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Group Life and Accidental Death and Dismemberment Insurance: Getting More Out of Life

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Summary: The consolidation of the group health insurance market has led many carriers, who formerly sold both group life and health products, to exit the health field and concentrate on group life, accidental death and dismemberment, and long-term disability products. The greater focus on group life insurance has created new competitive pressures in terms of price and product. In addition, the underwriting methods used when group life and health were combined in a package fall short when evaluating stand-alone group life.

Mr. J. Christopher Hall: I'm going to start off with some of the results from a recent group life survey conducted by my company, Milliman & Robertson. Then Jim Grant of Collins Associates will go into some detail on the reinsurance results of the reinsurance portion of that survey, and Joe Poplaski of Liberty Life will present an overview of a group-life product development exercise.

I think many people have always thought of their group life product line as just a cash cow. You sell it with the health insurance. When the employer spends $400, per employee for the medical side of the premium, an extra nickel on the life side doesn't make a whole lot of difference.

Consolidation across the health lines has been interesting. I've been in several meetings looking across the table at the senior staff of a group division that's

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phasing out its medical insurance block, and I can tell they're thinking, "How do we justify our existence?" The answer often seems to be, "In the group life arena."

In addition, small group reform prevents you from mandating that employers buy other coverages, such as life insurance, along with the group health plan. A lot of insurers I've been associated with have required the purchase of life insurance for small groups because that was just an additional profit item for them. Under small group reform, the employer has the option of going to other sources for a group life plan.

Systems technology has made a difference, too. If you go back about 10 years or so, employers were locked in for the life portion with their medical carriers because it was just easier to do it that way. But the technology has made it much easier to separate the life and the health components. If the employer has a flexible benefit plan, there wouldn't even be any administrative savings for combining the life and health coverages because the employer already has to keep track of several components, so why not use another insurer? Now we're seeing group life being sold on the Internet, which is a very low-cost distribution system.

About five years ago, we put together a group life survey. In designing a new survey, we thought it would be interesting to ask the same questions, more or less, and then compare what people said five years ago with what they say today. The new survey, in 1998, covered the softer end of the market. We didn't do a rate survey this time because I think carriers are less likely to respond to a survey that deals mainly with pricing components. We wanted a general assessment of the market. We supplemented the mail survey information with calls to other insurers and industry experts to round things out.

We covered how companies were organized relative to the group life end of things, what their products and riders were, and how recently the carriers had updated their life products. We also asked an open-ended question about competitors, and found a big difference from five years ago.

We also looked at profitability, one of the areas I had the most interest in. When companies sold group life with health insurance, I think they were a bit more sloppy about how they did things. One could have argued that some of the profit that came in through group life was actually medical profit or disability profit.

We asked questions about reinsurance, which Jim Grant will expand on later. Other areas included in the survey, but too complex to cover in this session, are how companies do underwriting, what types of underwriting criteria they have, and how much latitude their underwriters have in underwriting cases. And, finally, we examined credibility levels, in a very macro sense, and guarantee issue limits.

Organization

Having worked in a large organization that sold life and health, I had the preconceived notion that underwriters have a very hard time with the bigger cases. If you spread all the big cases among all the underwriters, each might get one or two big cases a year and focus on the medical, whereas the life component can be important, also. In doing the underwriting case assistance for group life, I had an underwriter come to me once with a rate of 5¢ per thousand for life insurance. He came to me and, to his credit, said, "I'm not quite sure this is right, because I know that the AD&D rate part is about 2 ½¢ per thousand, so I'm trying to figure out how it can be this low." Although, if it had been eight cents, I'm pretty sure he wouldn't have come to me, and I think it's hard for underwriters to do that.

So, if I were going to organize a group organization with both group life and group health, I would have the information come in, send it to a separate calculation unit for the life component, and send it back to the underwriter to compile. However, everyone in the survey does it on a functional basis. In other words, you have one underwriting area that does the life, another for the medical, another for the disability, etc. That's the same result we found five years ago, so maybe it's something that works.

