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MARKETING AND PRICING CONSIDERATIONS OF SPECIAL RISK PRODUCTS

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Recorder: FRED M. SINGER

o College/student
o Specific event/sports/custom
o Travel

MR. FRED M. SINGER: The special risks markets have been with us for many years and take many forms. Coverages provided may be comprehensive, with complete coverage for accidents and sicknesses, as is common in the college market, or it can be as limited as accident only for specific events. Policyholders can range from local day-care centers to major universities with thousands of potential insureds. Premiums per policyholder may be tens of dollars or millions of dollars.

We are going to be discussing three categories of special risk business: the college and student market, specific events/sports and custom, and the travel markets. To the best of my knowledge, this is the first time any of these have been discussed at a Society meeting.

We are fortunate to have a panel that has many years of experience in these markets. Our first speaker is Mr. Joseph Brennan. Mr. Brennan is currently with the Credit Life Insurance Company of Springfield, Ohio, where he is an officer responsible for financial reporting and profitability management of credit and mortgage insurance. Prior to joining Credit Life in 1987, he spent 5 years at Colonial Penn. His responsibilities there included the management of their student insurance business.

MR. JOSEPH E. BRENNAN: Student insurance programs consist of accident insurance sold to elementary and high school students and medical insurance sold through colleges and universities. The student insurance industry accounts for $200,000,000-$400,000,000 a year in premium and only about a dozen companies actively participate in the market.

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The following gives a graphic depiction of how student insurance programs are marketed. An agency usually approaches an insurer to underwrite the business, and then approaches school officials to gain the endorsement of the school. The agent then solicits the student insurance, either through direct solicitation or by using a stuffer in the student's tuition bill. Any direct solicitations usually include a letter of endorsement from the school. Anyone who is familiar with third-party endorsed marketing would probably find this quite similar to their standard direct mail work. Again, school marketing is usually done through an agent, schools go out to bid in the spring for the following school year, and bid specs usually include a schedule of benefits (usually the benefits of the current school year), loss experience, and any bidding requirements.

Often, the current agent on the case will help prepare the bid specs. A bidder, therefore, should be cautious of any loss experience presented. Bidding requirements can include Best ratings, submission deadlines and methods of presentation. Strict attention to these requirements is essential, as they may often be used to eliminate companies from the bidding process. The contact person at the school will usually be a dean of students, a medical center director, or a member of the student council. In elementary schools, the principal or the local board of education is usually involved.

There are basically 3 ways to enroll students. The most popular is voluntary enrollment, where the student elects to enroll in the insurance plan. Under this method, the student is usually sent a brochure in the mail and is expected to respond by sending an application and one year's premium. Under a waiver program, students must have other insurance in order to opt out of the program. Under a mandatory program, all students are enrolled regardless of whether they have other insurance. Fees under mandatory programs are charged against the tuition bill or are included in the student activity fees. About 5% to 10% of colleges use mandatory enrollment programs. These programs are also extremely popular among elementary and high schools because of the low cost of the plans.

Full- and part-time students are usually eligible to enroll. However, several companies are using age limits to avoid the older part-time students. Spouse and family coverage is also available for an additional charge, and occasionally other family members are able to enroll, although this is discouraged.

Plan design can vary a great deal from college to college. Some colleges use a standard 80/20 comprehensive plan, other colleges will use strictly scheduled benefits with maximums for each item on the schedule. Most plans have deductibles, and these can either be school year deductibles or per accident or illness deductibles.

Maximum benefits can take 2 forms. Plans will usually have the standard dollar maximum: $25,000 or $100,000 maximum per school year. And, in addition, plans will usually have a maximum number of weeks since incurral in which treatment must be given. Frequently this maximum is 52 weeks. For example, under a 52-week maximum benefit, if a student were first treated for a particular injury in January 1987, no benefit would be payable for treatment of that injury after January 1988.

The expenses of normal pregnancy are occasionally treated as any other illness. However, many plans either have limitations on what will be paid for maternity benefits or they make maternity an optional benefit with an additional charge.

Accidental death benefits are often included in plans as well as traditional life benefits. Traditional life benefits are usually disguised as a repatriation benefit, and this benefit is rarely more than $2,000 or $3,000.

Plans will have many exclusions and limitations. Some of these will include preexisting conditions, expenses incurred at the college infirmary, any benefit payable by other insurance, expenses incurred as a result of an accident while participating in intercollegiate sports, and limitations on psychiatric and chiropractic benefits.

Plans for kindergarten through 12th grade usually cover accidents only. These plans provide school time coverage, the period while the student is actually in school or on a school-sponsored trip, or as an option, 24-hour coverage, where the student is covered 24 hours a day, 12 months a year. The cost of this insurance is only about $5 a year for the school time coverage and $20 a year for the 24-hour coverage. But keep in mind that this can vary a great deal from school to school.

Both of these options are usually covered on a full excess basis, meaning that the parents' health insurance coverage is a primary source of reimbursement for medical care and the school accident plan will be secondary to that.

Scholastic sports are usually covered under these plans, with the exception of football. Because of the high cost, football benefits are usually provided on an optional basis. Football benefits can cost anywhere from $40-$100 per year, per student.

And now we get to the fun part. Because of the variability in cost from school to school, plans are rarely rated on their benefit structure. Instead, the experience of each school is usually taken into account when pricing a student insurance plan. In the bid specifications, a school will usually provide the school's experience for prior school years. This experience is used to project the claims cost for the upcoming school year.

Table 1 shows how the 1988-89 school year might be rated for a particular plan.

TABLE 1

PRICING THE 1988/1989 SCHOOL YEAR
(FOR XYZ UNIVERSITY)

	1985/1986	1986/1987	1987/1988
Premiums		$100,000	
Claims Paid		$ 50,000	
Completion Factor	1.00	.90	.30
Claim Incurred		$ 55,555	
Loss Ratio		55.6%	
Premium Rate		$175	
Claim Cost		$97.30	
Inflation Factor		$(1.11)^2$	
1988/1989 Claim Cost		$119.88	
Adjustments for Plan Changes		-11.99*	
Adjusted 1988/1989 Claim Cost		$107.89	
Weighting Factor			

*$100 Deductible Added

For ease of presentation, I have not included the 1985-1986 and the 1987-1988 experience, but that would usually be included if you had it. For this particular school, we stated that the premiums for the 1986-1987 school year were $100,000 and the claims paid to date were $50,000. Using the completion factor of 90% for the 1986-1987 school year, we will project claims to be $55,555, thereby producing a loss ratio of 55.6%. If premium rates were $175 a year, the claim cost would, therefore, be $97.30 (55.6% of $175). The claim cost would then be projected into the 1988-1989 school year using 11% medical inflation, which would be appropriate for a more comprehensive health plan. So you get the 1988-1989 claim cost of $119.88.

