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Corporate-Owned Life Insurance
Current Marketplace And What It Takes To Become A Successful Carrier

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Summary: As insurers increasingly compete for life insurance dollars, many have turned to corporate-owned (or sponsored) life insurance . The focus of this session is on: he various types of Corporate-owned life insurance (e.g., business-owned life insurance, nonqualified plans, group carve-out), the current state of the marketplace, and what it takes to become a successful Corporate-owned life insurance carrier. At the conclusion of this session, attendees will: nderstand the uses of Corporate-owned life insurance, be knowledgeable of the current market developments, and understand what it takes to set up a Corporate-owned life insurance operation.

Mr. John D. Branscomb: The first speaker is Larry Sluder. He's the vice president and corporate actuary for Clark/Bardes in Dallas. He has been in that position for four years. Prior to that he was the consulting actuary in charge of evaluating corporate-owned life insurance for William Mercer in Louisville, and before that he worked for 18 years with Jefferson-Pilot. Given his background, he could have been a panel in and of himself, but we decided to broaden it out a little bit though.

Ian Glew will be the second speaker. For the past two-and-a-half years he has headed up CIGNA's corporate insurance department. Before that he was the president of Connecticut National Life Insurance Company. Ian is both an FSA and a Fellow of the Institute of Actuaries in the United Kingdom.

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The third speaker is Gary Thomas. He's with William Mercer in Louisville and is in charge of evaluating the corporate-owned life insurance (COLI) program. If that sounds familiar, that is Larry's old position.

Mr. Larry R. Sluder: During the first part of our presentation, I'm going to talk about carrier selection and due diligence. Many of you may not know my company, Clark/Bardes. We are a COLI broker and we do nothing but COLI. We have three divisions. Clark/Bardes is focused on the Fortune 1000 market and large banks (those with five billion in assets). We have the compensation strategies resource group in Minneapolis that is focused on executive benefits and the small bank market, community banks and banks under $1 billion. We also have Clark/Bardes Securities, Inc., which is our broker/dealer.

I want to cover six major issues that are important to me in working with carriers. The financial strength is one of the no-brainers. We have to cover that. The others are commitment and focus to the market, expertise, credibility, ability to administer, and a category I call agility.

Financial strength in the market. There are some exceptions in the variable markets. You need to be AA with Standard and Poor's or Aa3 with Moody's just to establish credibility. If you're coming in below that, you're fighting an uphill battle. It doesn't mean you can't win, but you've got a battle on your hands. There are four actuaries on my staff and a couple of accountants e do our own internal review of all publicly available information and draw our own conclusions. If issues come up that we're not comfortable with, then we'll want to talk with your people to find out why. In the business-owned life insurance (BOLI) marketplace, I spend a lot of time talking with investment managers at the various insurance companies because we have to relay that information to the BOLI customers.

I think one of the most important things you can do, if you're going to be in the COLI market, is make the commitment to really be in the market. It's not a part-time business. It's not something to dabble in. I believe that you need to have a dedicated unit. I think some of you will agree with me there. You need to have people who understand the market and who have the marketing expertise. You must have the ability to administer the products either in-house or by using a third party administrator (TPA). You must really understand the product development process, and I'll get into that a bit later.

As a side point, I'd like to discuss the blimp factor. The COLI unit needs to be stand-alone. If you're going to advertise your casualty company at the World Series, we don't want to have to pay for that. That's overhead that buys you nothing in the

COLI market. If it's at all possible, you need to carve your unit out and stand it on its own expenses, without some of the advertising expenses. It's very important in this market to have good illustration systems. It's such a specialized marketplace that you really have to be able to illustrate the concept much more than the product. Another part of the commitment is how market research is an ongoing project in COLI. The objective is to be a step ahead of the market, not a step behind. If you can be a market leader and capture the market share, you'll make a whole lot more money than the guys who are coming in as the me-too marketers and who are picking up bits and pieces along the way.

One thing my company is really into is focus. We focus on basically four markets. There are more than 200 people in our company. Four markets may sound like a lot, but that's really narrowed down from where we used to be. Part of our success over the last three or four years (and we've been growing at a 50-70% rate, which, to me, is successful) is that we have been able to focus on niche markets and concentrate on those. You can't be all things to all people. Not every product can be number one in every market. You can't expect to dominate all the markets. I think that you need to really specialize in this niche, whether it be BOLI or deferral funding. In fact, if you're in deferral funding, it might be deferral funding to nonqualified or in not-for-profit markets. The more narrowly you can define your niche, the greater your probability of success is. Once you've established your niche, you will have created enough relationships that you can begin to expand into other markets. By starting with a smaller niche or a smaller market share, you can build the strengths. You can start with two or three people in your unit. As you bring in premium income, and generate profits, you can build a unit that can really justify standing on its own.

Again, I think that it's important that you focus on particular markets. Don't try to be everything. Don't try to attack all the COLI or all the BOLI market at one time. You need to look at the corporate sectors you want to be in. You want to look at the size of the corporation that you want to focus on. You need to look at the case size. There are very distinct markets. There is the small market, which is under $1 million in premium, the medium market, which is $1-10 million in premium, and the large market which is $10 million and up in premium. You really need to decide which area you think you can succeed in, and which area you think you can get distribution in. There are five types of cases. There are the deferred income plans, that are typically variable products today. There is supplemental executive retirement plan (SERP) funding, which can either be a variable product on an aggregate basis or a general account product with split-dollar (which is the third case type). Fourth is the BOLI market which is and has been for the last few years the hottest market in COLI and may be at the point now. I will talk more about its

limited opportunity. Finally, there is the group term carve-out market. One thing I credit the folks at CIGNA for is they have stayed focused on the carve-out market. They've established a very substantial block of business there where a lot of the carriers are saying it's too intensive, it's not good business, and they are missing a potential opportunity there.

Let's discuss product focus. Once you pick a market, you're going to design the product for that market. In Dallas, we refer to the Millwood Factor; it is occasionally the Eisenberg Factor. In this case, the carrier says I want to be in BOLI. They call Tim Millwood at Milliman & Robertson and have him develop a product. They call a particular TPA and ask it to develop the administration process. They call a particular systems company, and it develops the illustration system. Now the carrier is "in the market." They've spent $1.5 million, and no one knows that they're in the market because they haven't gone out and done the market research or found out who's going to market their product and what markets it's going to fit into. This is actually not an unusual situation. These folks are designing their products in a vacuum, and while Tim does a great job and the other companies that do the TPA work and illustration work have quality products, you can't hit a target if you don't aim at it.

