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# Session 149PD
# Distribution Issues Facing Individual Disability Income Insurance

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*Summary*: *The individual disability income market has faced declining sales for the last few years as companies have pulled away from traditional, but unprofitable market segments such as the medical profession. Can the traditional distribution channels (i.e., brokers and agents) be adapted to new profitable markets? Will they accept flatter compensation scales? The panel addresses these questions as well as discusses alternative forms of distribution for marketing individual disability income insurance.*

**Mr. Michael B. Koopersmith:** I assume all of you know that I'm a consulting actuary and have my own practice. Before I started out on my own a little over two years ago, I worked at Paul Revere for 26 years where, among other things, I was senior vice president of sales and executive vice president of marketing and sales. I have had some background on the sales and marketing end of the disability income business. I was the head of sales when Paul Revere was selling non-cancelable, own-occupation like crazy.

Joining with me today is Rick Magro. Rick joined Provident in 1985 as a senior actuarial associate. In 1994 Rick was named vice president of individual product management and was responsible for product positioning and product development for both individual life and DI. In 1998, he assumed his present position as vice president of Individual marketing and product design and is responsible for developing and managing Provident's marketing plan for all its individual product lines. Rick is a magna cum laude graduate of Drake University. He has an MBA



**Note:** The charts referred to in the text can be found at the end of the manuscript.

from the University of Tennessee. In addition to being an FSA and a member of the American Academy of Actuaries, he's also a Certified Public Accountant (CPA) and a Fellow of the Life Management Institute (FLMI).

I'm going to spend a few minutes setting the stage, talking a little bit about distribution issues in the context of some of the other issues facing the disability business. One of the themes that you're going to hear repeated several times is that you really can't look at distribution in isolation. Distribution is an element of something that we're going to be referring to later called the "marketing mix" or the "four p's of marketing". We're going to talk about distribution in a much broader context. Rick will follow me, speaking about the product and marketing implications that have a direct bearing on distribution. I will come back up and talk in more specific terms about disability income (DI) distribution issues.

We are going to talk about issues that many of you are aware of and have come up in some of the other discussions today. It's not our intent to rehash a lot of the things that we've talked about at similar presentations in the industry, but we do want to set the stage. The individual disability industry has had a very difficult time for a number of years now, because of declining profits and declining sales.

I think you'd be hard-pressed to find any company that has had, over any sustained period of time, a good DI growth rate and a reasonable DI profit. I don't mean just making money on the business, but getting a reasonable return. Industry sales have certainly declined. If you look at Milliman & Robertson's study where they track industry experience, you can see that earned premium for the industry as a whole has flattened out, which reflects good lapse rates. Persistency has improved, but new business has gone down. I'm sure you are quite familiar with the profitability picture. We've had year-after-year of increasing losses. Things appear to have stabilized in the last year or so, but that's as much due to the reduction in acquisition costs. Unit expense rates have come down, commission rates have come down, and sales have slowed. The best you can say is that industry-wide loss ratios appear to have stabilized.

I think it's important to talk about distribution in the context of what's going on in the industry. A phrase that applies is, "Show me somebody with a simple answer to a complicated problem, and I'll show you somebody who doesn't understand a problem." I guess there are some problems that are complicated that are easily solved. I don't think DI distribution is one of them.

When you talk about distribution, I think you need to talk about it as an element of what I would refer to as the *marketing mix*. I don't know how many of you have studied marketing, but this concept is textbook Marketing 101. The marketing mix is sometimes referred to as the "four p's of marketing:" product, price, promotion, and place. Product is really the product or services that are provided to the consumer or customer. Price is more than just the cost, and I'll get into what price might mean in terms of a disability product. Promotion is advertising, sales promotion, and sales support. Place is distribution. When most people think about marketing or talk about marketing, they are often referring to sales promotion or sales support or advertising. These are certainly important elements of the marketing mix, but they are only a portion of it. We're going to talk about distribution.

What makes marketing so difficult, not just for disability insurance but in general, is that if you're going to be an effective marketing-oriented organization, you have to first have well-defined target markets, and you have to know who your target markets are and what the needs and wants of those target markets are. Then you have to align the components of the marketing mix in a way that serves the perceived needs and wants of the target markets. Thus, the strategy for any one element of the marketing mix is at least partially dependent on the strategy for the other elements of the marketing mix. So if point one today is that you have to look at distribution in its broader context as an element of the marketing mix, point two is that there's no simple, single right approach to distribution. The right approach for a particular company's distribution is a function of the target markets of that company. It's a function of the corporate strategies and the other products that are being sold to that target market. Distribution is also a function of the other elements in the marketing mix. Distribution is partly dependent on product. It's partly dependent on price. It's partly dependent on promotion. We'll get into those things in more detail.

Most of the time when you think of the individual disability product, you think of a contract and contractual language. But, to the end consumer, the product is really a promise, that has been committed to a piece of paper, to pay a claim if that person is sick or hurt and can't work. You can think of the product as a contract or as the promise. All the things that are part of that contract are part of that promise. It's the contractual language, the policies and the benefit options available. It's not just whether or not you have a particular benefit, but whether that benefit is available as an optional benefit rider or whether it's built into the contract. That affects the marketing strategy, your sales results and your pricing strategy. Depending upon the particular benefit we're talking about, it could also affect the nature of the risk that you're assuming. The "product" is the underwriting rules and limits, the replacement ratios, and the degree to which you might ask for one type of underwriting information or another. It's the point at which you begin to "modify" or "rate" coverage. There are also claims practices. Again, I'm going to state extremes just to prove a point here, but there are some companies that are more inclined to underwrite at claim time than at underwriting time and other companies pride themselves on underwriting at underwriting time and paying the claim somewhat differently. They have, as a result, a different perception in the marketplace, and that is an element of the marketing mix, just as it's an element of risk management.

Sales promotion, advertising, and price. It's not just the prices that you charge for your product; it's how those prices are positioned relative to competition. It probably shouldn't be this way, but it is. Prices are compared to the prices that you used to charge before you made a rate change, regardless of where that positions the company relative to competition. Marketing includes your price positioning relative to both competitors and substitute products. Substitute products are everything from a savings type product, a mutual fund, or an investment product, to another type of disability product, including group long-term disability.

Price subsidies have an important bearing on the marketing mix and your profitability, and price subsidies are an element of risk management. The best example might be two companies with identical markets, identical distribution systems, and identical products. One has a unisex rating, and one uses sex distinct. Assume that we can all agree that at most issue ages female morbidity is materially higher than male morbidity. If what you want to do then is have a unisex pricing strategy, you have to charge a somewhat higher rate overall to account for the subsidy in your female rates. What that means is that the company that has unisex prices is going to charge a higher rate to males and have a lower rate for females. What is that going to mean as a result? The unisex company is going to be more competitive in the female market, and they're going to get a larger percentage of female risks. That can be taken into account in the price by charging a still higher rate overall, which makes you just that much less competitive for males, which further exacerbates the mix between males and females, which further necessitates the higher rates, and so on.