In terms of how people looked at their organization relative to group life, more than half of the respondents hadn't looked at it since 1995. When it came to having personnel dedicated to group life, the response was "yes and no." For example, although companies didn't separate out the underwriting component, sometimes the underwriter would have people grinding out the calculations or entering the data.

Products and Riders

Everyone had term and supplemental insurance, but one-third of the respondents claimed to have universal life, which I found interesting. I suspect it's pretty tough to sell a complex product like universal life to people making less than $75,000 or $80,000 a year. So perhaps the response on universal group life meant they have it, but it's on the shelf. One carrier said that it had variable life.

In terms of riders, virtually everyone offered an accelerated death benefit. That's the benefit that applies if a doctor certifies that you are terminally ill and will die within the next six months. In that case, the policy pays out a certain percentage, usually from 50% to 75%.

More than 50% of the companies reported having portable life riders. This means that when employees terminate employment, they don't necessarily have to go to a conversion policy, which is whole life; they can continue with the term life insurance. Two respondents have critical illness riders, which cover those who have a heart attack, serious cancer, and so forth. It's similar to catastrophic illness riders that have been written separately.

Something that wasn't mentioned by anyone in the survey, but has been covered in the press, is the coordinated use of LTD and life insurance. Companies will run the waiver of life premium off the qualification for disability under the LTD coverage. That's a convenience from an administrative perspective because you don't have to do it twice. But, usually, for LTD, since you have your own occupation—as opposed to any occupation—it has to be a bit more expensive to do from a claims perspective.

Product Updates

In terms of product updates, again, only 50% had done anything as recently as 1995. No one listed a new product, but perhaps someone was keeping one under wraps until the company was ready to launch.

Competition

In terms of which companies are out front, in 1993, CIGNA was No. 1, followed by Aetna. In the recent survey, UNUM is No. 1, followed by Hartford. Hartford doesn't have a medical presence, and UNUM is all life and disability. That's an interesting change because maybe some companies are going to make it with just group life and disability products. It's something to think about.

Every company said, "Oh, the competition is terrible out there. It's getting worse and worse every year." Yet, 25% of the companies said they anticipated having 8% or more pre-tax premium profit. Another 16% of companies were in the 5–8% range. If it's competitive, maybe competitive isn't bad. We didn't ask about profit five years ago.

Mr. James Grant: I work with several companies on the group life programs or AD&D programs and, as a result, would like to give you some perspective and some insight on designing your reinsurance for those products.

But first, I'll do a quick overview of the reinsurance portion of the M&R survey. We had responses from eight companies. We had hoped for more, but I think the survey results were what I expected. All of the companies except one offered life/AD&D or life/AD&D/LTD. The one exception offered life/AD&D/LTD/medical.

In terms of distribution in primary markets, defined by the number of lives, four of the companies had their primary market in less than 100 lives. There were five companies that defined their primary market in 100–1,000 lives, four companies in 1,000-5,000 lives, and four companies in 5,000+ lives. Some companies defined themselves in more than one primary market, which is why the total number of responses is greater than eight.

None of the eight companies had a retention for group life of less than $100,000 per person. Two companies had $100,000–200,000, four had $200,000–500,000, and two had more than $500,000. That is consistent with what I see in the companies I deal with. Half of the companies are between $200,000 and $500,000. Group life is usually a profitable business, so you want to retain as much as you can within your financial scope.

When is the last time these companies changed their retention? The survey showed that there was no change in the last five years for more than half of the companies. Why is that? I don't know. Perhaps they all had more important things to do and the life was cruising along, so they decided not to look at it this month, and this month becomes next year, and so forth? Or maybe they're just very comfortable where they are. I find it interesting, but not surprising, that these things had not been changed in a long period of time.

With respect to group AD&D retention, the numbers don't match the group life retention. One company reported having an AD&D retention of $100,000 or less per life. Obviously, for that company, it didn't match the group life retention. For AD&D retention from $100,000 to $200,000, there were two companies, and for retention from $200,000 to $500,000, there were four companies—the same as on the life side. Finally, only one company had a retention of more than $500,000 for AD&D.

