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Session 78PD
Hot Topics In Individual Disability Income

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Panelists: KEVIN P. FARLEY
ANNE GOODMAN MITCHELL
JON M. PIANO
Recorder: HENRY YI

Summary: This session starts with a short review of current financial results and experience trends for the individual disability income industry. Panelists will then discuss issues of timely relevance to disability actuaries. Issues include:

- *Experience trends in mortality, persistency, and closing ratios*
- *Sales and profitability trends and company responses*
- *Underwriting trends*
- *Claim management issues*
- *Other hot topics*

Mr. Michael B. Koopersmith: My name is Mike Koopersmith and I will be the moderator for this session. Joining me on the program today are Kevin Farley of Milliman & Robertson (M&R), Anne Mitchell of UNUM, and Jon Piano of Met Life.

I'm a consulting actuary. I have my own practice, and I specialize in individual and group disability insurance. I set up my practice about two years ago after working for Paul Revere for about 26 years. I have quite a bit of expertise in both individual and group disability, and in functional areas ranging from marketing and sales management to product design and pricing to best practices and benchmarking for product line management.

Note: The charts referred to in the text can be found in file 8mau78c.pdf.

I'd like to take a minute to introduce to you each of our speakers and to tell you a little bit about them and the topics that they plan to cover. Up first will be Kevin Farley. Kevin is a principal at the Minneapolis office of M&R. His primary areas of concentration are individual and group disability insurance, and he has experience in both health and life insurance. Kevin has worked on product development, pricing, financial analysis, reserving, competitive analysis, and regulatory and compliance issues. Kevin is the editor of M&R's disability newsletter. As many of you know, M&R publishes the financial results for the top nine disability companies in this newsletter at about this time each year. Kevin will be giving us a review of this year's report, and he'll also be spending a few minutes discussing the statistical variability of claim reserves.

Jon Piano is vice president and officer in charge of Met Life's individual disability income (IDI) business center. In this capacity, Jon has responsibility for product development, marketing development, financial management, actuarial underwriting, new business support, claims, in-force administration, and marketing oversight. Met has been one of the more successful companies in recent years if you measure success in terms of its incurred claims rate, and one of the few companies looking to aggressively grow their individual disability business. Jon will be discussing what he sees as the keys to successful disability growth.

Anne Mitchell is vice president of individual disability at UNUM, and her responsibilities include the development of individual disability underwriting guidelines including large case programs, and the monitoring of segment profitability. Anne has been with UNUM since 1985 and has held a number of positions within the IDI profit center. One area that has drawn a lot of interest in recent years is multilife disability income (DI). What exactly is multilife DI? What is the potential for multilife? What are the elements of a successful multilife DI strategy? Anne will be covering all of these topics in her remarks.

We should have ample time after the completion of the presentation for some questions and answers. Unless there are any questions or comments at this point, let me turn things over to Kevin Farley.

Mr. Kevin P. Farley: I will give the financial results as assembled by Mark Seliber with Duane Kidwell, and published annually in M&R's disability newsletter, as Mike mentioned. We'll look at the results as reported in the statutory statements of the 20 largest non-can IDI writers. Mark Seliber would normally present the results, but Mark couldn't attend the meeting, so Dave Scarlet asked me if I'd like to present the results, so I'm here on Mark's behalf.

The financial items that I'll focus on will include: earned premium, incurred claims, commissions, expenses, non-investment income, margin before dividends, and federal income tax (FIT) all expressed as a percentage of premium. We'll look at some numbers for 1996 and 1997 and trends over the last 18 years, for the top eight companies. We'll also look at trends over the past five or six years for the top 20 companies.

In my comments, I'd also like to briefly explore the statistical volatility inherent in the claim termination rates that could be used to calculate claim reserves. I'll concentrate my comments there on the 1985 Commissioners Individual Disability Table A (CIDA). I'm just looking at some tabular reserves, but we'll look briefly at that. I know it's the second topic that you'd like to jump to first, but I'll save the best for last.

