

RECORD, Volume 24, No. 1*

Maui I Spring Meeting

June 15–17, 1998

Session 17PD

Military Marketing: Not Just Taking Orders

Track: Nontraditional Marketing

Key words: Marketing

Moderator: GREGORY T. TAYLOR

Panelists: MANLEY DENTON[†]

JAMES A. ROBINSON

Recorder: GREGORY T. TAYLOR

Summary: Attendees explore the entry and exit barriers present in this market and learn more about the significant differences in marketing to enlisted personnel versus officers. Questions to be discussed include:

- *Can a war exclusion apply in this market?*
- *What are the underwriting requirements?*
- *What products are successful?*
- *How should you approach market segmentation?*

Mr. Gregory T. Taylor: I am director of product development and consulting at Security Life Reinsurance. I probably know less about the military market than anyone else in this room, but Grant Hemphill unfortunately couldn't make the meeting, so he asked me to step in and take his place. He also wanted a reinsurance actuarial perspective, too. I'll talk a little bit about war risk and also give a general overview of the military market before we actually get into the other presenters.

We'll start with a brief overview of the military insurance that's available. There is the Servicemen's Group Life Insurance (SGLI) and the Veteran's Group Life Insurance (VGLI). These two companies can be distinguished from the other coverages available through associations and insurers because they don't have any

*Copyright © 1999, Society of Actuaries

[†]Mr. Denton, not a member of the sponsoring organizations, is Senior Vice President of Marketing at Government Personnel Mutual in San Antonio, TX.

dependent coverage. They limit coverage to \$200,000 of group term life, but they do have the best rates for military personnel in their 30s and 40s.

Next are the military associations: Military Benefit Association (MBA) and the Armed Forces Benefit Association (AFBA). These are nonprofit organizations that were formed to provide insurance to military personnel, and they have more class distinctions. The coverage offered by SGLI and VGLI is group insurance; whereas, the military associations, like the MBA have smoker-distinct rates, and some of the other associations also have more than just unisex classes that offer different rates for males and females. You'll find that all these associations work with one particular direct writer. Military Benefit Association is underwritten by Lincoln National, and John Hancock underwrites for the AFBA. I believe the Armed Forces Benefit Association is the largest association, and it distinguishes itself from the government insurance in three ways. One way is it offers spouse and child benefits. It also offers coverage up to \$400,000, which is well beyond \$200,000. Once the military personnel get beyond active duty, into their late 40s and 50s, there's a tremendous savings over the government insurance that's provided through the VGLI.

Two other associations are the Air Force Association (AFA), which is underwritten by Metropolitan Life, and The Retired Officers Association (TROA), which is underwritten by All America. Both AFA and TROA offer automatic waiver-of-premium coverage which obviously is not offered by the government protection. TROA, as well as the Uniformed Services Benefit Association, another military association, both offer dividends with their policies. These associations get into more complex types of coverages. The Uniformed Services Benefit Association even has a first-to-die term, decreasing term. It is underwritten by New York Life.

Manley Denton is from Government Personnel Mutual and Jim Robinson is from USAA Life Insurance Company. Both of these are commercial insurers that offer coverage to military personnel, either through target marketing or through companies that extend that coverage by underwriting to those who have gone through military training.

There are some particular risks that our reinsurance company looks at. There are the conventional mortality and morbidity risks, as well as the accidental risks. Often there may be an additional suicide risk in the military. Lapse risk actually has been quite favorable at many companies. When providing reinsurance for companies like USAA, I find that its lapse risk is actually superior to that found in the general insurance population. There is also war risk, which I'll discuss further. It is the biggest risk that we have to deal with when looking at providing coverage to active duty military personnel. Many insurance contracts exclude war-related

deaths and injuries, although that's becoming less and less common. Many new products that are being offered directly to the military include war risk coverage. The overall mortality has been more favorable, particularly because of the selection criteria just to get into the military.

There are many characteristics that would disqualify one from getting into the military. You automatically have a good pool of risks when looking at those who are active duty military and officers as well.

