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Specialty Health Products—Current Issues

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Summary: As managed care plans absorb an ever-increasing percentage of the health insurance market, niche market, or specialty products which cover events such as cancer, heart attack/stroke, accidents, and other incidents are becoming strategically important components of the product mix offered by traditional insurers. The panelists discuss recent innovations in this market, the regulatory environment, and pricing and valuation issues related to the scarcity of insured experience.

Mr. Floyd R. Martin: Charles Lanigan from the Hartford is going to be speaking first on the changing face of special risk. Jay Power with Westport Benefits is going to be speaking on marketing serious illness. I will be following up with a discussion on critical illness insurance.

I'll give a little background on each of us. I've been a consultant with Tillinghast for about 15 years. I do various work in all the different health lines of business. We have been doing a lot recently on critical illness plans, both riders and stand alone. Jay Power is with Westport Benefits and he has been there as a vice president since February 1997. Prior to that, he had various positions at the Metropolitan, including account executive group sales, marketing director of specialized corporate products,

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and director of marketing and planning for Met Life Voluntary Group Products. Jay's experience provides Westport with both marketing and sales expertise. Chuck Lanigan is with the Hartford. He is a lawyer and certified life underwriter (CLU). He has 22 years experience in the insurance industry doing law, planning, marketing, financial, and product management. He has recently been head of the disability insurance (DI) business at Mass Mutual. He is currently head of the special risk operations at Hartford, which includes the areas of underwriting, administration, compliance, product development, and marketing.

Mr. Charles T. Lanigan: My presentation is an overview of the special risk function as it has traditionally operated at most companies, followed by a discussion of emerging trends and new directions for special risk in the future. This introduction will set the stage for the presentations that follow on the critical illness product that is being developed under the special risk umbrella in some companies. This product typifies, in many respects, the newly emerging special risk function.

By way of an introduction to traditional special risk, I'd like to call your attention to the term *special risk*. This is one of the more interesting names for an operation or department that you're likely to run into in an insurance company. By breaking the name into its' component parts, we start with the term *special* which connotes something unique, exclusive and conveys an overall impression of something that is good. *Risk* is the counterbalance to special. Risk implies danger, but danger with the potential of gain. So you might call special risk the "dangerous opportunity" department.

The reality of traditional special risk is quite a bit different than the name implies. Traditional special risk consists of a grouping of niche products, like AD&D, Employee Travel, blanket coverage, or certain association life and disability plans that exist in the shadow of some bigger, more mainstream operations.

This has certainly been true at The Hartford where I work. Hartford special risk is part of the Employee Benefits Division, the largest part of which is employer-sponsored group life and disability. It generates about 1.3 billion in premium, as compared to 340 million in premium for special risk.

Special risk has characteristics that account both for its separate operation and its continuing existence in a company's portfolio of product offering. As I mentioned a moment ago, special risk involves niche products. These products generate relatively low premiums per sale as compared to employer-sponsored group.

The products require specialized underwriting. The wide range of product types offered by special risk means, as a practical matter, that sales are being made to

diverse groups, far less homogenous than the typical employer group. This is especially true in the association sales arena. Any sales opportunity that does not fit into the more basic product lines offered by a company seem to find their way to special risk. As a result, the underwriters who handle this type of business do not have a narrow view of the underwriting role. In reality they operate like product managers or super account representatives. They exercise quality control over risk selection in the broadest sense. They evaluate producers and marketing plans, draft contract language, and otherwise evaluate the transaction in its totality. It takes years to develop an underwriter with the package of skills appropriate to a special risk function.

Special risk products are, also sold by producers that are different than those that sell regular group products, as a general rule. They are also sold in a different way. Many of the products in the association arena are sold through the mail, for example. Hartford has a separate brokerage sales force from our employer sponsors group sales force. These individuals are schooled in the specialized methods of soliciting this type of business, which often is more relationship driven and takes longer to develop than employee benefit type business.