One thing we found a lot of recently is there are products in the market, and it's necessary in COLI that there be certain trade-offs between compensation and performance. You have to be very careful when you structure those because there are products at one end or the other end of the spectrum that perform better relative to other products or relative to a reverse engineering process, which says either you're making too much money somewhere or too little money somewhere. In my 27 years in the business, I have found that the agents will always beat you if you make a mistake. When you have agents and brokers out there with actuaries doing the reverse engineering, they can beat you badly. Be real careful when you're putting together these products that all your versions—your high compensation, your low compensation and your mid compensation—make sense and still hit your profitability or you could get hammered pretty badly.

If you are going into the variable deferred income market or any of the variable product markets, having in-house money managers is not going to give you a real good sales pitch. You've got to go out and find the money managers that are active in the markets that you're targeting. Align with those money managers, so when the broker goes to the client, they've got a match between what funds the people are used to dealing with and the funds that you can offer.

There is something that I think is important and that is that you either have or have access to sufficient expertise. For COLI and BOLI you're pushing the limits on Section 7702 and 7702A testing. You're almost always dealing with maximum funding. If there's a mistake made, and you're the carrier, you're the one who pays the penalty and the penalties can be fairly high. It's not the broker's mistake and it's not the buyer's mistake. You need to make sure you understand what you're doing. Make sure all your systems can do the testing, and all your illustration systems can do the testing. That way you eliminate the possibility of an error in that market. I mentioned before you need to have the marketing expertise. Or you can work directly with brokers, like ours or other brokers, who will be happy to sit down with you and talk about where they're trying to take their operation and the products they want. They will work closely with you to put something together. Hammer again on the illustration capabilities. It is a concept-intensive market once you're out of the BOLI arena. If you can't illustrate the concept, if you can't manipulate the illustration system to do exactly what the buyer wants or exactly what the broker wants to present, then you lose the case.

There is a lot of legal research that goes into some of the more esoteric markets, and you need to have someone who is deeply in the legal matters and has access to people who really understand some of the issues and executive benefits, regardless of the market you're focusing in. You need someone who understands all those legal issues. Actuarial expertise for this group is a given.

Underwriting expertise. The vast majority of the COLI/BOLI market is guaranteed issue. You need to understand the guaranteed issue market. There are reinsurers galore who are ready to give you wonderful quotes out there. One thing you don't want to do is be a me-too person. Everyone will do two million of guaranteed issue right now if you have a sufficient number of lives. Find some way to stretch the envelope because that can be a competitive advantage. There are reinsurers who will push the envelope well beyond my expectations.

Let's discuss credibility. We do a lot of reverse engineering in Dallas, and if you're pricing with mortality improvements, we're not going to sell your product. I think that the vast majority of the more sophisticated brokers in the COLI market will react the same way. Lapse-supported pricing doesn't make sense. The business stays on the books. Our persistency is incredible. Other than times when there are tax law changes, we run at a 98–98.5% persistency. There are products that have these super front-loaded values, and you wind up with some strange cash-value patterns. Maybe you can price for those and justify those, but you need to be able to explain how you can do that. Another important factor for me is responsiveness. If someone calls and has a question about your product, call them back and follow

through. If someone calls and wants you to quote, and you can't because you're dealing with another broker, let him know. I don't care if the answer is yes or no. People need quick responses, and all the brokers will feel the same way. They need a quick response because if you can't work with them, they have to find someone who will. If you can, we need to get started in a hurry.

Administration. You need to have people who understand the business. Again, I'm a firm believer that you're better off with a dedicated unit that only deals with the COLI people. Whether that unit deals with your internal administration system or a TPA is your decision. Your systems have to be flexible because there's a great deal of case-based pricing in this market. You have to be able to rearrange loads and charges so that you have a chance to win the case. There's a lot of activity using TPAs in this market now and a move away from home office administration systems because they typically don't have the flexibility and the responsiveness that's necessary.

My final point is agility, which is probably the best way to capture more than your fair share of the market. You have to have a very opportunistic attitude because if you can't react rapidly enough, you've lost an opportunity to get a piece of very profitable business. I think the carriers in the market know it is a very profitable business. We're moving large units of premium, and people are hitting their return targets. I have another actuary who works with me who is into acronyms. He wanted to have an acronym. It is FACE which stands for focus, agility, credibility, expertise.

Mr. Ian Arthur Glew: If you go back about 10 years or so, you will probably find that most organizations may have been writing some COLI business, but the chances are they did not have special products for that business. They probably didn't have special systems for that business and they probably didn't have a special salesforce for that business. But now, many organizations are entering the business.

Being a carrier on this side of the business, I'll talk to you about some of the differences that exist between the corporate insurance business and the noncorporate insurance business. At CIGNA, we call the noncorporate insurance business retail business. I'm going to draw some distinctions between what I would call corporate insurance and what I would call retail. I'm going to divide my comments into four areas: product, underwriting, capabilities, and expertise.

First, let's discuss the product side. There are some major differences that you will find in products. If you pick up a COLI product and you compare it against a retail product, one of the things that will strike you very, very quickly is the cash-value

pattern. It's not unusual in COLI products to find that the cash value is over 100% of the first year's premium. You very, very seldom find that in a retail product, and that's important because that difference between a cash value and the premium is what hits the bottom line of the corporation. You would hope that if you had early cash values that maybe you will have the opportunity later on to widen margins. That's really not the case. Many corporations have a 10- or a 15-year horizon when they look at these products. That causes you to need 10- and 15-year cash values that are pretty strong. And when organizations, particularly brokerage organizations, are comparing one company against the next, they will be trying to determine what the best long-term value of the contract is because when the business persists, they want to look at the long-term value. You really need to have a strong cash-value pattern in your product.

An important measurement that takes places in COLI products is known as friction or leakage. If you have a look at the death benefit at age 85 or towards the end of the policy, you need to measure the drain that has occurred from the overall gross yield because of the insurance charges in the contract. I'm not talking about mortality because you can build mortality back into the cash flows. I'm really talking about how much you took out of the product to pay for acquisition expenses, to pay for compensation, to pay for ongoing administration, and those kinds of things? A good COLI product will have leakage. There are perhaps only 50 basis points. Certainly 50–75 basis points is not unusual in a COLI product. Once again, there is a big difference between those products and those on the retail side.