There have been more frequent changes in retention during the last five years for AD&D. On the life side, one company changed its retention between 1997 and 1998, and only two changed between 1994 and 1996. With AD&D, four companies changed from 1994–1996, so people are looking at this more. Why? I think one reason is that reinsurance terms and conditions for AD&D are very favorable for the ceding companies. As a result, they tend to look at their AD&D from a different retention level and can, and often do, negotiate in different terms and maybe with a different reinsurer. That seems to be a tendency today.

Automatic binding limits come into play when you sign your treaty and the reinsurer says, "Without consulting us, you can bind us for a case of so much above your retention." Automatic binding limits of less than $250,000 were nonexistent;

two companies set the limit between $250,000 and $500,000, another two at $500,000–1 million, and three at more than $1 million. My experience is that automatic binding limits of $1 million are fairly typical. And that's usually combined with your retention, so, if you had a $250,000 retention, your binding limit would be $750,000 on top of that. Many companies call the reinsurer to discuss cases at higher levels, even though they don't have to do it, because they can get a better perspective and comfort level on the particular case. It is not unusual to have a $2 million automatic binding limit. Once you go above that, the reinsurers typically need to secure their old reinsurance and retro covers on cases on a facultative basis.

On the question of frequency of facultative exceptions, I was surprised by the results. Six of the eight companies reported that they were asking for facultative exceptions in less than 5% of all cases. The main reason for exceptions was having a large face amount. If you have a large face amount, considering your underwriting schedule, automatic binding limits, and perhaps guarantee issue limits, you might realize that you need to go to the reinsurer to get this approved. Another major reason for a facultative exception is when you want to guarantee issue an amount that you're treaty does not permit or is outside of your underwriting limits. Usually the reinsurers are very receptive to discussions on these issues and can provide some good insight.

When it came to ways of insuring both the group life and the AD&D, we provided three different options: (1) a specific stop-loss amount per life, per year; (2) an aggregate stop loss, in which you aggregate all your losses and then the reinsurer cuts in; and (3) a first-dollar quota share arrangement.

On the life side, the typical approach is to have a specific stop loss based on the retention amounts. None of the eight companies purchased an aggregate stop loss cover. Those covers do exist, but they're so much more challenging to write. You need a lot of data, and you and the reinsurer must agree to the attachment point, which is typically a percentage of your expected claims. If you have five people in the room, there will be five different expected claims numbers. However, once you agree on that, it is a fairly inexpensive way to protect your expected losses and maybe cut it as low as a 105%, 110%, or 115% of expected, depending on what you're willing to pay and how comfortable the reinsurer is with attaching at lower levels. That's the real challenge.

As far as the AD&D goes, specific retention is, again, the popular choice, but one company did report having an aggregate stop loss. I would have love to have talked to them about that. Perhaps they aggregated losses from other lines of AD&D business, such as voluntary, and purchased an overall cover on that.

On AD&D business, we're seeing more quota-share business at a 100% quota-share because the terms and conditions—specifically, the reinsurance rates—are very favorable. You can lock in a profit and reduce your volatility to zero by doing something like that. Small companies, and maybe even medium-sized ones, see that as being a very favorable way of reinsuring AD&D. Two companies in the survey used quota-share to reinsure group life and AD&D business.

We asked the survey respondents what other group life/AD&D-associated products they might reinsure. One company had travel accident, five had voluntary term life, and six had voluntary AD&D. Only one rider was reported as reinsured—portable optional life—and one company said it had none of these products reinsured.

With respect to turnkey life/AD&D products provided by reinsurers, eight respondents said they had none and one said portable optional life, so this is a bit of a contradiction. Nonetheless, very few of the companies took advantage of the turnkey products or riders available from reinsurers. I think that's unusual, because one of the most effective and efficient ways to gain access to a new product or rider is to go a reinsurer who has already developed, priced, and underwritten such a rider.

Four of the companies said capacity was an important service they needed from reinsurers, along with access to underwriting. That's typically what a ceding company is looking for in reinsurance: broader experience to give them some depth. Only two companies said they needed actuarial expertise, although that is one of the major reasons for choosing a reinsurer, other than rates. One company was looking for product development, and two answered "other," specifying "administrative ease," "service," and "stabilization of earnings," which gets back to the whole financial issue of how to determine an effective retention and reinsurance design.