The underwriting information that we look at when we're dealing with war risk includes: personal data of insured, travel destination, duration of stay, types of coverage, and amount of coverage. There is also the way we develop the rating for war risk. It is country rating times duration of stay times the amount of coverage. The duration of stay and amount of coverage are straightforward numbers based on how long the person is going to be in a particular country. The country rating varies from high, which would mean there is an open war going on in a particular country, to medium where there's a distinct threat of war. It usually has a high degree of probability or somewhat of a degree of probability over the next year. Basic war coverage, in the reinsurance market, has to be provided for a period of at least a year for it to be marketable to most commercial insurers. The other risk would be Hawaii in the U.S., where there is basically no risk of war happening within a year.

The major reinsurers of war risk are CIGNA, Duncanson and Holt, IOA Re, Lloyd's of London and Reliastar. Security Life is just starting to look into it, and we hope to offer more and more war risk coverage later this year. The majority of reinsurance is performed on a facultative basis. In addition to the military exam, there also needs to be just the general criteria in order to develop the war risk rating—define length of stay and location of stay. Most of it is offered on a quota share basis. Much of it is not 100%. The market is now moving towards 100%, but a lot of reinsurers still require that the ceding company hold 10% of the risk. The results have been good in the long-term and short-term volatility. Experience is still being compiled in order to develop country ratings, which constantly change over the course of a year. With that I'll turn it over to Manley from Government Personnel Mutual (GPM).

Mr. Manley Denton: I'm looking forward to sharing with you some thoughts about the military market in general, particularly how GPM handles this market.

We'll talk briefly about the potential that exists in the U.S. military market today. We'll review some key facts about the military, some of which may surprise you. We'll then discuss how to develop a strategy to enter this military market and, for that matter, any other market that you might want to go into. I'll shift gears a bit and

share some information about GPM—our story, our organization, our target marketing programs, and some specifics about our commitment to the personal-producing general agency (PPGA) system. Finally, I'll wrap up with some guiding principles that we use in our marketing department to discuss our personal-producing general agent distribution strategy.

Let's review the market potential in the U.S. military today. This information is taken from the *Military Market* magazine, and it's accessible to the public, so there are no secrets here. What is the market potential in the U.S. military? There's a total of 1.2 million enlisted. For example, let's take 792,000 qualified prospects. At the rate of 2,500 prospects per agent, the market could support 300 agents. Using \$10,000–25,000 of production per year, you're looking at a market potential of \$3–7.5 million in premiums.

Now let's look at some other facts. As mentioned before, we have approximately 1.2 million in the military. There are 780,000 spouses and 1.1 million children in this market for a total family population of 3,080,000. The average family income is \$51,500, with officers at \$74,000 and enlisted individuals at \$42,000. Concerning the family income figures, some in this room may be surprised that the figure is as high as it is, and we're seeing more and more dual military families, where both spouses wear the uniform.

I'll now share with you some strategies for entering the military market. First of all, let's take a look at the demographics of this market and the market segment that you'd want to go into. You would develop marketing and sales material. You'd determine the location of existing independent agents in that market. You'd recruit new independent agents to specialize in the military market on the basis of the geographical area that you determine you're going to work in. You'd promote the specialty market, and you would publicize the results on a monthly and yearly basis. As I stated earlier, this type of strategy will work in any market that you're attempting to get into.

You can see the military market has potential. There have been a lot of troop reductions, base closings, and budget cuts. Much of corporate America's gone through this downsizing, outsizing, and rightsizing, resulting in a stronger business climate. The military will not only survive, it will become stronger and remain a formidable market for those who are prepared to work in the military market. GPM is prepared.

GPM is a different kind of company. In 1934, during the dark years of the Great Depression, Colonel P.J. Hennessey, a retired army officer, set out to establish a new and different kind of insurance company, a company that would, for the first

time, provide family protection to the qualified U.S. military member in time of war or peace without restrictions. Government Personnel Mutual Life Insurance Company was unique in the history of American insurance; it was a company designed from the outset to serve the needs of the military. In 1938, when Blanche Hennessey was elected president of the company, she was the first woman in the history of the U.S. insurance industry to claim that distinction.

Another first for GPM was that we were one of the first companies in the 1940s to approach Congress and get its approval to allow a payroll allotment, premium-paying basis. GPM has always felt that the active duty military service member is a unique customer. Maintaining that perspective has helped us develop a strong position in the military market. While certainly not comparable to the results achieved and represented here by my esteemed colleague from USAA, we, nevertheless, have developed and entertained the reputation as a military-first company.