I used gender as an example of a subsidy, but it could be state, it could be mode, and it could be multi-life versus individual. Anytime you have a subsidy, you have the potential to change the relative positioning of your product portfolio or your marketing mix in a particular segment of the market, which will affect the marketing results and potentially affect the risk profile of your business as well.

Sales promotion and advertising are pretty straightforward. The one point I'd make is you can sell a product by selling the need for disability insurance. You can sell a product by selling the bells and whistles. I would suggest that you're going to have both a different sales result, as well as a different risk profile, depending upon the approach you take. You're going to attract different producers perhaps and different customers depending on how you market your product. Obviously distribution is a big piece of that. It's not just the role that your field force plays in selling the product; it's *how* that product is sold. It's field underwriting. It's how you train your agents to sell DI and obviously how you compensate people for the sales of disability products, both in absolute terms and relative to competitors and other products. You're competing for people's time and attention.

What makes this business so challenging and so difficult is that if you're going to be successful in this business, you have to be able to define pretty precisely your target market or markets and understand the needs and wants of those markets. As we'll discuss later, your end consumer doesn't know what he needs, and doesn't know what disability insurance is all about. He doesn't have a high-perceived need for this product. This suggests some of the traditional techniques for getting the information about the needs and wants of your customer. Market research, for example, is likely to come up short in helping you understand what your end consumer needs and wants. Whether you obtain the information through trial and error or research, you must be able to align the elements of the marketing mix, the four p's. That's a very difficult thing to do. It's very important that you do it, but it's very difficult to do.

To make a difficult issue even more difficult, you have to do it in a way that is consistent with good risk management practices. We've been pretty good at aligning the four p's in the physician marketplace. The product has been well received. It meets the perceived needs and wants of the end consumer, meaning the physician, as the physician understands what he or she needs in terms of disability coverage. It has been sold at a price where people will buy, up until recently when the prices got very high but there's still a fair amount of physician business being sold. From a marketing point of view, it has been a success. However, it's been a disaster from a financial point of view in terms of profits. The point is that you need to be able to balance the elements of the marketing equation with risk management as well.

Now that I've given some background, I'd like to turn things over to Rick who's going to talk again about some marketing and product-specific issues, and then I'll come back and talk specifically about distribution.

**Mr. Richard A. Magro:** Mike has set the stage for us on where we're headed in the disability industry and what we need to do differently. I will discuss three of the four p's, and Mike is going to finish up with the place equation.

First, I'll give a quick summary of the market potential to identify where we need to grow the business, and then I'll look into the future and identify changes needed to broaden the marketplace. Mike's going to follow up with discussions on how the distribution system can assist with that. There is the demand for disability protection when you ask consumers about their financial concerns. The right pie chart in Chart 1 shows where the dollars have been spent historically on insurance products. The bottom line is that medical conditions that used to kill you are now disabling you, and as customers become more aware of that, they're starting to be concerned about disability. This awareness hasn't yet resulted in a shift in payment patterns. We'll talk about that shortly.

Chart 2 shows where we've sold to professionals in the past—doctors, dentists, attorneys and so on. When you map that against where consumers actually work, you see a completely different spectrum (right graph). The occupations that have been penetrated in the past are very small markets and very narrow. What I want you to think about as I discuss how I see the industry changing over the next five years is how we move from the left side of this chart to the right side, how to begin selling our products to middle markets. One other interesting statistic is that 58% of people prefer to buy their product from the worksite, which also has some implications for the distribution as well as the product.

Let's get started now on each of the four p's. We'll start with product. First, let's look at what we either have been selling or are currently selling. Historically, it has been a noncancelable, own-occupation product targeted specifically for the upper income market, not the middle and lower markets. The emphasis in marketing products has been on the features of the product. Whose residual is better? Whose recovery provision is better? Our cost-of-living adjustment (COLA) rider, when indexed over four years, at 4% compound interest, is going to pay 0.2% more of a benefit than the other contract. The marketing approach has focused solely on benefits, and that marketing approach has been used no matter whom you were selling to. Let's say all you have is the doctor and you bring that to somebody else, and they say, "I don't need a recovery benefit. I don't have any billable clients." The response was, "You're buying this product for life, and you might need this benefit some time in the future." A different way of approaching the need argument is suggesting you buy this now because you need it in the future.

So, what's necessary to broaden existing markets? I'm going to suggest what's needed is a change in product design to meet needs that exist in the market. I want to give you three examples of requests for proposals or requests for disability products that have come across my desk in the past six months. The first one is landowners. In a particular state, it's very difficult to evict a tenant if they're disabled, and the landlords were looking for a disability policy to cover their tenant's rent. The premium was going to be paid by the landowner to cover the insured's rent if the insured was disabled. They wanted a definition of disability to match social security. They wanted it to run for the length of the lease. I looked at the noncancelable, own-occupation policy we had and realized it really didn't fit what that customer needed.

Another one that came across, that was equally challenging but of interest, was a federal district bankruptcy court. They wanted to include in their federal bankruptcy consolidation three cents on the dollar, effectively to be paid by the creditor, for insurance. They'd now be accepting 68 cents on the dollar instead of 71 cents, but the bankruptcy protection now would enable creditors to be paid even if the insured dies or becomes disabled. Once again they wanted a social security type definition. They wanted it to run from the time issued to the 30 months or the end of the consolidation period. They wanted a declining benefit over that time period. Once again nothing, on the shelf fit that market.

Another request was from a large university alumni association. You could imagine what the underwriters thought. Their first question was, do they all have the same occupation? A university alumni association is not hitting our traditional markets.

Each of these three requests are really focused on need. Think about the morbidity implications, especially for the first two. We have a third party payer. The beneficiary or the insured is not necessarily a direct beneficiary. There's not as much potential for antiselection. These would have been profitable markets if products were available to meet their needs.

I want to talk about some of the components you will need in future products. One thing that's a big seller and concern among consumers is catastrophic disabilities. In fact, in focus groups, if you ask customers what's going to disable them, they are almost unanimously very specific. They're going to be disabled in a car accident on the way to or from work, and they're going to be in a wheelchair and need medical treatment. Their mind-set about disability involves a very catastrophic event. As individuals age, they have more concerns over health risk, but for most consumers, their biggest concerns are the catastrophic accidents.

Another product design type that I would see being successful in the future for the middle markets is what I refer to as a building blocks approach. You could start and offer just catastrophic coverage as a possible beginning point, similar to a voluntary accidental death and dismemberment (AD&D) product. It is a very popular seller on the life side and the group side. You could then increase benefits to cover catastrophic conditions plus injuries or disabilities resulting from accidents. The number one customer concern is an accident. We're a macho country. No one ever gets sick. Everyone's in an accident. No one has cancer. No one has a stroke. No one has a heart attack. They also believe if those conditions strike they'll either die or recover. There's not as much concern about the sickness element until a parent has a concern or a problem.