You might ask why a company would be in special risk at all, given more modest premium volumes, separate management structure, and the level of specialized skills that are required. The answer quite simply is profit. Special risk has one of the very best rates of return as compared to any product line at The Hartford, year in and year out.

Unfortunately, there are some storm clouds on the horizon. Many special risk markets are mature markets. This is most noticeably the case in AD&D insurance where declining price and replacement business is the norm. It's also evident in slow to non-existent growth in certain traditional association insurance programs. It seems clear to me, at least, that special risk needs to find new directions if it is to remain relevant in today's emerging financial marketplace.

Finding new directions starts with a return to and reexamination of core skills. What does special risk do well that could be transferred to new or additional opportunities? As already mentioned, special risk underwriting is unique in the sense that its underwriters have advanced financial and project management skills.

Special risk also is characterized by flexible administration. The variety of cases encountered in special risk frequently involves interaction with third-party administrators. This, in turn, creates the need for flexibility in administrative design and customization that go hand-in-hand with outsourcing.

Special risk people are, by nature, opportunistic. Underwriting skills applied on a case-by-case basis along with administrative flexibility produce a strong bias in favor of finding a way to get the deal done. Special risk sales people are encouraged to build producer relationships, first based on the presumption that details of product offering can be negotiated. It is far less of a product driven environment than most insurance company units or product lines.

Special risk departments need and usually have a compliance department with the capacity to monitor a wide range of products. These characteristics of a special risk function provide the basis for special risk to re-invent itself for a new era. The capacity to expand the scope of operations into new products or markets is the natural outcome of underwriting expertise, customizing administration, distribution-driven sales operations, and compliance capacity combined in one area.

The areas for special risk expansion can be grouped by type. The first grouping is what I'd call "working the edges." This implies finding ways to fill gaps in benefit programs or to find new uses for old products in ways that may not, of themselves, be something that an employee benefits product line would be interested in. Examples of this would be finding specific business applications for basic life and disability coverage where specialized underwriting or target marketing is the driving force behind the sale. Another example is critical illness coverage, which addresses a need for disposable income for a variety of needs (mostly non-medical) that emerge when a sickness that used to kill creates instead a lingering condition. This product can be sold to a wide variety of clients in a wide variety of ways. The resulting opportunity for customization makes this product a natural for special risk.

The second area for special risk attention is "expanding on niches." An example of this at The Hartford was the application of expertise developed in providing CHAMPUS coverage for military retirees to the development of the employer-sponsored Medicare supplement market. Expanding on niches can also be applied to finding new ways to market old products, such as through banks or over the Internet.

Special risk can also provide a relatively low-risk laboratory to develop products and learn skills that might one day become either a separate line of business or be integrated into other lines of business. The key in this area is the idea that the special risk environment of customization and the application of advanced financial and project management skills is conducive to launching new products without distracting or detracting from current core product areas.

Finally, special risk is a great testing ground for new markets. Special risk should have a mindset for quick exits as well as entries into a market. Special risk

experiments of today may become the growth opportunities the company urgently needs in the future. This heading includes an increasing frequency of experimental marketing partnerships as much as new products. The Hartford's special risk business segment prides itself on being innovative, aggressive deal-makers, with financial discipline working in support of and out in advance of the "main army." Our new premiums written have more than tripled in two years based on putting these points into action.

Companies in today's environment of competition, consolidation, and increased performance demands could make good use of a special risk operation that has re-defined its role in this manner. I've mentioned critical illness in my presentation, and now I'd like to turn to Jay Power for a closer examination of that product.

Mr. Jay Power: Westport Benefit is a product development and administration company focusing on employee benefits. I'm going to talk to you about what we call serious illness, and I think you're all familiar or becoming familiar with the term critical illness. I have a pet peeve. The term *dread disease*, for example, is probably the most awful marketing name ever invented for a product. Do you want to buy some dread disease insurance?

My presentation is going to be very marketing oriented. As with any new product, marketing comes pretty early on in the game. I think Chuck mentioned that it's an immature market and that there is not yet a lot of awareness on the part of most consumers; so what would be better than to focus on the selling of it?