To calculate the gross premium, simply divide the claim cost by whatever your target loss ratio is and use the result as your base premium. Rates for family and spouse coverage would just increase proportionally from the current school year to whatever you are using for 1988-1989. If any of the plan benefits were to have changed from the 1986-1987 to the 1988-1989 school year, these changes would have to be taken into account. In our example, suppose we had added a $100 deductible in 1987-1988. We would have to make an adjustment to the $119.88. If we assume that the $100 deductible is worth 10%, the claim cost would then go down to about $108. This procedure would be used for each school year where experience was available. The projected claim cost for each school year would then be weighted to get an aggregate claim cost.

The weighting factors are usually subjective. However, if you simply use the completion factor as your weighting method, you would have a good rule of thumb to figure out just how much credibility you should be giving each school year. So for example, if you had 1987-1988 experience, you might use a 30% weight; for 1986-1987, you might use a 90% weight; and for anything prior to 1986-1987, you might give full weight.

Completion factors can vary a great deal from school to school and from company to company. Table 2 shows completion factors for college business from four different companies in the market. The completion factors paid through March for the current school year can go anywhere from 25%-30%; completion factors through March for the prior school year can go anywhere from 92%-99%.

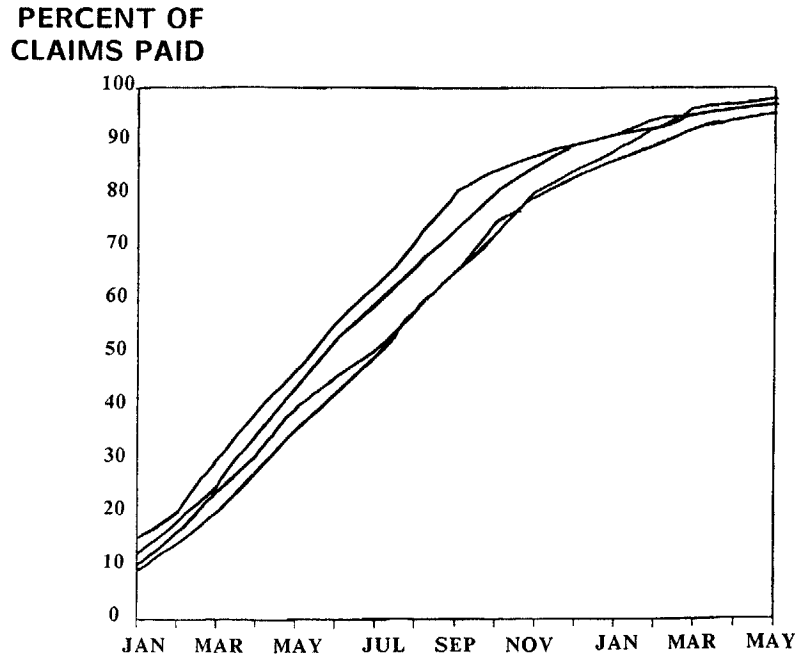
I am actually going to digress from my script here a little bit. Tables 1 and 2 are probably the two most important elements of this entire presentation. Table 2 is the aggregate business for four different companies, all of which have sizeable blocks of business. You can see the variability. Even towards the end, not of the current school year, but in December of the next school year you have a range from the bottom line to the top line of almost 10 percentage points. If you are rating the plan, using this experience, and if you are off by 10 percentage points and you have only priced for 5% profit, you are losing 5 points. If anything is going on with that particular school, you can get burned quite easily.

Various things can happen. You may find out that the claims in a particular school were behind at the point in time the data was put together; or the data presented in the bid specs can intentionally be misleading. It might be incurred claims or just paid claims. It might show paid claims on the bid specs dated January, but, really they are only paid claims through October. You have to be extremely cautious and realize that an agent, not an actuary, is usually preparing the bid specs. Keep in mind that the agent's mindset is to sell insurance. The mindset of the principal of the school, the person you are trying to sell to,

TABLE 2

COLLEGE A&H

Completion Factors for Current School Year
Four Companies Experience



is to get the lowest price he can. Whether you make or lose money usually means very little to either of these people.

Reserving for student insurance plans is usually done on a school year basis. Each school year is held separately, thereby forcing any inaccuracies to correct themselves. An assumption is made that the premium is earned and the claims are incurred uniformly throughout the 12-month school year. For premium reserves, only unearned premium and due premium reserves are held. To calculate these reserves, it is necessary to make an assumption as to the expected premium for the school year. For example, if you expect $120,000 in premium for the school year, you expect to earn $10,000 a month. To calculate the reserve to be held at any point in time, simply take the prorated earned premium and subtract the premium collected to date. If the result is negative, hold this amount as an unearned premium reserve. If you have collected less premium than you have earned, hold due premium for the difference between the two numbers.

Let me give you an example. If you expect $120,000 for the school year that began September 1 and you are doing your valuation at the end of November, you should have earned $30,000. If you have collected $20,000, you have $10,000 of due premium. If you have collected $40,000, you have $10,000 of unearned premium.

Claims reserves are handled on a similar basis. Assume a target loss ratio for the school year. Multiply this ratio by the premium you have earned to date. By subtracting your claims paid you come up with your claim reserve. As the school year wears on, use your completion factors to reestimate your target loss ratio.

Again, any inaccuracies in these methods will correct themselves after you close off each school year. It should also be pointed out that these methods are within the new Interim Actuarial Standard Board's proposals on how to handle group plans without a great deal of experience, which is the situation here.