When we've presented this in the past, we hit what I refer to as the comprehensive product myth. I'd be serving my clients wrong if I didn't sell them a non-cancelable, own-occupation policy with a recovery, residual, COLA, and every other rider I can think of. If that was true, everyone would drive a Mercedes. Not everybody needs coverage with the loaded benefits. In fact, I would suggest the opposite. You're doing more disservice to your customers if they don't purchase any policy than if they at least begin to cover catastrophic disabilities or catastrophic plus accident disabilities.

The next thing I see happening, and this comes through in a lot of customer focus groups, is the concept that if something really bad happens to me, I'll need more money. You're starting to see this in some of the recent product designs that pay more benefits for catastrophic disabilities, but I think you'll even see more of a trend towards lesser benefits for a routine disability but additional benefits for total and catastrophic disabilities. You might see even more for catastrophic. A big concern that was prevalent in the industry, and still is, is the concept of overinsurance. Don't lose track of the fact that overinsurance is really only an issue for a subjective claim. If somebody's totally and permanently disabled, or if the situation is catastrophic and the person is paralyzed or blind then whether the person has 70% or 100% of his or her income covered is probably not a driver in the claims adjudication process.

The next thing I think you'll start seeing in the product design is more of an emphasis on return to work. How are we going to help the claimants? There's one agent in the insurance industry that is appreciated and scores well with customers; it is the property and casualty (P&C) agent. The P&C industry has done a good job of positioning the agent, the one that sold you the policy, as the good guy. If you've ever had a car claim, your agent helps and represents you, and the claims adjudicator is the bad guy on the other side. They position their agent as helping you and assisting you with getting your car fixed or, in this case, getting you back to work or helping you.

Claim advocacy programs are something else I see happening. There is a concern pertaining to customers that's very prevalent now because of what HMOs will and won't pay. The concern pertains to whether the procedures I need to help me get back to work will be paid for by my HMO. That'd be a nice gap to fill. I'm not aware of any company offering that. It may be a challenge to price, but if you can design a benefit that provides additional dollars for medical assistance to get you back to work, that would be a big seller, and when you test this with customers they value this benefit. They start with a distrust of the insurance company, believing the company's not going to help the customer unless it helps them. They start to see that if they need help to get back to work, and if getting back to work gets them off claim, the insurance company is going to assist. Most folks are concerned that if they're disabled, who is going to help? Who's going to assist me getting back to work?

I want to shift topics now and talk about price: where we are, and where we could be headed. You can survey focus groups as many times as you want, probably for the next five years and definitely over the last 50 years, and you will inevitably find that the number one reason people do not purchase disability policies is the price. It is surprising to me how many individuals have looked or considered buying some supplemental disability, but the price scares them away. The number two reason is what I'll call the safety net, the belief that someone else is going to take care of me, be that a spouse, a family member, or the government. My favorite one, which comes up about half the time in focus groups, is when people say, "If something happens to me that severely disables me, I'll sue somebody." They have this perception that if the price is too high, then I must not need this benefit, so they shift to the safety net of defense. The next defense is I'm invincible. That's not going to happen to me. You're moving through a denial sequence. Another thing that happens is what I refer to as the hierarchy of coverage. If you have no insurance, what would be the first insurance that you would purchase? Health insurance is the number one thing on people's minds. They next think more in terms of their P&C needs. Disability insurance either doesn't make the list or shows up way at the bottom when you survey customers about insurance needs. It's not even something that they see a need for.

With regard to price, I'm going to suggest that we need to focus on needs analysis. To illustrate this point, I started thinking of other types of insurance purchases that we make or that I've made in the past couple years that you wouldn't think of in terms of insurance. The first one is the warranty on my big screen TV. No way am I giving that up, right? If that TV goes out, I want a new one. That's really a form of insurance. It is sold at a 10% or 15% loss ratio by the guy at the electronics store. He'll probably tell you about the last lightning storm that knocked out three televisions in his neighborhood. I don't know what the probability is of being struck by lightning. I know it's greater than winning the lottery. TVs being struck by lightning seems to be a big concern when people are purchasing televisions and salesmen are trying to sell you the warranties.

Another one I thought of is lawn service. It's really insurance against the weeds. I don't want to have to pull out the weeds, so I've insured my lawn. Termite insurance. I have a brand new home. The wood's guaranteed against termites for 20 years. Yet the exterminator sold me termite insurance. The point is that consumers have the propensity to purchase all of these elements. While they are not thought of as insurance, when the need is presented at a reasonable price, consumers have a propensity to purchase.

First, we need more of a price product set to match customers' needs. If someone wants to buy a disability policy, and your only product is offering a noncancelable, own-occupation policy, you've knocked out 90–95% of customers who perceive that's too expensive for their personal purchase preferences. We ask customers what they're willing to pay for disability, and you get numbers like $30 and $50 a month. When you've shown a product that's going to cost them $100 or more a month, you're not likely to make that sale without first giving a strong needs pitch. Second, I talked about consumer excuses and the safety net. If you shift the positioning of disability as a supplement, acknowledge the safety net. Explain how the safety net works and show the shortcomings; customers are receptive toward supplementing their insurance. You work through how much social security will provide, how much their employer will provide in short-term disability (STD) benefits on a taxable basis, and then you have some ability to supplement these benefits.

The next helpful thing I see is preparing a price benefit comparison. When you go into an electronics store to buy a camcorder, you might have 9 camcorders to choose from. On the far left is one in black and white. There's no viewfinder. It costs $249. You wouldn't even buy this as a gag gift for your boss. On the other end of the spectrum is the $1,899 model. This thing gives you the barometric pressure. It'll also give you the weather forecast. It does more than you'd ever possibly need.

The store has no interest in selling either of those two items, but what they've done is create your price expectation of what a camcorder costs, and what's the first thing the salesperson will start asking you? What do you need? He's going to drift you towards two or three models and then start talking about the differences. Now, what do you ask? Why is this one $70 more than the other one? Why is this one $200 more? There are those little yellow cards, and the sales representative reads it to you. They've created a price benefit set for camcorders. They're asking what you need and explaining the differences.

What if someone offered a portfolio of disability policies? Say that you were pitching disability products. Instead of showing noncancelable, own-occupation with a residual COLA, lifetime benefits, and FIO options and taking things away if they are too expensive, you could show them a broad range of products. There is catastrophic coverage on one end at a low price. You would say this doesn't cover much, but it's available. No one really buys that one. Then you would show the fully loaded, noncancelable, own-occupation with all the bells and whistles. There is also middle-range coverage with building blocks, accident coverage, accident and sickness, accident and sickness plus residual. Maybe you have some guaranteed renewable (GR) or noncancelable versions mixed in. The customer is going to ask, why is this one $200 more than that one? You would explain. This one pays residual benefits. This one has a price guaranteed to age 65. The company can change the price on this one. You've now created a spectrum of choices, and the sales pitch brings out the need elements, shifting it significantly from trying to pitch a benefit sale. Those are the elements that will be necessary if you want the pricing of a disability policy to make sense to a customer who traditionally is only shown one option.

