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# INVOLUNTARY UNEMPLOYMENT INSURANCE

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Recorder: TIMOTHY M. WILP

- What is it?
- Markets – credit card, single premium, mortgages
- Pricing/repricing issues
- Value added (blanket) versus voluntary programs – a case study
- Experience
- Regulatory/valuation issues
- Reinsurance

MR. RICHARD L. BERGSTROM: I'm with Milliman & Robertson (M&R) out of the Seattle office. I've been with M&R for about nine years now. I had stints at J.C. Penney Life in Dallas and Great American Reserve in Dallas, and I started out my actuarial profession at Mutual of Omaha in 1971.

Mike Moran is not an actuary and currently is with the Bank of America Insurance Group and has been with them since 1985. He's currently directing the formation of the Bank of America's General Agency, which is the entity responsible for the distribution of all of its life and health and product and company (P&C) products to the bank's retail and commercial clients in eight western states. Mike previously worked at Firemans' Fund in northern California. Prior to Firemans' Fund, he started his career at the Chubb Insurance Group as a personal lines underwriter. Mike has a B.S. in business administration from St. John's University.

Perry Kupferman is currently deputy chief actuary at ITT Lyndon in St. Louis and he's been with ITT for about five years. Prior to that, he was the chief actuary at Balboa Life and Casualty in Irvine, California. He started his career at Transamerica in Los Angeles. Perry has a B.S. and a master's in mathematics from California Polytechnic State University – San Luis Obispo.

Finally, our recorder, Tim Wilp, is currently the appointed actuary with Balboa. He has been with the company for about five years.

Involuntary Unemployment Insurance (IUI). Note the word *involuntary*. That's kind of a key word in this whole thing. We'll go through what it is, what some of the markets are, and some of the pricing issues that we face in developing such plans. I will address the first three topics. Then, I will turn the reins over to Mr. Moran who will give us a fairly good case study of value added and voluntary programs at Bank of America. Finally, Perry will discuss experience, monitoring of experience, and some of the key regulatory valuation problems that we face with these types of products. Finally, he'll touch briefly on reinsurance.

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First, involuntary unemployment is not life insurance. It is really a casualty product. I've seen it filed in one state as a credit disability product, and it was approved. Generally, it is a property and casualty (P&C) product so, if you sell this, you do need a P&C license and company with which to underwrite it. These coverages are typically not stand alone, at least, I have not seen a stand-alone product. They're always wrapped around a loan of some sort, and the loan could be in the form of a credit card as well as an installment loan. Typically, a payment is waived during a brief period of involuntary unemployment. The coverage could be a credit card payment. It could be an auto loan payment. It could be a mortgage loan. There really are a variety of products currently. But the benefits and the eligibility for the benefits are quite narrowly defined by necessity. There's always, of course, the potential of antiselection which we need to be concerned about. There are two versions of the plan that I'm familiar with. There is a blanket plan and a voluntary plan.

In the blanket plan, a bank, for example, will purchase this type of coverage on behalf of an entire group of people. This group could be mortgagees. So, everybody gets the coverage. Penetration is 100% of those that are eligible for the coverage.

The voluntary plans end up dove-tailing onto the blanket plan as the blanket plans tend to be of short duration, one year or maybe two years at the most. Voluntary plans now include a cost to the consumer. He makes the payment for it and, of course, the penetration is somewhat less than 100%, as you might imagine.

The eligibility requirements also tend to be quite constrained on age. I guess I have seen one plan that does go up to age 65, but most of the plans that I've seen really cut off at about age 55. It becomes very difficult beyond that age to really determine what's unemployment and early retirement.

The credit card market has been around for some time now. This product waives the minimum payment on your credit card for some predetermined amount and time frame. I have seen the payment be a percentage of the balance. If the minimum payment is 3% of the balance, then it is waived. There is often some dollar minimum, such as ten dollars a month, for example.

For auto loans, or any installment loan, the general benefit is the waiving of a payment. We'll get into some of the specifics about benefits a little bit later.

For mortgages, it's the same thing. Usually, your mortgage payment is waived up to some dollar maximum. I've seen programs that do go as high as $2,500 a month.

I am not sure if there are other markets out there. I did read about one product that was being sold by New York Life, which is attached to an annuity. How they do it, I'm not sure, but it is attached to an annuity. In periods of unemployment, it would waive the surrender charge should you need access to your funds, and that seems to make sense and a good market. I do not know if it was approved under a life concept or if they had to use a P&C product and company to do that.

Other markets, or other distribution systems, would include, of course, direct response. This is very common to the credit card market and more recently to the mortgage market. If a group can be identified as eligible to market and the loans are in existence, and people do somehow qualify or meet the eligibility requirement, direct response is certainly a relatively inexpensive means to get to these people. The advantage of it is that you can get to as many people as you choose to of an existing file. Of course, the disadvantage is that you have a fairly low response rate when you do so. Maybe Mike will get into more detailed numbers during his presentation, but I would suspect that the penetration rate of 5% would be quite high for a direct response.

The point of sale, of course, is easily done at the initiation of the auto loan, or the mortgage loan, or whatever. The real advantage here is that the lending officer has a chance to both explain and answer questions about the program. By doing so, I think you're able to get not only a much higher penetration, but you can also sell more upscale products than you could through the mail. Of course, the disadvantage is that you are approaching only those with new loans. You don't really have a past market to solicit. I might also say that there are at least three premium payment methods that I've seen. Some companies express the premium as a percentage of the outstanding balance of a loan, for example, with the credit card. Others do it as a percentage of the payment. Then, those that are written through auto markets that tend to be single premium in nature, much like credit life and credit disability, are often expressed as *x* dollars per hundred dollars per loan for a year.

Let's look at a blanket program. These are the ones that necessarily have to be relatively inexpensive because the bank or some entity other than the customer is paying for it. So, it's necessary to build in some constraints. You want to have a value-added product. You want it to be real and to look like there is value there. Frankly, there is value there. But you can't afford to pay for everybody. So, the types of benefits that tend to help limit the cost of this would be, for example, to exclude the first, one-to-three months of unemployment. If you were unemployed during that period of time, nothing happens.

You cold also have an elimination period of 30-90 days. Once you become unemployed, you simply don't receive benefits for the first 30-90 days. We had a program at Mutual of Omaha that had a 90-day elimination period. If you were still unemployed at the end of the 90 days, we paid off the whole balance. We called that our 91-Day Pay Plan. It's amazing how many people will stay unemployed for 90 days. The period is shorter now. I've also seen this type of program work on a retroactive basis, too. So, if you're unemployed for 60 days, the program will go back and pick up the first two months of unemployment benefits as well. The benefit period obviously is rather important in controlling costs. I've seen benefit periods of 3, 6, 12, and 24 months, but frankly, it can be anything you'd like it to be. Most programs are at least 12 months, and some blanket programs are even longer than that. The point is, you need to have a cut-off because you go back and solicit people with the voluntary program. The bank likes that because it is not paying for it and it gets a commission on those people who do take you up on the voluntary program.

I've seen programs that typically limit benefits to the first 12 or 24 or 36 months of the plan. If you have a mortgage unemployment product, the blanket program may only go for a year, at which point you get resolicited for the voluntary program as well. Regarding extension coverage, if you have a benefit period of six months, but you become unemployed in the eleventh month of a twelve-month program, and you do not have the extension, you essentially get one month of benefits. If you do have the extension, then it would continue beyond the normal coverage period. Extension coverage is an important pricing assumption for the blanket program cost because with the solicitation of people who are now financially accepted for a new mortgage, the bank should have done its financial underwriting. Usually these folks do not have claims in the first year or so.