First, consider the financial results of the 20 largest carriers of non-can IDI (see Table 1). We can see that between 1996 and 1997 earned premiums remained very flat and there was practically, or effectively, no growth at all. Investment income did increase significantly, probably, in part, because of a large amount of assets needed to back the reserves, and possibly because of a more favorable allocation of investment income within the companies. I don't know that for sure, but that could also be happening in the numbers. Incurred claims were pretty stable from 1996 and 1997 and is probably the direct result of no major claim reserve strengthening done over the past year. The commissions dropped a couple of percentage points. What cancels that out is expenses increased a couple of percentage points. Finally, we get down to the margin before dividends and FIT. It did improve from –13.7 to –7.6, but, while it is an improvement, we're still in the red. We have a long way to go before we turn things positive.

TABLE 1
NON-CAN IDI STATUTORY RESULTS FOR 20 COMPANIES

	1996	1997
Earned premium (millions)	$3,436	$3,438
Premium growth	3.2%	0.1%
Investment income*	37.5%	43.5%
Incurred claims*	102.4%	102.8%
Commissions*	17.3%	14.5%
Expenses*	17.5%	19.6%
Margin before Dividends and FIT*	-13.7%	-7.6%

*Percentage of Premium

When you breakdown the 20 largest companies by pre-tax gain, you find that seven had positive results. The remaining 13 had various levels of negative results. Overall, Mark Seliber reported that 12 of the 20 companies did have an improved pre-tax gain. That doesn't necessarily mean they're positive, but they did improve over last year.

Table 2 shows a split of the companies into the top eight and the next 12. Looking at the one year trend from 1996 to 1997, you see that the financial results for the top eight and the next 12 do have some similarities, such as the decline of the premium growth. The investment income increased significantly as a percentage of premium, and expenses also increased. However, note some differences. The earned premium did increase slightly for the top eight, but the next 12 actually saw a decline. The incurred claims decreased slightly for the top eight companies, yet they increased for the next 12. The margin improved for the top eight companies while it actually deteriorated for the next 12.

TABLE 2
NON-CAN IDI STATUTORY RESULTS

	8 Companies		12 companies	
	1996	1997	1996	1997
Earned premium (millions)	$2,687	$2,702	$749	$736
Premium growth*	3.6%	0.6%	1.9%	–1.7%
Investment income*	37.1%	42.7%	38.9%	46.4%
Incurred claims*	103.7%	101.0%	97.8%	109.4%
Commissions*	17.7%	15.0%	16.0%	12.7%
Expenses*	16.0%	17.9%	23.1%	25.8%
Margin before dividends and FIT*	–13.4%	–5.4%	–14.8%	–15.6%

*Percentage of premium

Now I'd like to turn to the eight company results and look at some trends over the past 18 years. If you're familiar with the disability newsletter, these companies have been tracked as a group for quite a long time, and I will just look at premiums, incurred claims, commissions, expenses, and so on over the past 18 years. Here you can see the premiums and growth rate (see Chart 1). Note a significant decline in the growth rate since about 1990. I did a quick calculation and from 1980 until 1990 the premiums increased at a rate of about 16% per year. From 1990 until1997, according to my calculations, the annual rate of increase was only about 6% per year—quite a decline. Some may argue that 6% is more manageable given the capital intensive nature of the product. Nevertheless, there's a very significant decline in that annual growth rate.

The next chart shows incurred claims as a percentage of premium (see Chart 2). While that premium growth was slowing, the claims were rising significantly. I guess you could look at the one bright spot—we're seeing a slight downturn for the top eight, as we had already seen previously, a slight decrease in the incurred claims as a percentage of premium.

Next let's look at commissions and expenses as a percentage of premium (see Chart 3). The commissions have been steadily declining just as the expenses since about 1987. Starting out in 1980, we're at about a 45% level. I think that we peaked out at about 55% in 1987 or 1986, somewhere around there. It's come back down to about 33% in total. Obviously the 33% level is much more manageable. It really needs to be there, given the level of claims that we're seeing. The commissions are coming down because of that decline in new sales and a little tighter underwriting, keeping new sales lower—bringing that commission level down. Some of the more level commissions are starting to get into the mix also.