Shift now to the promotion element. In the past, we've sold these policies as benefits. Many of the sales pitches talked about how you could collect. You might point to Dr. Jones, who was out playing golf on his disability policy as part of your sales pitch. The focus is on the benefits in the contract instead of the need. Heavy emphasis was on contract provisions and how they work. If you think back to some of the product design issues, that was a function of the way we designed products. Products were certainly designed to focus on product provision differences.

Where does promotion need to occur in the future? Well, one of the biggest is an awareness element. I mentioned earlier the thought that the things that used to kill you now disable you. That's a very important message to get across to customers. The second biggest element is the unprotected asset concept, that your ability to earn income is a bigger asset than any other asset you have. Yes, that's more than the big screen television. Without an income you couldn't have the big screen television, and the income is an unprotected asset for many folks. The next thing would be pushing marketing and promotion communications towards needs-based selling. You start positioning the need for the product. Let's say your product had a benefit that reimbursed the policyholder for the cost of a wheelchair if the insured was wheelchair-bound. Go through your claims file. You don't have many folks in wheelchairs, but that's what customers believe will happen to them if they're disabled. You've also in that promotion created an image of what a disability is. I think those types of benefits, if promoted properly, will shift the sale from a benefit sale to a needs sale.

Here's an analogy I often use. In Tennessee auto insurance is optional, but nearly everybody buys it. You complain about the premium, but at the end of the year you don't plan to wreck your car because you want to collect your benefits. Nobody thinks in terms of collecting benefits because an auto claim isn't a benefit, it's a hassle. You have to go get estimates. You have to do a police report. You have to turn in forms. You have to deal with the claims examiner. It is a hassle. That's your perception of an auto accident. If your perception of a disability is Dr. Jones playing golf, then you may want to try to become disabled. But, if your perception is the wheelchair-bound, catastrophic disability, at the end of the year you're glad you're not disabled. Promotion needs to shift towards an emphasis on the need; since the perception of most customers is the more dramatic disabilities, this should not be a major shift.

There are some future promotion opportunities for individual disability. I see potential for some companies to start promoting what I'll call return-to-work success stories, elements where the insurance company has assisted the customer, both promoting the benefits in the contract and positioning the disability carrier as the good guy in the equation. We helped you when your HMO didn't. There are many opportunities for the disability carrier to be the good guy. There is another element that needs to be promoted more. We ran a contest for our sales folks to come up with the best sales pitch, and this one came from a representative in Canada. I wish I could take credit for it. He had statistics that the bad news that 90% of you will have a disability condition between now and age 65. The good news is that 97% of you will recover within five months. The point is that the product that's of more value is the one that's going to assist your recovery. That good news/bad news was a strong presentation.

Finally, this is my lead-in to Mike and the distribution. The element of distribution that's going to be critical, where promotion and price and product can assist, is that the need for disability insurance needs to be as recognized as the need for life insurance. We sell more life insurance in this country to folks who are properly covered for their need for life insurance, but we have a dramatic number of consumers who are underinsured for disability. I've set the stage there for the past and the future for changing the marketing mix. I'm going to now hand it off to Mike to talk about items that will impact the distribution side.

**Mr. Koopersmith:** We've talked about the marketing mix or the four p's of marketing at the conceptual level. We discussed how they might relate to disability insurance. I think Rick has done a very good job of talking about some of the marketplace needs and how to position your product and price and promotion.

One of the things I wrestled with in preparing for the session was the degree to which I wanted to talk about traditional markets and traditional distribution systems versus alternative markets and alternative distribution. I decided to focus my remarks on just traditional markets and traditional distribution for a couple of reasons. First, there was another session on nontraditional markets, and I thought that would be a better forum in which to talk about alternative markets and new markets. However, the main reason why I decided to stay closer to home is that if you buy the concept of the marketing mix and the need to align the four p's, you really can't talk about alternative distribution by itself. You have to talk about alternative distribution in the context of the specific market you're targeting, the needs and wants of that market and the product and price positioning and so on. Really what you would be talking about is not so much distribution but really the whole marketing mix, and that's something that could probably take an hour or two, at least for any one of a number of different markets or market segments.

I want to reiterate a point. If you think about the different number of combinations and permutations you could apply to any of the elements of the marketing mix, you realize pretty quickly that there's no "one size that fits all." Each company should have a specific marketing strategy and, as a result, a specific distribution strategy that's unique to itself. It shouldn't be based so much on the target markets that it wants to go after, but rather on its own unique strengths as an organization: the other products it sells, the strengths of its distribution system, the strengths of its marketing organization, its brand name recognition, its geographic breadth, its weaknesses, and so.

Obviously, as a result of the profitability issues the industry has suffered in recent years, prices are much higher. Underwriting and contract language is much tighter. Claims department staffing has been increased. A significant portion of the efforts have focused on the problem areas, notably California, Florida, and physicians. In addition, a number of companies have simply exited the business. These actions are, to a degree, predictable and appropriate. If you are hemorrhaging and losing money, you have to stop that and you have to do these types of things. To the extent you have problems that relate to the contractual design or the pricing of your product or the liberalization of your underwriting, you have to do these types of things. In that sense, everything was appropriate. However, to some extent the industry is throwing the baby out with the bath water. I say that in large part simply by looking at the sales results. Again, I'm painting a broad brush for the whole industry.

Different companies will fit in here differently. But if you look at the DI industry, I don't think we're a healthy industry right now. We've done things to improve the profitability of the business, but we've done it in a way where we're not replacing unprofitable business with profitable business. We've essentially stopped selling unprofitable business in unprofitable markets. That's good as far as it goes. However, we really haven't solved the underlying problems and addressed the root causes. I know of a number of companies that are doing things in a number of different areas, but I would suggest that as an industry we still have not been successful.

In any event, if the industry's reaction to its profitability issues has been predictable, then the producers' response to the industry reaction has also been predictable. The producers believe policies don't provide good value. If policies were high priced before, they're much higher priced now, and much too expensive. Products and underwriting are too complicated and too much underwriting is required. Conservative underwriting and slow time service jeopardize the producer's relationship with his client. This is the attitude of most producers that have been selling disability insurance. The bottom line is that there are easier ways to make a living. Those of you who track the number of people who sell your products and the productivity of your individual producers, whether you're an agency-oriented company or a brokerage-oriented company, will find that you have fewer people selling fewer DI policies. The policies might have the potential to be more profitable, and that's a good thing, but the fact of the matter is, as an industry, we're doing a poor job in terms of reaching people who need the products that we're trying to sell.