You must be able to customize the product. There have to be choices. When you have a look at the death benefit patterns that you need to create in order to provide the optimum benefit to organizations, you will frequently find that if your contract has the flexibility to really tailor the death benefit pattern, you can get much more performance out of the contract than you probably can out of the pricing. But if, in fact, you have an inefficient death benefit pattern in your contract that can't quite match exactly what the corporation is looking for, that will probably drain more leakage out of your product than some of the other margins that you would put in. So your products need to be flexible. Universal life product chassis are used almost throughout the market. You will find that you need both cash value accumulation and guideline premium tests, a variety of death benefit patterns, return-of-premium riders, and a number of different features. You also need to have, as I'll point out later, the illustration capability to go in and optimize the results.

The marketplace now is largely variable. There was a time a few years ago when general account products accounted for perhaps 80% of the market. It's very difficult to get a hold of statistics in the corporate insurance market, but if I had to take a guess, I would say that as much as 80% of the business that is written now is probably written on a variable basis. If you go back to the general account products, things like ratings, credited rates, and investment strategy were absolutely key when a broker or an organization decided which company to select. Now, if you have a look at the way that many brokers and organizations list out what it is they're going to use as their criteria, you'll find that fund choices are very close to the top. When you're designing a COLI product, you need to think of what fund options you want to put in there, bearing in mind that the person that is being targeted with the product is usually the chief financial officer (CFO) of an organization. You need to find fund choices that he would find attractive. He is looking for name recognition, but frequently he's looking for name recognition among the institutional type investment managers that he is probably dealing with on his qualified plans. He's not necessarily looking for the Fidelities, although you'll still find a lot of COLI products if the Fidelities are there. He could be looking for some of the other names that are more akin to institutional investment managers, and you certainly need to have a wide selection of fund options covering all of the investment styles and classes. Those are just a few of the product differences that you would find.

Larry covered the underwriting differences pretty well. I'll kind of go through this quickly. Guaranteed issue is important. You won't find a writer out there that doesn't have an attractive guaranteed issue program. It's very key that you regard your guaranteed issue program as guidelines. You should be prepared to deviate from that program, by being more liberal and being less liberal. You will find situations that you feel uncomfortable with that fall inside of the program. You're kind of well-advised to turn down those opportunities. You'll certainly come across situations that are just the opposite and you probably want to take the business. Once again you'll find that people who operate in the COLI market don't really go out with a lot of the underwriting rules that you would see on the retail side because they need to preserve the flexibility to be a little selective on which risks to take and which risks not to take.

Guaranteed issue is not just important at the time the program first goes in place. The way that you are prepared to deal with increases once the program is in place is equally important, particularly if you're in the group term carve-out marketplace where the benefits are related to salary increases. You're normally dealing with the executives of Fortune 500 companies. It's not unusual for those people to get increases of $200,000 or $300,000 a year. The question is, are you prepared to

give that person a $900,000 ($300,000 times three) increase in the face amount without any additional evidence?

Let's discuss blending, which is the need to write on a unisex basis. If the case is large enough, you also get unismoke. You need to figure out how you want to handle unismoke. Your illustration systems need to be able to deal with a variety of different underwriting classes. You have the problem as well with layering, and that is particularly true on group term carve-out cases. What happens is your first piece of coverage that you put in may well be on a guaranteed issue basis. Maybe somebody goes over the guaranteed issue limit, and an increase they have in a subsequent year may be on a simplified issue basis. Maybe they'll go through the simplified issue limit, and then there will be some medical underwriting. Each one of those layers of coverage can have different cost-of-insurance rates associated with them. Can your illustration system handle different layers of coverage with different rating classes or are you going to have to issue stand-alone policies? If you issue stand-alone policies for each of those different areas, what are you going to do with policy fees? How are you going to link those benefits together when you do renewals? Larry has spoken about experience rating. We're seeing more and more of that in the marketplace and flexibility in the whole underwriting process is important.

On the capability side, it is very important to have stand-alone administration and illustration systems. I really cannot emphasize strongly enough, that you have to be able to illustrate all the different designs that are out in the marketplace. You have to be able to administer all of the things that you can illustrate, and you have to be able to do that not only at the time the product is sold but also every year on the renewal date because there are going to be changes every single year on all of these cases ou have to re-project on every single policy, and you have to make sure that when you re-project, you're taking into account all of the regulatory testing.

Sections 7702 and 7702(a) are absolutely critical. Most of these programs are right up against the limits. You cannot afford for your illustration system to say that you can put $5 more premium into the product than your administration system can handle because what'll be paid is what people see on the illustration system. If you copy it into your administration system, it'll throw the whole renewal process off. So all of those linkages become absolutely key.

It's not unusual for clients to ask for special reporting, and, as mentioned before, if you're trying to write COLI business off of a retail system, you're going to have lots and lots of problems because as you try to put the special processing in that is required for COLI business, the retail people are not going to want to have that

same processing built into their system. It's only a matter of time before somebody says, "Why don't we split the system in two and let these COLI people go their own way so we, the retail people, can head off in this direction?" You may need cell-based processing. You certainly have different processing on the renewal side.

There are differences in expertise. Larry went through this in some detail. Perhaps the most important point there is the very last one, and that is how it's not enough just to have a few specialists in the organization that have knowledge in these different areas. Everybody who touches the business needs to have some knowledge about how the COLI business works. Your renewal analyst who sits there has to understand how Section 7702A testing works, otherwise they are going to make a mistake or they're going to advise somebody incorrectly. The salespeople have to know what insurable interest is all about, otherwise they're going to advise somebody inappropriately. The knowledge, in fact, has to be deep, and it has to be very broad across the organization. I would say that you can recognize most successful COLI carriers by all the expertise in the organization and how deep and how broad it goes across the organization.

In summary, I would say that to be successful in the market you need to be committed and dedicated to the market. For people who are just starting out, it is quite a challenge, and it certainly is not for the faint-hearted. I would suggest to you that if you do have the dedication and the commitment to it, that you will not be displeased with the results in the end.

Mr. Gary Thomas: I'm an actuary with William Mercer in Louisville. I'm part of a unit that provides consulting services to Mercer clients around the country. We provide services through the Mercer offices for any clients that have a life insurance problem, and that can range from the smallest estate planning type cases all the way up to the enormous BOLI products that we've been seeing for the last couple years. I have a slightly different perspective from the other two panelists. Regarding entry to or expansion of a COLI product line, I really do agree, in substantial part, with just about everything that Larry and Ian have said. I'm going to talk a little more about the type of players that you see in this market and the type of problems that can often come up either when a product is about to be sold or maybe after it has been sold and, in some cases, after it's actually in trouble.