Finally, I asked the respondents to list "services needed, but not available" from reinsurers, and all of them said "none." I thought there was going to be a long list.

Now I'm going to talk about designing your own group life reinsurance. The first and most important step is to find your objectives. I can't tell you the number of times we sit down at the table with a client company to discuss where retention should be and what kind of reinsurance to buy when the real questions are: What are your objectives? What are you concerned about? What is it you're trying to protect?

Once we understand your objectives, we can help translate them into a proper retention and design of reinsurance. There are lots of options. Looking at the objectives is a good internal exercise for the company, too. To help you translate your objective to proper retention, a number of reinsurers will do a retention analysis for you. The results will depend on the data you give them, and, of course, on how good that data are. In most cases, when retention analysis has been done for client companies of mine by reinsurers, the results were not surprising. However, it gave them a somewhat objective piece of information to help in communicating to their organization what a proper retention might be.

Retention or reinsurance is not always the same for one product as it is for another. It's not unusual to have one retention on a group life and a different one on the AD&D. It's not unusual to carve out some fairly large cases and reinsure those on a facultative basis with a separate retention altogether. And then we can throw experience refunds in with all of this. Some aspects of the reinsurance portfolio on group life/AD&D might be experienced refunded and others might not be, so you have all of these options to work with as you go through the design.

Mr. Joseph J. Poplaski: We looked at the results of this survey and were surprised that there weren't more turnkey products out there. I didn't know if that was because nobody wanted them, nobody had done one, or everybody was afraid to get into them.

I'd like to go over something we did at Liberty Life that I would classify as historical fiction. Part of it is exactly what we did and the other parts are what we should have done. I've combined the two of them into an ideal scenario on how to go about outsourcing a product development line.

We had a large in-force customer on the life side that told us it wanted a certain product by the next renewal or it was going elsewhere. This was well over a 10,000-life company that we wanted to keep as a customer. We wanted them. They were profitable. Also, losing a case of that size would have sent signals in the market that we were vulnerable and alerted the sharks to start attacking. And, finally, there was a personal relationship between the CEO of our company and the CEO of the other company, and that eased the decision-making process quite a bit.

The next thing we looked at was what is the product they wanted? Is it a product that has value? Could we translate it to the rest of our lines of business? As it turned out, the sales force had requested the product before. Finally we assessed whether we had lost any business opportunities because we didn't have the product and discovered we had. There were some cases we wanted to go after, but not having this product kicked us out at the finals. Most of our major competitors had the product, so we were at a competitive disadvantage in some situations.

All that gave us the incentive to go forward and build this product. Now, we had to figure out how to go about doing that. Did we want to buy this product, or build it? We had the in-house expertise to design and price the product and the systems to administer it. However, we didn't have the resources to spare. Liberty Life had been in a major growth mode and has been trying to focus on doing too many products at once. We couldn't take this one on without giving something else up and we didn't want to give up our regular strategic business plans over the next three years to build this thing. Finally, even if we could have built it, we couldn't have gotten it done by the deadline—the next renewal. Even though we had the expertise and the systems, we still went outside for the product because of time constraints and resource considerations.

This where the historical fiction starts in terms of the ideal product development process. What did we do? We put together project teams. That's how we organize things. We gathered people from underwriting, compliance, administration, billing, and actuarial to form a small core team charged with getting this project done.

It's essential to get a senior executive to sponsor these product development teams. You want somebody who's accountable for accomplishing this at the top level for a couple of reasons. One, it gets enough visibility in the organization. Two, the person has the ability to cut through some of the politics and red tape if you're on a tight time line. Just using a name sometimes gets people to show up and pay attention, so you need that kind of visibility in the organization to meet your deadline.

We couldn't do formal marketing because of the time, but we tried to determine our positioning. Is this going to be a core product or an accommodation product? How much do we care if we shoot the lights out of it? How do we want to position this product within our portfolio of life products? Determining the latter makes a difference in talking with the vendors and setting their expectations for sales goals, profit goals and things of this nature. You have to know your own mind going in up front.

