

RECORD, Volume 27, No. 1*

Dallas Spring Meeting
May 30–June 1, 2001

Session 25PD Disability Insurance on the Internet

Track: Health Disability Income / Nontraditional Marketing

Moderator: PAUL D. HITCHCOX

Panelists: SCOTT HAGLUND
JAMES (RICK) MORRIS

Summary: Disability insurers have been slow to take advantage of e-commerce opportunities, possibly due to the complexity of their products and the difficulty of underwriting business online.

Panelists from several organizations currently offering disability insurance over the Internet share their perspectives on a variety of topics:

- *Product Design issues*
- *Market opportunities*
- *Technology issues*

MR. PAUL HITCHCOX: I am the president of DCG Online. We're going to delve a little bit deeper into the Internet. Scott Haglund and Rick Morris are going to take us through disability insurance. Scott is a group disability actuary at Principal Financial Group dealing with pricing and valuation. He has 15 years of experience as a disability actuary, nine years in individual, and six years in group, and has been with Principal for four years. Rick is with UnumProvident. He's the pricing actuary for individual disability products and provides pricing support for Unum Direct, which sells disability direct to the consumer market.

MR. SCOTT HAGLUND: I'm going to talk about this subject mainly from the group perspective. There are some individual aspects that I'll touch on briefly, but most of what I'm talking about is on group disability, not on the individual side. Most dot-

* Copyright © 2002, Society of Actuaries

Note: The chart(s) referred to in the text can be found at the end of the manuscript.

coms were just hoping people would flock like crazy to their sites and that the people would buy as much as they could possibly offer. As we've seen, that definitely has not happened. I don't think anyone has seen the volume of business they hoped would happen from the Internet. We're still trying to figure out how to do it effectively in that medium.

Chart 1 is from a Life Insurance Marketing and Research Association (LIMRA) 2000 study showing the percentage of the companies that are offering disability coverage to their employees. One thing to notice is that the smaller end of the market is where there seems to be lower penetration. Once you're in the bigger end, it doesn't look like there's a lot of demand. I think that's where we're just scavenging from each other. So, in terms of demand and possibly thinking about this graph in terms of the Internet, it seems like a lot of the market opportunity is going to be on the smaller end.

I'm going to briefly touch on some of the types of information that brokers say they need, based on surveys we've done internally. If you can extrapolate this out to the Internet, you can see where some of these information needs might be met. The first is quotes or contract information to find out what you're offering that might be different from what other people are offering. There is software that will do some of those comparisons for you, but the brokers say that they have an interest in actually seeing the contract.

The second is underwriting status. They just want to find out what's going on with this contract and what additional information they might have to pass on to a client. The third is billing information. They want to find out if the premium they sent you actually got recorded. Have they overpaid or underpaid? There are a lot of simple things that can be provided to them. The fourth is compensation. If you can do commission statements online, you might make both their lives and your life easier. The fifth is any product information that could help them. It might be marketing materials, whatever, that they could hand off to clients, as they're prospecting as well, just to help them with what's going on with your product. The sixth is worksite sales administration features, which is something from a service perspective that brokers definitely have said they would like to be able to do. That gets into the worksite enrollment, if you can actually offer up a Web site to do the enrollment process.

The final need is simplicity. That's one of the things that will be a common refrain through all the disability sections. As I said, it's a complicated product. I think on the Internet the complicated product would be the death product, something that someone can't understand because they can't make an informed decision if they don't understand what they're deciding on.

Let's look now at some of the employer needs. The first is enrollment changes. They definitely want to be able to do things over the Internet, to enroll and to make changes in enrollment. It could be updates, salary updates, drop/add employees,

and drop-and-add locations. There are a lot of things that they want from the service perspective. The second is claim statuses. They want to be able to find out so they can tell their employee whether their claim is being paid. Are there still decisions pending? Is the check in the mail?

The third need is eligibility information. They want to have a very good understanding of who's eligible. For example, if you have a listing of 50 employees, and it shows that you have 53 people eligible, you can figure out that somewhere along the line you didn't report something, or maybe they have a different definition of eligibility than you were expecting. At least that gets the dialogue going, and there hopefully won't be any claim surprises when something does come up.