I would like to now address some specific problem areas that many of the companies in the market have encountered. Foreign students can have considerably higher claim costs than U.S. students. This can be due to several factors. The quality of health care in the United States is one major factor -- it is usually much better here than in lesser developed countries and it is usually much more available than it is in socialized medicine countries. The students' lack of familiarity with the U.S. health care system can also pose problems. Students do not understand what they have to do or who is paying for it. The fact that most domestic students seek advice from their parents before contacting a doctor is not a luxury that many foreign students have. They do not have a first recourse before going to the doctor. It is advantageous for foreign children to have dual citizenship, especially U.S. citizenship. What you find is that foreign students will use maternity benefits more than domestic students will.

Part-time students can also pose several problems. First, many part-time students are older and can have special health problems. In addition, it is well known that many students will sign up for classes simply to obtain the health insurance coverage at the school, which is usually sold on a guaranteed issue basis. Although these students are rare, their claim costs can be quite significant. As an example of this, I am not going to mention the name of the school, but there was one student who was a paraplegic and had been that way for

about eight years. The student would simply sign up each year for two courses, buy the insurance and then drop the two courses. He would then collect $30,000-$40,000 a year in insurance benefits from the school plan, in addition to any other insurance benefits he might have had.

The locale and demographics of the school can also heavily influence claim costs. A school near a major hospital most assuredly will have higher claim costs than a school in a less populated area. There was a school that we had for which claim costs were extremely high. I had mentioned this to someone who had been to the school, and he said, "Well what did you expect? Across the street from the school is the largest hospital in the county." So the students, instead of calling their mom first, just ran across the street and went to the emergency room every time they had a cold or sore throat. Let me tell you, $80-$85 is a lot of money to be paying for someone who has a sore throat.

Medical schools, or schools where teachers practice medicine, pose several concerns. At these schools medical treatment can often be both therapeutic and educational. The insurer should take care to know whether they are paying for the education of medical students in addition to treatment of insured students.

I have two examples to illustrate my point. One is a major metropolitan school where a student in the school hospital was visited by maybe 5 or 6 doctors during the day. And, of course, the insurance company was charged for each of these doctor's visits. As it turned out, the doctors were student interns, being taught how to spot often routine medical problems.

The other example is a school in Wisconsin. Wisconsin at one time had a $500 per year benefit for mental/nervous, which was mandated by the state. There was no deductible, just $500 per year. There were two problems with this. First of all, the regulation referred to calendar years and there are two calendar years in a school year. So it amounted to $1,000 per student. Personnel in the psychology department at the school read the brochures and understood the benefits. So they had cards made up and handed out to the students in their classes telling the students to see them in their offices. When the students went to see them to discuss their school work, they charged the company $50 an hour until they used up the $1,000 a year in benefits.

Taking over an existing plan of another insurer can also pose several problems. Pay special attention to when the prior carrier's coverage stops. Any student insured under the prior plan is usually considered to have continuous coverage under the new plan. The new insurer is usually expected to pick up any gaps in coverage under no loss, no gain provisions. Some plans will only cover treatment that was provided during the 12-month school year. If the school year ends in August, only treatment provided through August will be paid. If you write a plan that covers any accident or injury that occurred during the school year, there is a gap for someone whose injury occurred in a prior school year, but whose treatment began during your school year. If you are taking over for the prior carrier, the school will expect you to pick up that gap. On the other hand, when you end your school year, your plan is written so that you are going to continue to pay expenses for any accident or injury incurred during your school year. So you are going to be actually paying for more than a 12-month period on a similar basis.

Insurers can expect to see several acquired immune deficiency syndrome (AIDS) claims throughout the school year on any sizeable block of business.

Unfortunately, since plans are usually guaranteed issue, there is little an insurer can do to limit the exposure to claims caused by the AIDS virus. Obviously, plan maximums and maximums on benefit periods will help curb any problems caused by this.

The regulation of student insurance plans is usually no different than group plans. Any insurer who is well versed in standard group policy should have no particular problem in the student insurance market, with one exception. Virtually every insurer who is involved in the market knows that Pennsylvania has a special rule where you cannot bid on a student insurance plan until you have a policy filed and approved. What will often happen is that if you do not have a policy filed and approved, companies or agents competing against you will notify the state insurance department in order to get you out of the bid. A lot of companies, including Credit Life, have been fined for this. It is something one should pay particular attention to.

MR. SINGER: Mr. Cornelius J. Lehane is an Assistant Vice President at the Cigna Re Corporation in Philadelphia. Mr. Lehane currently has responsibility at Cigna Re for special risk reinsurance. Prior to joining Cigna Re, Mr. Lehane worked for such companies as CNA, Reliance, Academy, and Home and Life of North America. His positions have included special risk underwriting manager, manager of group and credit underwriting and administration, and regional A&H manager. Mr. Lehane will discuss the travel markets.

MR. CORNELIUS J. LEHANE: It is difficult to figure out where to start when discussing the travel accident marketplace, because there are such a variety of travel coverages available. I think I will start with the corporate area but not spend too much time on it.

It is hard to place a tag on the premium volume for corporate travel accident policies. When I say corporate travel accident, I am speaking about those policies where the premium is paid for by the employer, generally with some sort of limited benefit. Usually what you find in the marketplace is that an employer will provide coverage that commences whenever an employee leaves his home or place of employment to go on a business trip, and then terminates whenever he returns to his office or his home, whichever occurs first.

I would estimate that this marketplace is probably in the area of $250,000,000-$500,000,000 a year. There are probably about 12-18 carriers that participate in this marketplace. There may be a few more than that, but the majors are generally the longtime players such as AIG, CNA, INA, Hartford, and Home.

In addition to the standard types of coverage that can be provided, employers also provide a lot of the ancillary types of coverages for their employees. A lot of people travel around the world in the pursuit of business so the coverage obviously is worldwide. Sometimes people go into dangerous areas such as the Middle East, so frequently, war risk coverages are added. Sometimes a person's occupation requires him to do some strange things. An organization might be a salvage company and have deep sea divers, so sometimes deep sea diving would be covered in a business travel situation.

I think the overriding factor that concerns me in the business travel market today is pricing and risk analysis. When reviewing a travel policy for underwriting purposes, there is really not a lot of credibility you can attach to a specific premium. As an example, a medium-sized company with 500 employees,

including 15 or 20 salesmen and maybe a half dozen executives that travel, that provides a benefit level that might be a few times their salaries, will generate an annual premium of perhaps a couple of thousand dollars. If you have one loss, it is going to take you a long time to recover that loss, so there is not a great deal of credibility.