Now we'll look at the trend in net investment income. As you can see, it's rising at a fairly rapid rate (see Chart 4). It's now adding about 43% of premium to the income side of the equation. As I mentioned earlier, it's probably because of a large amount of assets needed to back reserves and required capital and the static premium base against which you're comparing this net investment income. Premium growth has slowed significantly. Investment income is coming up. So I guess it makes it look that much bigger relative to the premium.

Chart 5 shows profit before dividends and FIT for the eight largest companies. We see that the results bottomed out in 1994 at a –15.3% of premium. The last three years have shown an improvement, and I guess a good trend to have is heading back up toward zero. Nonetheless, it is still zero, or below zero, and we still need to keep on trending things forward to get us up into the positive range.

Now we'll turn to the same measures for the top 20 and look just at the past six years (see Chart 6). As we have seen, premium growth is very flat, and the growth rate for these five or six years has been only about 4% per year. Again, it's probably not the desirable level. We may not want to have it at 16%, but we still may want to have it above the 4% level. We definitely want to have it above the 0.1% level.

Next, let's look at incurred claims (see Chart 7). As we have seen with the eight company results, the incurred claims as a percentage of premium increased to a point at which every dollar of premium and then some was being used to pay claims. It's not the most desirable position to be in, but given the large investment income, they are helping to offset that.

For all 20 companies combined, we have commissions and expenses, which have been virtually identical over the past five or six years (see Chart 8). Yet, in 1997 we are seeing an increase in expenses up to 19.6% while the commissions are continuing to decline.

As we saw earlier, the net investment income for all 20 companies combined has increased at a fairly healthy pace (see Chart 9). And again, this is really necessary in order to help pay all the claims that we're seeing.

Now looking at the bottom line. We see that the profit before dividend and FIT for all 20 companies combined seems to be emerging from the lowly depths of some pretty severe negative results, but there's still a long way to go before things are going to turn positive (see Chart 10).

So what does all this information tell us about premium growth, expenses, commissions, and so on? Really, the bottom line is, that we probably have reason to be happy and optimistic, but there's still a long way to go before we can get above that positive result. As Mark Seliber noted in his disability newsletter article, the two biggest reasons for the improvement in the 1997 results over 1996 are the big increase in net investment income and the fact that there was no major claim reserves strengthening done in 1997.

It was really his second comment about no major claim reserves strengthening that caught my eye. I thought, if there was no major claim reserves strengthening done in 1997, does that mean the carriers are now basing their claim reserves on claim termination rates that are more reflective of actual experience? And I think that all of us would certainly hope that the answer to that question is yes.

So let's assume for a minute that carriers are basing their claim reserves on claim termination rates that are more reflective of actual experience. I ask myself, just how much can we expect the claim reserves to vary because of statistical fluctuations around the underlying claim termination rates used to calculate the claim reserves?

It's that question that prompted me to collect about 17,000 claim records from five of the largest non-can IDI carriers, and run some variance tests on these records using the tool we at M&R call the "risk simulator." The demographics of more than 17,000 records that I collected can be summed up as three-quarters male, a large majority having a benefit period of five years, an elimination period effectively less than or equal to 90 days, and age of disability concentrated in that 40-59 age group. I think that the calculated overall average was about 49 for all the records, and the duration of disability concentrated in a duration of disability of three years or more.

To test the statistical volatility of the claim termination rates that I used to calculate the claim reserves, I ran the 17,000+ records through the risk simulator, which tests the statistical variance using basically a three-step process. One, it creates a distribution of claim probabilities and claim severities from the continuance table for each claim record. Second, the risk simulator randomly samples from the discreet distribution development of times for each claim record, and it keeps track of the severity resulting from each iteration. Third and finally, the sampling done for each claim record is combined with the sampling that was done for all of the other records into what we call a portfolio distribution. Really, that is a distribution of the results that shows how often out of the 10,000 iterations a certain level of claim reserves resulted from all records combined. We're trying to simulate 10,000 years of experience on that one claim block.