GPM's home office is in beautiful San Antonio, Texas, home to the NBA Spurs, riverwalk, and a rich cultural history. Remember the Alamo. It's a terrific environment except for the smoke blowing north from all those fires in Mexico. Our home office is made up of 105 employees. We enjoy unquestioned financial strength. Greg will be showing you a couple of slides here now that will reflect our growth in surplus assets. A.M. Best rates us A/ Excellent. Weiss rates us a B, and Standard and Poor's gives us a BBq. Today almost all companies talk a lot about target marketing; however, most companies really try to be all things to all agents. GPM is different. We've gone to special lengths to target two specific markets: active duty military service members and federal civil service employees. Two-thirds of our name is Government Personnel. Operating within and being totally committed to the PPGA system is consistent with our target market strategy.

Let's talk about our target marketing programs. Our sales strategy to each market is needs-based. We have three primary target areas of emphasis: military, federal, and nongovernment-affiliated civilians like you and me. About 50% of our sales come from military and civil service. We've recently begun developing strategies for the senior market and the worksite payroll deduction market. Each market is provided total market support. We provide lead generation mailings. We have sales interview material, benefit coordination software linked to the NAIC-compliant sales illustrations, and customer support and service. Overriding all this is our commitment to the personal-producing general agent distribution system.

We are currently in the throes of preparing for certification by the Insurance Marketplace Standards Association. While we've always been concerned about our market conduct activity and want to provide good educational material in support of

it, today's heightened environment is really causing us to document all of our sales and marketing procedures. Education and training, even for the independent producer, is of major importance to GPM. Recently we were one of 28 charter companies that joined membership with the Independent Producer Clearinghouse. This is sponsored by the Life Insurance Marketing and Research Association (LIMRA) and Business Insurance Group. This serves as a clearinghouse for all companies that are working in the personal-producing general agent market. We do a background check with the county, the state, and the insurance department for each individual producer that we're contracting with to determine this person's character. We also have a test to emphasize to this individual that market conduct issues are very important for all of us. I don't think I need to talk to this group about market conduct issues. Our production plans and compensation programs are designed with the PPGA system in mind.

So now let's take a look at this PPGA system. Where did it come from? We developed our personal-producing general agency system with a partnership strategy. The parties in this strategy are GPM, our company, our regional directors, and the personal-producing general agent. I'd like to discuss the strengths of the home office and what we bring to the table, what our regional director brings to the table in this PPG environment, and, lastly, what the PPGA is expected to do.

The home office is expected to have quality service, customer focus, regional support, financial strength, marketing services, and aggressive underwriting (which doesn't mean guaranteed issue, but does mean getting the policy out in a timely fashion). We have our partnership program. We have marketing programs that add benefits to all individuals that work with us. We also have our compensation, which is a very competitive first-year program that pays a commission based on certain levels of production, and we have a very competitive renewal commission. We have incentive programs for trips, monthly contests, and we even developed an "exclusively-yours" card that allows an individual who sells our products who is the most profitable to have money debited to his debit card so that if he wants to buy his wife a fur coat or to take her on a airplane trip or come to Hawaii, he can certainly do that. Finally, in the home office strategy, we must have products that are priced for this market that we're working in.

What about the regional directors? How do we get this? How do we get personal producers to join our company? Our nine regional directors are located throughout the U.S. We have an office in Lucerne, Switzerland, that we work in to work in the military bases over there. We have an individual in San Diego who works in a very special market, writing insurance to moms, and this program is called a Mom Program. Our regional directors look to develop market compatibility. We want individuals who have sold in the military market before we recruit them. We look

for long-term relationships because we know that today most of the personal-producing general agents represent two or three different companies, and the profile of the individual we're seeking is someone who has been in the business between three to five years. This individual has either made the Million Dollar Roundtable, or achieved the National Quality Award (NQA) or the National Sales Achievement Award (NSAA), and is active in his local life underwriter association. The regional director brings to the table a cadre of agents who can produce persistently, and he gives us a production amount that he'll produce for us in the years to come.

What about the personal-producing general agent now? The personal-producing general agent needs to have a track record of high professional conduct. He needs to have memberships. He needs to have qualified for at least several of the company's conventions. He must meet high persistency standards and must be looking to maintain a permanent and lasting primary company affiliation with GPM.