The fourth need is being able to submit claims. This could border a little bit on the employee side, but the employer is the one that deals with the claim forms. So that's one less task that they would have to perform, if employees have the ability to submit the claims and to actually contact you through the Internet. It's a little bit more in real time than an e-mail. The fifth need is billing, so they can find out through electronic funds transfer or something like that if they're able to submit money to you electronically versus doing it through a check, even maybe different than some of the wire transfers that are out there.

The last one is a small business center. Again, this tailors a little bit to the very, very small employer. This could include things to assist them with their accounting decisions. How should they report some of the things that they're sending to you? What are some of the schedules that they're going to receive? The point is to try to assist them in whatever they need to do. You could stretch it out further by providing network services to them, if you view us as service providers versus insurance providers, and if there's any type of distinguishing market for that.

Based on an internal survey of about 2,000 employers, we found that very few employers were interested in having the process done totally electronically. They still wanted to have that personal contact. If you looked at those who answered "somewhat" or "not at all interested," you're at about 80% who expressed not a lot of interest in total electronic interaction with the insurance carrier. So what we saw was that there are very, very few that want to get to you only through the Internet. The one thing that we found out of this was that if you think that the Internet is your total service solution, it probably is not going to be, or if you make it that way, you're going to frustrate a lot of the customers that you do have. You're still going to have to make phone calls. Even though you think that's not productive, that's still how most of them do want to get a hold of you now.

Again, based on our research, we found that zero percent of the employers purchased online. Seven percent of them looked at the information but didn't make a purchase. So they did do some research. And then 93% said they did no Internet research. What that probably implies is that they're still depending on their broker to make that decision for them. So, at least at the present, employers are not

making that purchase decision through the Internet. They're still using other ways of making that decision.

Of those that are using the Internet presently to administer their employee benefits, we found a difference between small and large employers (Chart 2). The larger employers had a much greater tendency to use the Internet to administer benefits. On the other end, we found that smaller employers thought they had too many employees using the Internet. They believed that their current process was a lot quicker doing it by hand instead of using the Internet. They felt it was too time-consuming to use the Internet. Again, their comfort with the Internet will change some of those perceptions, but at present they were happy with how they're doing it and didn't want to learn a new process.

A lot of them believed they needed a hard copy for their files. They didn't want to do it just on the Internet. They thought they should have a sheet of paper somewhere to put into their files for audit purposes. There is also still a concern over security. They were concerned about how secure that Internet connection was. So, again, they didn't want to provide the information that way. They also had a lack of knowledge about how the Internet could be used and really what it entails. In terms of what the employee needs, we found that the employee is going to want to look at claim status, to be able to get claim forms off the Internet, and to be able to get other miscellaneous assistance. This might include things like Social Security assistance—anything you can provide to them over the Internet to help them through the Social Security process; rehabilitation assistance, such as different technologies and medical centers that could help their particular type of disablement; and information about their condition. A lot of this is just more information, but it also is a way of getting a hook in with the current employer to say, "stay with us because we're able to provide you with this information."

One of the challenges out there with the Internet is whether current products are too complicated for the average consumer. It's tough to explain why eight different companies have eight different definitions of disability, and possibly eight different ways of looking at an occupation. The offset formulas are widely different. If you took your contract to six or seven people within your own company and told them to calculate a benefit, you might come back with six or seven different answers. It's tough to convince somebody to buy from you when they don't understand the purchase.

We see some possible conflicts in distribution. If you're a firm that sells heavily through brokers, you may have conflict there. If you start going direct to consumers, your brokers might get upset with you and they may want some compensation. Or, maybe they expect you just to sell still through brokers, but only brokers using the Internet. There is some definite conflict that has to be resolved. Sales reps might start seeing a direct sale as infringing on their territory as well, and if you have to compensate them for Internet sales, you start to lose the cost savings that the Internet might provide.

Another of the challenges is to automate the underwriting process. Group disability, more so than individual disability, can be automated because the types of things we ask on small cases aren't normally difficult decisions to make if you have a plain case. With a small case market, under 10 lives, you might have some medical underwriting that does occur. In that sense, it would be similar to a multi-life individual sale, but we're not asking for blood work, medical tests, etc. So it really can be automated, but if you don't view it in that manner right now, you may struggle trying to automate it.

Then there's the three-click rule of an Internet purchase (whether you can get somebody to buy within three clicks of their mouse). It's a rule-of-thumb out there that if people have to go through 20 different screens, they lose interest in a hurry. If you can handle the purchase in very few mouse clicks, that is an important key as well.