To us at Westport Benefits, and to me, personally, I think serious illness conjures up what this form of protection is designed to address. Critical sounds like you're on life support. The life insurance industry has those ads with the beep and you can envision this person ready to expire. Critical illness conjures up that same thought.

In fact, what's creating the need for this product is not the expectation of death. It's the expectation of survival. Medical technology is moving ahead at a rapidly increasing rate everyday. Pick up a paper and read about a successful lung transplantation or some new drugs that will extend our lives. That has led to vastly improved mortality rates, and we're going to touch on that a little later. It has resulted in an increasing level of people and survivors, living with serious illness. Chuck pointed out that there is a significant portion of the cost of survival that is being borne by the individuals and their families.

If we look at existing forms of insurance coverage, such as life, disability, and long-term care, life insurance pays upon death, and disability covers a portion of lost income as a result of the inability to work. Again, those two types of coverage

haven't addressed the issue of someone having a heart attack, recovering, maybe not 100%, but still able to work, and having a lot of out-of-pocket expenses as a result of surviving. These types of coverages, as well as long-term care do not address this financial need.

One of the things to take a look at is how health is defined and one source is the World Health Organization. If you look at the definition of health, it does not include only physical well being; there is also social well being. The issue that's missing here in the insurance community and where these products are aimed to fit this need is in that social well being need. Actually, that dovetails into mental well being as well. Serious illness insurance helps fulfill an individual's total health by providing financial security when he or she needs it, most of which is upon the diagnosis of an illness.

I want to step back for a second and look at the year 1900 and a little history of insurance products and medical technology. I made this bold statement about medical technology creating the need for serious illness insurance. Let's see if I can back it up. Back in the year 1900, the major causes of death that lead the pack were pneumonia followed by tuberculosis. You have to go all the way down to 4% to find cancer.

Actuaries probably know that the life expectancy in the year 1900 was 42 for males and 46 for females. So what happened? Medicine took up the challenge. What was the most prevalent product in those days that fit a very prominent need in life insurance? The need was the fear of premature death. If you're supposed to live to 42 and you die at 35 or 32, obviously you can see why that product was in its heyday.

Medicine took off and there were wonderful technological breakthroughs. There were immunizations, vaccinations, and penicillin basically eliminated most infectious diseases of the causes of early death.

In the 1940s, during the postwar years, pneumonia and tuberculosis weren't such a problem. It was lifestyle changes that threatened the public health in America. Smoking, drinking, stress, and longevity were the causes of concern. Medicine responded with chemotherapy, heart bypass, and major organ transplantation surgery.

What developed in the 1950s, 1960s, and 1970s? Disability insurance captured a significant portion of the marketplace. Medicine was taking care of people. They were keeping them alive, but they were certainly impaired so there was a need for some kind of income protection.

Let's move forward to 1996. In under 100 years, the life expectancy has increased 74% for males to age 73 and 73% to age 79 for females. A good round of applause should go to the medical community in this country for making such a dramatic change in life expectancy in less than a century.

I have a couple of statistics that I think you'll find interesting. Once every eight seconds someone in America is diagnosed with a serious illness. Three out of four families will experience cancer sometime in their lifetime. Roughly two-thirds of heart attack victims don't make a complete recovery, yet 88% of those who are under 65 are able to return to their usual work. So if you have a heart attack, it doesn't mean you're going to end up on long-term disability. The same thing is true of cancer. Think of coworkers that have battled cancer. They don't typically stay out on long-term disability.

Fifty-nine percent of all cancer victims will survive at least five years. That's a pretty stunning number. This is important because it's an issue that has not been addressed by any research group in this country. Forty-seven percent of all foreclosures are due to a serious medical condition.

The question I asked back when Westport started developing group serious illness products, both life riders and stand alone versions, was what happens to someone's assets? Consider an individual, what were his or her personal assets the day before a serious illness and what were those assets a year later? I searched high and low, on the Web, and through the government statistical agencies and could not come up with a legitimate answer.