In doing this for all five companies' claim records, I came up with some distributions (see Chart 11). On the x-axis we're looking at severity relative to expected, and on the y-axis we're looking at the frequency of that severity relative to the expected. And really, you could think of the expected as the tabular claim reserve for each of the claim records. As you can see, all of the claim blocks for the five companies are pretty tight around that zero point, or actual being equal to expected. These distributions can be used to give us an idea of how much the claim reserves will vary from their expected level solely because of statistical fluctuations in the claim termination rates.

For example, the chart is telling us that on the x-axis, you see the zero point, and then the next point is out there plus and minus 0.05 or 5% on either side of the expected. The chart is telling us that most or practically all of the statistical fluctuations and the claim termination rates cause the claim reserve to vary no more than plus or minus 5% from the expected result.

This last chart shows the impact of combining all those claim records from the five companies into one mega-claim block of 17,000 records (see Chart 12). To the question of how this distribution can be used, the answer is simply, what impact does the number of claims have on the statistical variance? As we all might expect, as the number of claims increases, the statistical variance will decrease. We see that the statistical fluctuation in the claim termination rates of the aggregate claim block will cause the claim reserves to vary no more than maybe plus or minus 3% from the expected tabular level.

If IDI carriers are using actual claim records, and if carriers are using a fairly good estimate of their actual claim termination rates to calculate the claim reserves, then swings in the claim reserves, due to statistical fluctuations, should not be very significant according to the claim reserve or the claim distributions that I've created here.

Mr. Jon M. Piano: There are two fundamental facts about this business that I think most professionals in this IDI field would not disagree on. One is that there is a very large untapped market for DI insurance in the U.S. And the second is that, as Kevin has shown in his remarks, the IDI industry has had relatively dismal financial results over the last few years.

With this as a background, my presentation is about how an IDI insurance company can obtain a satisfactory rate of return in this business. First of all, can they? My answer is a definite yes. The case study I am presenting is my own company, which is one of the minority of companies in this business that has, indeed, an excellent claims loss ratio over the last five years. My contention here is that one can be extremely successful if one has exceptionally strong product management. In fact, it might be even more than a strong help; it might be a requirement. And a further case in point would be that a big help in achieving strong product management is to be organized on a business center approach in this business. Certainly, there's a greater opportunity for strong product management if one is organized along those lines.

The body of my talk will be on my contention of the four underlying drivers of success. And then I'll wrap it up with an overall solution. One theme that will be very evident in my talk on the four underlying drivers is that they all involve a heavy amount of expertise and a heavy amount of partnering among all that are responsible for delivering this result; ranging from the manufacturer to the service delivery, to the end client.

Let's start with Met Life's record. We've been in the IDI business for the past 75 years, but we've been organized on a profit center basis only for the last five years. We'd have middling results over most of that 75-year period but we've had some exceptionally satisfying results over the last five years. The loss ratio, either on the GAAP or stat basis has been a five-year composite of 68%. That is a lot different than the industry's loss ratio as a whole. In terms of mix of maturity of the business, we have a relatively mature block of business developed over many years, combined with a good segment of relatively new business from recent sales. In general, I think that overall it mirrors more or less the typical company in the business in aggregate duration.

In terms of sales premium, it's been growing at a healthy rate: in 1996, there was a 33% increase and in 1997, there was a 33% increase. For the first part of this year, it has been a 48% increase. In terms of industry position for overall sales premium, we were number 12 in 1997. We expect to move up a bit in 1998. We have rather aggressive sales goals as we set strong goals for all divisions of Met Life. Met Life's goal for the IDI product line is to be one of the top five companies in this business in the year 2000.

Why does one need strong product management in this business? I contend one has to have a very high sensitivity to the underlying nature of the risk, and that has to be for all parties that touch this business. Let me give you four statements. I'll go through each statement, but each statement has only a certain element of truth. It's not the full story. To some extent, you might call them half truths.

Consider the first one: "Living tax free cash benefits without providing a bill." It's a pretty enticing statement to some consumers. But again, it's a half truth. One does still have to provide proof of loss.

The second statement a consumer might espouse is "My job satisfaction impacts my view of my opportunity to collect." Another enticing statement. But again, a half truth. Concentrate on the words "in my view." That's strictly what it is. It might be a client view. It's not the appropriate client view.