More importantly, I think the problem today is that since the rates are so competitive, it is virtually impossible for a new entrant into this marketplace to ever make money. Twenty years ago, the annual rate for what would be considered business travel was over $.65 a thousand. As most of you know, the accidental death rate for full 24-hour coverage in the United States on a pure basis is about 40 cents and you can readily deduce that business travel is only a fraction of 24-hour coverage. Today's market rate is probably about $.05-$.10 per thousand, so it has come down considerably. It is 1/12 of what it was 20 years ago.

How do companies currently make money? Generally ones that have been in business a long time have a fairly sizeable book of business that constantly renews year in, year out and they are getting higher rates on the block. These are fairly substantial, probably around $.30 a thousand, so with that kind of rate schedule, they can afford to compete in today's marketplace at the $.5-$.10 per thousand rate. I do not believe a new company would be able to do that.

Within the framework of the travel accident policy, you have the typical exclusions that you see in any accident policy. You exclude suicide and self-inflicted injuries, war, and certain flight and aircraft exposures. In some circumstances, coverage is for passengers only because a lot of corporations own corporate aircraft today. And, as a matter of fact, there is another extension that typically would be included in the policy that is being provided to the company that has a company-owned aircraft. It might also want its pilots covered and that can be done.

Additionally, what most of these companies are trying to do now is move these coverages into a 24-hour mode and some of them are offering the option, on an employee-pay-all-basis, to extend the risk from the employer-paid company travel, to 24-hour. Employees pay a modest difference -- something like $.02-$.03 per thousand per month, and they also have the option to include their families as covered dependents. Usually the family benefit would be about 50% for the spouse, and 5%-15% for each dependent child.

There are also many other varieties of travel accident and probably the most familiar ones are those that you see hanging on your travel agent's wall. A lot of companies I previously mentioned, plus others, provide travel accident insurance on a trip basis. These policies will typically provide benefits such as accidental death and dismemberment, which normally is flight insurance, plus common carrier insurance during the trip, and trip cancellation insurance. The latter coverage provides that if a specific event occurs and you cannot go on your trip, and you have to cancel your plans, then your fare will be refunded. Some of the things that would cause that to come into play would be accidents or sicknesses that occurred prior to the trip. It also could occur during a trip for such things as terrorist acts. If you were supposed to meet a tour in Frankfurt, Germany, and it got highjacked in Beirut, Lebanon and you could not make the tour, trip cancellation would come into play.

It also provides hospital and medical expense benefits. The types of benefits can be fairly limited such as a dollar-per-day-limit, perhaps up to $50 a day, or

it can be fairly broad, up to $1,000,000 per occurrence. Typically though, when it is written on a per occurrence basis with a high maximum, it is generally in excess of any other valid and collectable insurance.

And, of course, there is the world-famous baggage coverage that can be included and usually those amounts are fairly limited, up to maybe $500 or $1,000. A lot of companies, particularly in the life and health area, have a problem because of their authority to provide baggage coverage. Of course those companies that are in the P&C marketplace can provide that coverage. I think this has always been a difficult item to price. It has been for me and the companies I have been with. You can go to your bible, *Accident Facts*, which is published by the National Safety Council, and you can develop rates for a variety of risks. You can develop rates for flight risks, you can develop rates for occupational risks, and you can develop rates for all risks. It is awfully difficult to develop a rate for $250 worth of baggage insurance. It also seems to be the area that has the greatest abuse in the travel accident market. You can really get nickeled and dimed to death with the claims in this area.

A lot of travel agencies are now providing a broad program where, anytime you buy a ticket from them, you automatically have $x of accidental death insurance. The benefit usually is in the area of $50,000-$200,000. This is generally sold through a master trust marketed by a Super Managing General Agent or someone of that sort and the cost generally runs about $.10-$.11 per $100,000 of benefit. This is another area where the cost has come down substantially. Probably a half dozen years ago, that rate was about $.20-$.25 per $100,000, so the margins are really getting thinner as the years go by in the travel accident marketplace.

In those cases where the travel agent provides the coverage, it is built into the cost of the tour package. It is generally not an identifiable charge and the travel agent does not receive a commission on it. However, usually the super general agent does get anywhere from 5% to 15%, depending on the level of services that he is providing. This type of coverage is open for abuse on the part of the individual travel agency. You really do not know how much of the premium is being reported properly. As an insurer, you are generally dealing only with a general agent, and all you know is what the general agent knows. The only way you can really properly police the situation is on an audit basis. This is generally not too practical because you are dealing with a general agent and he may be dealing with hundreds and hundreds of travel agents. So unless he has some sort of mechanism to police the travel agent himself, it is going to be awfully hard to pick up any abuse in this area.

The major problem in travel insurance with travel agents is the known concentration risk. What I mean by that is, it is fairly typical in my part of the country, Philadelphia, for a travel agent to perhaps call United Airlines, and book 50 seats on Flight 123 to Hawaii on December 1. That travel agent will then package a deal and advertise it through newspaper, television, and radio media and will provide it at an $x price. Included in that price generally will be an insurance package, maybe $100,000 on each person. So what you have is a plane going up on December 1, with $5,000,000 worth of exposure. Fortunately, there have not been too many circumstances where planes of that sort -- with tour groups -- have gone down, so we have not been hit severely in that area. But that certainly is a hazard that could occur someday.

Another travel market is the old airport ticket and coupon business. And of course I think Fred probably knows more about that than anybody, since all I see in airports are machines that say *Mutual of Omaha.* What that program provides is pretty cut and dried. You go in and throw in your $.75, or whatever it is, to get $25,000 worth of insurance and you are covered while you are flying from wherever to Louisville for this meeting and your return home. As far as I know, that is a highly profitable business. I guess the major concern is the expense factor. I know years ago when CNA offered this product, it sold quite a bit of it. Its biggest expense was not in claims, it was in airport space rental fees. I think that is probably still the situation.

