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THE BLURRING OF THE LINE BETWEEN GROUP AND INDIVIDUAL INSURANCE

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MR. PETER A. ROBINSON: More changes have been taking place in the individual area than in the group area in the very recent past. Three reasons that appear to be responsible for this change are intense competition, inflation, and high, volatile interest rates. These have led to a tremendous amount of specialization in the individual insurance industry--new products, new marketing approaches, and new money products.

MR. W. PAUL McCROSSAN: My discussion will be from both a Canadian perspective and from an individual insurance perspective.

Group coverage was developed for reasonably large numbers of employees such as a 25-life minimum group. There was no individual underwriting of risks except for the very largest insurance amounts in the group. The attractiveness of group business developed as a result of its low premium reflecting underwriting savings and low commission rates on group--typically very much lower commissions than paid on an individual product--as well as the fact that most group life was written on a yearly renewable term basis. While these premiums were low, unlike individual they were not guaranteed for any

significant length of time. Instead, a sophisticated system of experience rating was developed to reflect the group's own experience--at least insofar as the experience was credible. The insurer received his premium directly from the employer although the employer may or may not in turn have already collected the premium through payroll deduction. Finally, there was very limited choice of coverage amounts. Typically, plans would insure a defined multiple of payroll or a flat amount for each employee.

Traditionally, the individual insurance sale was made predominantly by the full-time career representative directly to an individual. Full underwriting took place on each policy, depending upon the company's medical and non-medical underwriting rules. The bulk of business sold was permanent insurance, paying reasonably high commissions, and rate per $1,000 was reasonably high. The gross premium rate was completely guaranteed, although the bulk of the business sold was participating. Nevertheless, individual experience did not affect the level of the individual dividend. Finally, since each policyholder paid his own premium, each policyholder could choose whatever plan, amount, and riders he wished (within underwriting limits).

Changes have taken place that have altered these traditional characteristics. In individual insurance the salary savings market is perhaps the largest untapped market. Some companies have reacted by offering selected products to employees where five or more employees participated in the arrangement. Generally, there is still full underwriting. However, the premiums for the coverage have been reduced, sometimes significantly, and often the commissions paid on business to the individual agent are also significantly reduced. In some cases, the employer may be encouraged to pay part of the expense load to make this arrangement more attractive. No longer does the insurer bill the individual; instead, the employer collects the money for the insurer and remits it periodically.

The biggest change in the traditional group insurance area has been the reduction in the size limits of the minimum group. Many companies define a group as consisting of 3 to 5 employees. Some will write a group policy for 2 employees and a few adventuresome companies will write a one-life closed group annuity--whatever that means. With these mini-groups, underwriting is done almost as if the policies were individual policies. Similarly, the commission paid on the mini-group is a considerably higher proportion of premium than the regular large group commission, and this results in higher relative premium levels. Actual experience of the group almost never affects the experience-rating refunds, and the cases are usually pooled--an arrangement close to the traditional individual dividend arrangement. However, there is still limited flexibility, and the customer is offered very limited choice of benefits. Most insurers will only issue a standard package of benefits for groups below 10 lives.

It is in the area of "affinity groups", or association groups, that the differences between group and individual really become blurred. I have talked to actuaries of three leading companies in this special products area. One company regards the business as group business. A second company regards the business as individual business, and a third company has set up an entirely new division between individual and group. Of course, each of the three companies was in a somewhat different market. All three of the companies regard the affinity group market as one of their most rapidly expanding areas of business.

The company that regards the business as group offered a full range of products to industry associations on an endorsed basis. Products included term, permanent, home owners insurance, AD & D, business overhead, L.T.D., and travel accident. Typically, they would look for a minimum-size group--an organization with 125 members of whom 100 were eligible and of whom 25 lives should participate. However, unlike the traditional group, they issue individual policies to each life; they individually bill each policy; they involve an agent in the sale and pay full individual commission rates on health policies and half of individual commission rates on life policies. Nevertheless, premium levels are somewhat below individual policy levels and one explanation is that persistency is better than experienced on the company's individual products. However, they do not offer the complete flexibility of an individual sale and only offer rigid packages or simple multiples of packages to the employees.