The third statement is, "I paid the premium, not my employer, so I'm entitled to collect." And we've seen that attitude prevailing with many product lines. Who pays the premium should have no impact on the ability to collect.

And the final statement: "The degree to which my medical condition impacts on either my loss of earnings or my job is difficult for my insurer to evaluate." Again, a claim may be difficult to evaluate, but a good organization will be able to manage that very fairly, and with a great deal of success. So even though something can be difficult, it can be very carefully administered.

Continuing on to the main body of my talk: an outline of the four underlying drivers of strong product management. Each of these areas contributes to the delivery of strong product management. First, be a prudent manufacturer of product. Second, the producer should be a financial professional and a partner. Third, underwriting must be part of a broader and integrated new business unit for exceptional support of the producer. Finally, client relations should be expert and responsive. Each is an important part of the delivery process. Throughout this talk, you'll see the importance of alignment, partnership, and expertise in each driver.

Let's start out with the first driver: being a prudent manufacturer. The extent to which a manufacturer deviates from careful plan design or from underwriting policy to avoid greed situations or from having a keen eye on economic need is inviting trouble. And each of us is either better or not better in this execution. But my contention here is the extent to which a manufacturer deviates from this basic fundamental principle, problems have and will continue to develop for that company. I would contend that, in particular, replacement ratios today are still too high in many niches at some companies.

Second, I believe a product manufacturer should support the producer with a large range of solutions. The reason I say this is because in order to ask a producer to custom tailor solutions to the client, and indeed, sell on a needs-based approach, one has to provide that broad range of offerings and not just a single solution.

Third, I contend that in many markets, non-can coverage is the appropriate solution and can be a very successful solution to all parties. Insurance companies are in the business of providing guarantees, and the underlying morbidity risk is not really different, no matter what that premium guarantee. So I contend the management of the underlying risk is more important than the form of the premium guarantee that's provided. A second quality feature, own occupation coverage, by itself is a very insurable and desired type of solution from many clients' point of view. The important point here is I strongly believe that one should not provide double earnings, that is, more income after disability than prior to disability. So a correctly designed DI own-occupation coverage, I contend, that doesn't provide double benefits, can work out very well.

Fourth is the application itself, that is, having a solid application, which is both clear and specific. I don't think you can take shortcuts on your application for a very high liability type of risk. You might be able to make shortcuts if you bring down the risk element of a particular coverage you're providing. But if you're providing the more traditional product, which has a high potential liability, you're doing the client and everyone a disservice by cutting down on the amount of information that you're asking for, or you're not asking for it on a very specific basis.

The final driver is acting decisively in the management of change. I think it's a necessity in the management of this line of business. That has been at the very root of the industry problems over the last 10 years. I think that we've all been somewhat guilty of that. But to the extent one delays making decisions, or has difficulty in dealing with extraneous pressure, or makes decisions for the short term rather than for the long term is inviting big trouble.

Getting on to the second driver of underlying strong product management is the producer himself or herself. It's important that the producer be a financial professional who acts as a true partner and views the partnership as a successful venture for all parties concerned. I do believe that part of our producers' professional responsibility is to sell on the basis of true needs. To the extent that a company's producers deviate from that, again, is inviting trouble from the very onset. To reinforce this, our sales material and producer training is consistently embedded with the financial needs approach to providing solutions.

We also do expect our distribution system to sell to a wide spectrum of occupational markets, but we also do a modest amount of target marketing promotion where we believe the profit margins may be better.

Finally, part of this partnership is not only providing a quality flexible product line, but we making it easier for the producer to do business with us. We do spend and promote our resources on providing pre-screening hotline assistance for our producers.

The third driver of underlying strong product management is underwriting. And here, again, an effective underwriting organization can do a lot to align the client, producer, and manufacturer. At Met Life, underwriting is part of a broader new business unit. It's also situated very close to our claims unit. So there's a lot of continuous cross-discussion between our claims unit and our underwriting unit. Our producers do have access to underwriting through a full producer service expert DI hotline, and we have found that this has been exceptionally successful and what the producer is looking for. Most producers have the biggest problems dealing with a DI manufacturer in the area of underwriting and knowing how to set the customer's expectations correctly up front. Providing the producer with creative expert solutions through our hotline support is part of strengthening our producer relationships.