I don't know if I come across as somebody who's positive on this business or negative on this business. I am a believer in the disability business. It's not just because my living depends upon disability insurance, but I really believe that there's an enormous unmet need for disability insurance protection, to protect people if they're sick and hurt and can't work. I get frustrated sometimes with my inability to convey to groups like this that there are solution models that are viable and practical. I get frustrated sometimes by the apparent lack of progress by the industry in addressing some of its issues. I think there's an enormous unmet need for this product, especially in the small business market, which companies have been talking about for years.

The Life Insurance Marketing and Research Association (LIMRA) put together what I thought was a pretty good study in 1994 and 1995 in collaboration with Dunn & Bradstreet. It's hard to get good statistics on the small business market, which I'm defining to mean employer/employee groups with 100 lives or fewer. I believe that the penetration rate for DI is in the range of 16–18%. The employee benefit marketplace is about 48% penetrated for group long-term disability, but I think that's largely because of the large group market. The larger size groups are 70% to

80% penetrated. When you get down to under 100 lives you're talking about a 15–20% penetration of the market for individual disability insurance of one form or another. I have heard it said that a certain percentage of people that said they had disability insurance really didn't. They either didn't know what they had, or what they thought was disability insurance was Social Security, or maybe a salary continuation plan that their employer provided. I think the studies tend to overstate the amount of people that have disability insurance.

The need for disability protection is significant. If you put pencil to paper, you can see that the probability of a long-term disability is far greater than that of dying. There's a very low awareness of the need and a significant lack of product knowledge. The exception here would be certain segments of the professional market, primarily physicians but also certain types of attorneys. There's a high-perceived need for the product, and the end consumer can cite chapter and verse of the contractual provisions. By and large, even in some segments of the professional market, like accountants, for example, there is a relatively low awareness of the need for disability coverage and a very significant lack of product knowledge. This is a two-edged sword. In order for a company to successfully distribute the disability product, it has to somehow establish that there's a need for the product, and this requires, in my opinion, an intermediary, an agent or a broker. The bad news is that the need has to be established. The good news is that because there's a low perceived need and very low product awareness, the insurance company has a significant degree of latitude in terms of the product solution that they put together to satisfy the need. From the end consumer's perspective you don't need many of the "bells and whistles" that your field force might tell you that you need. I think that the upside potential for disability insurance both in its own right and as a complimentary product in combination with other products that the companies are selling is absolutely enormous.

The potential role of disability takes in a combination of elements that I picked up in talking to a number of different companies. Why do you want to have a disability product? Obviously there's a need for disability insurance, and there's a lot of potential in its own right. Why else would you want to have a disability product? First, it's a door opener or lead product. There are a number of companies, particularly those targeting the business and professional markets, that see disability insurance as an entree into those markets. It's oftentimes easier from the producer's perspective to get somebody to talk to you about a disability need than selling life insurance or some other need.

I have had experience on the sales side of the house in recruiting agents at Paul Revere. Even though Revere had been primarily a brokerage company for many, many years, it really started off as a career agency company focused on the middle market. Up until its acquisition by Provident a couple years ago, Paul Revere still maintained a career system. One of the ways that Paul Revere recruited agents, was that you could be an agent for Paul Revere and sell disability insurance while working days. You worked days because you sold disability insurance to people where they worked. Paul Revere did workplace marketing before it was called workplace marketing, and it helped attract producers. It helps you get in the door. There's obvious opportunities for cross selling with disability and other products, and obviously that's one of the ways that you increase an agent's productivity. Because of the potential to improve productivity and access to the business market and a daytime sale, that's one of the ways that you recruit producers, agents, and brokers. You use this to gain access to the business market, and I think you're going to see improved producer and policyholder retention as well. LIMRA has done studies that suggest that the policyholder that has multiple lines of coverage is more likely to stay with the company than if he or she holds only a single product. Several of the companies that were national account clients of Paul Revere specifically used disability insurance to augment the sale of their other lines of business, primarily life insurance, although in at least one case that I'm aware of, it was for some property/casualty sales as well.

Obviously DI is an added source of revenue and (hopefully) profit. No one should get into this business as an accommodation to the field force. It's the wrong reason to do it. This is a difficult business. You have to make the investment to do it right, but if you do it right, I think you have significant revenue and profit potential.

Let's talk about the actual sale. I've alluded to many of these things earlier, so I think I can pick up the pace a little bit. Disability insurance sold in the traditional markets (business and professional markets) is "sold, not bought." That's significant for several reasons. One reason is it means that the first sale is to the producer. If you want those people to sell disability insurance, you have to give them a reason to do it. You have to sell them on the idea that it's in their best interest to sell disability insurance. That's the first sale you have to make. That is difficult, but it's also something that puts insurance companies in a relatively better competitive position vis-à-vis other financial intermediaries. If I am selling mutual funds or some equity-based products or annuities, I'd be hard-pressed to compete effectively against a Fidelity or a Charles Schwab or a bank. Their distribution costs are lower. Their access to the marketplace is significant. If I'm going to sell through an agency or brokerage system, I'm going to have relatively better competitive advantages if I'm selling a product to which my agent or broker has to add value. One of the ways that your producers can add value is by selling the need. Again, this lack of perceived need and lack of product knowledge is a two-edged sword. It means you have to present the need and sell the need, but it also means you don't need bells and whistles. You can design your product to suit the needs of the market.

Rick made a point earlier that I only partially agree with. He said the main reason why people don't buy disability insurance is because of price. I think price is the second most important reason. The most significant reason is that nobody is being asked to buy disability insurance. The large majority of the people that are prospects to buy disability are never even asked to buy disability. I think price is second, and I think price is an issue not just in middle income markets and the business market. I think price is an issue these days in every market segment, including the physician market.

If I were designing a product for a company, I'd start with the target market and the needs and wants of that target market. I would think that one of the first things you'd find, as I think Rick alluded to earlier, is that you have some price points that you have to hit. You almost have to work backwards from that target price to design a product. It has to meet your profitability goals. You have to have enough money for your risk management functions and to pay for your distribution costs, but you have to hit a price target, otherwise that product is not going to be attractive to the market. The price that you're trying to reach has a significant impact on the design of your product, which is one of the reasons why you can't afford to put some of those bells and whistles in.

There's also relatively little competition at point-of-sale. Again, the reason why people don't buy disability is because they're not asked to buy disability; nobody presents the need or the product is too expensive. If you can get a producer in front of a prospect and present the need for disability and have a product that does a reasonably good job of satisfying that need at a good price, you're going to make a sale more often than not. You're going to get good closing ratios.