Then we had to determine what parts of the process we wanted to retain. We had some expertise and systems, so we had decisions to make on how much of the administration we wanted to outsource and how much we wanted to control in-house. For instance, we decided to retain underwriting because we had the underwriting expertise. We were doing it with all the coverages, we didn't want to outsource that relationship with the salespeople, and we wanted to keep our underwriters in control of this process. We felt we could (1) do a better job, (2) protect some of the reinsurer's interests in a different kind of format, and (3) dissuade the salespeople from calling the reinsurer.

After you decide what you want to retain, you must determine the services and support you need. Do I need rate filing help, billing help, or collection help? Why am I outsourcing this? Be as specific as you can because this is a very complex process.

Then you get into the reinsurance. How much do you want to retain here? We were going to use a reinsurer and decided how much we wanted to take. We were doing quota-share. I recommend at least 25% retention and I'm probably more comfortable with 50%. You're trying to form a partnership with the reinsurer and want both sides to feel they can win and lose together on this product. I think some reinsurers will balk at anything under 25% and won't even want to talk to you.

Finally we had to decide if we wanted to retain someone to find an administrator and a reinsurer or do the search ourselves. There are different ways you can go. We could have done it ourselves or hired somebody like Jim Grant to do it as a reinsurance intermediary. There's different ways you can go in the selection thing. You're finally on the other side. You're the customer. You have to think about it in the same way your customer thinks. Typically, your customer goes out and gets bids from three, four, or five different companies. Some go direct, some use consultants, some use brokers. Now that you're in that situation, how do you want to approach this? Do you want to retain somebody to do that leg work for you or do you have enough relationships in the industry to feel comfortable doing it yourself on that matter? That's another decision you have to make.

We ultimately decided to organize a vendor search using some external help, but mainly driven by internal. In other words, we decided who we wanted to talk to and then tried to use somebody to approach these people on an informal basis to keep some distance. Sometimes you form close relationships with certain vendors and there can be a lot of pressure to use them even though you might want to screen other candidates. Having an outside party do the screening allows you to use them as the fall guy.

Another question is, do you want to go to your existing vendors first? You might have comfortable relationships and get different kinds of accommodations from them. Do you feel that obligation to give them first crack at things or do you just want to open it up to everybody out there? As an analogy, I always have two credit cards. If I ever get into a hassle with one credit card company, I have another one to use. Similarly, you might always want to have two vendors, one for one product line and one for another. Suppose on one product line one of your reinsurers doesn't want to take a risk. You already have a relationship in place with the other reinsurer to do something on a facultative basis. Typically, the second vendor jumps at it to try to acquire the other business over time. I've worked on developing that kind of relationship. You might run into some problem if you have two different lines, but you want those carriers to have capabilities in other lines you already reinsure. Then if something comes up or if things don't go smoothly, you have an easy way to transition and don't have to start from scratch with a new relationship. We decided to approach both of our existing vendors and a couple of new vendors to see if we could develop some other relationships and get a few free lunches out of the deal as well.

Another question is, does the vendor have detailed expertise in your market? Liberty Life tends to write in the 1,000+lives market. Some of the vendors we looked at tend to work with small carriers who are writing a much lower market. That isn't always a good fit for us in terms of the complexity of the products, the types of demands those customers make, the visibility and the large retention and automatic binding limits. In the large market, you have to have a lot more flexibility. Products tend to be customized, and there's very little off-the-shelf. The vendor needs to have underwriters and actuaries attuned to that and more flexible than they would be in the under-100 market where you churn out products and don't see as much modification to agreements.

The other thing that I thought was important was whether the vendor worked directly with my competitor. With a good reinsurer, you'll probably find that some of your competitors are involved because how else would the vendor get the expertise? But if you are knocking heads all the time with two or three major carriers or competitors, you don't want to use the same reinsurer, because then you're just in a total administrative game. Underneath it all, unless they're large enough that they get their own experience rate, then you have the same underlying claim costs, so you're totally fighting on an administrative point of view. This is especially true if you're developing a new product when your costs tend to be higher than someone who already has things in place. You're hoping that somebody else wants to buy market share and will give you a more aggressive rate. It also poses a conflict of interest for the reinsurer. If it has a large customer in place with a major competitor and you're just starting out, I'm not sure the reinsurer will always be able to accommodate you as well as somebody else could. That was one of our screening criteria because we didn't want to be in that situation.