Let me just talk a little about the role of the consultant. There's not a clear demarcation between consultants and brokers. There are quite a few of the brokerage firms that offer consulting advice on a fee-paid basis, and, conversely, there are some people who you might think of as consultants who get reimbursed in one form or another for the sale of insurance. Ideally a consultant's role is to

provide objective advice which is unencumbered by the need to either sell or maintain insurance. In that role we often find ourselves arm wrestling with agents and carriers. We don't arm wrestle as much with the larger brokers, but we find ourselves doing it an awful lot with some of the smaller agents who may have sold products or structured products in ways that were entirely inappropriate to the purpose for which they were sold.

Our role varies fairly substantially by the type of market that we're talking about. In the larger cases, such as tax-leveraged COLI, which is not used much now, or in the case of some of the enormous single premium BOLI cases that are out there, Mercer will assist the client with everything from helping them understand the tax and legal issues to putting out specifications for bids and reviewing products and everything through to implementation. At the other extreme are things like key-man insurance, which is technically COLI. We'll generally push that type of business off to a broker that we know and trust and then we really don't need to be involved with it.

I said earlier there was a blurring of the role between consultants, brokers, and carriers. I think it is very blurred. I think there are cases where brokers can actually compete with carriers. I know of a couple of carriers that have set up specialized groups of people whose real business is to try to market direct to companies. There are other carriers that deal pretty much exclusively through brokers and, in some cases, these are brokers that the carriers have fairly special and close relationships with.

There are consultants that have interesting and close relationships with brokers. When you're working in this market, you sometimes have to kind of think a little about what a person's role is in a particular placement. We have actually been in situations where we are working with a client and, to my surprise, we find ourselves being evaluated by a broker to see whether we're giving objective advice. I'm really not sure how that works, but the clients seem to like it.

I talked a little about the large cases. On smaller cases, companies like mine have a more minor role. The type of cases where we might get called in on is where perhaps a problem has arisen. It's typically going to be a case where, for example, an agent may have sold some life insurance to solve a particular problem. Maybe the company is several years into that case, and something has cropped up that wasn't foreseen. Maybe the product wasn't structured well. Examples of this might be a bonus plan under Internal Revenue Code (IRC) Section 162, where they're funding towards a certain target. As you get closer and closer to the assumed retirement date, you start seeing wider swings in the required premium. If the

executives are actually being taxed on the value of those premiums, then you can start getting some real volatility in the tax liability for the executives. It's usually strange things like that that get us called in.

There are some occasions when the agent's objectivity is in question. That pretty much happens with smaller agents. Occasionally we find it happening with larger brokers. Right now leveraged COLI is being phased out. The loan interest deduction is going to be completely phased out by the end of 1998. There are quite a few carriers and brokers showing clients various ways in which they can maybe unwind the policies or maybe swap them for some type of variable product. Obviously, they have an interest in maintaining some type of insurance with the client. In cases like that, we would be called in to take a second look at what the alternatives are and what the pros and cons and the costs are.

A third thing that often happens is we'll be called in by a client to help them select among competing proposals. Again, this can happen with the smallest type cases, all the way up to the largest cases. They may have received proposals from one or more agents to solve a particular problem, and they have no way of understanding the differences and no means of selecting between the two. Another reason that we might be brought in is it may not even be clear to the client whether life insurance is the solution. I think that often happens in the case of some of the firms that kind of fall in that murky land between consulting and brokerage.

How does COLI get sold? One thing we haven't really talked about is the different COLI marketplaces. I know Larry alluded earlier to COLI differentiated by size. I think a lot of companies have some type of involvement in COLI in some form or another. They may have products that are often used in split-dollar or group term carve-out cases. The other type of COLI that is a little more unique is the large case COLI such as BOLI tax-leveraged COLI. That's the kind of case that's generally placed by brokers and consultants as opposed to small agents. When I say agent, I'm really talking about a smaller agent selling smaller cases, and when I'm talking about a broker, I'm generally talking about national brokerage firms (such as Clark/Bardes) that do not only split dollar, but also a lot of the larger stuff.

I think with the smaller cases it's typically one or more agents that start the process. With the larger type cases this can be initiated by the consultants. It might be initiated by the brokers. In some cases, a client doesn't want to use a broker. They say, "We are getting advice from the broker. We can get the same advice from you. Why would we need to have both of you?" There are a number of different types of arrangements that occur.

It could also get sold as a result of an existing relationship. Some of the larger carriers have good working relationships with large national companies. They're trying to cross-sell, and one thing they might be able to sell is large COLI.

With the big stuff like tax-leveraged COLI, BOLI, or COLI that is being put within a voluntary employees' beneficiary association (VEBA) to fund postretirement medical, the servicing is fairly straightforward.

You need somebody to audit the carrier, and then you need a certain amount of financial reporting. In some cases, that's done by a consultant, and in other cases it may be done by a broker. There are some carriers that have fairly decent reporting systems of their own, and they can actually make the whole process seamless to the client. It depends on the type of company you are, and it also depends on the amount of business that you have and whether you're prepared to add additional services.

With smaller stuff you find agents and third party administrators playing a much larger role, and one of the reasons for this is that the insurance is often going to be tied to some type of benefit plan such as a supplemental executive retirement plan (SERP) or a nonqualified deferral plan for executives. It could be structured under a split-dollar arrangement. The agents are generally going to not just service the COLI, but they're going to be able to do the servicing of the plan itself. That's an area where the role of the insurer is much more limited to just being able to administer insurance in the same way that they administer any other type of insurance.

In the smaller cases the agent tends to manage the design of the arrangement as well as the client relationship. It is much more likely that the client will be entirely in the agent's hands. This is the type of market where you can see the largest problems because often an agent is going to put something in place that will break down at some point in the future for one reason or another. The carrier is basically the one left to clean up the mess. We've seen the most amazing types of sales. We've seen sales where agents will set up some type of arrangement where premiums are paid until age 65, such as in a split-dollar case, and then something happens at age 65 when the person's supposed to retire ou might fund for certain postretirement death benefits, and maybe switch the plan from Option B to Option A universal life. The agent may have only illustrated up to age 65 e actually had a case that occurred exactly that way. When people started retiring it just didn't work, and the agent and the carrier (a small agent and a non-COLI carrier) were basically just backing and filling and had no solution for how to get the client out of

the mess it was in. The result was the entire case was basically cancelled and replaced by another plan with another carrier.