How do we put all this together at GPM? I'd like to share with you 10 guiding principles that we use in working with this market. The first one is to declare your destiny. Each of us needs a clear vision of where our company is going. We have to work with each other in the home office on a proactive association to move the company in our strategic success. The second is meet your customer, the personal-producing general agent. The policyholder prospect is the primary customer, but in our distribution system our customer from the marketing position in the home office is also the personal-producing general agent. This requires learning as much as possible about our customers, listening to what they say, and working diligently to get close to them. Customer responsiveness must be viewed as a key competitive strategy. Third is value-added marketing. In working with the military we explain the military benefits. This adds value, and this moves us away from the pricing sensitivity that has been with us for such a long time. Everyone should look at his or her job in terms of adding value to the products and services. We write our job descriptions and evaluate performance based on value-added marketing. Fourth is we must be partners in performance. We have to get across to our regional directors, our individuals in the home office, and those in our PPGA that we're partners. We no longer act like employees. This will enable us to take risk to achieve our success.

At GPM, we ask each one of our staff members the following question: Knowing what you know about our products and services and those of our competitors, would you buy our GPM product or services? If you wouldn't, then you've got to change it, and that's our challenge. That's the buy it, sell it, or change it test, which is our fifth guiding principle.

The sixth principle is to become a barrier basher. Emphasize cooperation and teamwork and pursuit of fast action by eliminating the trappings of bureaucracy. Rules are a means to an end. Rules are not a substitute for good judgment. Seventh is, above all else, integrity. Predictable action is the foundation for developing trust between the field force and the home office, and this is what our field forces need today. They need companies that are predictable. How do you describe predictability? It's how a company operates and moves forward on issues that involve integrity. Reliability is essential for maintaining that long-term relationship with your partner. At GPM our goal is to become the premier PPGA military company in the U.S., and we can achieve that by developing an attitude of a champion, which is our eighth principle. Ninth, we want to have a seamless organization.

The 10th principle is micromarketing. The success of the organization as a whole outweighs that of the individual unit. The actuarial, marketing, legal, and investment departments must all work together to develop synergy. We should look for synergistic relationships that create value but avoid loss leaders, a concept that has little merit. The ability to measure results is important, and these measurements should reflect the strategic priorities of the company. Marketing focus should be on revenue enhancement rather than cost containment. Failure to control costs can prevent success, but cost containment alone cannot achieve your marketing plan.

Finally, never let a new idea keep you from providing the kind of products, service, and commission support your distribution system needs.

From the Floor: I didn't follow what you explained in value-added marketing.

Mr. Denton: This is the way that we explain how we are going to work as a team, building a team. I should have said that. That's the way we build a team.

From the Floor: What is the value added? Teamwork or—

Mr. Denton: Value added is when I sit down with a military prospect, and he doesn't understand his benefits in the military. No one has explained them to him. This is what I mean by value added. In other words we go in, and we explain that. We have a very large booklet, and we go through that booklet and explain to him all the benefits that he has. That puts us out of how much cash value I will have in three years, five years, or ten years.

Mr. James A. Robinson: I'm going to talk about how USAA markets to the military. Are there any members of USAA in the audience? One. I'm going to tell you a

little bit about the United Services Automobile Association (USAA). It started in the 1920s. It did not start as a life insurance company. It started as an automobile insurance company.

I'd like to discuss how we sell the product. We don't pay commissions. We're a direct marketer, so we have a very different approach. It's a full financial services company. The property and casualty company is the largest. We started in the early 1920s, and the life insurance company started in 1963. The investments company started around 1970 and the banking services started in 1984. The buying services area also began in the 1980s. Buying services is not our attempt to compete with the former Allstate/Sears combination; nonetheless, we do provide discounted merchandise to our members through our buying services, which was formed for replacement products when there were homeowner incidents, especially theft. Just a side point on this. All five companies share data on what we call our customer information file or product database.

We have over three million customers. Up until three years ago, we focused on military officers, separated officers, retired officers, and their families. At that point the board gave full membership or started a program of giving full membership to the military enlisted, and after they go through two hitches of service, they are allowed to become permanent USAA members. That's going to expand our membership opportunities greatly. There are over three million customers at the moment.