But along with the challenges, there are a lot of opportunities. The ability to simplify what you're selling is one opportunity. For years there's been a lot of conversation about this complexity and this definitely is a great opportunity to simplify it. One of the ways we've looked at simplifying it is that we wouldn't offset with Social Security. There are ways you can get around that offset if you start effectively taking into account what Social Security would have chipped in. So there are ways you can simplify your contract and still provide coverage because the offset language can start to be confusing.

Another opportunity is the ability to reach smaller customers. There's still this untapped market, and that untapped market has always been the untapped market. Some of that might be distribution. It's hard to convince a broker to go after a five-life case out there if there's a 50-life company right down the street. The Internet might enable us to tap into what has been untapped so far, but again, you're going to have to make it cheaper to reach them, which would point towards simple products and simple application through the Internet to drive down the cost of reaching them.

Consistency in underwriting is another opportunity. Some of you might have underwriting shops that are nationwide. You might have different sites and different locations. The Internet could provide you with the ability to make that consistent because the rules are automated. You're not going to have somebody on the West Coast doing something totally different than what they're doing on the East Coast.

Expense savings (with a question mark) is another opportunity. Right now you're going to pay for the sales representatives and also the broker. You might have some of the compensation savings once you go to the Internet, but you definitely are going to have additional development costs. To make this pay off, you would have to generate more in premiums than what it costs you to put this thing in place. It's not a cheap venture to do it well. The tradeoff is whether you are going

to save enough money through this channel or produce enough business through this channel to make it pay off.

Productivity improvement is another opportunity. This goes back to both underwriting and claims administration. I think there are a lot of opportunities for service as there are for sales through the Internet for internal savings throughout your company. If this was your only portal, most of your information would be in a very consistent format and hopefully easy to extract, analyze, etc. You could even look at where people were when they made a transaction. Were they at home? At work? Where did they come from on the Web?

The final opportunity is more efficient information gathering. A lot of data warehouses exist, but they're only as good as the data that you're gathering. A move to the Internet could force a very consistent format to track your information.

The future of the Internet is definitely going to involve product changes, particularly with simplicity; compensation structure changes, and you are going to pay a broker the same for an Internet sale versus a non-Internet sale? Does that cause any conflict within your company? Service changes are going to happen. We're going to service our business much differently, which will probably just add another tier of service instead of replace an existing one. I think people are still going to want to talk to a person on certain issues.

Hopefully you'll see the market expand. You might get into places that you have not been before, which can be a good thing, but it also could be a bad thing if you're not set up to handle it. It could be smaller cases than what you're used to seeing.

You may also see improved communication among the broker, employer, employee, and the insurance company, which doesn't hurt at all. Any time you can stay in touch with the consumer they have a higher likelihood of staying with you. So I think you could be in front of them a lot more often than you are presently.

Then the ultimate portability, which might be the Internet future, is the personal digital assistant (PDA) route. If people are used to walking around with PDAs connected to the Internet, that's going to be another avenue you're going to have to pursue as well. It's not just the Internet, but also any way that they can connect to you electronically.

Our survey found that 71% of the companies said that their advisor provides a lot of help, regardless of who provided the advice—a broker, a CPA, a tax attorney, or whoever they happen to be using for their advice. Another 23% said that their advisor provides little help, while 6% said that their advisor provides no help. As you can see from the numbers, the vast majority of them say that their advisor provides value to them. In that sense, I think the people future is so great because

the businesses aren't ready to give up on that person yet. They still do see a lot of value in that person.

Table 1

People Future

Type of Advisor Used	
Insurance Broker	86%
Benefit Consultant	22%
Financial Planner	19%
Banker	3%
Insurance Agent	3%
Other	4%

LIMRA's U.S. Small Business in 2000, A Dynamic Market

Table 1 shows the types of people that businesses are using. There's still a lot of people contact that exists out there. It definitely is still a high-people environment, even though the Internet is one of the channels that might be out there. The desire for human interaction is still going to be there. And, in general, somewhat because of the complexity, they still do need that assistance with the decision-making. So even though we're talking a lot about the Internet replacing some functions, I think that people will still be involved in their decisions. The Internet definitely won't be something that will replace what's currently out there, but it will be an alternative to what's happening.