Companies should be market driven. Many companies are product driven or distribution driven. If you're about to design a new product, what's the first thing you do? You bring in your field advisory group, and they meet with the home office product team. How do you design a product? You have the field people telling you that they have all the reasons why they can't sell their product, because of the bells and whistles competitors have that they can't compete with. Then your home office product team has, typically, the actuary, or maybe a claim person on one side of the discussion, against your sales and marketing people on the other side, negotiating on what you can provide and what you can't provide and what it's going to cost. Your underwriter is kind of sitting in the middle trying to play referee. To a degree you have to do that. That's the real world. These are the people that have to sell your product. You have to deal with the field force. But oftentimes what the field force brings to the table is a lack of knowledge and understanding about what the end consumer really wants and also a lack of appreciation as to the trade-offs.

If you want to get the price down to the point where people are going to buy it, and pay a reasonable commission to the producer, and make it easy to sell the product, and underwrite the product easily and quickly, and still make money, then you have to design your product in a certain way. You want to have a product that satisfies the need at a reasonable price. This implies that you cannot afford too many expensive bells and whistles. In a sense, you are complicating the decision-making process to come up with a simpler and better product.

The best practices required are the four p's, risk management, alignment, and balance. I can't say enough about the need for alignment and balance. All the different elements of the marketing mix and your risk management requirements have to come together for this to work. Obviously when you get done you should have a product where there's a high perceived value that's simple to sell and simple to buy. The phrase that I think captures it best in my mind is looking for the "triple win." It has to be a good value for, first and foremost, the end consumer, but also for the producer who's going to sell the product, and finally for the company. If what you have is a solution model that cuts the mustard on all three of those, you're likely to be successful. If any one of those three constituencies are not satisfied, in my opinion, you're probably not going to be as successful as you want to be.

That suggests to me, first of all, integrated selling systems. When I say integrated I'm speaking to a company that's not primarily a disability company, like Provident or UNUM, but a company that sells disability alongside of other lines where disability is not necessarily the most important line of business. The sale of the disability product has to be integrated effectively with the sale of the other products. If you think about the selling system, you know that you have your target market, pre-approach, approach, prospecting, presentation of the need, the actual sales presentation, and whether it's a one-interview or two-interview sale, right on through the closing. In that process, as you're doing your fact-finding and establishing the need, you have to establish the need for disability alongside of the need for your other products. It can't be an add-on. The proposal system has to be designed in a way where the proposal for disability is built into the proposal system.

Your field force has to be trained. They need to understand why things are the way they are and why certain complexities are necessary at the same time that you're trying to simplify things. That's why I emphasize the importance of training and two-way communication. I've often heard it said, and I believe it, that the most important form of communication is listening. You have to listen to your field. You don't necessarily have to do what they want you to do, but you have to understand where they're coming from. You have to be able to put yourself in their shoes, and you have to listen to the end consumer.

Obviously field compensation and recognition plays a significant role. Based on my days of running Paul Revere's sales organization, I'll tell you that recognition is almost as powerful as compensation in getting people to do things; it's an enormously powerful motivator. One of the things that makes good salespeople good is an enormous ego, and they like to be recognized in front of their peers.

Compensation for disability has to be consistent with other products, it has to be consistent with the sales effort, and it has to be consistent with your profit targets. Being consistent with other products and with the sales effort means that if you're going to cut costs and cut commissions, you have to do it in a way where the perception on the field force's part is you're making it easier for them to do the job. Sometimes you can. A good example is multi-life. You can sometimes get by with lower commissions on multi-life, partly because you're reducing the price of your products and producers realize that there's a cost associated with this that they have to bear a portion of. There's an assumed improvement in productivity. I'm going to sell multiple policies. I'll accept a lower commission on a per-unit basis. If you're just going to introduce a new product and cut commissions, my experience tells me that it's not going to work unless there's something about that product offering or the promotion or some other element of the marketing mix that's going to make it easier for the agent to do his job. Simpler underwriting is an example. Obviously your compensation has to be consistent with your profit goals.

Many companies think of their primary customer as their agency force or their brokers as opposed to the end-consumer. This is a tough question, and we could probably spend an afternoon just on this alone. If you have a product that's a "push" product as opposed to a "pull" product, meaning that it has to be sold through an intermediary or producer, then you obviously have to have a good relationship with that producer. It's very, very important that the producer sell your product. By the same token, it's even more important that the producer see himself or herself as acting in partnership with the company to serve the end consumer. The reason why that differentiation is important is, if you can establish that kind of a partnership environment, it is easier to get the producer to buy into some of the things you have to do from a product or an underwriting point of view. The viability of the product, and the profitability of the business is important to them as well as to the company. They have to provide good value to the end consumer. The balance has to be there and the alignment has to be there. The underwriter has to do his or her job. That's where the partnership takes you.

Training is an important piece of that. Another piece of the partnership is a mutual commitment on the part of the home office. Partnership implies commitment on both parts. What the home office has to do is simplify and speed up the underwriting process. The field has to be trained in proper application completion and field underwriting, and it has to hold up its end of the deal. If the application is not completed, it should go back to the field. Much of it is like raising kids. You tell your kid to do something. The kid doesn't do it. If you threaten to send him to his room, you better follow through on that threat or what you say is going to be meaningless. I think a lot of times you have to think of the field as your kid. You have to let them know what to expect, and you have to follow through on that. You have to train them to sell modified coverage and rated (substandard) cases. That's an opportunity. Say you have an individual who is, for whatever reason, not eligible for a standard product. That person should feel fortunate that the company has come back with a modified offer because, without that, they'd have no insurance at all. Make it a positive, not a negative.

There are ways to get the field to do this. That's part of what you have to do in terms of training your field force, selling the underwriting process, and creating this partnership environment. A big element of that is the manager's or the producer's expectations. Companies will over-commit and "under deliver." Just the reverse is needed. If you're talking about four weeks time service, you should deliver in three. Underwriting status is an important piece of that as well. Sometimes the perception is that underwriting is too long. The reality is the field just doesn't know where the policy is in the underwriting process. I had one client who set up an underwriting status system, and all it showed was "pending." That doesn't help. If you're going to have an underwriting status, it has to be timely, accurate, and meaningful.

Focus on profitable business. I said this earlier. When I talk about marketing and the marketing mix and how to align the elements of marketing, people think I'm too sales-oriented, and I don't care about the bottom line. Nothing could be further from the truth. You have to integrate the financial requirements and good, sound, risk management into the distribution of disability business. Part of that is insisting on quality producers, and part of that is having a management information system that allows you to track the performance of individual producers, agency offices, and sales regions. You have to aggregate it all the way up. You should have the right, and you should exercise the right to refuse or to accept business from an agent who refuses to play by the rules that you've deemed necessary to underwrite profitable business. If the agent doesn't play by the rules, he should be gone. My experience has been the worst agents are the casual producers giving you one or two pieces of business a year. They tend to shop around. However, sometimes the worst agents are the "heavy hitters" who feel that because they produce so much business you should roll over and let them do whatever they want. I see both ends of the spectrum being problems.