The company which regards the business as individual is primarily marketing to customers of department stores although they also do mass marketing for specific products. Once again, they offer individual policies; primarily term, Accidental Death & Dismemberment, and a graded benefit, guaranteed issue, permanent cash value product. On the other hand, this company pays no commissions and has no agent involvement. This, together with the good persistency on business issued to the department stores' charge account customers, results in a reasonably competitive position even though the average sale is about half the size of the average traditional life insurance sale. Furthermore, the company is convinced that the individual life insurance agent can no longer afford to service the under-$25,000 policy economically and that this market can best be served through its marketing techniques.

The third company is very active in the voluntary association group market, specializing in professional business associations. Once again, we have individual underwriting, individual certificates, and individual billings. However, this time the group is experience-rated on a basis reflecting the group's own experience. This company, which offers typically a yearly renewable term product, encourages agent participation albeit with a somewhat lower commission than on traditional individual insurance. Premium rates are not too far below current individual Five Year Renewable term rates although for some professional plans premiums are extremely competitive. This company looks for associations with 1,000 members (if they are self-employed) or 2,500 members (if they are not self-employed) and has developed a unique marketing package reflecting the bi-level client relationship.

Finally, we have been experiencing a unique transition in the savings market in Canada. The uniqueness arises because of the existence of Registered Retirement Savings Plans (RRSP) in Canada which allow individuals without pension plans to save up to $5,500 per annum and individuals with pension plans to save $3,500 per annum, less their pension fund contributions. RRSP contributions are tax-deductible, and interest on the funds accumulates on a tax-free basis.

Insurance companies were fast off the mark in 1957 offering individual insurance products in the RRSP market. They initially offered primarily traditional life insurance products or traditional annual premium deferred annuities. In the late 60's and early 70's, because of competition, we started to see a movement away from these high load products towards new money single premium retirement annuities or equity linked products. Finally, in the late

70's, we have seen the development of products without traditional life insurance features which pay a guaranteed rate of interest for 5 years or which pay a daily rate of interest on the premium. In the face of competition, individual commissions have been steadily reduced from full life and annual premium annuity commission levels. Most companies first reduced commissions on annual premium annuities, and most now pay commissions on a single premium basis on each deposit. Similarly, loadings have been reduced steadily from the implicit loadings on a whole life contract to explicit low-loadings, to no-loadings but surrender charges, and currently we are seeking a no-load, no-surrender charge contract, becoming very popular, under which the money is locked-in for 5 years. Similarly, billing changed from typical contractual billing to single premium or optional billing facilities.

In the early 70's, group departments began to offer group RRSP contracts to enable employees to save through payroll deduction. These products were quite clearly savings contracts with the monies invested in equity-linked segregated funds or in new money interest-bearing deposit accounts. Once again, commissions were low and loadings were low. In some cases, the employer was encouraged to pay the loading so that 100 cents on the dollar could be saved for the employee.

The Canadian Banks entered the RRSP market in the early 70's. The products they entered the market with were similar to the group RRSP's outlined above. Typically, monies were invested and locked-in for various periods of time. However, this year we have seen a rather exciting new development--one which will interest Americans since I understand that under de-regulation banks in the U.S. will be able to compete directly with insurance companies by the middle of the decade. A major Canadian bank has put out an advertisement with three particular features of competitive interest. First, the rate of interest offered on deposit is a flat 15% per annum. Second, the bank offers to do all the work to strip-out the assets from any competing savings vehicles and transfer the monies to them. Third, the bank offers "free" life insurance equal to the amount of the deposit.