Exclusivity always comes up in these negotiations and, typically, what I've seen is a one-way exclusivity: You're locked in to the reinsurer, but the reinsurer has other companies it does business with. But that's fairly standard, and I think you need to accept it. The reason you're outsourcing the product is to make it easy. The last thing you want is to have to coordinate is a couple of different vendors. You're not giving up much by giving exclusivity on your end. Trying to manage too many relationships gets very difficult, especially on the premium side, because the last thing you need is premium or claims going to the wrong carrier.

I look at reinsurance as a long-term arrangement. We're not shopping very often, and I know that reinsurers are looking for that type of commitment. They're also going to look at your past, just as you do with customers. Part of your underwriting criterion on group cases is determining how often they have switched. If they switched three times in the last five years, that sends up a flag. Reinsurers look at direct writers the same way. You have to go in with the idea that you're looking for certain expertise and you expect them to make their profit.

Finally, you have to decide what kind of reinsurance you want. If it's a new product, typically, you'll get first-dollar quota-share coverage because you're looking for administrative services. But there are other different types of reinsurance. You can have aggregate, you can have specific. It depends on the product and on how comfortable you are with your rates.

We learned that is was important to keep the project team members together for the installation to make them accountable. When they get to install the product, they understand the commitments. Get your time tables ready and make sure people do it. Liberty is very big on accountability. We do a lot of time tables and have a lot of meetings to make sure people get things done.

For this situation, we needed a single-case filing to make the deadline for this customer. We found out that state filings take a long time, so you need to set some priorities; perhaps you should start with the states you have a lot of business in. Or you could go to the easy filing states first to say that you have 30% of the market covered. It really depends on your market, your goals, and where your customers are. However, it can take one to two years, depending on the filings, the forms, and who's going to do them, to get this done in all 50 states.

Be sure to set up a detailed process flow, so that when business comes in, you know how it is going to work. When it comes from the salesperson, whom does it go on to? When do you get the reinsurer involved? Who are the contact points on the reinsurance end and who's going to resolve differences?

The next thing we needed to do is train underwriters and salespeople, get ready to roll this out, and prepare our marketing materials. We wanted to appear organized, especially with respect to the salespeople. Get them trained early, and be sure to tell them what *not to* say as much as what to say, because that got us in a little trouble. The salespeople made commitments on the product before it was ready and put us in a bind. It's best to keep it under wraps, roll it out all at once to all the salespeople, drill them on it, and tell them what they can and can't do.

Then you need to monitor the product through installation and first sales. Keep on top of it because it's still your product. Your name is on it, so even though you're reinsuring, your paper and reputation in the market is at stake. You've got to track sales to be sure they're meeting goals. Sometimes too many sales is not a good thing because you might not be able to accommodate them all. Or there could be a rate problem or something else going on.

You also want to track the results. How well did you install the product? What were the sales results? What were your hit rates? Did the product do what you wanted it to do? Did it get you to the finals when it was supposed to, or were the rates too high? You should track these things on a quarterly basis during the first two years. We schedule quarterly review meetings, both internally and with our reinsurers. Meetings with the reinsurer don't have to be face-to-face; they can be done on conference calls. But don't lose touch too early because you're going to be fiddling with the product and refining the process for a while.

We learned that, even though we're outsourcing this product, we still own it. To be successful, we needed internal ownership and accountability to make sure it ran smoothly, both from our sales perspective and our reinsurance perspective. You and your reinsurers have to remain flexible. I'm not smart enough to think of every little detail beforehand. Something always comes up, so you have to make it an iterative process and get your management used to the fact that it might take one to two years to refine the process, flow of contracts, treaties, etc.