The maximum monthly lifetime benefits are important. Some programs have a maximum lifetime benefit of 12 payments, but they may only give you six of those payments consecutively so you end up with maybe two sets of six payments. That helps curtail the practice of becoming unemployed and letting the bank pay for your house. There needs to be some type of a monthly maximum; $2,500 is the common maximum that I've seen. Some programs for installment loans other than mortgages may be even lower than that.

I want to briefly address more of the pricing. I talked a little about pricing issues. You'll probably end up designing about a dozen plans because you need to build a matrix of benefits so that you can look at your different sources of revenue and what the different costs are going to be. You should find or develop a program that will have the optimal response for whatever you're doing and the optimal response obviously is going to be sensitive to many different issues. Cost not being the least. You'll need to look at different elimination periods, different waiting periods, different benefit periods, and different coverage periods. In essence, build a matrix of benefits. You'll need to decide whether you want it with or without the extension if it's a blanket program.

I think most companies look at regional unemployment, which I think is necessary. Not all products get filed in all states. You need to be keenly aware of whatever your base statistics are for unemployment. If it's the federal numbers, you at least need to look at whether you want to make some kind of a state or regional adjustment. That's very important to cost. The programs that I've seen have adjustments that run anywhere from 0.5-2. That can make quite a difference in the cost.

Delinquency rates in the market is a real key also. If you approach a financial institution with a product, you need to ask what their delinquency pattern has been in the past. Typical delinquency rates for mortgages may be 5%, but if a bank is experiencing 10%, you need to find out why. Expenses obviously are important. If your expenses are more than about 10-15% of your premium, I think you need to redesign your program. That does not include commissions. Your direct marketing costs and your overhead costs, taxes and claims administration should not exceed about 15% of the premium. You need to set a profit objective. The plans that I've tried to build have between 10-15% pretax profit margin objective. What that really says is that we have an extra 10-15% margin in there per average deviation.

Commissions. Obviously the cost is very sensitive to commissions. Commissions on voluntary programs that I've seen tend to run between 10-20% with 15% being a common average. You need to decide if you want to have a waiver of premium. On a blanket program, usually the answer is no. The bank keeps paying, even if someone is on claim. For voluntary programs, I think it's more common. It's common to have a waiver on voluntary programs when they are in claim paying status.

Investment income. For pay-as-you-go programs, this is not going to be a big issue. For the closed-end loans or the single-premium plans, I think you do need to be able to factor that into your rating process. The reserves obviously don't affect the ultimate profitability of the plan, but I think the key here is that you need to understand the patterns of benefit payout and you need to look at that continually and monitor it. Perry is going to talk about that a bit more.

At this point, I'm going to turn it over to Mr. Moran who will give us a case study of Bank of America's program.

MR. MICHAEL P. MORAN: I feel like a duck out of water -- a marketing guy with actuaries. But, with an insurance background, I consider myself a little bit knowledgeable on your side of the transaction. I'll tell you one thing, though. Banking is really changing a lot. Just yesterday, in fact, we had some new senior management members at Bank of America talking about the use of insurance to differentiate traditional bank products extensively. I'm off my script now, but I'll just tell you about a couple of things we talked about with Dick Rosenberg and others from Bank of America.

One suggestion was packaging homeowners insurance with the mortgage, where we might be able to put another 15 basis points on top of the crediting rate and give away the homeowners insurance as part of the crediting rate.

We talked about building in some insurance on deposits of over $100,000 and this was a hot one because, quite frankly, you never want to bring attention to yourself about your limitation. But, as you all know, $100,000 is the FDIC limit. We were talking about building in some insurance above $100,000.

Reverse mortgages are now being bought in the secondary marketplace with Fannie Mae and Freddie Mac, and we have an allocation. The bankers are scared to death of the mortality risk. As an ex-banker, I can tell you that at Bank of America, on our first mortgage base, the average age of our customer is 58 years old and our average mortgage amount is $224,000. So, what you're seeing is a trade-up market. We have an excellent database on mortgages that have been paid off. We have historical data going back six years on people that have paid off their mortgages. What a great base of cost cuts.

Bankers avoid risk. Insurance people manage risk. A lot of times I feel like I'm right in the middle. But banking is changing. Banking is clearly changing and I can tell you that every major lender is looking at the unemployment insurance. Just last week, a very significant mortgage lender in California, Country Wide Funding, just dropped a free unemployment program. Recently, I spoke with Chemical Bank at one of our association meetings in San Francisco. The Chemical Bank people are looking at the unemployment program right now. We were the first federally chartered bank in the U.S. to offer a bundled product, and that's the name of the game these days. We were the first on October 19 to come up with a bundled mortgage, first mortgage and unemployment product. I can tell you there is more demand than there is product out there right now. Some insurance companies have already "re-tooled."

American Security came in with a very big splash in about August 1992 with an institution. They didn't take into consideration some of the things Rick mentioned. But we did take them into consideration in the building of the Bank of America plan. But they came in about August 1992 with a very big splash with an institution that had an extremely high delinquency and foreclosure rate approaching 10%. About nine months after they released this program (it was a blanket program) they were tanking. They were under water. They didn't underwrite the institution close enough. As a result, they scrapped and receded many deals that they had in California and throughout the West Coast.

Signature Group was coming in a very strong way. They were probably doing it wrong. They were trying to push this through as a debt cancellation approach. Well, to the best of my knowledge, in all but five states, the attorney general has deemed debt cancellation to be insurance. It is insurance and, as a result of it, the bankers would have difficulty because they are unlicensed when explaining the benefits of the program to their mortgage applicants or whatever product they're attaching it to.

Great American tried to come into the market on a surplus lines basis. Our insurance commissioner, Mr. Garamendi, who we're very close to, doesn't like surplus or excess-type programs. AIG is coming into the market, but only on a blanket basis. RLI up in Chicago has been toying with it. In fact, they're targeting realtors and builders very closely.

We need more products at the financial institutions and every financial institution is looking at this product for first mortgages, consumer loans, home equity loans, and so on. After all, a loan does nothing more than create an insurable event. The unemployment piece is one of the hottest pieces out there right now within the financial institution sector.

Let me tell you a little bit about Bank of America. We are now in 11 states, western states, believe it or not. We have $181 billion in assets. One hundred thirty-eight billion dollars of that is in the deposit area. We're the second largest bank in the U.S. today. We have our retail lending division. There are three principle ones, not including the finance company that we also picked up with our acquisition of Security Pacific. We have three lending divisions. One is the residential lending division with over $24 billion in assets. I can tell you that last year we originated, in the state of California alone, about 65,000 new first mortgages.

The consumer lending division, which consists of auto loans principally, and there's some home equity and seconds, has $17 billion in assets. Then there's our credit card area. I don't know how many of you know this, but at one time, in the early days, Bank AmeriCard, today known as Visa, started the credit card industry. We have about $7 billion in assets in our credit card portfolio. So, we're a significant player in the banking world, especially on the West Coast. As a marketeer of insurance and securities products, it gives me a lot of raw material to work with. We have affinity to leverage off of. We also have premium collection devices such as electronic fund transfer (EFT), which is getting very popular.