To summarize, individual insurance, group insurance, and special marketing products have moved so close together as to be virtually indistinguishable in many respects. Furthermore, in the savings area, insured products through competition, have been forced to move much closer to products offered by other financial intermediaries. Finally, those financial intermediaries have developed savings products with a life insurance component. In the insurance area, life insurance companies are now selling to loosely-knit consumer groups such as department store charge account customers, and other credit card association life insurance coverages are being developed. Is there a difference between group and individual insurance in Canada now? The answer is yes. But I defy anyone to come up with a clear-cut set of rules which could clearly separate the individual operation from the group operation today, let alone tomorrow.

MR. CHRISTOPHER H. WAIN: We are discussing today the blurring of the lines, or perhaps we should call it the acceleration in the blurring of the lines between individual and group insurance. To discuss this properly, though, we should understand what is being blurred. I would like to start out amplifying part of Paul's description of the fundamental characteristics of group and individual insurance. My comments are from the standpoint of individual insurance in the United States. This may differ from individual insurance

issued in Canada because of the different regulatory environment. In life insurance, and increasingly in annuities, U.S. companies are subject to relatively rigorous laws establishing particularly minimum cash values. Of course, this difference may be narrowed by the 1980 model valuation and non-forfeiture value legislation which will give Americans more operating freedom than ever before. In addition, health insurance rates are often subject to regulation by the various states, and some benefits may be prescribed.

Any type of insurance seeks to cover a group of people with predictable aggregate mortality and morbidity results. Group insurance undertook to do this originally by accepting relatively high loss rates or claim costs. This predictable experience was achieved by limited screening of individuals and requiring all or a large percentage of a clearly defined group to be insured. Group claim costs tend not to be greatly affected by the time since the group was originally underwritten. Individual insurance on the other hand undertook to find people with insurable needs wherever they could be located. Great potential for anti-selection existed so more careful individual screening was necessary. As a result, claim costs for individual insurance tend to start out much lower than for group insurance but gradually approach those of group insurance as the effects of underwriting wear off. This initial claim savings that results helps to finance particularly the normally higher acquisition of cost of individual insurance. Somewhat higher administration costs may also occur. However, particularly when cash values are involved, the true differences in operating costs may be smaller than the conventional wisdom assumes. Costs incurred by an employer are typically disregarded in determining the expense involved in providing insurance benefits to a group. Furthermore, modern computers have been drastically reducing the costs of billing and collecting individual premiums. The combination of all these points probably explains much of the reason efforts to blur the lines by group insurers offering permanent insurance in group policies have had only limited success.

A key difference between individual and group insurance has also been the nature of the guarantees provided. Typically, group insurance has provided year-at-a-time rate guarantees applicable to all who are covered or will become covered during that time. Individual life, and usually disability insurance, has guaranteed maximum rates for the life of the contract. No guarantees are normally made for rates to be applicable to coverage to be provided in the future. Costs of individual insurance, if participating, are subject to reduction by dividends based on the experience of the entire class of the insurer's business involved. Group insurance dividends tend to emphasize the experience of each group separately.

In recent years, the ability of individual insurers to obtain the quality of evidence of insurability that they originally enjoyed has been impaired by the sharply increasing costs of obtaining information, impaired quality of the information actually received (sometimes because of governmental restrictions), and to a lesser extent by increasing costs of evaluating the evidence. Concurrent with these developments, progress in medical science and probably some improvements in personal health care have been leading to distinct reductions in mortality, reducing the amount of evidence needed for any given amount of life insurance in order to find minimal cost to the public. These trends made possible various modified underwriting arrangements for individual policies. These are most often offered to employees of a single employer or some type of group of employers. They amount to applying within