Underwriters should have a continuous sensitivity and awareness of the art of predicting future behavior. We all talk about medical underwriting and financial underwriting, but we do not often talk about the art of predicting future behavior, which can be almost as important in terms of evaluating the overall profile of a risk.

Expert telephone interviews are an important part of our underwriting process for probing for information not otherwise disclosed. We do expect our underwriters to be free of special interests, and we do expect them to make the right decisions at all times. That's been a hallmark of our underwriting organization.

Finally, this last driver underlying strong product management is client relations. I don't think one can underestimate the importance of this area, and we don't skimp on resources on delivering the promise to the right individuals. First of all, our claims process is tailored toward higher liability coverage. We expect timely and complete claims submissions. We do make heavy use of in-person field claim reviews. We're very thorough on factual development and do get actively involved with the client himself or herself early on.

Second, I think that it's important to use expert technical claim resources whether it be medical, financial, rehabilitative, investigative, or legal.

Third, I have seen a number of instances, when we have looked at other companies, where taking shortcuts in administration compromised the risk that was underwritten. So I think that in-force administrators have to be just as knowledgeable as some of our other functional specialists.

Finally, we value our reputation for client trust. We say, "Don't mess with Met, but get Met, it pays." And it's an important statement in that we don't pay fraudulent claims. On the other hand, we provide enormous support for those clients who, indeed, have a disabling illness.

In summing up the overall solution, my contention is that one can get strong product management through a highly integrated business center approach. There is more opportunity for alignment among the manufacturer, service delivery, and the client. The opportunity is for a clear business plan, consistent execution, and opportunity for a strong control with no holes in the process. The opportunity is for a high level of in-depth product understanding, sensitivity to real issues, and rapid communication. And finally, there is the opportunity for having a staff that's passionate in their commitment to the mission, and that displays an overall proactive attitude.

That sums up my talk on being successful in this IDI business. I really do, indeed, believe that one can be enormously successful in this business, by strong execution and not forgetting the fundamentals.

Mr. Koopersmith: It's reassuring to see somebody who has been successful in this business. Let me turn things over to Anne Mitchell now.

Ms. Ann Goodman Mitchell: A workshop titled "Hot Topics" really leaves the subject wide open. I think these are interesting times to work in DI, and there are a lot of potential hot topics. Companies are moving in different directions now. Each is determining its own strategies. We're not all selling similar products and going after the same markets, leapfrogging one another. Companies are doing this out of necessity, as we can see from the charts that Kevin showed. Companies need to do something different if they want to survive.

So rather than talk a little about several hot topics, I decided to focus on just one, and that's multilife DI. It seems to be a hot topic for many companies today. I want to share some research we've done recently on market potential, and then talk about the factors that have to be considered to be successful in the multilife DI arena.

It makes sense to first look at the total group and individual disability market. The blurring lines between group and individual disability make it difficult to distinguish between the two in some situations. Multilife DI is a perfect example of the blurring lines. If you have a one-life case, you can be pretty certain that's going to be an individual disability product sale. A 5,000-life case, on the other hand, is likely to be a group sale. But there's a really big range in between where it could be either individual or group. Often, it depends on who sells the case.

We've estimated the group and individual long-term disability market—not including short-term disability or long-term care—to be $21 billion. This is derived from looking at the U.S. wage base, which is $3.2 trillion. Then we spliced out the very low incomes where people are quite unlikely to buy, and we also spliced out a portion of the highest income because we're not, as an industry, willing to cover their total income. Then we applied some estimated premium factors to get the $21 billion. This means the market's only 40% penetrated, so it's a large market with a lot of potential for growth. In fact, Wall Street analysts often refer to this underpenetration as one of the positive factors around disability companies. So we have a base of $21 billion.