Quality producer programs are helpful in the sense they allow you to use kind of a "carrot- and-stick" approach. You can be punitive when you need to be, but you can also provide recognition to better producers. Recognition can be access to certain underwriters or access to the underwriting department on a preferred basis at certain times of the day, or direct access to the underwriter, or it could be "speed" underwriting. It could be waiving certain underwriting requirements. It could be recognition at a sales conference. There are many ways to provide recognition to the producer that is giving you quality business. My experience again has been that of the different measures that you could use in assessing the quality of business, persistency and "wastage" are important. Is "wastage" a meaningful term to everybody? It's the percentage of business that's sold that doesn't actually get placed. It's rejected. It's declined. It's not taken. Measuring "wastage" rates and persistency rates is a straightforward and easy thing to do, and they are key elements of quality. Things that are also important that can be measured are the quality of the application completion. One problem that I've seen happen is overstating occupation class. Most companies provide better benefits and a better contract to the higher occupation classes. Some producers will rate somebody a 4A when they should be a 3A or a 2A. I believe that it is as bad as overstating income on an application. I say that in large part because I've seen studies that suggest that the quality of the business from those types of producers is poor. One of the things that's a red flag for me is somebody who overrates somebody on an application from an occupation class point of view.

Oftentimes, factoring claims experience into the quality evaluation is also possible. It's a little bit more difficult. From a financial point of view, one claim can make an otherwise good agent look bad. You can't use the claim costs, but there are ways to factor claims in. I've seen it done, and I know there are ways to do it that actually work.

You have to come back to alignment. It all has to come together. When I talk about the four p's and how they work together, I'm talking about alignment with the product and underwriting and distribution with your target markets. The rule about keeping it simple applies. When things are perceived as being complicated, sometimes it's because they're really complicated, but sometimes it's because the person just hasn't been trained or educated. I think the simplicity is partly perception and partly training.

**Mr. Howard M. Callif:** Mike, you were talking about distribution and the anti-selection elements that can be affected by the way you distribute a product and how it's designed. Your basic comment was that you don't want any potential for anti-selection at all. I was in an earlier session where they were talking about the Internet and how you could develop a life insurance policy. They don't want to tell anybody no after they've filled out the application, and they want guarantee issue type policies. There was someone there who basically said it was not a problem. People who are on the Internet are young. They weren't there to buy insurance. They were just there to buy a broker transaction. They happened to see this and got interested and decided to go for it. I took exception to that, but is there some level at which you can say, this distribution can eliminate some of the effects of anti-selection?

**Mr. Koopersmith:** First, distribution can play a significant role in the selection of a product, and in that regard, distribution obviously plays a role to the degree to which there's going to be some antiselection. If you look at what disability insurance is, it's a benefit that pays people, who, in some cases, are flat on their back and can't work. In other cases, it'll pay people a benefit who arguably could work and earn a reasonable income. One of the functions that you try to accomplish through product design, underwriting, indemnity limits, replacement ratios, and so on, and also through the way the product is sold and promoted, is to sell to people who are somewhat less likely to take advantage of the subjectivity that disability policies provide. I would suggest that if you have a traditional type of disability product, which has a certain degree of subjectivity in the way you define disability, it would be very risky to sell that through the Internet, unless there was some way to evaluate the motivation and health of the person who is buying it. It would also be risky unless the product was designed so that the benefits were so limited, there was very little opportunity to select against a company. An example would be a policy that provided a very limited benefit, or only paid for an accident or something like that. It's difficult to select against a company in that sense. Similarly, if the amount of the benefit was very, very small, there would be relatively little financial incentive selecting against a company. I'm less inclined to worry about antiselection in that situation. However, selling through any direct response mechanism, whether it's direct mail or on the television or through the Internet, concerns me a lot if I have a product that has significant benefits without the opportunity to fully underwrite the applicant.

**Mr. Callif:** I do have a question for Rick concerning the focus groups. How did that come about? Is that common practice in DI? I'm not sure I've heard of many companies anywhere doing that kind of thing.

**Mr. Magro:** Yes, it's a good comment. I would suggest in general, the concept of a focus group is somewhat foreign to an insurance company. We began about four years ago doing formal focus groups, anywhere from 15 to 20 a year, where we show customers prototypes of policies and ask them general questions. The shift is that we now go to our producers and say we've developed a new product that your customers will buy rather than asking, "What will your customers buy?"

I'd like to add one other comment to your thoughts on antiselection. My belief is that no matter what you do, antiselection is not going to go away. The only way you can impact antiselection is to dilute it. Assume you have 100 qualified individuals who are interested in disability, and there are two antiselection elements in that group of 100. If you have a broad enough range of products, and you'll write 75 of those individuals, you'll have a better mix of business than if you only write 10 because the two antiselection elements in that group are going to purchase either way. The important thing is diluting the antiselection by broadening the market.

**Mr. Koopersmith:** I think that's a key point. There's another way to dilute it as well, and that is to give the same risky benefit to everybody. Let's use own-occupation as an example. I won't debate the merits of a long-term own-occupation benefit which, again, we could spend the afternoon doing. If you're going to have a long-term own-occ, my preference would be to give it to everybody, because the people who are inclined to select against you will buy at least a large percentage of them and they will buy it anyhow. If everybody buys it, it dilutes the effects of anti-selection of those that do.

I think focus groups can be invaluable in dealing with end consumer needs and wants as well as producers. I've also seen, in my opinion, focus groups that generate as much misinformation as good information. A large part of market research is knowing what questions to ask and how to interpret the answers to those questions. When you're dealing with a product like disability insurance where there's a low perceived need and a low understanding of the product, it's difficult to get good feedback from market research, whether it's focus groups or surveys or whatever. That doesn't mean it can't be done. In fact, I've seen it done and done well, but I think it's not as simple as getting a focus group of a bunch of end consumers and saying, What kind of product do you want? You're going to get information that's not going to help you, and this'll more likely be misleading.

**Mr. Callif:** Basically you're saying that the model of going to the producers and having them tell you is backward. You're doing the reverse. If you're going to them and saying this is something that will sell, I would think that egos would get involved to the point of people saying, "Hey, you're telling me who to sell to and who not to sell to. You're supposed to be coming to me. I'm the expert here."

**Mr. Koopersmith:** There are at least two different ways to get producer feedback. One way that every company uses, and I think it has value, is the idea of field advisory people. You're bringing in your own field people, whether it's producers or agency managers, to talk to the home office team, if you will. I think there's a lot of posturing. You can obviously get a lot of good information from that, but there's a lot of posturing also. I think a better way to get feedback in terms of producers in general is to do blind surveys or blind focus groups. What you can do is get focus group feedback from your own producers without telling them that you're getting the feedback. In other words, you could set criteria for the firm doing the focus groups that dictates whether it screens different brokers or agents selling disability. The criteria might have been designed so that a certain percentage of the people are producers for your own company. They don't know it's your company getting that feedback. They'll tell you whether they like your company or not and why, and why they sell or don't sell disability insurance, and what they would need to sell it. Again, that's good qualitative input. It's not necessarily good quantitative input. You're not going to hear any producer say, "I'm in this only for the money. I don't really care about serving the clients; I just want to make money, and I'm going to sell the most liberal product and get the highest commissions I can." If producers feel that way, they're not going to tell you. To the extent that represents the feeling of many producers, you lose that bias in terms of getting feedback. You have to interpret the results you're getting as well.