the context of individual insurance laws some set of conditions that uses an equivalent of the traditional actively-at-work clause and participation requirements of group insurance to take the place of part of normal underwriting requirements or standards. The simplest is guaranteed no rejection--an offer will be made to every active employee in the group at some premium rate. From this we move to special policies for employed groups or others with some affinity. These can involve a broadening of the standard class so that less extensive underwriting is needed to classify the risk. Or they can be designed to generate essentially group mortality and be available on a very simplified underwriting basis that can be described to an employer as guaranteed issue or occasionally offered on that basis. A major problem with these contracts is that they are apt to have a higher cost to the individual than a regularly issued contract. That is, even with the improvements in mortality that have been occurring, the extra costs of death claims in a policy with provision for extra mortality are not offset by savings in administrative costs. This is especially true at the higher ages of issue if the marketer has convinced the company that his overall services are so valuable that close to regular commissions must be paid. His analysis would naturally be that he first has to sell the employer on the overall concept of this insurance and then mount some type of enrollment effort, typically with the employer's support. Both considerable skill in the basic sale to the employer and good organization to set up an enrollment program are required. Good enrollers no doubt have to be on the payroll in many instances even if they aren't actually engaged in enrolling employees.

Another type of blurring has come from these individual policies to fund employee benefit plans. One example is individual permanent policies being used to provide group term insurance under Internal Revenue Code Section 79. Another is the somewhat related retired life reserve funding arrangements using individual term policies and a group contract to accumulate funds to pay premiums of those policies after retirement. The common thread of many of these arrangements is some special type of income tax treatment.

Maximum single amounts of life insurance have traditionally been higher on an individual policy basis than on a group basis. However, the development of pools that go across the lines of single group insurance cases has permitted bringing the maximums for group much higher than old line group underwriters would have thought possible. In health insurance, on the other hand, individual policies had relatively low maximum benefits while group contracts had tended to provide larger benefits with fewer exclusions. Some companies have equalized this by offering individual health insurance with benefits almost as broad as group. However, health care costs have become extremely high. The claim experience of comprehensive coverage, whether group or individual, is adversely affected in a period of drastic inflation. Possibly both group and broad individual health insurance contracts of the future will need to emphasize provisions that lead to stabilizing the cost of medical care.

One new individual life policy that reflects some group thinking is the individual policy providing life insurance benefits for a premium that can be increased by some percentage, such as 25, at specific times in the future if warranted by experience. These policies have been issued primarily by stock companies on a non-participating basis up to now. However, I can see no theoretical reason why such a policy could not be issued by a mutual company if it is felt there is a reasonable market for it.

Flexibility used to be a hallmark of some types of group pension business. With the enactment in the United States of ERISA and its provisions for individual retirement accounts particularly, it has been essential for companies that stayed away from them before to develop and offer flexible individual annuities. They, of course, permit payments to be made almost any time and in any amounts subject to whatever legal limits might apply. Of course, with this flexibility the compensation that can be paid in the early years is far less than that which applied to structured individual contracts. These are typically offered on some type of year-of-investment basis, with each year's payments getting a return based on investment results of that year--another group technique. Severe potential for financial anti-selection exists that requires special controls on cash values offered in most markets if the business is to be self-sustaining. Surrender charges now in use seem inadequate to control this selection unless they have powerful psychological values.

In summary, the blurring between individual and group lines has been substantial and can reasonably be expected to continue. Pure legal limits are being replaced by appraisals of what is necessary in order to get the job done. Some group cases will be smaller than some individual policy sales. Logical professionalism will be challenged by eager marketing appraisals to advance either a group or an individual approach. But objective analyses recognizing the state requirements to avoid unfair discrimination, the need to provide for the mortality and morbidity likely to emerge, and the expenses that can reasonably be expected to be incurred, including acquisition expenses, should lead to the improved service of the public essential for private insurance to survive and thrive.