How much of this market is multilife DI? First, we have to attempt to split the market potential into the group and the individual categories. There are many factors to consider. For example, the size of the employer is a primary factor. Larger employers are more likely to offer group long-term disability (LTD) than smaller ones are. Statistics from the Employee Benefits Research Institute show that 20% of small and 41% of large employers offer group LTD, with the delineation between the small and the large employers at 100 lives. This $21 billion market potential, and the split between group and individual disability are, as of today.

But I think that the market is in the process of shifting towards individual. For example, 95% of all new jobs created in the last five years have been with employers of less than 20 lives; that's a market where individual is more likely to be sold. Evolving work arrangements are also influencing the split between group and individual.

Also, the need for portable coverage is growing because of the increasing number of changes in jobs, and even careers for the average worker. Individual coverage is totally portable, but it's rare to have truly portable group insurance. Given all these factors, my best estimate of the split between group and individual is that there's a $10 billion group insurance market, and an $11 billion market potential for individual disability.

In order to split the individual market between the single life and the multilife, we looked at the largest occupations, both the traditional and nontraditional disability markets. We factored in the workplace situations for each. What are the incomes? What is the distribution of employment by size of company? And what percentage is self-employed? We looked at various occupations and split them into multilife and single-life individual markets.

For example, we considered that a large percentage of physicians are now working in group practices and so contribute heavily to the multilife DI market. On the other hand, the proportion of computer professionals, who are independent contractors in this occupation, have a large single life DI market potential.

I'm estimating the individual multilife DI market to be about five billions and 25% penetrated.

Transcriber's Note: The recording stopped temporarily and resumed later.

Mr. Koopersmith: The level of employer participation in terms of how much they pay for is oftentimes a significant impact on the level of participation. So if you're thinking in terms of any kind of a multilife situation in which you want to provide any kind of guaranteed issue, it's typically important not to just have a large group of employees, or to have employer-paid premiums which have participation levels. If it's employee-paid, oftentimes the participation is much lower. And while you might have a number of people sign up, it's usually not at the level of participation that will allow you to have any kind of guaranteed issue.

Ms. Mitchell: My experience has been that it's very rare to get adequate levels of participation for guaranteed standard issue on a voluntary case. It really is going to depend on who the broker is, or producer I should say. And is that producer set up to go after a voluntary case? It's a specialized skill, and your average producer is not going to have it.

Mr. Robert W. Beal: A question for Anne. On your actual-to-expected loss ratio: those reflect the premium discount? That's my first question.

Ms. Mitchell: Yes, it reflects the premium discount.

Mr. Beal: So the actual differential of morbidity is probably even more than what the numbers would show?

Ms. Mitchell: That's right. We've actually priced our new product to have the single life stand alone from the multilife. And the rates are on the order of 40–50% difference.

Mr. Beal: The second question is, does UNUM sell to physician groups now? I mean are they marketing to them given the past experience?

Ms. Mitchell: We do sell to physician groups under certain terms. We don't offer the long term on an occupation coverage, and we have classed them in our lowest occupation class, so their rates are quite high compared to what they used to be. But we will sell to them. We have found that teaching hospitals are still a reasonably good physician segment.

Mr. Beal: Do you anticipate that experience from physicians, say, that have moved to HMOs and other types of managed care organizations will be better than in the past?

Ms. Mitchell: We haven't seen that yet. Many physicians moved to HMOs and just don't like it. But what we have seen that's related to that is that primary-care physicians have better experience than the secondary ones because the primary caregivers have gatekeeper authority, and their incomes are actually rising a bit compared to the specialists who are suffering from income losses still, and especially if they move into an HMO.

From the Floor: A question for Kevin: given Jon's very good experience and the fact that he's number 12, do you have any idea as to what impact his specific experience had on that other 12 in your study?

Mr. Kevin P. Farley: I don't know what the weight on the Met was. Obviously, they are in there. But premium-wise, I'm not sure how much of a premium out of the approximately $3 billion was attributable to Met. So I don't know specifically.

Mr. Koopersmith: Is your premium maybe 20–25 million in force?

From the Floor: The premium right now is about 65. But it's small relative to the top five companies, say, in the business.