In our market, as at GPM, the members' characteristics surpass that of the average American. There's above-average income (savings rate and net worth aside). There tends to be better education, and there has been a tradition of trust and integrity both ways. The members look to the company to do the right thing. We look to the members to give us the right information on an application for insurance, and there is a tradition of that.

The structure of USAA is a reciprocal interinsurance exchange. That's different from a mutual company. The members are owners. It is, in effect, like a partnership, if you will. If you look at the surplus of the company, roughly half of it is earmarked member by member. They have a subscriber savings account, and there's an earmarked amount of money on their behalf, and it's not the same individual-by-individual. It depends on how much premium they've been paying into the property and casualty company and for how long. We don't have agents. We're a direct marketer. Our sales representatives are salaried, so there are no commissions. We target a minimum reasonable profit. We do not maximize profits. We sell what is best for the customer.

Our marketing efforts are a little bit different. The life agents have to find prospects. Our property and casualty company has done the prospecting for us. Members need automobile insurance first, so they enter that, and we generate market activity, solicitations, and advertisements, if you will, to generate an inquiry into our products. Then that will lead to sales activities. The products we sell in our life insurance company, historically, include more annually renewable term than any other product. Level term in the past few years is what's popular, and that's replacing annually renewable term in terms of number of policies and premium amount per year. Between whole life and universal life, we may sell 10,000 policies a year. We've gotten into variable annuities (VA). We have under \$300 million of assets in force for VAs. Fixed annuities are somewhat popular. They account for about \$4 billion of our \$7 billion of assets. We have a little bit of health insurance. We have products that supplement military health coverage, which is known as Champus or Tri-Care. We will sell a supplement to that. The military will move from Champus to Medicare coverage, and we will also supplement the Medicare coverage. We have a life general agency to sell other products, mainly individual major-medical, short-term major-medical for college students, and products we're testing out like survivorship life.

The property and casualty company is the sixth largest automobile insurer and the sixth largest insurer of homes. This is on account of merger activity. We were fourth and fifth, and then there was a merger, and we've dropped to sixth. We are the 33rd largest life insurance company. That's probably in terms of insurance in force. In terms of assets, we are probably ranked around 100th. The investment management company is 37th in rank. We have the largest mail order company in the U.S. We're one of the largest mail order companies in the world. Our home office building is second only to the Pentagon in size. If you count the cubic feet of the garage, it's larger than the Pentagon. We ranked around 220 on the *Fortune* 500 list, and ranked as one of the top 10 companies to work for in another study.

Let's discuss sources of data. It would be great if the members just automatically dialed 1-800-531-8000 when they decided they needed life insurance, but it doesn't happen that way, so we have to go through all this work to get them to call us. Quite a few of our members who have automobile insurance don't realize we have other lines of business. A significant marketing effort is necessary. We must decide about what to mail to whom when. That's what marketing is about. We look at our membership data, data from our operation, and outside sources. In the membership, we have research surveys. They're conducted by phone and by writing. ECHO, which stands for every contact has opportunity, is ongoing. For instance, if a member is on the phone and comments to a rep, "As a property and casualty company, bank, life company, and buying services, why doesn't USAA buy a long-distance company?" That'll go into the diary. If there are enough such

comments, it'll move up to the executive level. A periodic quarterly summary will move up to the executives. On account of that, we did set up an agreement with Sprint to provide members with a discounted long distance rate. It didn't make sense to buy a long distance company. The most popular comment is rates are too high. We just see that over and over and over again.

Census Data

Every year we take a census on 25% of our members, and for every 100 people we approach, 75 respond to us and give us data, and that's fairly wonderful. Other companies don't get that sort of response rate from their customers, so we'll gather information on every member in the household. It helps us identify new products that a family might find useful. We'll discover children when children are born. We'll discover when those children are of driving age, of life insurance age, when they might be getting married. We'll help aim where our marketing dollars go. I mentioned the customer information product before. We assign a member number to each member that is used by all of the USAA companies. That unique member number, which is different from the policy number, has made life so easy for our marketing department. We are able to track all product information for a given member and other pertinent information about that customer.