I've mentioned our acquisition of Security Pacific, which was probably the biggest merger/acquisition in the history of U.S. banking. I vacillated by calling it a merger/acquisition because, quite frankly, Security Pacific probably wouldn't have survived through the balance of 1993 without Bank of America stepping in. They had some very problematic commercial lending and other problem assets, but the strength of Security Pacific, where there was strength, and the strength of Bank of America teamed up to be a massive powerhouse.

The Community Reinvestment Act (CRA) is a hot area. Essentially it requires a financial institution to lend money in low-income census tracks, as well as to minorities. When the Federal Reserve approved our acquisition of Security Pacific, we made a commitment of doing $10 billion in CRA lending over the next five years. A very significant number. A side bar on that. I've seen the delinquency and foreclosure rates of our overall portfolio, and I've seen the three-year delinquency and foreclosure rates of the low-income census track. Our delinquency and foreclosure rates for the last three years have been better in the CRA area than they have been in the traditional mortgage portfolio. This is truly a white-collar recession that we're going through.

The data to support CRA mortgage lending comes out very late. It's usually reported in October of the next year. As we were looking at the mortgage unemployment program at Bank of America, this was about June 1992, we anticipated our CRA numbers and it's chronicled in a report called the Home Mortgage Disclosure Act (HMDA). It chronicled 1991 numbers in October. We anticipated some negative press even though we had made great strides in originating a lot of CRA mortgages. The problem that we anticipated was a high degree of declines. So, the long and the short of it is that I approached the bank in anticipation of some adverse CRA numbers and started presenting them with a great deal of market research that we had done to support the introduction of mortgage unemployment on a blanket basis initially through our CRA mortgage base.

One piece of market research that I put in front of the bankers, at that time, was a study that was done by Fannie Mae in 1992. So, it was very current when I presented it to the bank. We found that the three top obstacles for home ownership were down payment, income to pay a loan, and job security. Well, Bank of America had taken care of the first two. They came out with a mortgage lending program called Neighborhood Advantage, and the downpayment requirements were very low, as little as 5% or less. The income to pay loans, again, was loose compared to our normal mortgage underwriting criteria. So, those first two were taken care of by a bank program that was introduced in the prior year. But the third one, job security, kind of bounced off the page. The bank hadn't really taken a good look at how to overcome this obstacle to home ownership.

The next area of research that we put in front of them was job security. The interesting number here is that 60% of our respondents had mentioned that their jobs are less secure today than they were five years ago. We're looking at 10% unemployment rates in California. This number did not surprise us. But to put it in this perspective in front of the bankers, they realized that this was an obvious concern. You know, in the past year, eight million Americans were unemployed. These are national numbers. Over four million lost their jobs through no fault of their own –

downsizing, mergers or whatever. Three million people filed for unemployment compensation and 61,000 companies went out of business. Layoffs were announced by the biggest corporations out there: AT&T, IBM, General Electric, and most recently, in the Washington state area, Boeing. Some 10,000-20,000 people are being laid off at a time. I think the fear and the loss of jobs due to mergers would be even greater today than it was 2-3 years ago.

The biggest fear amongst executives was loss of jobs. Now, why is this important? There is a third area that I've recorded in the HMDA numbers and that is people that live outside of low-income census tracks. They are not necessarily low- or moderate-income people, but they buy in low-income census tracks. That also is reflected in the HMDA numbers. So, this became significant for home investors and landlords. Loss of a job today is more common than death or disability. Each year, 500,000 Americans are disabled, one million Americans die, and four million working Americans lose their jobs. So, it's a big number. The biggest question that we were anticipating from the bankers was, well, won't the State Unemployment Program do the job for us? Don't people have an idea that they are protected in this area of unemployment? So, we asked the question: Will current government funded programs provide adequate unemployment protection? Interestingly enough, 34% said they agreed with that statement. They said, "Yes, the unemployment compensation provided by the respective states would be adequate." It's more interesting though that almost 50% said it wouldn't be adequate. So, we definitely have an informed public here. Few Americans have enough liquid savings necessary to carry them through six months of unemployment. The average American family saves less than 1% of their annual income. The average American has less than one month's salary in available savings. If a person were to save 5% of their monthly income, it would take ten years to save six months of salary.

So the next question we presented to the folks out in the public domain was, given my financial obligations, would I need financial protection if unemployed? We definitely have an informed public because 60% said that they would agree with this statement. Thirty percent disagreed with it. I've been looking at unemployment insurance for a long time. I was looking at it as adding an endorsement to a homeowner's policy when I was up at Firemans' Fund and we did some market research at that time. The long and short of it is that state unemployment compensation is a whole area that needs to be addressed to educate the consuming public. I'm not saying you have to get the consuming public through a learning curve on mortgage unemployment or any type of unemployment program. It's not like long-term care. Long-term care (LTC) would bring in the customers or the prospect for long-term care. We're bringing them through the learning curve. They know what their risk is.

Here's what they don't know. In the United States, the maximum unemployment benefit is $300 per week. Now, mind you, we've had some extensions by Congress. That was another unknown, but it has become known lately because Congress has kept extending the unemployment period which is limited to 26 weeks. If you look at California, for example, we are even below the minimum (Table 1). Two hundred thirty dollars is the maximum benefit available to an unemployed Californian. Looking at Pennsylvania, they got the high and the low. Thirty-five dollars is the minimum. Two hundred ninety-nine dollars is the maximum.

TABLE 1
Weekly Benefit

| State | Minimum | Maximum |
|---|---|---|
| Arizona | $40 | $185 |
| California | 40 | 230 |
| Ohio | 42 | 291 |
| Oregon | 63 | 271 |
| Pennsylvania | 35 | 299 |
| Virginia | 60 | 198 |
| Washington | 68 | 273 |

When we looked at providing, and I'm going to use the word "free insurance," or perhaps complimentary might be a better word, one of the things that we had to really come to grips with was how are we going to pay for this? And one of the ways is through a voluntary program. We'll talk about a couple of others. But it definitely could be looked at as a risk management exercise because we were thinking that we have a very attractive delinquency and foreclosure rate at Bank of America especially when compared with the industry. Unemployment was the biggest reason for delinquency and foreclosure.

In January of this year, we looked at 26 foreclosures. Eight of them were foreclosed due to unemployment; however they weren't unemployed when we foreclosed. They were able to secure jobs. They got so far behind in their monthly mortgage payments that they couldn't catch up. So, if they could get over that hump, Bank of America would definitely look at this as a risk management measure. Then we asked ourselves, if we're going to pay for this, are we going to have to sell a little bit of it? Would they be willing to buy? Thirty-two percent agreed that they would purchase this insurance. Now, we didn't talk to them about price in this survey. Prior studies have shown that the price resistance point is $25 per month. Now, when I get to our case study, you will see that we exceeded that $25 price resistance point. But maybe it's because of a lot of adverse selection, but nonetheless, $25 was shown as the price point of no return. If you get above that, you're not going to sell it. So, we didn't talk about price in the survey. But, a third of the population was comfortable with the concept.

We wanted to develop our marketing message. Psychographics is coming into marketing. When actuaries price products, they must look at various penetration levels and spread of risk and things of this nature. Part of my job is to get the message out there. Talk to the people about what they want. As the old adage goes, selling refrigerators to Eskimos is a tough sell.

So we had to look at what consumers want to do with their job-loss benefit? Well, interestingly enough, the number four area that came in was protecting loss of home with mortgage payments. (See Table 2.)