Tour operators usually provide a package that is similar to what the travel agent provides. Tour operators are, for example, people who run bus trips throughout the United States. They are more common in Europe where they might put a tour together for Americans going to Frankfort, Germany, who will jump on a bus and go through 16 European countries in 5 days. Once again insurance will provide the usual package of benefits, including AD&D, medical, hospital income, baggage insurance and sometimes trip cancellation. So they are doing the same kinds of things in the tour operator area that any travel agent does. Once again, the biggest hazard here is really a risk concentration. Every once in a while, a bus of this type gets into an accident and a lot of people get killed. Generally, however, in the tour operator area, the level of AD&D benefits are not as high as that which may be offered under a travel agency type of program.

In all of these programs that I am discussing, the specific individual claim is not what is going to kill you. It is going to be a concentration of loss that may occur at any given time. This brings me to my next topic -- credit card travel accident insurance.

I am sure all of you, at least once a week, get an offer to pick up a gold or silver VISA or Mastercard. One week, about a month ago, I got six offers for gold Mastercards and VISAs. Two of them were from the same company and I was really surprised. The insurance products that they offer are fairly common. You get the travel accident insurance if you charge a common carrier ticket on that particular card. The coverage ranges anywhere from $100,000-$500,000. The latest idea is to also provide collision damage waiver; that is what you have to buy when you rent a Hertz automobile if you are not otherwise covered for collision insurance while driving the rental car. Hertz, Avis, or any of those companies generally say that if you are in an accident, you are responsible for the physical damage loss. And, of course, you can protect yourself from that hazard by spending $7-$10 a day extra on the car rental. While credit cards are now providing that type of insurance, some of them have limitations, maybe $10,000-$25,000 and some have no limitations. A colleague of mine asked me the other day if I wanted to get involved in reinsuring collision damage waivers. I said that we are generally a life and health reinsurer and we really do not have it within the scope of our charter to provide the coverage. Of course, Cigna has P&C companies that do have the capability of using their paper. When she asked what I thought she should do, I asked what it was going to cost. She said they did some preliminary work and it looked as if it was going to be $.25 or $.50 cents per card per year. That is nowhere near $10 per day that Hertz or Avis or somebody might charge. I still do not know what the cost is and it is something that we are looking at. However, it may die rather rapidly because *Business Insurance* (May 9, 1988) has an article where Hertz endorses regulators' efforts in eliminating the collision damage

waiver from the rental of automobiles on the basis that it should be a cost of doing business. Of course, that was smart on Hertz' part because a lot of companies, unless you get into the lower rate rental companies, really give the car away for nothing and expect to make their money on collision damage waiver. So that was a good marketing ploy on Hertz' part. So this may disappear rapidly from credit card coverages, depending on what happens with the regulators.

In any event, getting back to the principal benefit that you see under credit cards, namely travel accidental death, there has been a real problem with that coverage for some insurance companies over the past few years. I do not know if you can specifically recall but in 1985 there were a number of major airline crashes. An Eastern airliner went down in South America. Another airline crashed into a mountain in Spain. Delta Airlines crashed at Dallas International. Air India crashed, as a result of a bomb, I guess, off the coast of Ireland. All of those accidents had severe credit card claims incurred. The one in Spain was approximately $2.5 million. Air India is $2.2 million, and is still not closed. The problem with that claim, of course, is that the plane was lost at sea. There has been some hassling going on because there were some foreigners involved. There is some hassle going on over proper identification of who was on the plane, who was not, who is eligible and who is not. The Delta air crash in Dallas was approximately $2.8 million in claims. And the Eastern crash in South America was about $1.5 million in credit card claims. The South African airline crash in the Indian Ocean earlier this year was approximately $1.8 million the last I heard, but that may come down a little bit. The Northwest crash that occurred in Detroit is currently open at $4.6 million in claims.

Most companies ultimately have a catastrophic portion of this type of risk somehow ending up back in the Lloyd's of London market. What has happened since the rash of airline crashes in 1985 is that a lot of Lloyd's syndicates no longer can buy credit card protection for their own general catastrophic coverage. Therefore, as supporters of domestic reinsurance programs, they are excluding any credit card programs that are being written. There are still some companies that are able to buy credit card coverage and there are still marketplaces available for it, but it is going to get tighter and tighter as the losses pile up and particularly difficult when you consider some of the sums that are being offered on some of these cards. American Express has several levels of benefits. If you have a green card, I think your benefit is $100,000 anytime you charge an airline ticket. If you have a gold card, the benefit is $500,000. American Express was thinking of raising its limits as of January 1, but changed its mind. But the levels that it was thinking of $250,000-$1,000,000. That is an awful lot of coverage. On regular VISAs and Mastercharge, if it is gold, it's typically $500,000 coverage and if it is not gold, it can be anywhere from $100,000-$250,000.

It is not just the cardholder himself who is eligible for coverage, it is usually his spouse and his dependent children too. And if you happen to be part of an endorsed marketing group, you may even have a bigger benefit. My boss went to Georgetown University, and Maryland National Bank markets a credit card through Georgetown University's Alumni Association. I think the benefit level is $1,500,000. Every time he jumps on an airplane, I know what card he uses. He does not use the corporate travel service any more. And I know that at Christmas time, when he went to Phoenix to visit his family all of his tickets were charged on this card. It was he, his wife, and his two kids, each for $1,500,000. It seems kind of ridiculous to provide that benefit level for the kind of charges that are being made on these cards.

When these things started, maybe about 10 years ago, on an annual basis, for $100,000, you would probably get $.15-$.20 per card. Of course, at that time, the assumption was that a person might travel on the average of 1/5 a trip per year. So every 5 persons would make 1 trip. Now the rates are in the area of probably $.05-$.07 per $100,000, according to *Accident Facts*, and would probably cover the exposure. But the problem is you are not working with the universe here. Only x number of people have a credit card and those that have it use it.

Finally, the last thing that I want to mention is reinsurance and Fred asked me to do that. This is not a paid commercial announcement. I guess you all get involved in reinsurance. I know that in my particular situation, just because of the nature of the business that I am in, a lot of companies have certain exclusions in their materials for trip travel -- travel accident type coverage or credit card coverages. So if any of you are thinking of getting into any of those classes of business, it would serve you well to just take a second look at what is going on in your own corporate catastrophic coverages. You also might want to bear in mind what kind of retentions you want to hold. I that at Cigna, while we can keep $3,000,000 a person and $15,000,000 per occurrence, I am judged partially on underwriting gains. And I know that as a particular profit center unit, I cannot afford to keep $3,000,000 per person or $15,000,000 per occurrence, so I arrange my own coverage.