**Mr. Callif:** Do you see illustrations in the DI market really being very useful in the selling process?

**Mr. Magro:** I would suggest within the limits of legal disclosure that you will see a shift in disability proposals that are rather bland. They more or less give a reiteration of the contract language instead of a needs-based selling pitch. In direct-mail, or work-site marketing, they drive off of the need, focusing on protection you might currently have and how it's supplemented. This approach, instead of one focused on where the semicolon is in the definition of disability, will lead to higher penetration rates because it's more of a needs-based pitch. If you list out all your legal-based contract language, you reinforce the customer's concern that the insurance company is trying to get out of paying a claim by having some legal, small-print provision.

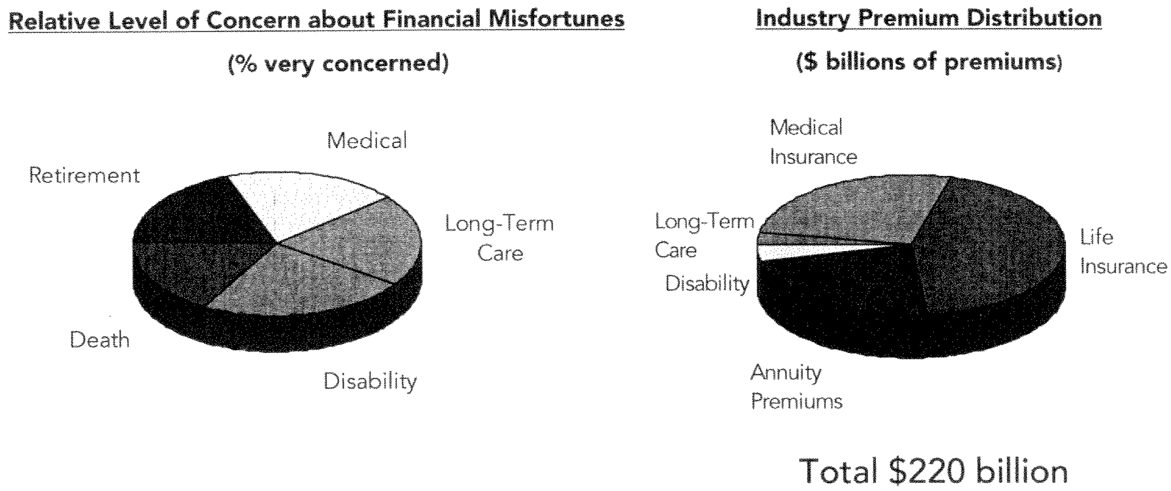
**Mr. Koopersmith:** I think illustrations, and not illustrations that necessarily look like a life insurance illustration, but DI illustrations can be critically important, in my opinion, to selling disability for the reasons Rich just suggested. It should be a needs-based sale, and however you put together your sales track, what you're selling is the concept that the individual's greatest asset is his earning power. If that person is sick or hurt and can't work, he loses his ability to earn a living, and the significance of that is enormous. What you could do in lots of ways is picture graphically the financial impact of a long-term disability, show where social security may or may not kick in depending on how disabled you are, look at the income gap, and then illustrate how the disability product fills that void. This can all be done with pictures. It's not contract language. It's not words. It's pictures.

**Mr. Magro:** I'll add that many insurance proposals focus on the needs sale. I would suggest the life insurance side of the house is light years ahead of the disability side in the area of promoting life insurance through needs-based selling. On the flip side, regarding the disability exclusions listed, I've never seen a life insurance proposal yet that says if you commit suicide in the first two years, you'll receive a refund of premiums. That's a pretty dramatic exclusion that somehow the lawyers didn't worry about. I think there needs to be more of a shift towards the life insurance method of selling off a need.

**Mr. William Bossi:** Chart 1 showed that a high percentage of people indicate that disability is a significant need, but currently very few dollars are going there. Later on in your presentation, as you were talking about hierarchies of coverage, I thought you said that in focus group meetings, as people identify their priority for dealing with those needs, that disability doesn't even make the list. Can you help me reconcile those pieces of data or how you might interpret them?

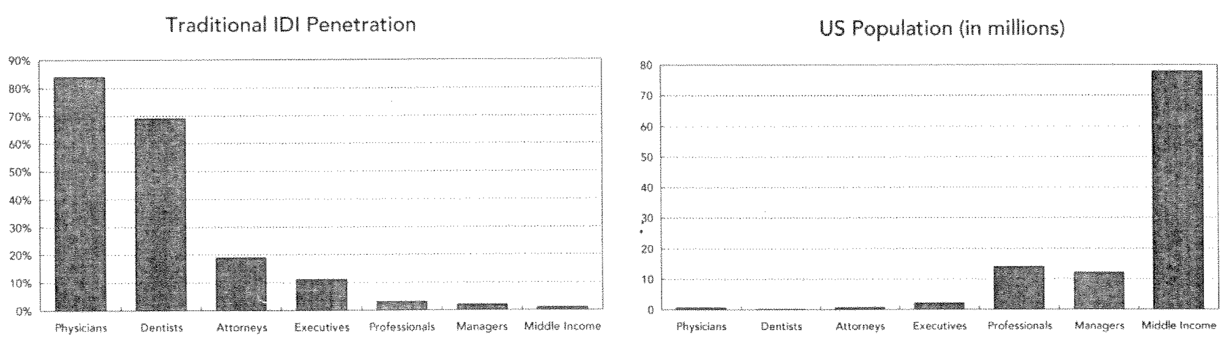
**Mr. Magro:** That's a good observation. I hadn't thought of the conflict there. The latter comment is a function of our own market research where we ask folks, what is the number one thing that would cause you to lose your income? It's being laid off or unemployed. Then we talk about what kind of insurance purchases they've made. The other information we're seeing is from ACLI and A.M. Best. I suspect they list five or six items and ask you what you're most concerned about. Now you're seeing the choices, and you're going to get a different answer. Are you more concerned about dying or being disabled? You're going to get a different answer than if you ask somebody, "What's going to cause you to lose your income?" I suspect that's what drives the difference, but I can only comment on the information that we have from Primary Research. I'm not sure how the ACLI and A.M. Best data were generated.

CHART 1
DISABILITY INSURANCE OPPORTUNITY




Sources: ACLI, AM Best

CHART 2
DISABILITY IS A GROWTH BUSINESS




Sources: Statistical abstract, Conning & Co., Monitor Co. LIMRA