TABLE 2
Consumers Want Job-Loss Insurance to Protect the Family from Hardship

| Rank | Reason to Purchase | % Say Very Important |
|---|---|---|
| 1 | Protecting family from hardship | 87 |
| 2 | Paying monthly bills | 85 |
| 3 | Maintaining health insurance coverage | 77 |
| 4 | Protecting loss of home with mortgage coverage | 76 |
| 5 | Affordable monthly premium | 75 |

I'll give a little trade secret away. We're going to come out with an add-on provision for our mortgage unemployment program. We will add on $100 of COBRA payment per month. At different intervals during the blanket period we are going to say that if you enroll today, at no additional charge, we'll give you $100 that will apply towards your COBRA payments. This research was able to show us that we had add-on capability to up-sell current unemployment customers. We also had a means here, taking a look at this, to get customers to commit early into the blanket rather than at the end of their blanket. We were trying to minimize the adverse selection.

We talked about how California has been hammered by layoffs and the economic uncertainty in the recent years. And with this uncertainty, we've seen a lot of house sitters. With the exception of refinancing, loan volumes are way off. Refinancing still commands about 65% of our new originations. But our loan volume was way off. So, despite the low interest rates that we have out there today, and home ownership at its highest level in years, home purchase mortgage lending has suffered. So, the bankers at Bank of America look at the mortgage unemployment piece as a way of increasing the new originations. You know, consumer confidence still remains low despite signs of economic recovery. The consumer confidence for December 1992 reached its highest level in one-and-one-half years with a rating of 78. This rating, however, was well below the early 1990 prerecession level of 100-110. The net effect of this is that you're seeing a lot of refinancing activity, but the fence sitters on new home purchases, the purchase market as we call it, is way off.

As the largest financial institution in California, the Bank of America has a responsibility to assist Californians in coming out in the economy. I remember about a-year-and-a-half ago, we came out with a new home construction lending program. The financing rate was 200 basis points off the prevailing market rate. I saw builders advertising our interest rate to try to kick the economy a little bit, to give it a jump-start. As Bank of America looked at developing a public relations campaign to support this unemployment program, it made the unemployment insurance complimentary. The thought was that this would be very good for Bank of America's image. It might encourage the fence sitters to get off the fence and buy new mortgages on new homes.

As mentioned earlier, Bank of America began the complimentary blanket unemployment program in October 1992. They digested all of this data and they said, okay, let's do it.

Any mortgage originating in 1992-93 would be covered for unemployment for the next one, three or five years. If a person became unemployed in that period of time, they would be covered for the loss of wages and we'd make their mortgage payments for them. The bank wanted to keep the elimination and the waiting periods to a minimum. You're starting to see a lot of programs coming out with 90-day eliminations and things of this nature. I mentioned the Country Wide program as an example. I understand that their program has a 90-day elimination.

Table 3 shows the various rate levels. The guaranteed premium column was a hard one for an underwriter to swallow. But think of it from my perspective. If we go out there and tell our customers, "Take a mortgage out with us, you'll have unemployment insurance for three years gratis." Now, let's just say that the loss experience goes upside down after 12 months. Now, you as the insurance company come to me and say, we have to double-up or triple-up the rate. Now, where would that put us with our customers if you had to do that? So, this became a deal-breaker in our negotiations with our underwriters. The insurance company will guarantee it for one year, three year or five years. The last five-year example in Table 3 shows no extension. That was the only one. We had convinced the bankers that we absolutely had to have the extension on that. You must talk to the banker's mentality and that's shown in the far right-hand column. We have projected for the bankers the amount of your spread and how much each term is going to eat into the spread. It's not a real significant amount.

TABLE 3

| (1) Term | (2) Benefits/ Occurrence | (3) Total Benefits | (4) Elimination Period | (5) Waiting Period | (6) Guaranteed Premium | (7) Total Premium $ Million | (8) Total Premium % of Fundings | (9) Reduced Spreads |
|---|---|---|---|---|---|---|---|---|
| 1 Year | 6 | 6 | 30 Day | 30 Day | $2.10 | $ 6.4 | 0.10% | 2.3 bp |
| 3 Year | 6 | 12 | 30 Day | 30 Day | 2.48 | 37.1 | 0.58 | 13.3 bp |
| 3 Year | 6 | 6 | 30 Day | 30 Day | 2.10 | 31.3 | 0.49 | 11.3 bp |
| 3 Year | 6 | 12 | 90 Day | 30 Day | 2.00 | 29.9 | 0.47 | 10.7 bp |
| 5 Year | 6 | 12 | 30 Day | 30 Day | 2.48 | 47.8 | 0.75 | 17.2 bp |
| 5 Year | 6 | 6 | 90 Day | 30 Day | 1.50 | 28.9 | 0.45 | 10.4 bp |
| 5 Year | 6 (no ext.) | 12 | 90 Day | 30 Day | 1.30 | 25.1 | 0.39 | 9.0 bp |

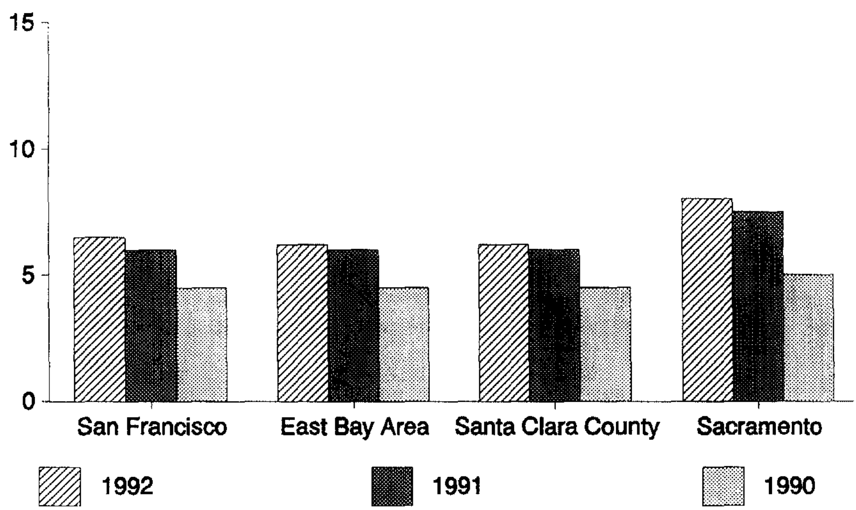
(1) Term: Duration of Complimentary IUI coverage from date of mortgage origination.
(2) Benefits/Occurrence: The maximum number of consecutive monthly mortgage payments per occurrence.
(3) Total Benefits: The total number of monthly payments covered over the life of the policy term.
(4) Elimination Period: The period of time between the first day of unemployment and the first day the borrower is eligible to start receiving benefit payments.
(5) Waiting Period: The period of time from the coverage effective date in which occurrences of unemployment will not be covered by the insurance.
(6) Guaranteed Premium: Rate of charge is constant for the entire term of the policy (non-guaranteed rates are less expensive).
(7) Total Premium: Premium is charged as a percent of total monthly PITI. Assumes promotion runs from second Q to fourth Q 1993 with volume equal to $6.4 billion (44,114 loans).
(8) Total premium % of Fundings: Total Premium divided by $6.4 billion (total estimated volume).
(9) Reduced Spreads: Assumes 100 basis points in fee equals 23 basis points in spread reduction.