I was reading *The New York Times* about two years ago and came across an article about financial planning. The focus of it was financial planning for people with serious illnesses. There's a little niche community growing within financial planners that recognizes that you plan differently if you're dealing with someone who has AIDS or a serious illness as opposed to a healthy family of four.

Jill P. Feinstein, ChFC, who's in Long Island, was kind enough to talk to me. I told her, "I can't find this answer. I don't know what happens in pure dollars and cents to people's assets as a result of a serious illness." All of her clients have a serious illness. Most of her clients work and live in New York City. They're employed, they have traditional medical insurance and a full complement of disability and life through their employers. I asked her, "What happens to these people?" She said, "I don't have a statistically sound answer for you, but I can tell you my experience would indicate that, on average, their unreimbursed, out-of-pocket expenses increased 25% to 50% the year immediately following diagnosis."

If by chance the person does actually qualify for disability insurance, there would be a cut in income. The gap between out-of-pocket or gross expenses and earnings is what these products are aimed at filling.

Where does the money go? Jill talked about people who lived in New York City in a non-elevated building and had to move to a building with an elevator. Medical insurance isn't going to pay the cost for moving that individual. Foregone retirement savings and any expenses for specialized equipment and any home and auto modifications may seem insignificant to you and I, but when you add them up, they end up being a significant hit to the individual and the family.

Let's talk about the history of this product. It's an interesting product. How many are familiar with critical illness? You all know that Marius Barnard is Christian Barnard's brother, and Christian Barnard performed the first successful heart transplant surgery in 1969 in South Africa. Marius assisted Christian, his brother, on that surgery back in 1969. He realized as they formed more and more successful transplantation surgery that although he was saving people's lives, he and other doctors were wrecking those people's financial lives.

In the early 1980s, he actually convinced a South African insurer, very aptly called Crusader Life, to launch this new product that he happened to call trauma insurance. They did so, and it has been very successful since its introduction in both Europe and the Pacific Rim. One out of every 16 British citizens owns a critical illness product or a serious illness policy. In 10 years, experts such as Marius expect the same to be true here in the U.S. Obviously, the U.S. has a significantly larger population than England, so this is actually the opportunity today. It's huge for products of this type.

We have a couple of interesting tidbits on the international experience. The average age of a claimant in the U.K. is 41 years old. Those who are deeply involved in the long-term-care business know that the typical buyer is probably age 55 or older. There is a whole subset who are not buying life insurance, at least in the work force. We've met with a lot of employers. One of the benefit managers I met was from a company called the Asea, Brown Bovaria. I think it has about 25,000 U.S. employees. He made a comment to me: "I don't buy optional life because I'm single and who am I going to name as beneficiary, my dog?" I would buy a product like this because my biggest fear is if I get sick, who's going to take care of me and how am I going to pay for it?" Sixty percent of those receiving the benefit money, at least in England, paid off debts; 20% invested for the future, 10% took a vacation, and 8%, which is kind of interesting, decided to buy a new vehicle.

There haven't been a lot of new products in the last 20 years in our business. Really new products, not fancy riders or separate account products, added to life insurance. Long-term care probably fits the bill as the last really new form of insurance. So this is pretty dramatic growth. Over $40 billion is in force by 1997, and that, literally, grew since 1983 down in little old South Africa.

I've been talking about serious illness coverage as if you all know what it does. Let's look at what serious illness does do. It provides a one time lump-sum cash payment upon diagnosis of a covered event or illness. The insured does not need to be terminally ill; in fact, they are not expected to be terminally ill, so this is not an accelerated death benefit. The benefit can be used for absolutely any purpose. It's not a reimbursement policy. You don't have to prove a claim from that perspective. The beneficiary has the money and is free to do with it what he or she wants.

Typical serious illness covered events include heart attack, cancer, stroke, kidney failure, and organ transplant. As we help insurance companies design and administer serious illness products, one of our mantras is keep it simple. The U.S. is an immature marketplace. There's very little sales activity right now. There's a lot of interest in product development going on.