I guess the reason I bring this up is this was a fairly large case. It was a large client, and I'd imagine that it caused a fair disruption to the carrier when it lost this business. When policies lapse, you're not just talking about a few policies lapsing. You could be talking about hundreds of policies with millions of dollars in cash value going out the door.

One thing we didn't say earlier was how we were going to be structured in these presentations. Maybe what I should say is that we were all going to be talking about the COLI marketplace from our own unique perspectives. We also plan to talk a little about the actual COLI marketplace itself. I was going to focus on the smaller types of COLI such as COLI used to fund SERPs, nonqualified deferral plans, split-dollar plans, carve-out type arrangements, and Larry and Ian were going to focus later on private placement and BOLI.

Let me talk a little about the marketplace for COLI which is used to fund nonqualified, deferred compensation plans. In the last several years, this market has grown substantially. I think one of the drivers is that companies are finding that an increased number of higher paid executives are being frozen out from the qualified plans due to salary limits and average deferred percentage/average contribution percentage (ADP/ACP) limits. They want to provide some type of mechanism for executives to defer. Ideally they'd like them to have the same type of arrangement as they had under the qualified plan. What that means is they often want to give them the ability to defer compensation and maybe have their account balances tied to some type of mutual fund or something like that. They're concerned with: (1) the cost of that type arrangement, and (2) the fluctuations in values if they don't fund that plan in some form or another. We're seeing a lot of variable products invest in rabbi trusts, so some type of asset/liability match can be done going forward.

The big problem with COLI and these type arrangements is you can start out with a reasonable type of asset/liability matching. The company can try to invest the funds in the variable separate accounts, maybe in some type of proportion to how the participants are allocating their deferrals; however, it starts to break down after a while as people start retiring. Maybe their salaries are not going up the way you had projected when you originally sold the case. We often see the COLI sold in conjunction, or we see the plan being funded with COLI in conjunction with some type of taxable fund, perhaps for the first several years. The size of these COLI plans can quite easily range from $5 million to $10 million dollars a year in

premiums. Generally they're much smaller amounts than what I call trust-owned life insurance (TOLI), which is COLI invested in a VEBA. Again, because we're using the policies to fund a benefit with account values, high early cash values are still quite important, and we often find brokers and agents structuring their commissions to ensure that they do get reasonable cash value in the early years. Even though these are not large products, and they're not private placement products, it's still fairly important to get a reasonable rate of return if you're going to try to sell the story that you need COLI to fund some type of accumulation arrangement.

We see COLI used in both an informal type of arrangement as well as through some type of rabbi trust funding rabbi trust is a mechanism that lets a company set aside funds to fund a nonqualified benefit plan. It's not protected against bankruptcy, but the funds in the rabbi trust are protected against a change of heart by current or future managements. There's a certain element of protection there. Generally, when you set up a rabbi trust to fund a nonqualified plan, you want to have the assets in that trust at least bear some relationship to the liabilities. That's because, in the end, what you're funding for is maybe some company coming in and taking over and deciding to cancel the plan or cut back the plan. If you have enough money in there, then there's less of an incentive. In those types of cases, we find COLI being used to meet an asset/liability target.

The other type of arrangement we see is what I call an informal financing arrangement, and this is where it can get really hairy, and you see some of the most creative ways to sell insurance. You can often get agents doing projections of deferrals or SERPs, where they project the life insurance and take death at a certain age. They discount it back at a certain rate, and make some other adjustments. By the time they get to the end of this, the client really does not understand what he has. All he knows is he has to rely on that agent. One common trick that I've seen some of the smaller agents use is to somehow structure this amount of insurance. They are trying to credit people some type of pre-tax rate of return on the deferral account, even though the company would be paying tax if it did fund the trust with taxable investments. So you generate gains by buying a large amount of insurance, which may not achieve huge rates of return, but if you discount them back over a long period of time, you can make the numbers look pretty good. We see cases where clever use of discounting and differences in duration can allow you to not only sell COLI to the client but actually credit pretty high interest rates on the account balances. So that's another incentive. The client would be scared to touch it. He might thing that if you take away the COLI, you'll take away his deferral account. You get some fairly strange structures in this market. The nonqualified deferred compensation market requires service. This really is the case where you're

not going to have some consultant coming in saying I can sell everything for you. A client would very definitely use a broker or an agent here. The product structure in this market is fairly straightforward. The fund strategy can be quite complex. The variety of structures that we see there are just amazing.

I'm going to skim over split dollar other than to just say that there's a broad variety of split-dollar arrangements out there in terms of how they structure the ownership, the split of the death benefits and how the policies are intended to be managed going forward. This really supports what Larry and Ian were saying earlier about good illustration systems being critical in this market.

I think we've all talked about the commitment that's required. I guess the only thing I would say is you'd be surprised at how much specialized knowledge you do need. With private placement products, it's quite common for provisions to be negotiated at the very last minute. It often comes down to a choice between several carriers with products that are priced fairly competitively. The difference can often come down to what types of contractual concessions one carrier can make over another. In that case, you really need lawyers that know what they're doing and are able to draft changes in a short period of time.

Another example of that would be underwriting. Sometimes you find clients kind of negotiating over your dividend process. When I say dividend I mean your mortality experience refund process. Almost anything can be up for grabs in the large case market, and often clients, through their consultants, want to know everything about the product or at least have it all disclosed up front, whether that be the rate that you credit on death benefits and cost-of-insurance charges or how you actually determine your incurred but not reported (IBNR) benefits. That's obviously a case where you need to get your underwriter involved.

We've talked about needing good guaranteed issue, and the reason you need good guaranteed issue is it's just obviously a nightmare for a human resources director in a company to have to drag executives out to get medicals every time they want to put some type of increase in on a policy or purchase another policy. The market is very dynamic, particularly at the large end. BOLIs have been around for several years. Within the last year we've started seeing products with book value guarantees on the cash value in the early years. The reason for that is banks are concerned with mark-to-market accounting. These products are quite complex, and there have been several other carriers that have jumped into this market, each with their own different approach to providing these guarantees.