What we don't know is, from a risk management standpoint, how many delinquencies and foreclosures you are going to minimize as a result of the unemployment protection. How much will the secondary marketplace (Fannie Mae and Freddie Mac) be willing to pay for insured loans? Early indications are that they're willing to pay 15-25 basis points. If that is true, these numbers become insignificant and it's nearly a throw-away.

The last point is how much additional income are they going to make in terms of an increase or an incremental increase in the number of new originations? All of this was unknown to us. We basically said, "Ignore all that. We don't know any of that and we can't quantify it."

When negotiating with underwriters, several things became readily apparent: one is not all institutions are alike. California is a very large state and many of the early institutions like the Glendale American Security Program has been withdrawn. Glendale originated an inordinately high number of mortgages in southern California. We originate an inordinately high number of mortgages in northern California. So, I would build this into my negotiations with the underwriters. In 1992, we were hovering right around 5.5-6% unemployment rates in northern California where Bank of America was originating the vast majority of their mortgages (Chart 1).

CHART 1
Northern California Unemployment Rates
July 1990-92

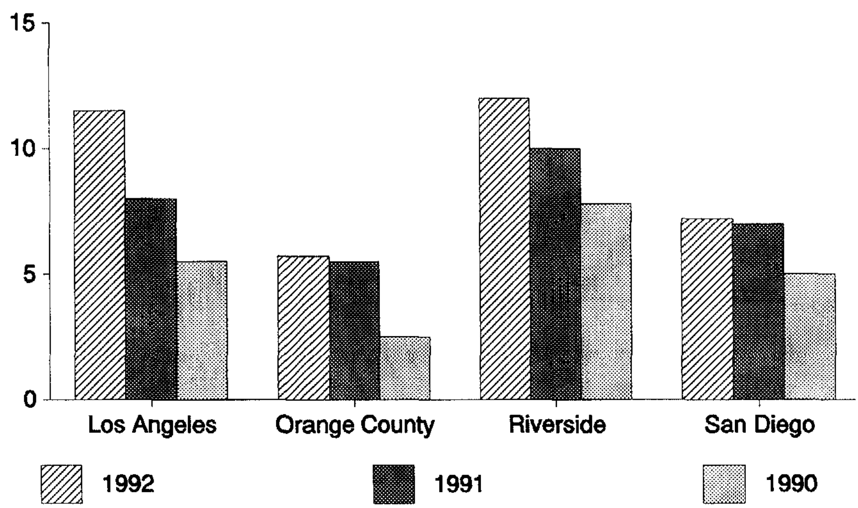



In southern California we see 10% unemployment rates (Chart 2). We were originating very few mortgages in those counties, and we measured it on a state civilian unemployment rate. My advice to you as actuaries is teach your marketeers or your business development people that they must underwrite the institution. They must look at where the institutions are originating mortgages and then take a look at the unemployment data.

Chart 3 shows delinquency ratios for underwriting purposes. It shows a 90-day delinquency ratio, and there's some foreclosure numbers as well. The 90-day delinquency foreclosure rate for Bank of America has averaged less than 2.6% over the last three years. California is at 4.26%, and the total U.S. number is at 5.53%. Many institutions, many savings and loans, reach 9-11%. Maybe insurance people want to be more like bankers when they see a 9-11% institution. It's risk avoidance. You can't manage that amount of delinquency foreclosure. What do I attribute that to? Some of it is geographic. But some lenders are better at underwriting mortgages and people than other lenders. Bank of America obviously is very good.

CHART 2

Southern California Unemployment Rates July 1990-92

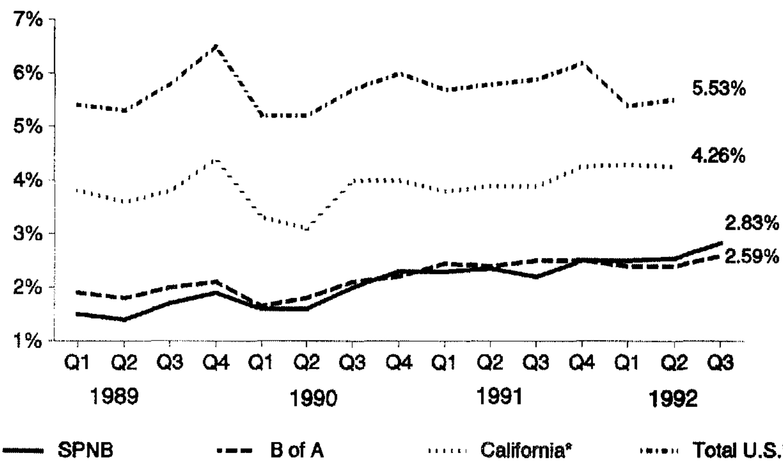



I'll cut right to the chase for you on our blanket program. We rolled it out October 19. We targeted the CRA mortgages. I budgeted about $600,000 in annualized premiums for a six-month pilot. We recorded $1.75 million in premiums. Our mortgage originations increased more than threefold. It was absolutely incredible. When all else is equal, the unemployment is a tremendous product of differentiation. It was absolutely phenomenal.

We wanted to pay for it somehow. As Rick said, there's no commission associated with it. I'm very scared of the portfolio mailing. In fact, most underwriters will do a portfolio mailing only to originations made within the past six months because they want to stay as close to the mortgage origination as they can.

I think those insurance companies are shortsighted. I've looked at the numbers. We call them vintage reports at Bank of America. If you look at the payment history, the longer they've been on the books, the better the payment history is. They're responsible individuals. I used to have battles with insurers who wanted to stay as close to the mortgage origination as possible. They were foolish. But you couldn't get them to change their minds. But this one still scares the devil out of me because of adverse selection.

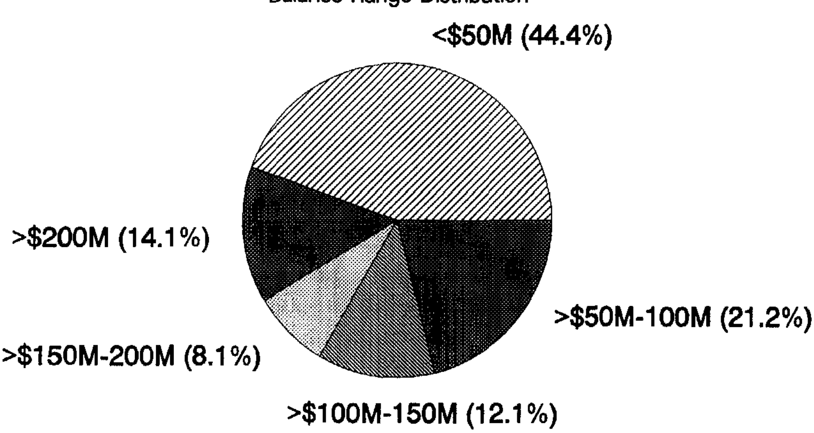
CHART 3
Comparative Delinquency Ratios
Percentage of Total Portfolio by Number of Loans




* Source: Data from MBA Delinquency Survey

You must get good penetration on a portfolio mailing. Bank of America has 325,000 mortgages in California. Here's our composure. You see a balance range distribution in Chart 4. Our new originations are very high. The average new origination is $224,000. The average mortgage origination for the low-income census track is $115,000. So, we're dealing with a fairly sophisticated group of low-income people as well.