Particularly in a situation that may be new and not very large, you want to be very careful how you structure it. And you will probably really want to buy catastrophic more than surplus per life. In this regard, the catastrophic costs usually are not that great. Get serious when you get into the travel and entertainment cards like American Express, Diners Clubs, and Carte Blanch. They are generally used a lot more for travel than VISA or Mastercard.

MR. SINGER: Mr. Robert McKean is currently the manager of the special groups department for Nationwide Insurance and National Casualty. He has responsibility for marketing, underwriting and administration of special risks health business for both companies. He has been associated with Nationwide for the past 29 years and he will discuss the specific events/sports and custom markets.

MR. ROBERT E. MCKEAN: Custom designing special risk brochure lines is a fun type of thing. There is always something new. Nationwide has been in the special risk health business since 1955 and I personally have been involved since 1958. In 1985, we assumed the additional responsibility for the underwriting, administration, and marketing of special risk health business for a subsidiary company, National Casualty Company. In 1987, our written premium was $10,450,000, which was 12.6% over the prior year. Our department has had 25 consecutive years of profitable operation. I am proud of that, and there are not too many health-only operations that can make that statement.

The organizational structure of the Nationwide and National Casualty special groups department is unique. Special risk accident and health is our only business. Subject to the final concurrence of the various staff officers involved, our duties include the following:

1. We are responsible for developing new special risk products and revising current ones.

2. We set our own rates.

3. We file our own policy forms and rates with the various state insurance departments.

4. We are personally responsible for the marketing of the products which we underwrite and administer.

5. We are also responsible for advertising and promoting our products on both a local and a national basis.

6. We do both initial and renewal underwriting on all of the products for which we are responsible.

7. We issue and administer our policies.

8. We initiate and actively assist in the systems development process that affects our products.

I would like to talk a little bit about the general concepts we follow at Nationwide and National Casualty because I think they are the key to our success. We have a centralized organizational structure. We work entirely out of our home office. We have no field representatives or field offices. Every policy is issued out of the home office, and all of the underwriting and administration is done out of our home office. In view of the fact that we control most aspects of our business, we are able to react promptly whenever a problem occurs or a new opportunity presents itself. For instance, we have a subsidiary organization, the Scottsdale Insurance Company in Arizona, that was writing a lot of liability coverage for white water rafting out in the West. They came to us for a product that would provide accident medical coverage for these white water rafting trips to be used as a companion policy along with the liability coverage. Within 3 days we were able to produce a product and sales brochure for them to market these products. So we react promptly and can do the same thing when problems occur. We take corrective action on a prompt basis because we control all aspects of our business.

We specialize in prepackaged products for small groups, and customized products for large groups. A group is usually considered large if it has a minimum of 5,000 lives. Although we do not hesitate to try new ideas and develop new products, we concentrate on doing what has worked well for us in the past.

We use the same rates and the same brochures in all states whenever possible. For example, in all 50 states we have a sports accident policy which we sell from a single brochure with a single application. One reason we can do that is that we make the state filings ourselves, and we really negotiate with the state insurance regulators in order to be able to use a single policy, a single brochure, and particularly a single application in all states.

We also use identical or similar benefit provisions, exclusions and limitations in each one of our products. That way when our claims people pay a claim, it does not make a difference if it is a baseball team, the volunteer fire department, or a preschool. They know that even though they are all different policies, the benefit provisions are identical on each one of them. They only have to learn one set of provisions.

We provide a broad description of covered activities. For instance, while most carriers provide group travel to and from activities, we provide individual travel on just about all of our products. We also use a broad definition of eligible persons. In other words, coaches, managers, volunteer workers and guests who attend a meeting for the purpose of being encouraged to become members, are automatically insured at no additional charge.

We use broad benefit language. Our AD&D benefit provides benefits for expenses incurred within one year. Our medical expense benefit has a 3-year benefit period, while most of our competition uses one year. Our weekly indemnity benefit goes to age 70. This is unusual as well.

We encourage benefit provisions which prohibit the insureds from profiting from the insurance. For instance, we have a choice of primary or excess medical expense coverage in just about all of our products and we include an offset provision on our weekly income benefit, which is very unusual for a product of this nature. You usually only get this with long-term disability products. But it makes a lot of sense because we are insuring people who ordinarily have other coverage.

We use a split minimum premium to encourage the election of medical expense excess coverage. This is unique in the industry. I know of no one else who does it. For instance, if you elect primary medical expense coverage, you pay a higher minimum premium than if you elect excess coverage. We have had no problems in getting this approved in the various insurance departments; the premium is paid entirely by the policyowner. This is a statutory regulation of several states. New York, South Carolina and Indiana all insisted on this provision in order for us to get approval of our excess provision, so we decided to put it in all of our contracts.

Our policy forms are designed to refer to the policy application with respect to all variable language. Thus when we issue a policy, all we have to do is attach the application to the policy. It is issued and there is no fill-in information. Our rate filings are broad enough to allow us to develop numerous prepackaged plans, using practically any benefit amount and practically any activity.

Whenever possible, we try to rate based on the actual exposure involved. An example is our volunteer fire product, which is rated based on the actual number of runs made. Again, it is a unique rating situation which no one else uses. Most of our competitors rate either based on number of pieces of fire fighting equipment, or the population of the area served on a first-call basis. We believe that the actual runs are a better measure of actual exposure, and we rate on that basis. We have been very successful with it.

We make prompt annual reviews of experience, particularly of our seasonal products, and we make prompt filing of rate increases. In view of the fact that we are responsible for basically everything, we will usually make a filing within a week or 10 days after we get the data from our systems operation. You have to do this when dealing with a seasonal product because you have to be out there in the marketplace to sell it when the next baseball or softball season starts.

