—applicants can complete forms themselves and now 75 percent of applications are submitted directly. With real-time processes, once the application is complete and pre-authorized deductions from their bank account are set, clear cases are issued electronically. Formal contracting is complete upon receipt of their biometric signature using the retinal scan software that has become standard for online identification. Compliance monitoring is easy; AI won't misbehave, and electronic records are complete. Misrepresentation is reduced, as AI is persistent to ensure consistency of electronic health data and answers to questions.

Post-issue service is almost exclusively self-service, online in real time—but there are exception cases. In addition, we have legacy business, administered on an old system, requiring some service staff. We built some automation to front the old system, and will let it run off there.

To achieve all this, we have invested significantly in technology and AI. Looking for early payback, we found that in-sourcing allowed us increase volume quickly. Today, we are one of the leading industry providers of the electronic "application-through-issue" process. Our partner companies are typically small. We can charge a variable cost above our marginal cost, but still below industry average. Our partners retain in-person services, keeping control of live customer interaction.

Distribution has evolved in concert with our processes. Only a decade ago, we were in the independent agent market, competing with other providers for market share. Our mission was interesting to them, but not sufficiently compelling to sell at a higher price or to reduce their commission demands. We were incurring high marketing costs including the travel necessary to attract distributors. This was not well-aligned with our mission and is no longer a source of sales.

A small group of brokers embraced our mission and became dedicated to us. These personal producing general agents (PPGAs) sell to and service our customers who want the personal touch, generally delivered by voice or video, and they assist in their local communities to deliver the “Sustain” programs. For this, we are happy to pay their commission expectations.

Early on, we experimented with social networks, such as Facebook. These avenues provided some success at raising awareness—people were drawn to our mission—but no sales traction resulted. That changed in 2015 with the commercialization of Second Life, the virtual online world that was introduced as a social network in 2003.

We established a presence in the Sustainable Living Pavilion in Second Life. We had an overwhelming number of visitors, and we were able to sign many up as non-insurance members. We then expanded our presence so visitors to the pavilion also knew that we sell insurance, and that buying from us would support the cause. Our online processes were well-aligned with these folks—it is their preferred way to do business. Even so, early on, we stumbled. Each avatar in the Pavilion was a staff member—like other avenues of sales, we couldn’t scale to meet demand. When AI was expanded to include the sales process in 2018, we reached near unlimited scalability for new business.

Now, there is more to running a profitable organization than highly cost-effective administration and distribution. The advent of a principle-based approach for reserves and capital and International Financial Reporting Standards in the early part of the decade caused us to review our reporting methodologies, too. Importantly, we wanted and needed to have a better way to model and assess risk that could also be used in everyday business decisions.

In 2010, we retained a consultant to build a data store to feed a comprehensive model of our business. From there we layered business intelligence that is “executive-friendly,” allowing executives to examine any dimension of the business, resulting in broad and deep understanding of the cost structure and profitability of each product.

The projection model is built for stochastic-on-stochastic projections. These give us reserves and capital under the principle-based approach. Rapidly, we recognized the need to develop in-house expertise in running the model. Now our risk managers run comprehensive sets of stochastic scenarios, providing a very rich data store. Sampling became necessary to get results at a level of detail that is useful. Now AI controls sampling to access those runs and can provide quick estimates, with appropriate ranges of out-comes based on the results of the larger body of data. This is accessible for timely operational decision-making. We focus our risk analysis on the tails, both in economic conditions and in the behavior of our insureds. We no longer discard any economic outcome as tail-risk—anything is possible!

I should comment briefly on some other aspects of our business. We have made a practice of outsourcing to experts any function that requires specialized skills in limited quantities. We cannot afford to attract and retain these professionals and provide the back-up necessary to reduce our dependence upon a handful of individuals. As mentioned, underwriting is one such skill. Additionally, we’ve retained an investment firm to handle our assets—we provide modeled cash flows and duration targets, and monitor performance to agree-upon benchmarks. Internal audit, payroll and human resources are other examples of outsourced activities.

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Summarizing, we have enjoyed the benefits of alignment to the right mission and investment in the right technology for the time. We have seen phenomenal sales growth, with unit costs of both acquisition and maintenance shrinking. The income from in-sourcing activities funds ongoing technology research, as we strive to cost-effectively keep up with the interaction preferences of our members. Our investment in risk modeling has paid for itself many times over, as we have strictly managed within a fairly narrow risk appetite and avoided some of the losses experienced in the industry due to changing customer behavior in volatile economic times that are the new normal. Lastly, we enjoy tremendous loyalty from our customers—they want to see us succeed, because that means their beneficiaries, their children, will inherit a better planet along with their insurance proceeds.

To wrap up, I want to comment on our most pressing issues. First, how do we keep satisfying our customers' needs for future financial products? Clearly, our product line needs to expand, and we will do that in a controlled manner, with analysis of the risks and opportunities available. Second, how do we expand beyond our geographic borders, to allow global growth of the insurance business? The virtual world is a rich source of global interest in membership, but we can only sell and service within the geographic boundaries of the United States. Will we ever see a global standard of regulation for insurance? Are International Financial Reporting Standards the first step? We live in hope!

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