We keep track of geographic data, such as who lives in a particular household, as well as an extended household. We'll know who the parents are and where they live. We'll know who the children are and if they have moved on to another location. That's another unique feature of our marketing system. We are working to extend it; we want to try to get grandparents linked up because oftentimes grandparents will buy savings-type products to benefit their grandchildren. That's becoming more important.

Outside Sources of Data

We like to find out who has recently had children, and outside list brokers actually give us that information more readily than do the members themselves. So we can find out about children that way. We'll use industry associations to see how we're doing. Of course it is nice to do rationalizing decreasing sales results, but that's why we pay our LIMRA dues. There are other open sources. Governmental agencies sometimes have useful data. The major thing is our marketing system. Our marketing people call it the solicitation management and response tracking (SMART) system. It's user friendly, and it is easy to add or delete date fields or perform other updates. It's the marketing system used by USAA for all five companies.

The next one contains demographic records and mail register records. We can find out when we sent certain advertisements and whether they respond. We can find

out what the level of response was? For instance, they might have bought the product, and there will be a notation of that. Given this set of records, we could do the following sort of research. We could look for males between age 35 and 40 who are married and have a spouse between age 30 and 45 with one child under the age of five. We can also find out if they own a mutual fund, an auto, a home, or have a credit card. We could decide whether these people might be good, potential customers for whole life or universal life on account of the mutual fund ownership and target a whole life solicitation for these people. Having made that decision, the job would run overnight, and their addresses would appear on particular mailing pieces and be available to be sent out the next morning.

Let's discuss more on building relationships. Some traditional marketing approaches include segmenting the market, modeling who might buy the product, and using event marketing. A market segment is a specific group with specific needs. We will coordinate marketing programs within the life company or with the bank and the investment management company to market to these market segments. It will also be a stimulus for product development as well. Examples of segmentation are: precommissioned officers, active duty military officers, high-value customers, and enlisted military personnel. The underwriting requirements aren't really any different for the military or any of these groups other than they are for the active population. The exception is we'll ask them if they have orders to go somewhere dangerous in a certain period of time. If they do, then we'll restrict which coverage we'll provide them.

In Operation Desert Storm, if our members garaged their auto, there was very little danger of their auto being in a collision or anything like that, so we reduced their premium. We did not cancel their property and casualty coverage if their premiums were late. The number one priority is not paying their premium, so we try to be sensitive to that. We notified the members of the Soldier & Sailor Relief Act. We reduced their credit card interest rate on account of that. We continued to sell life insurance to members with orders but not yet deployed. We limited coverage to \$50,000 total with USAA, and we purchased stop-loss life insurance from a collection of reinsurers. We have no war exclusion honor policy, so reinsurance is very important to us.

I mentioned enlisted military. By the end of this year, the property and casualty company will be actively offering auto insurance to all the enlisted military, and we will follow that lead. They will create the marketing database for us, if you will. We won't directly advertise to all of the enlisted military. We find we don't have a good response rate. We want there to be a relationship with USAA first. Greg mentioned supplemental government insurance. We find that about 98% of those eligible buy it. There also is dependent indemnity compensation, and a lot of the

active duty members don't realize that they have this. If the soldier dies, there is a certain amount per month for the child. For a family with two children, the present value benefits could equal \$200,000. There's \$200,000 from supplemental government insurance, and \$200,000 from dependent indemnity compensation. Then there's the Armed Forces Benefit Association which has extremely inexpensive coverage. It's a tough, tough market for active duty. That's why we look at separated, and we look at retired as well. It's just absolutely necessary to maintain that relationship.

Let's discuss some of the tools used by our marketing department. Given a set of whole life insurance purchases, they try to work backwards to figure out what characteristics would be predictive, so they'll use linear regression. They find that logistic regression actually works better. Get rid of the straight-line relationship. In neural networks, there could be clumps of people that have common characteristics who would be likely to buy whole life. Genetic algorithms have the capability of modeling, but our marketing department hasn't figured out how to use that yet, but they will if it gives them an edge.

We'll model the various data. The credit rating would only be used by the bank for credit products and cannot, according to law, be shared by any of the other USAA companies, but we'll target a group based on that. Then, on the event marketing, we'll identify the event, identify the needs associated with the event, and market to those needs. There are several events, such as buying an auto, buying a home, having a baby, retirement, promotion, moving, and a child leaving home. All are opportunities to build a relationship. Take the purchase of an auto as an example. We can preapprove an auto loan for our members. We can provide them with an auto price list or negotiate the purchase price or the lease price. We can obtain credit for them to provide the lease. We provide the auto insurance, of course, and we can provide credit life insurance as well. We provide baby car seats at a discount as well.