MR. BYRON W. STRAIGHT: This topic might be more meaningful if it were expressed less clearly, e.g., the spectrum of colours in an eight or more dimensional space of insurance protection factors. In the present Canadian world of insurance protection, we have many variations in the operation of insurance. Perhaps two extremes might be analyzed to demonstrate the variations. Let us compare the arrangement to obtain life insurance protection of a conventional term to 65 policy purchased by an individual through the solicitation of an agent, with hospitalization service protection obtained by reason of residency on a government-operated hospitalization plan. The term policy is partly merchandised by the insurer but likely to be sold by the agent. The government hospital insurance is not merchandised at all. The individual completes a personal application for the term policy. No application is needed for the government hospitalization coverage. The individual chooses the term life amount subject to underwriting acceptance. The hospital patient chooses ward coverage with a modest daily charge or slightly more expensive semi-private or private room care (or a relative makes the selection for him). The insurer of the term policy will appraise the risk from a variety of factors: health, age, sex, occupation, etc. There is no underwriting of the risk in the government hospitalization coverage. The owner (usually the life insured) of the term policy pays premiums regularly--usually by cheque. There are no premiums in the hospitalization plan, therefore, no grace periods or default. The beneficiary applies for the benefit on the life policy, supplying proof of death. Perhaps there is an element of post death underwriting as to cause. No application for claim is made in the government hospitalization plan. Services are provided by the hospital. The hospital's budget is approved for payment by the government from general taxation.

While the government hospitalization plan has minor deficiencies (such as low benefits for out-of-Canada expenses), it is a model of convenience to the public. Coverage is automatic and compulsory. Personal responsibilities are minimal. Administration costs are very low. Group coverages with simple administration have definite advantages over individual policy arrangements.

Consider a "no fault" death and disability benefit under a government-operated automobile insurance plan. The benefits are statutory amounts as in Workers' Compensation Benefits (WCB). The cause has to be one related to vehicle usage much the same as WCB has to derive from employment. The person who caused the injuries (or death) might or might not have paid premiums for current coverage.

An employee group weekly indemnity contract administered on an Administrative Service Only (ASO) basis (or "cost plus" basis) with all costs paid by the employer is a type of group coverage that moves toward the automatic style of coverage of a government sponsored plan. The employee is automatically covered if he belongs to the employee group. His benefits are directly related to his earnings. There are no premiums, per se, and therefore no coverage lapses from defaults in premiums. Benefits might be paid late, though, if the employer is slow remitting to the carrier. The employer may have to sign a claim form.

Let us move now to a group life insurance plan where all eligible employees are covered for one multiple of annual earnings, regardless of age, sex, or marital status with the cost met by the employer but with options for employees to select additional amounts of coverage. Adequate amounts of protection are available. The voluntary insurance cost is rated to be lower than the cost of term coverage on an individual policy. If the employee applies when first eligible or when later acquiring a spouse or child, there are no underwriting restrictions. The employee is enrolled by a clerk, not "sold" by an agent. The trend is obviously one to simplicity while giving individual opportunities to tailor coverage. This arrangement is much better than individual policy arrangements in the matters of cost and underwriting. But transfers of employment can create voids unless a one-year term conversion right is available.

In a conventional group life policy, the employer is the contract holder (or trustees in a multi-employer plan). The employee rarely knows whether his employer has paid the premium within the grace period. Employee rights are spelled out in a certificate which, under provincial laws, the insurer must issue to the employer for delivery to the life insured but which the employer is not required to deliver.

All of the foregoing arrangments have worked well over the years. But there are some arrangements that are neither conventional individual insurance policy coverages nor conventional group insurance policy coverages that are being tried (or have been successfully used). Consider a group life insurance contract taken out by a provincial medical association to cover doctors who are voluntary members of the association that apply for coverage. If the doctor applies when first eligible or when a re-opening campaign is in effect, he can purchase a sizable amount of term life insurance at attractive rates. Premiums are payable by the association from contributions paid by the doctors. Some group contracts are worded to say that payment by the doctor to the association within the grace period is

accepted as payment to the insurer within the grace period. Some are not. There is some use of individual underwriting for large amounts or for late applications. Some have conversion rights. Even one association group contract of disability income benefits contains conversion rights. The association receives an administration allowance or commission. If it is large enough, the association employs one person to solicit new applicants or increase amounts. Experience refunds are paid to the association. The rate structure by age is subject to review and modification by the association to "assist" older doctors while keeping young age rates competitive. The operating costs fall between employee group contract costs and individual policy costs.