Let's discuss the smaller agents. It's quite often that we see an agent selling beyond their level of expertise, and I said earlier that when that happens, whether you like it or not, you're often dragged into it. You can see Section 7702 problems. You can get poor product performance. We've seen examples where an agent might sell a variable product that has historically very high earnings on one of the funds in the separate account but high charges. When those fund returns start coming back down to normal, then you have a dog of a product, and there's no way of hiding it anymore. I know Larry and Ian alluded earlier to inappropriate compensation structures. If there's too much being taken out in compensation at the front end, and there's not enough being taken out in compensation at the back end, some of the smaller agents really just lack the incentive to continue servicing the business.

As I said earlier, when the agent creates problems, those problems often become your problems. Again, we're talking about the smaller COLI marketplace that you may be more familiar with here. Customers think you have deep pockets, and they'll make you show them why the plan didn't work. It's much harder to sweep problems under the carpet.

Let's talk a little about the large COLI marketplace. I said earlier, it's extremely competitive for the largest cases. I'm talking about cases where the premium levels are upwards of $100 million up to maybe $1 billion in premium and above. Most of the carriers know what they have to do to win business. They also want to know what it will take to be more competitive next time. You'll find that it's extremely competitive. The margins are smaller than smaller life insurance type products, but smaller margins are still large sums of money. Word travels fast. We actually saw two competing BOLI products about six months ago, and we were looking at the wording in some of the contracts and the stabilization guarantees. They looked pretty close to me, and I know that a couple of people had left one of those companies and moved to the other. They either had a very good short-term memory or they were walking back and forth with diskettes in their pockets.

Some products can have a short shelf life. I know that there were a lot of leveraged COLIs sold before 1986, before the grandfathering and the restrictions on the amounts of loans came in place. It wasn't too long after 1986 that the more efficient broad-based leveraged COLI products came out. Those products are dying, and, as Larry said earlier, there have been several generations of BOLI products sold in the last several years.

Finally, you must keep current not only on products but also on changes in tax law and regulations. We have seen several new carriers recently, and we've seen another one drop out in the last couple of years. It's a small market. I guess there

are probably about a dozen carriers that are in the large case market and probably plenty of others that deal with the types of arrangements that I've been talking about like the nonqualified deferral and the split-dollar type plans.

Mr. Glew: I have a couple of things I want to say about private placement variable universal life (PPVUL), and then Larry's going to finish us off with BOLI.

PPVUL is a regular variable universal life product. If you had to look at the policy form, you would be hard-pressed to tell the difference between a private placement VUL and a registered VUL. The policy form looks basically identical. The difference is that Regulation D of the 1933 Securities Act allows an exemption from registration under certain circumstances. It reads, if you're not going to offer the security to the public (and this applies not only to insurance contracts, but also to securities), and , if you are only going to offer it to sophisticated buyers (corporations that have assets of $5 million or above and individuals who have assets of $1 million or above or incomes of $200,000 a year or above), then you do not need to register the product. That allows you to avoid the whole registration process that you go through under registered VUL contracts. Under the Investment Company Act of 1940, you can also get an exemption for private placement contracts provided the number of owners of this particular separate account do not exceed 99.

There are some changes that occurred in 1996 that now allow ownership to go beyond 99 if everybody who's in the separate account is a qualified investor which means they have to have investable assets of $5 million or above. If you're dealing with sophisticated investors, and you're not going to make a public offering, you can offer variable universal life as a private placement security.

When you do so, you need to have a plan of operation like you have under any separate account that needs to be approved in your state of domicile, and if you operate in New York, it will need to be approved in New York as well. You need to have an investment management agreement for each separate account that you set up. Instead of a prospectus, it is customary to have what is called a private placement memorandum (PPM).

So that is the structure of PPVUL. It's used in the large case market because of its flexibility, but essentially it's used in exactly the same way that Gary spoke about before, which is in terms of using different products. It's also often used in the high net individual market, particularly when you have unusual investment options—hedge funds and those kinds of things. There's a certain number of companies that are doing that.

The advantages are that you can customize the contract to what the client wants, particularly on the investment side. As you well know, if you're dealing with a registered VUL contract, you will have selected your 20 funds. Those will be insurance-dedicated mutual funds that will be inside of those contracts. A client might come along and say, "I don't like Fund B. I prefer that you put another fund in instead of Fund B." You really can't do that in the registered contract. But in a private placement contract, provided you don't discriminate against other groups that have come in, you can set up a different separate account for that particular customer and put in whatever funds they would choose to have. To avoid the registration costs and delays, and because of the level of customization, it really is limited to large transactions.

A typical PPVUL is owned by a corporation or a trust. It is almost invariably funding some kind of nonqualified employee benefit program or *Financial Accounting Standard (FAS) No.106* type liabilities—postretirement liabilities of one sort or another. They're usually single premiums, but they don't have to be single premiums. It's not unusual for the single premium to be $20 million. Single premiums have been received in these contracts that are much larger than $20 million. Most organizations that offer private placement contracts will be prepared to set up a separate account specifically for a customer if the assets are over a certain amount: 20 million to $30 million is sort of a range that most companies operate in. You will find on the premium load side that there will be deferred acquisition cost tax loads, premium tax loads or commissions. Commissions are very low. It is not unusual to see level commissions of only about 1–3%, but bear in mind the size of the premium. Mortality and expense (M&E) charges are sort of in the 20–25 basis point range. Mortality charges are typically at expected mortality rates with some kind of a retention charge over the top of that, say 3–5%. I don't know what the policy loads or what the policy fees are offhand, but it's not unusual to see policy fees of a couple of dollars per month. Once again you can have contracts and programs that may have several hundred lives in them. If you multiply $2 a month by 12 by 1,000, you can see that these are some pretty substantial loads on a case basis. They're usually single premium, and they're looking for optimum growth in assets. It's not unusual to have a cash-value accumulation test. That should kind of give you a flavor of what a typical PPVUL case would look like. You could write that case on a registered basis, but the chances are it would be a lot more expensive.

Let me talk a little bit about investor control, perhaps the most important aspect of private placement variable universal life. Late in the 1970s and in the early 1980s, there were a series of revenue rulings through which the IRS established a principle of investor control. If an investor has control over the assets inside of a life

insurance separate account, then the IRS will deem that those assets belong to the policyholder and will tax the policyholder on the inside build-up. In the mid-1980s, the IRS came up with Regulation 817 that, in fact, further strengthened that position by requiring that all separate accounts meet a diversification test. There have to be a certain number of assets in the account for the account to be diversified so that you don't get this kind of look-through tax treatment for the policyowner, and there have been a series of other private letter rulings. It's a very vague area, and it's an area that is filled with lots of danger because if we operate as an industry on the wrong side of this area, we're in danger of losing the appropriate tax treatment for our customers. We're also in danger of, in fact, putting the whole private placement VUL business at risk and perhaps even the VUL business in general. So it's not an area to be tampered with.