We keep our expenses to an absolute minimum. We probably work harder on controlling expenses than we do on controlling claims. This is an extremely important part of the special risk health business, particularly when you are

dealing with small premiums the way we are. We would rather write a large number of small cases than a few large ones. For instance, during 1987, at one point in time we had over 26,000 cases in force with an average premium of about $395 each. We do not give exclusives to producers nor do we allow them to issue our policies or to pay our claims. This costs us some business but we feel that it is sound business on our part. We have seen a lot of problems occur when other companies allow this to happen.

We offer sports accident insurance. We rate baseball, softball and t-ball coverages on a per-team-basis by age class. Rates are provided for age groups of 9 and under, 12 and under, 13 through 15, 16 through 18, and 19 and over. We do not write policies for colleges and universities or semiprofessional or professional teams. We offer a 5%-10% premium discount based on the number of teams insured. We require a minimum premium of $100 if the primary plan is selected and $50 if the excess plan is elected. This product is filed and approved in all states.

Basketball, soccer, and tackle football are rated on a per-player-basis. We provide separate rates for fall and spring basketball, fall and spring soccer, and fall football. We offer higher benefits, up to $25,000, if an excess plan is selected.

All other sports, including archery, badminton, bowling, etc., are rated on a per-player-basis. We do not get a lot of requests for coverage of these sports. We have developed a general brochure that can be used when such coverage is requested.

We offer specified hazard insurance. Auxiliary police, auxiliary fire fighters, civil defense units and volunteer sheriff reserve units have an option of four different plans with four different benefit levels. Again, higher benefits are available if excess coverage is selected. The brochure we use serves as a proposal, an application and a premium remittance report.

All carriers offer campers insurance but not very many of them do it on a renewable basis. We do. We are finding more and more renewable camp groups which operate year-round camping programs. We offer the day camps a choice of primary or excess coverage. Overnight camps can only get excess coverage. We were not able to get satisfactory results on primary coverage for overnight camps so we withdrew from this market. We probably write $300,000-$400,000 per year of campers insurance and it has been good business. We require 100% participation but the client can elect to insure participants only or participants and staff. The premium is paid in three different ways. For short-term, nonrenewable coverage, we require the premium to be paid in advance. If a longer term is involved, we will do an audit at the end of the term. If coverage is year-round, we will bill quarterly in arrears.

Club accident insurance provides coverage for amateur choral groups, instrumental and concert groups, civic clubs, community clubs and country clubs. One feature of this coverage is that guests who attend meetings for the purpose of becoming members are automatically covered at no additional cost. We offer several plans and benefit levels and the option of individual or family coverage. But we do require 100% participation.

School time accident coverage is our biggest single seller. We sell to a lot of preschools and day-care centers under this particular program and for these we

use a 5-rate method. This contrasts with our competition which charges a single rate. We feel that because a child will go to preschool 3 1/2 hours a day, 3 days a week, versus 8-10 hours a day, 5 days a week for a child at a day-care center, we should reflect this in our rating. So we break our rates down for summer-only programs, 9-month half-day programs, 9-month full-day programs, 12-month half-day programs and 12-month full-day programs. For our full-day program, we only offer excess coverage. We insure about 4,000-5,000 day-care centers and preschools.

Sponsored groups are offered daily rates for a variety of activities. These include such things as bicycling, Bible school, boating, pageants and picnics. We again offer primary and excess coverage for participants only or participants and staff. Four different benefits levels are available. Most of the sales here are for tours, ski trips, and land trips such as a one-day trip to Cincinnati to watch the Reds play.

Nonresidential vocational rehabilitation training is an area which is growing for us. We write some fairly large cases here, including a lot of federal and state funded programs. Rates are provided on a monthly basis because a particular vocational school may have multiple programs, each lasting a different number of months. So rather than try to develop an average rate for the school, we charge each month based on the number of students. We offer the option of two different plans, year-round coverage and short-term coverage.

All special risk carriers offer a youth group product but not many rate the way we do. We break rates by the member's age, under 12 versus 12 and over, and we also have a separate rate for counselors. We have insured a lot of youth groups -- Boy Scout troops, Girl Scout troops, Indian Guide programs, etc. -- in this program. I think we compete with Fred's company, which sells a Boy Scout program to the National Organization. Our basis is primarily local representation and local claims service.

We also offer coverage for church, civic, and community-sponsored recreational programs, which must include arts and crafts as well as sports activities. We do not insure regular teams under this program. It must be a civic-type recreation program.

We can provide coverage for other specified hazards not previously discussed. We can put a proposal in the mail within 5 minutes of getting a call. We take great pride in our service.

We provide insurance for volunteer groups. Included in this is coverage for volunteer fire fighters. We rate using a base maintenance charge plus a charge for the number of ambulance, rescue squad, and other runs made during the past 12 months. This rating method is approved in a few states and we hope to implement it in all states by January 1, 1989.

We also offer individual travel accident insurance. We have some custom in-dues programs designed for groups of 5,000 or more individuals. Examples include a large worldwide travel and fishing club with 550,000 members, a farm-related state membership organization with 113,000 members, and a state sheriffs' association with 39,000 regular and honorary members. We call these in-dues programs since we automatically get them as a result of their being a member of the association or organization.

Our special risk products are marketed through various organizations. Of course our Nationwide career agents use Nationwide products. These are basically identical to National Casualty products but are printed on Nationwide paper. We market through our Nationwide subsidiary and affiliate organizations. We market through in-house brokerage firms of insurance companies with captive agency forces. We market through special risk health specialty houses. These are agencies that do nothing but special risks. We also market through independent producers contacted by direct mail, referrals, etc. We are continually making mailings to P&C producers; we buy lists from the *National Underwriter*.

Let me turn now to pricing considerations and concerns of special risk health business. One is competition. We never copy competition, but we always like to see what they have, what they are marketing, and what their product design is. Often whether you provide individual or group travel in a product will make a difference. The fact that you have a three-year benefit period as compared to 52 weeks with medical expense makes a difference. What you are covering specifically and your definition of covered activities make a difference in the rates.

You have to be cognizant of statutory requirements. For instance, at Nationwide we have some gender-based ratings, which we are going to move away from. We had to withdraw from Wyoming and it looks as if we may have to pull out of Massachusetts, and there are other areas where gender-based ratings are under fire.

Expenses, as I said before, are a prime concern for us in our rating and we work very hard in keeping expenses to a minimum. We have to.