CHART 4
Bank of America Real Estate Loans
Balance Range Distribution



The long and the short of it is that originations within the last five years represent about 55% of the portfolio with an average outstanding balance, for the last five years, of $170,000. Originations made more than five years ago have an average outstanding balance of about 40%. We mailed to 192,000 first-mortgage customers out of a total base of 325,000. We targeted as many as humanly possible. We had to have a minimum amount of mortgage payments to insure. We took out anybody with a history of delinquency or foreclosure, i.e. anyone with one hit over the life of the loan. We took out cash-out refinances, which are an early indicator. They refinance and take cash out. They're starting to stock-pile a nest egg to insulate themselves from an anticipated unemployment. We looked at self-employed and military people. The banker asked us if we were going to decline people for claims. We said, "No, we're not. We're going to let the state do that for us." The proof of loss is the filing of a state unemployment acceptance record. In California, and I'm sure this applies to other states, the self-employed are excluded from unemployment compensation. So, we exclude them from our mailing.

Borrowers age 60 and above. The lawyers challenged us on this one asking, "Aren't you discriminating based on age?" We showed the unemployment statistics of those people age 60 and above and the legal challenge went away. If you look at the age data on unemployment. It's very enlightening. Usually, the principle balance is less than $25,000. You must get good spread of risk. We came out with a teaser rate like adjustable rate mortgages with our direct mail package. It was 2.75% with a maximum benefit of $2,500. We could go as high as $5,000 on request. It was a 6-month benefit per occurrence, or a 12-month benefit over the life of the loan with a possible extension. We offered a 2.75% rate to get the masses in. That rate was a subsidized rate. We took no commission out of the voluntary program. I went pure retro on this thing. You won't find many bankers willing to do that. Now, in subsequent periods, it's reset every 12 months. We let the rate float based on the state's civilian unemployment rate for the last three consecutive quarters. So, for example, between a 7.7% and 9% state civilian unemployment rate, our rate would float up to 4.5%. At a state unemployment rate of 5% or less for three consecutive quarters, we would float it down to a minimum of 2%. We did put a 90-day elimination clause on this one where there's a 30-day elimination clause on our blanket. Over 2,500 people responded and it's still going. We still have life in the campaign until April 30. We mailed it in February and we're still getting responses in droves. We feel that we're going to hit about a 2% response rate. We projected 1.75%.

Here's a couple of interesting pieces of data. The average insured principal, interest, taxes, and insurance (PITI), came in at $1,200. Remember that $25 was the price resistance point in our focus groups. The average monthly premium is coming in at $33.31. Well above what we thought it was going to be. By the way, the blanket on the CRA, that average premium, came in at about $17 per month.

At Bank of America we feel that the unemployment program has definitely enhanced Bank of America's image in the California marketplace. It has provided consumer value. There has definitely been a risk transfer to the insurer which the bankers were very cognizant of. But, that's our business. It was very timely in light of some of the unemployment rates that are front page news, and our desire for growth in the mortgage area.

Last, but certainly not least, it has the potential of being a very big income generator. It is not only an income generator on originating the traditional product, but it is also a very big income generator. I put a provision in there where I could reinsure the book once we get some credible data. It has the potential to be a very big income generator on the insurance side.

MR. E. PERRY KUPFERMAN: I'm not a marketing guy. I am just an actuary. Most of what I will comment on is actuarial in nature. I'm going to discuss four basic areas. One is my experience with the unemployment product which goes back about 15 years when I was still at Balboa, which is Mike's underwriter. I'll also talk about my experience in the regulatory arena. How do the regulators and some of the legislators react to this product? I'll talk a bit about valuation and my experience in attempting to get reinsurance.

The effect of changes in the economy, which impact the level of unemployment, has long been recognized for its impact on disability experience. Disability frequency in the depression back in the 1930s was nearly double that of relatively normal years on average. Severity also increased, but to a much lesser extent. The fact that this was disproportionately high at younger ages reflected a tendency to favor employees with longer tenure during a depression. The need to retain an experienced and faithful cadre probably contributed to this pattern of unemployment termination. The relative volatility of frequency and severity of unemployment in changing economic conditions suggest the former. In other words, the frequency is more responsive, although both certainly are affected. One of the lessons in that is frequency is something that you do have to watch very closely, and it's one of the things that I monitor on a very regular basis. I have monitored it since I've been responsible for this line.

Small loan involuntary unemployment insurance seems to have mitigated the recent level of credit disability claims that I'm familiar with, which were previously soft tissue claims in the late 1970s and early 1980s. Around the 1980 timeframe, three or four of us sat down and tried to decide why our credit disability loss ratios were up to nearly 100%. We pulled some claim files and found that we had a lot of lower back injuries or disabilities. A person went to the doctor and the doctor indicated that he or she was disabled. We concluded that those were largely unemployment claims. So, at that time, we very aggressively put together a single premium IUI program which was not just for other auto dealers, but was for, in fact, all types of dealers. It was intended for all types of consumer small transactions. I even installed a product in a credit union, which would seem horrendous, but we did it. In this case, with a community credit union, it sold very well. In fact, those programs are selling even better now that we're going through a recession.

Federal statistics report higher unemployment frequency on younger persons. But they also indicate higher severity for older persons. I, personally, question the insurance applicability of that information. I had gathered statistics which would suggest that the insurance experience was clearly more favorable on those over 55 which, I think, supports what the insurance statistics of the 1930s would indicate. Older people tend to hold onto jobs. I disagree with Rick and feel that, in fact, it is easy to distinguish an unemployment from a retirement. If you very diligently work with your claims people, I think that you can very carefully identify the differences.

Another interesting statistic is that over the last two years I found that about 60% of our claimants have used the entire policy benefit maximum. I've been looking at what our claim frequencies have been, and I noted a number of branches in Ohio have as much as a 30% claim frequency over the last two years. Our experience, and that of some other companies, started in West Virginia back in the early 1980s. We had extremely high experience and I believe that it will always be high because of the state's regularly high unemployment. It just was not a good place to experiment, but it certainly was a good place to learn about claims.

I've also recently installed a consumer unemployment product and a consumer small loan product in New York and New Jersey. We've had extremely high success. Approximately 50-60% of the people who borrow money have been accepting the product. Unfortunately, the claims have exceeded the premium. There's a good thing and a bad thing with penetration. Sometimes high penetration is an indicator that you're going to get hurt badly because they seem to know what's coming down the road. I contend that future claims are a function of penetration or customer acceptance, antiselection, unemployment overall in the region and the state. In the case of California, it was a region within the state. But I also feel that it's very much a function of the product feature.

Claims can be reduced by identifying those who are voluntarily unemployed, disabled, retired, early retired, and also those who are reemployed. What I had found is that there are people who will continue to make the filing even though they got a job or they may be working for cash rather than on a payroll. So, you really need to continue to work with your claims people. Initially, antiselection can be quite severe. It can be reduced by avoiding your self-employed and your seasonally employed.

When pricing the product you must consider the entire economic cycle which is probably ten years long. Some of the states seem to think that the economic cycle for unemployment insurance is a one- to three-year data compilation. That's unfortunate.

Credit card IUI was mentioned earlier. It's a very well-packaged program. It tends to have very favorable results, but I believe that that's because of the design of the program.

Mortgage IUI and I'm not going to talk about the blanket or the noncontributory program. I'm more interested in something that will generate fee income to the account. I think that's what most accounts are going to be more interested in. I believe that seriously invites adversarial antiselection and you need to work very closely on the penetration. I think the 2% that Mike talks about is good, but I think through diligent marketing, solicitation, resolicitation, and possibly even telemarketing, 5-6% is attainable. Certainly, it is possible with the economic situation we have today.