Unfortunately, the problem is that there are no rules that the IRS has given, and the IRS has made it clear that they are not going to provide any new rules in the near future. What most companies have done is establish a set of principles that they use to guide them through this investor control issue. I'll take you through some of these. These are the more typical ones that you will see.

The basic underlying principle is that the assets in a separate account are the assets of the insurance company. We can say, isn't that obvious? The trouble is when a corporation is investing $100 million, the corporation sometimes doesn't fully appreciate that they are giving assets to the insurance company, for the insurance company to invest however it chooses. The corporation that, in fact, gave the insurance company that money doesn't have any ownership of those assets anymore.

The carrier must set the investment objectives in the separate account, and the carrier must select the investment manager. It is possible for the person who is buying the policy to tell the carrier what investment objectives they would recommend. They can also recommend certain investment managers, but the selection, in the end, is the carrier's selection to make.

The investment manager must have complete discretion to invest according to the strategy. That really means that there can be no question about the owner of the insurance policy giving instructions to invest in certain securities. The policyholder shall not communicate in any way with the investment manager. The policyholder may choose only among broad investment objectives. A private letter ruling was given to Mass Mutual in which there were four different investment strategies. The IRS said it was okay for the policyholder to select between those four different investment strategies provided they didn't select any of the individual securities

within those investment strategies. The policyowner may have no interest directly or indirectly in any of the securities that are owned.

The next one is perhaps one of the most problematic, particularly if a private placement is sold in the individual market. You have to exercise extreme caution if there was any existing relationship between the policyowner and the investment manager. That's not such an unusual situation. You could find that somebody has assets in a trust, and they were having it managed by an institutional investment manager. They, in fact, set up a private placement VUL contract, and they would like to have that same investment manager invest money inside of the insurance contract. It is doable, but you have to be very, very careful that you build a very strong wall between the actions that occur directly and the actions that occur within the separate account. Do not wrap existing holdings. That's an absolute no-no. If you have assets in one place, and say somebody comes to you and says, "I want to buy a private placement VUL contract. I'd like you to take that investment strategy in those assets and put it into the private placement contract." The IRS will surely look through that and tax those situations.

The last issue is Section 817 which is diversification. Listed below is a series of principles that we at CIGNA have adopted to guide us. Different companies will have their own principles. People will even interpret these principles slightly differently from carrier to carrier, but it is perhaps the most important issue on PPVUL.

- Cannot be more than 55% in any *one* investment
- Cannot be more than 70% in any *two* investments
- Cannot be more than 80% in any *three* investments
- Cannot be more than 90% in any *four* investments

Finally, let's go through the required capabilities. If you operate in the PPVUL market, all the other things that we discussed before, such as the need for expert advice and systems, apply even more. You need to have high-quality advice. You really need to deal through very knowledgeable brokers and consultants. If anybody in the sales chain doesn't fully understand all of the issues that are involved with PPVUL and promises things or does things that fall outside of what is acceptable practice, that can endanger the whole transaction. You really need to deal with people who are knowledgeable about the market. You need to be able to price, and you need to be able to illustrate, and you need to be able to administer business on a very customized basis. Flexibility is the thing there. The other thing is that it's important that you have investment manager relations because people will come to you and will ask for your advice as an investment manager. Patience is also important. These are large transactions. They take a lot of time and effort to

put together, but when they do happen, they can bring in huge amounts of premium.

Mr. Sluder: I'll talk a little bit about product and some of the issues from the carrier point of view and what's happening in the market. BOLI is the use of life insurance to informally fund or finance benefit liabilities in a financial institution. It's COLI in banks. The small case market is primarily executive benefits. In the large case market, there is no specific individual for which we're funding the liability. Again, we may be funding *FAS No. 106* type liabilities. Any postretirement liability can be funded with BOLI.

The last category would be BOLI on borrowers or for security of loans, but you no longer have BOLI on borrowers because of the Fannie Mae transaction. The banks' cost of money is very low. The BOLI products can provide a rate that's almost equivalent to their pre-tax investment opportunity, so we generate a substantial spread there. Banks do have large postretirement benefit liabilities. BOLI is a good timing mechanism for that. Most of the medical expenses occur very close to the time of death. Banks are very profit-and-loss sensitive. BOLI gives them a very steady increase on the profit-and-loss statement, and banks like that pattern.

Prior to 1988, banks were major purchasers of life insurance. From 1988 to 1992, banks ran out of money, so the market dried up. Then between 1991 and 1992, banks came back to a profitable position, and the market has really exploded over the last six years. I believe Ian alluded to the volume in the variable products in probably the majority of the cases by an 80/20 split. On a premium basis, it's probably reversed because of the BOLI transactions.

Legal authority. Obviously, insurance is not the business of banking. We'll find out about selling insurance. These transactions have to be incidental to the business of banking. The original rules for banks holding BOLI are within banking circular (BC) 249, which we were instrumental in helping to write ast year, 1996, OCC 96-51 came out which greatly expanded on BC 249 and clarified many issues. I would recommend if you're interested in the BOLI market, to go to the OCC home page on the Internet, pull up OCC 96-51, read it, and study it, because I'm going to skip everything that relates to that part. Finally, the Federal Reserve Act, Section 23(a) and 23(b) deal with to the concentration and legal lending limits. The purchase of BOLI is subject to those limits. No more than 25% of a bank's surplus can go to BOLI, and no more than 15% can be with one insurance carrier.

All the prepurchase analysis is available in OCC 96-51. My point is that banks are required to go through a stringent due diligence process before they purchase BOLI,

and they are required to document this process. The whole process creates quite a bit of inertia. Once the banks purchase BOLI, they don't want to look at it for a long time because they've put six to nine months of work into justifying the transaction. Large case and small case products in the BOLI market are generally single premium—98% are single premiums by cases. There are usually universal life or excess interest whole life type products with a cash-value accumulation test. The first-year cash value in today's market would be somewhere between 105.5% and 106% of the premium. Growth after that would be slightly less to reflect the fact that mortality charges do increase with time.