Most of our competition will offer a 20% or 30% discount if you elect excess coverage as compared to primary. We vary that based on the duration or the maximum amount of the benefit and the deductible, and if you think about it, that makes a lot of sense. For instance, if you have the maximum deductible allowed, which is $2,500, and the maximum benefit is $25,000, our discount is over 92% to go from primary to excess. You can figure that most of your coinsurance, your stop loss and your deductibles, are going to be covered by that $2,500 deductible. So when you get over the $2,500, the majority of the benefits are going to be covered by other insurance. For that reason, we vary the discount. As far as I know, we are the only company that does that.

We have filings which provide for rating flexibility. For instance, in our sports accident, we can write on a team basis or on an individual sports basis, for each game, each match, or each meet. We can develop composite team rates. We have a formula filed that allows us to recalculate a rate based on the actual age group of the team involved if the age group does not fit our predetermined age group. We charge rates for boxing or wrestling on a per bout basis, and for handball and racquetball on a per hour participation basis. We have a great deal of flexibility in our rating, which is what it takes if you are going to be in the special risk marketplace.

We review renewable and nonrenewable individual case experience monthly, regardless of the size of the case. We will look at a $25 case on renewal, if we have a loss problem. We put them out by exception. With 26,000 cases a year, we cannot look at every one of them so we look at three years of experience. If the paid claims ratio on three-years experience exceeds 60%, we will look at the case. And we will actually take renewal action on a $25 renewable case.

We look at experience by rate class at least twice a year, and experience by rate class within county and within state at least once a year. As more and more state insurance departments are requiring a minimum of three years of experience in order to justify a rate increase, we necessarily look for trends in our loss experience. As previously mentioned, we never hesitate to make a rate increase when one is justified.

We have data processing and management reporting. Our group system is designed with special risk in mind. We had a member from our area on the team which designed the system and it therefore took special risk into consideration. On our renewable policies and nonrenewable policies subject to audit, we have 34 different rate billing formats that we can use. There is a great deal of flexibility. On nonrenewable policies, we automatically send a rewrite notice and a sales brochure to the producer 60 days before the anniversary of the prior year's effective date. We are saying that since he wrote this last year here is a brochure to rewrite it again this year. This is all done by our system. We have an item-tracking system which keeps track of our business. We get 300 or 400 applications in per day, particularly right now when we are in the middle of processing baseball and softball business. When something comes in it is extremely difficult to keep track of whether that policy has been issued or where it is. We have a pc system that tells us where each application is at every point in time. We have a software package called DOCUMERGE, which some of you may be familiar with, and we use a XEROX 8700 laser printer. We will code our information in the afternoon and the following morning we will automatically receive a producer's address sheet with the producer's name and address positioned for a window envelope, a cover note to the producer, a policy delivery letter, a master policy and any state rider requirements, claim forms and instructions. We do not issue our own policies -- they are all done on a laser printer and it works well. We have a quality product and we do not have to stock these items.

Our flexible special risk management reporting system is designed to our specifications to meet the special risk health management reporting needs. We can request any one of about a dozen reports, using any of 23 separate selection parameters, and look at the business any way we want to.

MR. TIMOTHY P. SCHILTZ*: Connie, on the automatic flight insurance that the travel agents put into their packages, have you had any problem with any of the states saying this is an inducement to purchase your trip through this travel agency and therefore you cannot offer it?

MR. LEHANE: To be honest with you, I cannot answer that question because I am on the reinsurance side and I do not deal with regulators. Perhaps Fred could answer that question.

MR. SINGER: I do not think that we, at Mutual, have had any difficulty with that.

MR. SCHILTZ: Joe, when increasing rates, you mentioned that you do not vary the increase by the plan of benefits. I wonder if it was not worth it to take

* Mr. Schiltz, not a member of the Society, is Financial Director of Travel Insurance Services of Transamerica Occidental Life Insurance Company in Los Angeles, California.

into account the effect of leveraging of inflation based on the deductible or the maximum for those types of coverage.

MR. BRENNAN: Yes, the choice of the 11% is really a rule of thumb we have been using, which was to use the CPI index plus two, so we used the 9 plus 2. If you have a deductible, say $200 on the plan, you are going to have a deterioration of that deductible and, generally if it is a $100 to $200 deductible, you would add about a point a year. So you would move it up to 12. If you have an extremely scheduled plan, like the accident plans, or just an extremely scheduled sickness plan, you can cut the inflation down to 7% or even 8%. But yes, it does vary and you have to use a lot of your own intuition on that.

MR. SCHILTZ: Do you ever look into varying the size of the deductible, as opposed to varying the size of the rate increase?

MR. BRENNAN: Constantly. When you make a bid, if you are raising the rates by say 50%, nine chances out of ten you will lose the case to someone else. The smartest thing to do is give the school some kind of an option to bring the rate down. You are going to get a 50% rate increase or you can take the $100 deductible to a $200 deductible and it will only give you a 40% rate increase.

MR. MICHAEL R. WATERMAN: This is just a comment more than a question. The collision deductible that Mr. Lehane mentioned is a very new situation that some of the credit card companies are getting into. We have had the occasion to do some investigation and found that nobody really knows what it should cost. The car rental companies probably know, but they were not about to tell us. The elements involved are what the likely claims are going to be and how likely a card member is to actually use the coverage. Another consideration is whether he has existing coverage. In other words, the plan may be second payer to some underlying auto coverage that he already has. It turns out that a lot of people do already have that on their car insurance policies, which kind of explains, to some extent, the crazy rate that Mr. Lehane quoted. Most people seem to think it is likely to be about $5 per card per year, but if you take these other elements into account, the fact that they may not be used, and the fact that they may be second payer, you can get it down. The other thing that no one knows is how the car rental companies are really going to react. I believe the major companies will not give customers a big hassle but you cannot always rely on that. The other thing is you had better inspect the car before you take it off the lot.

MR. SINGER: I think your comments are most appropriate. And I think that looking back to when Mutual got into credit card enhancements for the first time on AD&D, our extremes were even worse than what Connie mentioned earlier. We started out with rates of about $.50 and within a period of about 2 years, we were finding ourselves having to go down to a nickel if we were going to stay in that marketplace. I think a lot of the carriers try to go in conservatively and I suspect the same thing will happen in the market you are talking about.