Mr. Koopersmith: If you look at the distribution of the market share, what you find is, after the first five companies, there's a gap, and there's a whole bunch of companies clustered, all of which have maybe between 1 and 1½% share of the market.

Mr. Farley: Just to add something, Mike. I think that you remember from the chart that we had $2.6 or $7 billion for the top eight, and it's dropping down to $700 million for the next 12. This just illustrates Mike's point.

Mr. Dennis V. McKeown: Two questions for Kevin and one for Anne: Kevin, what was the driver of the lower expense ratios that you showed? They were coming down up until, say, 1996?

Mr. Farley: I believe part of it is, for the top eight specifically, the economies of scale that they're seeing there, and that was one of the main reasons.

Mr. McKeown: There was very little growth happening. Since the company wasn't growing, I would think that there would be lower in force. Maybe the in force wasn't growing as much. So I just wondered how the companies managed to reduce their expense ratios. In that environment. I just don't understand how the companies could get lower expense ratios given that they weren't really growing, so their in force wasn't growing.

Mr. Farley: I agree.

Mr. Koopersmith: I think that many of the expenses in disability are associated with the sale of new business. So when you see the growth rates for the industry going down, and your sales flattening out and, in many cases, declining, a lot of those acquisition costs are not going to be incurred. And I think, as much as anything else, the slow down in sales has also resulted in this decline, at least a slow-down in growth in expense rates.

From the Floor: Okay. That does make sense. Much of the presentation was on non-can DI. Do you know how the guaranteed renewable (GR) DI markets are doing?

Mr. Farley: I do not. I don't know if Mike has an idea there. But, no, that was correct. It was all non-can, and there's no GR.

Mr. McKeown: Okay. Then my question for Anne is, from your experience, what's the minimum number of lives you would need to have for someone who is participating to feel comfortable with some type of guarantee to issue underwriting?

Ms. Mitchell: Are you talking about number of lives or participation lives?

Mr. McKeown: Participation. You might start with 500 lives, but you would need at least 25 or 50 to participate, to feel comfortable with the claims risk, the modified guaranteed to issue.

Ms. Mitchell: It does depend on how big the case is. Everything's not proportionate after a certain point in my mind. But for a 200-life case, let's say, about 70%. That's very difficult to attain. For a 1,000-life case, it's maybe 50%.

I have a question for Jon. First of all, congratulations on Met's experience in the last five years. It's nice to see somebody doing well in this business. You spoke of the importance of a business-center approach or a profit-center approach and, yet, many of the companies who have had some of the worse experience in recent years also have a profit-center approach to the business. What is it, in your opinion, Jon, that might differentiate your experience and theirs? Or what is it that they didn't do that, perhaps, they should have?

Mr. Piano: There's a multifaceted answer to that. My contention is that the most important thing is strong product management. A business-center approach can facilitate that much easier than otherwise. Fundamentally, Met Life certainly has had more of a diversification of risk than some of the leading companies over the last five years. And that probably has contributed as much as anything to the overall good results at Met Life.

We do sell through our own core agency sales force, by and large. We do sell some broker business, but the bulk of it is through a career-agency sales force. And that has been helpful in that we have a little more control over the producer environment.

But perhaps the most important factor is our making changes easier and faster than otherwise possible when you're at the very top of the business, as such decisions might impact broader company positioning than just the one product line itself. So there's a multifaceted answer to that question. There's not just one issue.

Mr. Koopersmith: Do we have any other questions from the audience?

Mr. Vincent A. DeMarco: A question for Kevin regarding the statistical analysis on the claim reserves: did you look at that by duration or a CIDA, which may have lower terminations or durations?

Mr. Farley: That was strictly 1985 CIDA on adjusted and unmodified. And the termination rates, longer or shorter durations, either ones were not modified at all. One comment about the statistical variance: it did seem fairly tight when I first looked at the results. But as I thought about it a little bit more, as you saw in the large concentration of the claim records in the third and later years, the termination rate is very low out there. The way we have set up our model—and it makes all the sense to me in the world—you're not seeing people come off claim and there's not a lot of variance from the tabular reserve set up at that point.