There are important considerations from the carrier point of view. First and foremost is disintermediation. You have purchasers that have a large block of assets, and interest rates might go up significantly if they surrender the contract, you're stuck with a huge market-value loss. There are ways to get comfortable with that and to hedge that risk without actually going to the hedge market, but it is a major concern. Concentration is a big concern. If a bank does a major transaction with you, you can have problems with your board in having a high percentage of your liabilities from one financial institution.

As far as allocation of surplus goes, remember that BOLI isn't the only business you're in, just as COLI isn't the only business you're in. You have to look at these opportunities, in comparison with other opportunities, such as selling annuities through banks. Make sure that the opportunity is good use of the company's surplus.You need to have people on your staff who really understand insurable interest. It varies from each and every state. If you want a complete composite of insurable interest, take $300,000 or $400,000 to your favorite law firm. They'll give you a write-up on each and every state. The important thing to know is that if insurable interest doesn't exist, then it's not a life insurance contract. The buyer is taxed on the inside build-up, and you don't get life insurance reserve treatment. The big consideration is that tax law is changing. With the last change in the tax law, not only COLI, but also BOLI, is the exception instead of the general rule. Other interest is disallowed on life insurance purchases by corporations unless those insured are current employees, and there are some other little wrinkles in there. That is a very definite change from the past where life insurance had tax free build-up. There was no impact on other amounts loaned, to the point now that with a stroke of the pen COLI and BOLI could be gone.

Let's discuss market trends. Gary mentioned the separate account products with a stable value feature. There's a lot of activity at the carrier level and the investment company level. It hasn't captured a large market share, but part of it is that it's an emerging technology, and no one has unlocked the box yet. There is increased

competition. I spent three years of my life trying to get a handful of carriers to provide BOLI products for our company. I have carriers calling me who have a mediocre product and generate huge amounts of volume. Mediocre won't do it.

A major growth area in the BOLI market is in the $1 billion to $5 billion bank market. This is larger than the benefits market that PCS, our division, is in. It's smaller than the traditional BOLI market, which is the $5 billion and $10 billion banks. I sort of refer to it as the me-too market. Bank of America did it, and Bank One did it. We should do it, too. It's a good size case, and it's a good, steady market. With the exception of any problems from Congress, I think we'll continue to see a high level of activity in that market.

Finally, the BOLI market is beginning to resemble the GIC market of years ago where it's almost a rate purchase. I don't like to see that, and I don't like to be in any market that's almost a commodity or purely a commodity, but the market is moving that way. There are a dozen or so really competitive products and carriers in the market. Many of the banks are choosing one from Column A and one from Column B, and that's how they make their purchase.

There are some dangers in the market. In the 1995 Tax Act they disallowed the interest deduction on leveraged COLI. In the 1995/1997 Tax Act they stopped the Fannie Mae transaction and some other similar transactions that other companies were working on. The big question is, what's going to happen in 1999 or 2001? How long will the market last? From my point of view, it's an opportunity. If we can convince the buyer that there's a limited time and create a fire sale mentality, then we can grow that portion of the business while we also work on diversifying other sides of the business.

From the Floor: First, I want to commend you gentlemen on a very good presentation. In looking at this business from the life insurance risk management side of the business, you didn't touch upon the issue which is stacking. Stacking is usually where you have more than one carrier taking on the risk in a guaranteed issue situation. Given that we have a consultant, a broker, and a carrier here, what are your respective views on the stacking issue? Obviously, reinsurers do not have a warm and fuzzy feeling about stacking.

Mr. Sluder: As a broker, I realize that it has become a reality of our world. We do have cases where we need $6 million of guaranteed issue or a number that's larger than any one carrier can deal with. Stacking is a way to accomplish that goal. From an actuarial point of view, things are happening that I find nearly incredible.

Mr. Glew: As Larry says, it really is kind of a reality in the market. We always ask about it when we're having a look at cases. We make sure that the overall amount of coverage that is being purchased is reasonable, and that could still mean that it's several times our guaranteed issue limit.

From the Floor: I have a couple of questions about the stable value BOLI product. First question has to do with what sort of investment policies and investment strategies the client is looking for in a stable value product. What's typical? Second, could you provide more details as to how the carrier manages disintermediation risk?

Mr. Sluder: The stable value funds often are tied to an index fund like Lehman Brothers mid-term bond fund with either a hedge held in the fund or a third party guarantee that guards against a market value decline. In other words, you have a zero floor, which is a very common type of design, although in that market it's whatever the buyer will buy. You have to put together what is attractive to the buyer. We've also seen large private placement BOLI products occur with virtually nothing but Treasuries inside the separate account.

Mr. Glew: We've seen buyers investing in fixed-income variable accounts, and I guess there are a variety of ways in which you can structure the stable value guarantee. You can have different types of caps and floors on what book interest rate you'll credit. It really depends on the dynamics of the case. For example, if you have a client that already has some COLI of one sort or another, and they're able to do a 1035 exchange to some new BOLI— then there's still no guarantee that they won't surrender it. There could be tax disadvantages to them in doing so. That gives the carrier or the guarantor some type of piece of mind. I think the market is too new to really generalize too much about disintermediation risk.

From the Floor: What do you think of the market for equity-indexed life insurance in the BOLI marketplace?

Mr. Glew: We have a product that we sell in that market, and it has done fairly well. It seems to be a kind of a specialized product. It seems many people are looking for fairly clean deals where they know what the rate is going to be, and that there is going to be rate stability. If you have equity participation, and some way or another you are introducing some variation in the returns, not all of the banks want that variation, but for those banks that are prepared to have some of that variation, then there is definitely a market for that. We have actually found our product works best in situations where people have purchased regular BOLI. They're looking for some kind of a yield enhancement mechanism to put in a piece of it. We frequently

are a piece of overall transactions, and the hope is that if we credit maybe 3%, which will be the floor, that that's not going to impact their overall stable rate very much. However, if we have a great year because of the upside potential, that may give them an additional 1% or 2% on the program overall which would really make a difference. That's where our product seems to work the best.

From the Floor: Do you think there's a market in the COLI marketplace for indexed products?

Mr. Glew: I think that there's probably more of a market today than there was before the stock market drop, but we'll have to see how that develops. In the regular COLI market, you find that companies are matching liabilities, and many of the liabilities that they have, particularly if they are deferred compensation type liabilities, are not typically equity-linked liabilities. The product doesn't necessarily fit the liabilities that are being developed because of the employee benefit program. If we found, for example, that people started to put floors into deferred-compensation arrangements or started to put hybrid products into 401(k) plans and those kinds of things, then I think it would very quickly flip over into the nonqualified financing area as well.