Also consider contracts offered to persons who comprise a "group" but have no connection with one another except through using the same firm's credit card Mail merchandising with credit account statements apparently produces more response than ordinary mail soliciations for insurance. I was quoted a 4-5% response on "groups" of credit card holders versus 2% on other mail campaigns. This is important if it stands up. I cannot defend the estimates except to say that the higher expected response is the reason quoted for offering "group" opportunities. Some of the public infer that "group" purchases with a credit card will be cheaper than under conventional individual insurance purchasing. So far, in Canada, there is only a small volume of credit card insurance sold.

Some department stores are offering "charge-account" privileges to purchase life insurance coverage from an affiliated insurance company. The merchandising is through mail order literature and applications. The amounts are limited, with accidental death coverage being the only coverage available for the first 2 or 3 years of the policy. At least one provincial insurance department is concerned about the looseness in administering the grace period. What obligation is there on the department store to advance the monthly premium to the insurer if the account holder is delinquent? In one plan, the annual premium through the charge account is 12 times the monthly premium but if the policy is purchased through an agent of the insurer it is less. The merchandising costs might be just as high as conventional acquisition costs using conventional agents' contracts. But the public might be led to believe there are savings in the charge account arrangement and mail order soliciation.

The Superintendents of Insurance through their voluntary association, have issued guidelines or draft guidelines on group life insurance, group accident and sickness insurance, "mass marketing of personal lines of property and automobile insurance," group creditor life insurance and group creditor disability insurance. While the guidelines have no direct statutory backing, the insurance acts of some provinces give the superintendents the power to ban any contract as unfair. So the insurers do pay attention to the guidelines and have effective input in the drafting process. At least one of the group creditor insurers, which is not affiliated with a finance company, has asked to have the restrictions on premium rate design modified so that instead of expected claim ratios of 80% life and 75% Accident and Sickness (A&S), they will become 70% life and 65% A&S. This is being reviewed now.

One bank and one trust company have provided "free" life insurance on RRSP balances. The insurance amount is the exact balance in the savings plan.

The justification is obviously questionable, but because it is "free" the public has been attracted to it.

From recent developments, it appears that there will be some increase in merchandising of group insurance to persons who are affiliated in only a remote sense, particularly through credit cards. But so far only A&S without disability income is viewed favourably by the insurance superintendent.

Some brokers offer master group contract coverage to small groups who are affiliated through membership in a Board of Trade or Chamber of Commerce. For very small groups (less than 10 employees), the types of coverage are usually very restricted but might be reasonable in amounts. For slightly larger groups (10 to 25 employees) there may be choices of types of coverage amounts, such as three different group life scales or two different dental plans. The sponsoring organization creates the leads. The plan administrator is usually a broker. Personal visits to a group by an administrator's representative must be severely limited for obvious reasons of expense. Premium billing and accounting is computerized. The software and hardware are very important. The sales commissions and administration charges might be around 25% of the premiums payable to the insurer. Those premiums are calculated to allow for the higher claim ratios expected from small groups but lower premium accounting and lower merchandising costs incurred by the insurer. In one such association merchandising office, which I reviewed recently, there were 375 employee groups covered, involving 2700 employees in total. The number of employees covered is quite small relative to the work involved.

Just one more word about government programs. Two of the provincial governments have considered offering individual contracts to the general public for comprehensive dental service insurance. Residents have logically argued that it is the provincial economy that pays the cost of dental premiums for employee groups. The employer collects the money through his ordinary business revenue. The food chain, for example, covers its costs by raising food prices...which the public pays. That arrangement is advantageous to the employees. Persons who do not belong to employee groups cannot arrange dental insurance protection but they are part of the payment system for protecting the employees. While both provincial governments are sympathetic to the plans of the uncovered "non-group" residents, so far neither province has found a way to arrange coverage through individual policies, and probably they never will.