Australia's quite different. Thirty one out of 33 Australian insurance companies actually underwrite these products. As the later market entrants came in, they decided the way to compete was to have more events on the list. They started adding everything. There's one policy that we saw that covers 46 different illnesses, including smallpox, which was eradicated years ago and resides in two test tubes—one in the U.S. and one in Russia.

That's what they did. We refer to this as list wars and wanted to do something about that. How do we prevent a list war? How do we prevent the industry, as we may have done in long-term-care insurance, from adding every bell and whistle under the sun and out-price the product so it never really is sold? The temptation clearly exists with a product like this to add Alzheimer's, add polio, and add something that will make it sell more.

In reality, the consumer's really concerned about only three of those. How many people do you know who have had kidney failure? Yes, there are some, but I don't wake up in the morning worrying if my kidneys are going to fail. But I might worry about heart attack and I might worry about cancer, especially, if I have people in my family or if I have lost parents due to any of these things. So the first three censuses make up most of the pricing in the product.

The way we decided to deal with this list war concept was to have a trigger. Colgate Palmolive's benefit manager said that his Uncle Charlie was seriously ill and didn't have any of those five things wrong with him. My response is, if your Uncle Charlie had medical expenses of some amount, in some period of time, whether they were reimbursed or not, then Uncle Charlie was seriously ill and he deserves to receive this benefit.

We played around with pricing. M&R assisted us. We have looked at several dollar amounts, and finally settled on $150,000 of medical charges, which is kind of interesting. These are not out-of-pocket expenses, but total gross charges due to any other illness or accident. If it resulted in those kind of charges in a 12-month period, we paid a claim. It's a deferred claim and it's not as immediate, but it does expand the coverage and it helps us avoid this ongoing list of 48, 52, and 75 covered different events.

We try not to promote the use of partial benefits that pay percentages based upon a triple bypass as opposed to quadruple bypass. If you have a heart attack and you meet the definition of the heart attack, you ought to be paid.

Just to kind of give you a sense of what our models look like and what we're pricing at, I have a 25% benefit at age 40. This is group insurance. The life rider would cost $90 a year nonsmoker and the stand alone would cost $105. Think about the life rider. The one piece I've missed is the life insurance. You can add whatever is an adequate term rate for a 40 year old to 90 to see that the total out-of-pocket expenses for an individual who bought the life insurance is going to be more than the stand alone. Each product has its own fit in the marketplace, and Ray's going to talk a little bit more about that in detail.

Mr. Martin: I'm going to talk a little bit on the aspects of how products are put together for critical illness. Jay gave some good background on some of the reasons that critical illness has become of interest today compared to what it has been in the past. First, I'd like to talk a little bit more about the background of critical illness products, then the markets, and some of the companies that are getting involved in those markets. I'll also discuss some issues and key success factors in developing critical illness products.

I'll start with the background. As Jay mentioned, the first products were sold in South Africa, the United Kingdom, Australia, and Japan as a single, lump-sum cash benefit kind of a lottery approach. It was an all or nothing benefit based on the first occurrence of a list of five to 20 serious illnesses. I liked Jay's approach about including things that people might consider serious that may not fall under most lists. That's a very interesting concept. Also, they are on a stand alone basis or

they're attached to life insurance as a way of getting cash value back to the policyholder. In the United States, this concept has primarily been used for cancer insurance. Early attempts to market to a wider area have not been very successful.

Why is critical illness staging a comeback? Companies are looking for other ways to differentiate. As Jay mentioned, in a group market this could be a big plus. It is another feature that they can use to differentiate their policy from what's going on in the marketplace. There has been a renewed interest since 1996, and we've done several riders and stand alone policies in the last few years to help companies get them up and running.

It may be attractive to the middle aged and those that are nearly seniors. The baby-boomers are reaching ages in which they are thinking more about how a serious illness could affect their lifestyle. This group is becoming a prime marketplace for these types of plans. They're easy to describe and understand. There is basically just a list of illnesses, and if you incur one of those illnesses, then you receive the benefit. It's not as restrictive as a disability income (DI) policy where you have other hoops and things you have to do before you can receive your benefit.