We did make the deadline for our customer for a single-case filing, but it takes a lot longer to get one of these things up. There are no "instant" products. You can save some time compared to doing it internally, but not a huge amount. So invest the right amount of time up front and set expectations properly so you're not scrambling at the end and having salespeople selling things that aren't ready to be delivered.

Finally, you need to guard the profitability of the product as if it were your own. By reinsuring it, you've decided to give up some profit, so don't hold it against the reinsurer if they make a buck. If they make some money, you make some money, and this will go on long-term and be successful. If it's losing money, ultimately, who's going to want you? Just as if it were your own product, you can find yourself in a rate spiral.

Would we do it again? I think we will when certain situations call for it. Now that we've learned how to do it right, I think we're getting comfortable with this type of an arrangement.

Mr. Hall: I don't know how many of you remember the ninth wave, but it's a surfing term. The ninth wave was, theoretically, that perfect wave that comes in periodically. As companies go more and more towards separate product items, you must have very efficient and cost-effective administration to be competitive. You also must have alternate distribution to catch the ninth wave. I'm amazed that some of the HMOs we work are so focused on the medical end of things that they're not even thinking about the possibility of offering alternative products. You've got the Internet kiosk now, so why not the Home Shopping Network? Get some life insurance on your spouse.

Offering life insurance is a good marketing opportunity for an employer. But with some products, like voluntary life, they can do it on a no-cost basis. I can even picture employers doing it on a cost basis. They're providing the service and there's some value-added to it, so why not charge for that?

The Citibank merger isn't going to be all that easy. They're going to have people talking from different perspectives and have a hard time as they try to integrate. However, I think there's a lot of good cross-marketing opportunities for insurers to go into banks and try to work out deals to sell to bank customers. Doing it on a group basis can keep your overall costs down.

The hypothetical tenth wave will be the creation of:

- Products that survive the termination of the group contract. You have low acquisition expenses and, if you can keep those people over time, you might be able to make good money on them, assuming you don't get too much antiselection
- Voluntary products
- Riders. One of my all-time favorites was an AD&D rider that paid in the event of felonious assault
- Distribution channels

Mr. Grant: I have a question for Joe. What was your product?

Mr. Poplaski: Our product was portable optional term life, and it has been fairly successful. In addition to the large customer who requested it, we've sold five or six more within the first year. So I guess the salespeople were right this time.

Mr. Ronald J. Williams: On the facultative exceptions for the reinsurance, I noticed that no companies were looking for exceptions on substandard risks. Is that because companies are just not writing that business when substandards come up, or are they just retaining that risk? I imagine that that comes up, especially at the executive level, so I was wondering if you could comment on that.

Mr. Grant: This was limited to eight companies, but you're absolutely right. Those issues do tend to come up with the higher paid executives in trying to get coverage. It's a capacity issue, but it also becomes a health issue, too.

From the Floor: I have a question about the case study. Did the portable optional life survive the termination of the group contract?

Mr. Poplaski: Yes.

From the Floor: Do customers request that product frequently?

Mr. Poplaski: No. This is where the situation is iterating, though. We were driven by one customer and what they wanted to see, but we're rethinking the ideal product as we go forward. There will be a couple of more iterations until we finally nail down a standard product. That's why I say it takes a long time to understand the market. I don't know if we'll offer that product in the future or not, but it was politically driven.

From the Floor: You haven't gotten a lot of requests for that product?

Mr. Poplaski: No. We've gotten more requests than we thought for portable optional term, but we're going with a take-it-or-leave-it position and not customizing. That's going to be difficult for us in our market and we'll see whether we can maintain that kind of position over time.

Mr. Grant: On your portable life stuff, what do you do in terms of the conversion requirement?

Mr. Poplaski: It's an either/or situation; you can't have both. If you take portable optional term life, you can't convert at that point in time. I'm not sure whether the state laws require that you offer a conversion option after the portable optional ends. In some states, certainly, you must. But our view is that portable optional term is temporary coverage, and we're going to approach it that way. We're not going to end up with a to-65 product. That's what the conversion product is for. We're looking at this as a transition product for early retirees and other people who need coverage for a certain period of time. We're iterating through defining the product for our standard product. And the marketplace will determine if that will be something viable or not. We're going to find out.