I'll share with you our consumer small loan IUI experience. Claim frequency has been running about 4%. It's an interesting statistic given my concentration of that product is in California and in the southeastern states. I think the latest numbers show a 9.5% unemployment in California. So that's a good indication to me that we're only running a 4% claim frequency. That means that our product, in fact, is probably properly designed to screen out people who are unemployed or were about to become unemployed when they took out that loan.

Some of the regulatory issues. The National Association of Insurance Commissioners (NAIC) put out a requirement in 1992 to gain annual IUI experience beginning with 1992 data. I reviewed my company's materials, in fact, the night before I got on the plane to come here. I think it's an unfortunate data call. I think that the states will be led to erroneous conclusions with a very incomplete and inadequate data call. What has been requested is merely premium and losses. There's no effort to distinguish between the various types of products: credit card, mortgage and the consumer single-premium products. Everything is just lumped together. I'm afraid that certain states may be led to poor conclusions.

Historically, the consumer, small loan IUI rate filings were accepted by many states with an expected loss-ratio certification. I've been filing mortgage IUI products lately and I find that they're rejected unless you include along with that rate and form filing, a full actuarial data spread or data support. They always seem to request your last three years of data experience. Well, I don't know of anybody who's got three years of experience with mortgage IUIs. So, it's difficult to respond to that request. In addition, they also want an expense exhibit. Again, we haven't sold the product. It's new. So, it's difficult to respond to that as well. The states have been expecting to know what your experience is but it's a new and revolutionary product.

Actuaries work for insurance companies. We, in fact, can't sell the products until there's initial enabling legislation in each of the states to allow the product to be sold in the financial institutions or under that particular lending law. So, in a number of cases, I've had to go to various states, talk to the legislature, and make them understand that IUI has value to the consumer. We still have a number of states that don't understand it or that IUI is not good. The industry is working with Minnesota and Texas to try to get them to, at least, authorize the product for sale.

There are specific insurance laws and regulations in a number of states; unfortunately, most of those states merely focus on a maximum rate. They just give a maximum rate. They don't distinguish between a credit card product, which is a per thousand per month, and a single-premium product, which is a per-hundred per-year rate or a decremental scale. About 7-8 years ago, New York published regulation 27-C. It has a loss-ratio requirement of 70-80%. It doesn't leave a lot of room for experimentation, commission or expenses. It has a very complicated rerating formula. So, it really has to be managed by an insurance company actuary. As a result, I don't think the product has taken off very well in New York.

Nebraska tried to follow New York's example and publish a bulletin that was very similar to New York's. We talked to the people in Nebraska who put it out. I'm not sure they really understood what they had promulgated, and as a result, they never published the bulletin. It was a draft bulletin. But they are implementing it, to my knowledge, by entrance. In other words, unless you comply with this bulletin that they publish in draft fashion, they're not going to approve your submission. As a result, we end up with a very low rate in Nebraska.

Missouri, for quite a few years, has had a maximum rate in its regulation. Now it's a law. I believe it's $2 per thousand, per month or its actuarial equivalent.

Nevada law, again, has a maximum rate. It's $2 per hundred per year. And that is frequently an industry standard rate.

Alabama published a decremental scale, but for some reason its consulting actuary came up with an arbitrary requirement that the benefit maximum would never be less than 12 benefits. So, regardless of what the product is, you have to provide at least 12 benefits per loss occurrence. I talked to the consulting actuary about it. It seemed like a rather arbitrary decision on his part, but the industry has to live with that product design.

Tennessee recently passed a law which had an interesting quirk. They've indicated that the maximum benefit per occurrence must be equal to at least one-third of the duration of the period of coverage. For example, if it's a 60-month loan, you have to provide at least 20 benefits per occurrence. If it's a three-year loan, you have to provide at least 12 monthly benefits. I've never seen that before. In fact, they don't talk about a rate.

In order to make a filing in California, you'll have a stack of papers about one-quarter of an inch thick. It's fairly laborious. California has Proposition 103. My indication is that all IUI filings in California have to be in compliance with Proposition 103. Proposition 103 has a fixation on return-on-equity. The prior commissioners have said they want us to price toward a 10-15% return on equity. Unfortunately, there's a lot of undefined terms and there's still a lot of pending judicial issues. So, you can make a filing here and they'll give you a tentative approval, but you really never get final approval. In fact, the state can come back to you ten years from now and say, "Well, because we now have new rules, we're going to retroactively make you return money to all the consumers that bought this product in good faith." Unfortunately, unemployment insurance, while it's very much like credit disability, is slipped in as a property & casualty product.

Iowa has an interesting quirk. They require retroactive benefits. You can't provide a nonretroactive benefit, or you can't provide a 30-day elimination. It has to be a 30-day retroactive. I thought that was very strange.

Kansas has about a five-page investment income calculation. Even though we're typically talking about either a monthly premium or a very short average duration product, you must submit this five-page paper on investment income. It takes you a lot of time to gather the statistics. I don't have the time to work on that. In Kansas, there aren't that many potential customers anyway.

Louisiana. I recently got a rejection. It was very interesting. They said that they wouldn't let us charge more than $4. They didn't say $4 of what. They didn't say whether it was per hundred, per thousand, per month, or per year.

In summary, I think product design is really important and I think you have to have a marketable rate. It must be something that the bankers and the dealers and the consumer finance people are willing to sell. I think it's more important than trying to measure the exact price or claim costs with a micrometer. I think you, as actuaries, need to manage. You need to watch your companies and you need to make sure that your marketing people don't do anything stupid. Also, watch for valuation issues, specifically, IUI loss development. I found IUI to be very much like credit disability. It has a very similar duration. The difference is in the case of credit disability. You have exposure for the full remaining term of the loan. In the case of unemployment insurance, I think every product that I've ever seen has a limited benefit that is not necessarily for the remaining term of the loan. Credit card IUI is typically for a limited number of payments, such as 9 payments or 12 payments.

AICPA rules strongly suggest pro rata earning of the premium, not specifically on this product, but products that are comparable to it. The only alternative to that would be to go through a laborious proof and show that something other than pro rata would be appropriate. As Rick said, what you set up for reserve really doesn't affect your profitability, but if you're going to watch your program to see what your early indications are, then you have to make sure that you're earning the premium properly. I believe pro rata is conservative for a number of reasons. One, because I think that there is typically early antiselection on this product. It's very difficult to obviate the antiselection. There are loan prepayments with an automatic coverage cancellation and a refund of unused premiums.

Full utilization of the limited number of benefits early on in the life of the contract also supports the idea that premiums should be earned faster during the early part of the coverage. Earning premium similar to credit disability, in my opinion, is probably appropriate. Credit disability premium is earned using the mean method where instead of earning it pro rata or by the rule of 78, you earn the premium basically half way in between, and that's how most of us earn our premium on a GAAP basis.

Monthly collectible mortgage IUI has special problems. I first dropped a mortgage IUI program back in the South and North Carolina region, in 1984-85 when I was at Balboa. Our experience was very enlightening. Our first-year loss ratio was about 175%. I thought I designed the program fairly well. In retrospect, I knew I could have done it better. The programs that you see on the street today are much better. That 175% loss ratio went down to about 100% by second year. But by the third year it went down to a respectable level somewhere in the 60-75% range. I'm not sure how to tackle it, but I think as actuaries we need to be able to take a product like that and properly reserve it so that we don't go to management with a 175% loss ratio the first year, knowing full well that by the time this product matures, we get fairly low lapsation. Over an extended period of time, such as ten years, the company probably would have done very well with this experience. But we, as actuaries, probably would have stopped the program because of that first-year hit.