Stand alone policies include critical illness and cancer plans. Some of those have different amounts for different benefits or different events. You may have a whole schedule of serious illnesses with corresponding benefit amounts. Benefit riders are usually going to be tied into the face amount of a life policy. A common amount is 25%. The tendency is also to load other living benefits, long-term care, DI, and guaranteed insurability. These provide some insurance to a policyholder that they do have a chance to receive some of their benefit or their beneficiaries.

Do many of our customers already have insurance to cover these medical costs? The answer is, yes, they do, and most people will have some kind of group medical insurance, but a lot of times they'll have expenses that are not covered in those policies. They may have limits and expenses that may not be covered. A medical policy is not normally going to cover loss of income.

If someone wants to use an experimental treatment that hasn't been approved by the medical plan, they do have this as an option. I think we see more and more of those cases today. There's a lot of experimental treatment that has proved successful, but medical plans aren't going to cover these treatments. There are other non-reimbursed expenses, which I think Jay highlighted very well. Those are the types of living expenses that are not normally covered under a medical insurance policy. The coverage may promote peace of mind, giving people reassurance that they will be able to maintain their standard of living if they were to incur one of these critical illnesses.

What's going on in the marketplace? There are quite a few ways that this product is being marketed. Some are direct response, mail order through credit cards, and through associations (this is very common). There is also a work site approach, such as payroll deduction plans and individual sales to supplement other products. Financial planners are using this to supplement their DI and life insurance coverage's for expenses that may not be covered by medical insurance.

There have been quite a few companies that have put out products in just the last two years. We see this as a really growing field, and I think that that was something brought out by our two presenters earlier.

What are some of the issues and key success factors in developing a serious illness rider or policy? What is the marketing plan going to be? They're going to use this to fill in the gap. They're going to call on individuals' family history. If they find that an individual has a family history of certain critical illnesses, they can use that as an incentive to encourage them to purchase these policies.

I think Chuck talked a lot about the underwriting aspects, and that you need to have people that are familiar with these types of products. They're very unique and require very unique underwriting. One thing you need to be concerned with is the over-insurance side. Are there other policies that are out there or is this just going to give somebody free benefits that they don't have a need for because they have other financial plans out there?

You need someone who can adjudicate these claims who understands when somebody satisfies the critical illness definitions. So it's a whole different administration approach than you would have for say DI products.

There's a definite need for reinsurance for a company that is first getting involved with this product. Reinsurance will help to make sure that they have minimized their exposures for a period of time until they become confident with the product. I think there's a definite need for reinsurance in this area.

Where does this fit in the state approval process? It usually fits in the small premium accident or small premium products. You may be able to get in with a lower loss ratio in some states because of that; in other states, you may not. It has a very low premium, so to be able to compensate your marketing force, you may have to have higher commissions as a percentage of premiums. How do you get those filed and how do you get those approved state by state? The states want to make sure that you are giving a viable benefit to individuals and that you're not just developing some kind of a lottery for people.

Key success factors. Distribution outlets need to be built and trained for these products. They need to have a good understanding of how these products are going to fill the gap that other medical plans are not. They need to point out needs to potential policyholders.

Again, this would have a lower age target market than you would for long-term care. People in their 30s and 40s make up a very prime market for these products.

Promotional material needs to be understandable and need to point out the risk involved. I think as Jay pointed out, the probability of developing a critical illnesses helps people understand the need for these types of products.

A commitment to a new line of business. Obviously, it's going to be an investment on your company's part to offer one of these products. The product will need a commitment and a long-term growth view before you start getting the returns that you'd like to get. These are usually small premium products. It takes quite a bit of volume to get the same kind of volume you would get for DI or for life products. You need to have a commitment and then maybe get the kind of growth that Chuck was talking about that they're expecting in the next few years.