A home event is the next one. We can provide help selling an old home, buying a new home, providing a mortgage, providing homeowners' insurance, providing Sprint long distance service or another product.

Having a baby is another event. I mentioned the infant seat already. We'd love to help them in any number of ways by starting a college education fund, and we can provide life insurance in any number of ways.

What's next? We have a sizable investment in systems, and we're going to invest more into marketing systems. One of the sets of systems we're working on includes customer preference information. Who makes the buying decision in the family?

Who's worried about the financial affairs? We'd like to nail that down. We'd like to know when they want to be contacted. Historically, we tend to call them during work hours Monday through Friday. As we increase our hours we'll have more sales representatives available on weekends and evenings, and if they prefer to be contacted at that time, we'll be able to do that. We have people deployed in the field, but not universally across the U.S. We can provide face-to-face contact if a member so chooses.

We can work on whether to provide contact by phone or face-to-face customer contact. We want to try to act the way a good career agent would act. This is the information a good career agent would have. We want to have information in our system regarding family security, retirement, and college education for children. We want to be able to collect that and share that with our other companies if we can. There is geo teaming and the face-to-face contact. We can do that in Seattle, Sacramento, San Diego, Atlanta, Colorado Springs, Tampa, Reston, and Norfolk. We're doing more seminars. We're doing more face-to-face contact. If the member wants to have face-to-face contact with someone from USAA, we want to provide that. The majority of the population is not in the habit of buying life insurance over the telephone. Quite a small minority does that. We're trying to break out from our mold and do what the rest of the life insurance industry does and provide people to confer with potential customers in their homes.

Customer Contact Workstation

This has to do with ergonomics. If you think of systems, you enter in transaction LX4500.33. You have a sales representative who's toggling from screen to screen to screen keying in all this stuff. It drives them crazy. We're going to a Windows-based system where you move a mouse about and go from system to system a lot more nimbly. We're already doing that in our property and casualty company. In the life company, we have a pilot going. There's also going to be an artificial intelligence system behind the scenes. It is sort of like at McDonald's but even better. When you buy a burger, somebody will ask if you want to buy fries? In our case, when somebody buys property and casualty insurance, we might ask that person if he or she wants to buy life insurance? It's going to try to assess what the member has and doesn't have in the background.

Finally, there is the Internet. USAA has a lot under development, but if you were to access USAA via your computer, you would have the opportunity to buy real estate properties from us at the moment, but we're working to have a much greater presence on the Internet.

Because we do business by direct marketing, we have to be a lot more productive per agent. There's tremendous investment in systems behind the scenes and in

advertising. A LIMRA-experienced agent will sell 33 products for his or her main company in a year, whereas the USAA account representative will sell 362 policies. The volume for an experienced representative is 4.3 million in volume and \$43,000 in premium, and we'd have a multiple of that. The multiple isn't tenfold because we sell a lot of term insurance. The competition sells cash value insurance. We do have a very good lapse ratio. It was 1.7% last year. It has been in the top five since 1975. That's a virtue of direct marketing to customers who own you, in point of fact, and have a very, very high affiliation with you. It has been very successful, and we're trying to continue that.

From the Floor: I didn't quite follow what the geo team was.

Mr. Robinson: The geo team in itself would be when you have a sales rep on the phone, and the sales rep discovers the person's reluctant to do business by the phone. If the customer is in one of the eight geographical areas, such as Seattle, we could ask the person if he or she wants someone to come to his or her home. The geo team is the telephone sales rep plus the sales reps available in Seattle.

From the Floor: How would you underwrite?

Mr. Robinson: The only thing that differs for underwriting in this market is if they have active orders to go some place dangerous. That's the only thing that would be different. You rely on good underwriting, the same as any company would. Underwriting makes a significant difference. It might not for active duty personnel, but when they separate and when they retire, underwriting makes more of a difference.

For level term insurance, we have five standard rating classifications—three nontobacco and two tobacco. There is no war exclusion.