I've had some limited discussions in the area of reinsurance. Most of the reinsurers don't seem to understand what the product is and the fact that it's really group insurance and not something that should be individually rated. I've talked to some folks who were basing their conversations on British and European experience. In Great Britain, for many years, they sold the product. It was not called involuntary unemployment insurance, but rather redundancy coverage. Redundancy coverage is a much more limited coverage. Instead of making your payments or providing benefits for any unemployment, it will, in fact, make your payments or provide you benefits in the event your position is eliminated. So, it's a very limited cover. As a result, the rates have historically been very low. Back when I first got into this market, 10-12 years ago, we found that redundancy experience was very good. Unfortunately, I now hear that redundancy experience in the U.K. has been very bad. I guess they have the same recession going on over there. There is a lot of downsizing and consolidation of corporations. So, the reinsurers are very constrained, although I have had a little bit of interest from the Lloyd's Syndicates recently.

In the U.S., the one company that I have had some conversations with is Scor of New York. Again, they were interested but they seem to be thinking in terms of individual underwriting rather than group underwriting. I think one of the reasons is because in 1989 they bought a company called Morgard, who probably ten years ago developed a very complex-rated mortgage IUI product. To my knowledge, they really haven't sold a lot of it. They've had three or four different underwriters. My belief is that they had violated some of the marketing tenets with their product. As an example, it has underwriting requirements which limit the coverage to 35% of gross income. So, they're concerned with antiselection. I contend that unemployment insurance is a product that is sold in conjunction with a lending transaction. In other words, people don't take mortgages because they want to get unemployment insurance. That just doesn't happen. I think it's something that can be group-rated and with good penetration the companies can probably do well with it.

The Morgard program has a very complex annual rerating based on federal unemployment statistic. Every year the customer is going to get a change in rate. That's going to be very confusing and I think it will cause increased lapsation. Unfortunately, this individual risk approach is what seems to have affected the reinsurance market where quota share and excess of loss protection remains unavailable. It's unfortunate to this group coverage which obviously, based on Mike's comments, has tremendous value for the market.

MR. G. TODD SWIM: Have there been any mandated loss ratio levels that you're aware of?

MR. KUPFERMAN: Yes. Alabama first came out with a 60% loss ratio and they had an annual filing requirement. That, I think, has been obviated by this new bulletin that was put together by its consultant. New York has a 70-80% loss ratio depending on the size of the book requirement. Generally, it's a prospective rating requirement. To my knowledge, there aren't many other states that have a minimum loss ratio standard at this junction. Certainly, the NAIC has got a regulation in hand now. It is drafting and will probably put in a minimum target loss ratio.

MR. BERGSTROM: I would agree with that. It's probably going to be about 60%.

MR. SWIM: Would that include active life reserves?

MR. KUPFERMAN: Most of the companies that I've seen follow the establishment of pro rata unearned premium. It is a casualty cover, and that's what just about all the casualty companies do. It's an artifice. It's not as sophisticated as what you're asking. A company should consider what you're suggesting under active life.

MR. BERGSTROM: I agree.

MR. THOMAS CIARAFFO: Do you see that this type of coverage displaces disability at the point of sale? And is that a good thing?

MR. KUPFERMAN: I was concerned when we first installed unemployment insurance in conjunction with consumer small loans back in the early 1980s. I didn't want to cannibalize my disability sales, so, I watched it very carefully. I found that the consumers had more dollars. They found value in the various products that they were buying. Typically, we sold credit life and credit disability and then the unemployment did not deteriorate the penetration on disability. Our disability penetration was probably around 50-60% at that time on that product. The unemployment penetration was around 30-35% and there was no drop in the disability rate.

MR. BERGSTROM: It's a fairly easy sale because people don't have to die or get hurt to collect on it.

MR. BRUCE L. CALDWELL: Two questions. One, what is the average age of the business and compare that with credit disability? Two, have you experienced any select period after the underwriting based upon the credit evaluation of the lender?

MR. BERGSTROM: Are you referring specifically to mortgage coverage?

MR. CALDWELL: Mortgage, credit cards and automobile loans.

MR. BERGSTROM: You're probably more well-equipped to answer that one.

MR. KUPFERMAN: My experience is with consumer small loans. I found that the weighted average issue age for credit disability and IUI were about the same, in the high 30s; 37 and 38 were typically average. When I went out into the auto dealer market with the products, on occasion, I would get over 40. Buick, Oldsmobile and Cadillac dealerships tend to sell to older people. That's bad on disability. In fact, my experience is distinctly different. I tried to make that point earlier. I think age is not an adverse discriminator on unemployment insurance. The products that I've designed in the past have no maximum age. I think it can be sold to people. There are people attending our meeting who are full-time employees and are in their 70s. I think they're more stable than people in their 20s. Some of the products that I have seen do have a maximum issue age of 50 or 59. Those are fairly common. On mortgage IUI and credit card, I really think it's a matter of the account or the creditor. Who is the bank? To whom is it making loans? If they tend to focus on older people, that's what you'll get. I've seen disparity. Typically you don't even get an age on credit card business. Many companies just get bulk reporting from their account.

MR. CALDWELL: The thrust of my question was this appears to be a product that might appeal to a younger borrower more so than, say, credit disability or credit life would.

MR. BERGSTROM: Have you guys looked at age dispersion?

MR. MORAN: This is so new for us that we have not. The types of mortgages that we've taken over traditionally go towards the younger borrower. We haven't had a chance to crunch the demographics of the respondents, so I don't have that data available yet. It's too new.

MR. CALDWELL: Any feel for select experience based upon the credit evaluation of the lender? The lender is going to look at the borrower and make a determination as to his future employment.

MR. KUPFERMAN: You're right. Typically for a new point of sale transaction, you will have that select experience. With mortgage IUI in the early 1980s we mailed the entire portfolio and, despite what Mike would suggest about more mature people on the file, I had some really bad antiselection. I even had a preacher file an IUI claim. He knew that he was going to be let go by his ministry and we paid the claim. We paid a full duration claim. He knew it was coming. So, you have to anticipate paying claims. To me, the key issue is getting good penetration. Getting a very successfully accepted program is important.

MR. J. LYNN PEABODY: I'd be interested if any of the panel members or people in the audience are aware of any situations where companies have attached unemployment riders or unemployment benefits as part of the life policy, possibly paying waiver of premium in the case of unemployment. I don't know if it would be a casualty rider in that case, or just something thrown onto the policy. Has it been used and has it been successful?

MR. KUPFERMAN: Rick referred to something earlier. About a year ago, New York Life made a big splash. An article appeared in either *Best's Review* or the *National Underwriter*. The articles indicated that they had, in addition to a standard waiver of premium for disability, a waiver of premium for unemployment. I would think after a year it's probably too soon to know what their experience has been. You could always find out what New York Life's acceptance by customers has been.

MR. BERGSTROM: Do you know whether they have a casualty company or casualty outlet?

MR. KUPFERMAN: No, I don't.

MR. BERGSTROM: Okay.

MR. KUPFERMAN: I cut it out. The strong inference from that article was that it was written by New York Life. It was a New York Life rider and not necessarily part of a property and casualty company.