From the Floor: I work this marketplace, and we are being careful as far as market conduct when it comes to our marketing material, and when it comes to putting in caveats as far as the tax issues. Are any of the panelists aware of any effort at the federal or state level to not include these benefits as far as 1099 taxation?

Mr. Lanigan: I'll try to address that from our perspective. We don't provide legal advice, but we do have some pretty solid legal opinion that there's no case law. So having said that, please, seek the advice of your own tax counselor. However, in a group environment, if the product was paid for on a voluntary basis with after-tax dollars, we would expect that the benefit would not be taxable. If the employer funded a portion or all of the benefit, then the reverse would probably be true. I'm not aware of any legal or lobbying efforts right now. I think it's still a little too early in the game, but as these products start to sell, you'll probably see some action.

Mr. Martin: I think there's some evidence on life riders that if these were on non-group policies, they would be more of an early release of cash values and they wouldn't be a taxable benefit.

Ms. Sue Rynearson: I heard one company is issuing up to $1 million worth of coverage, and my problem is that it really doesn't have any relationship to what your loss is. One type of cancer is certainly not like another type as far as what type of loss you incur. What are your thoughts on that?

Mr. Lanigan: I'll speak from a group perspective. I think that's a very legitimate question. You've seen that I think more on an individual product basis. We're actually encountering something completely different. The gatekeeper, in this sense, the employer, is saying I don't want somebody walking out of here with $1 million who could return to work. I have these return-to-work issues going on in managed disability, so they're actually putting a lid on the dollar amount payable to an employee.

We look at it in two ways. There's a perspective of an individual's income and standard of living as being synonymous to some degree. There should be some relationship to that from the benefit. The employer puts a self-imposed cap of $100,000, which is what we're hearing in the marketplace. I don't know how to answer your question. Somebody will sell as much premium as they can and as high a case amount as they're allowed to. You're right; it doesn't have a lot of correlation to actual needs.

Mr. Power: I'd like to add just a couple comments to that. In some respects, things like this become self-policing, because if somebody goes out there with $1 million of coverage, you have to hit people so they can afford that to the place that it is not mass marketing. This type of coverage hits inadequacies in life, retirement, medical, or DI. You can make a case that it deals with every one of those. Life is its own deal. With regard to the DI piece of it or accumulating assets, it's important that there be some type of relationship to earnings in terms of what you would issue.

The approach that we think makes the most sense is to have a combination of things; having a significant lump-sum capability and using some type of periodic pay for the longer term—more chronic situations that combine periodic pay with the basic coverage is one product strategy.

From the Floor: Do you think companies are going to start looking at the severity? Even $100,000 of coverage is not applicable for some cancers or even some cases of heart attacks. I don't see how you can have one lump sum be appropriate for even those conditions just because the conditions themselves vary so widely. I don't know if you think companies are going to address that in the future.

Mr. Power: You have an evolving product for one thing. One of the most basic things that the product stands on pertains to someone qualifying for the payment. Hopefully, it will be pretty cut and dried and not something where you're going to be selected against. You can tackle that in terms of your product design.

Once you have crossed that initial threshold, one of the things to keep in mind is that people have a certain insurance budget. People can load up. But if you have someone who doesn't have the conditions, that person would be protecting himself or herself in a roundabout way. They have an insurance budget that has to include protection for their home, medical, retirement, and all these various other things. How many dollars for those people are going to be left for really speculative investments? And so we may find that even though you can identify the threat in terms of pricing and the actual performance of the product, it ends up more illusory than real.

Mr. Lanigan: If you consider the product in its lump-sum feature from a consumer appeal, you'd find that it's significant. There's one claim form and no repetitive claim forms. Hopefully, litigation will be held to a minimum because of that. If your definitions are clean, sharp, and focused, then that should be true.

Also, if you consider AD&D, who's to say that $1,000,000 or $500,000 for the loss of an arm is rightful retribution for that event? So it is somewhat synonymous with a lottery benefit like a maximum death and dismemberment. It doesn't address your question exactly, but there are lump sums and reimbursement policies.