In conclusion, it seems fair to infer that more and more group coverages will be modified toward the convenience of automatic coverages, as in government plans, while expanding some individual choices. But it is not so clear to me that the attempts will be successful to develop significant amounts of coverage by changing individual policy arrangements into quasi-group arrangements except through credit cards. Even there, the underwriting problems are difficult enough to cause some insurers to hestitate. Mass merchandising in Canada of individual life insurance using a credit card system of premium payment will likely be approved by the provincial insurance department provided that individual rights are protected and that there are no serious misrepresentations in the merchandising. The switch in interest from permanent insurance to term insurance, combined with the perceived probable savings in costs, will likely mean at least some transfer of coverages from conventional sales methods to credit card selling.

I wish to thank Reg Barnsley, Actuary of the British Columbia Insurance Department, for bringing me up-to-date on credit card insurance and charge account insurance; Reg is just completing his 61st year of actuarial service.

MR. LYNN C. MILLER: Just recently we have had a great deal of interest from our sales force in selling individual policies in salary savings situations where guaranteed issue is requested. Most of the characteristics of group underwriting would be satisfied in that you would have a minimum percentage of the group taking the insurance in order for the plans to be completed. The face amounts would be either a constant amount for each individual or some function of salary. One of the distinguishing characteristics, though, would be that the employees would pay the entire premium. I was wondering if anybody had any experience with this sort of business regarding mortality. That is, can one rely on group mortality in a situation with no employer contribution where employees are paying the entire premium?

MR. McCROSSAN: The organization I work for brokers a lot of business out to companies who are offering just this sort of thing. The terms which are offered are a flat benefit amount or a choice of one or two times salary only. There is also a big effort by the sponsor to get acceptable participation rates. Although I have not reviewed their experience, our understanding is that the insurers are happy to remain in that market. Therefore, it would seem that they are experiencing acceptable mortality with the groups.

MR. CLAUDE THAU: Given a life insurance product which you want to offer to an affinity group or employee group, what considerations--particularly tax considerations in the U.S.--influence whether an individual or group wrapper is used?

MR. McCROSSAN: The tax point of view has not been a predominant reason for deciding on the choice between individual and group because there hasn't been a tax difference in Canada. The primary consideration has been the company philosophy regarding how committed they are towards protecting the individual agent involvement. I'm not familiar enough with tax differentials in the states today, but I suspect that most companies are having these internal conflicts concerning who gets what share of this market. In some cases, the companies have decided that they are going to market this through agents and others have decided just the opposite. I think it very much depends on the dynamics of the management in the company as to who gets control of it.

MR. WAIN: That is a practical answer, but such a decision would also depend on the dynamics of the groups that you expect to be handling, the level of compensation you expect to pay, and how the true cost of the products is going to work out. Another factor would be whether the product is a term or permanent one, as I suspect there is relatively little advantage in administrative efficiency for group permanent with the present level of computer advancement. Turnover of the group must also be considered. On the group arrangement, potential cost of conversion must be considered in addition to the estimate of mortality for the group. The package should be tested against the cost of the company's regular lines. Either approach can produce a justified result.

MR. STRAIGHT: The choice made depends primarily on the group. If the affinity group has close affinity and a strong sponsor, I would issue a group contract and certificates to the members. I would expect the sponsor to have influence to help solicit new people and keep them. Doctors are a good example of such a group. If the group does not have much affinity, such as hairdressers, and has a lot of turnover, I would issue individual policies, and I would have a master agreement in which some administration allowances were given to the Hairdressers Association.

MR. WAIN: Care would be needed with such administration allowances to avoid a rebate.

MR. KEN O'NEILL: Could you tell us a little more about the conversion option on the disability income for the doctors? For instance, what sort of maximums are allowed? Is there any underwriting as they switch from this group approach to the individual approach?

MR. STRAIGHT: The plan is provided by the province of British Columbia. It has a monthly benefit amount of $800, provided a doctor's billings in the prior year or the most recent six months are above a certain level. A doctor who leaves the province and is no longer covered by that long-term disability plan can take an individual policy providing the same benefits. After the first two years, nobody had converted. The rates were very high but they did have a conversion right.