The fact that you think you're on the Internet quickly still depends on how quickly the person next to you is doing it. It definitely will be a small window of opportunity. So for people who are in the late stages it's not a problem to catch up because there is still going to be a logjam as everybody follows each other. It's inevitable that people will be on the Internet doing these transactions. One of the messages that will come out of this session is that if you're not there, there's probably still time to get there. As people are getting cost savings, I think that's where you'll notice some differences in where your prices are relative to other people, if they're realizing those savings now.

MR. JAMES R. MORRIS: I'm going to discuss the various Internet applications in use at UnumProvident. UnumDirect is the marketing division of UnumProvident, and its goal is to try to expand the distribution of disability products beyond the

traditional channels. One of those focuses is the Internet although it hasn't created a lot of attention yet, compared to mass marketing distributions, either mail or telephone. But we've also had a lot of successful uses of the Internet by supporting our traditional sales efforts, and those are the group LTD, short-term disability (STD), and worksite marketing in our individual sales with the agents and brokers.

On the group side we're using the Internet. We have an integrated rating, a proposal system that's Web-based that's used for quoting LTD cases. That's still at the group field office level. It's not direct to the broker or direct to the consumer. Also, on the small group side we're actually looking at developing custom plans out there, doing some automated underwriting, and having the ability to quote and issue through the Web site, but again, right now it's at the sales office level. Potential uses would include working with online brokers or worker comp producers out there to try to hit the smaller market where we don't have a big presence right now.

Obviously the Internet, as Scott mentioned, is used for facilitating the administration process, the billing, back and forth through the accounts. We allow claim submissions through the Internet. That's fairly new. We have not had many claims submitted that way. We have had many claims submitted through the traditional means. But I assume, as that picks up, we'll start getting more online.

We do have something that's fairly new for our larger cases—claims analysis. That's a Web-based application that'll take the STD claims experience they've had, LTD claims experience that larger employers have had, and actually do a lot of detailed analysis on it and compare it against a benchmark of other industries or other employers in their industry. So we have a pretty large database, and we're able to provide them that information on types of disabilities they're incurring, the length of the disabilities, and other information as far as prevention or returning to work.

In the worksite area, as far as enrollments go, we're using the Internet. When I say we're using the Internet I mean we have done some Internet enrollments. Laptops are still the main means of enrolling. The key with the Internet is, how are you going to get the people through your Web site. To keep participation up, we align our voluntary products with the core products that they have to enroll in for their health plans, and that way they're on there. They visit your site. You have the product information for them, and hopefully you'll get participation. It's still not going to be as good as having the enrollers on site, but we hope there won't be too much of a fall-off.

We also support the traditional producers out there selling the individual products, and there are two ways of supporting them. One is just providing background support on the new products—commission statements, information on their policyholders, anybody coming up for an update option, or who's ready for the opportunity to sell long-term care or another product. You can provide them with that information by other means, but the Internet is just more efficient.

We also have underwriting status capability through the Internet. The producers can call in on the applications that they've submitted, and see where it is in the underwriting process. We don't have a big demand on the one-on-one sale to put the application online and to actually get the quote process and the application process now. We will have some quote facilities through the Internet, but as far as submitting the application, we are unable to do that as of now. But we've had a lot of uses of the Internet through supporting our traditional distribution channels.

Moving on to the direct, the consumer channel, the first thing is that anybody who wants to come to our Web site can buy our product. The main thing is that you're going to have a perceived channel conflict if you're going after the same market. We don't see that on our UnumDirect side. We're trying to expand the market from our traditional high-end, high-income, complicated product to get back to the middle-America market, more blue collar, simpler product. In order to do that you have to fit the product with the market.

Disability is a complicated product for the average consumer. I think it's also complicated for the average actuary. We tried to strip it down to get back to a product that you can go to the Web site and read about and understand. Then you want the user to have the ability to ask more questions, such as how it might affect them as consumers. If I can't get it at the Web site, then I want to have phone support or e-mail support.

There are various functionalities to a Web site. For example, you have an interest in disability income. You should be able to type in your name and your address or your phone number, and somebody will get back to you. There are not many who will go all the way through the quote process and the actual application processing, underwriting, and purchase. We actually do not go all the way through the automated underwriting. You can get coverage, but upon approval, we actually have to do a little bit of manual underwriting back at the home office for occupation because we haven't set up the Web site to handle all the occupations to determine whether they're eligible.

The products that we have out there now are just simplified accident-only disability, accident and sickness disability, and critical illness. We offer very limited benefits at this point in time. The disability products are just one- or two-year benefit periods. So it's a short-term, specific need. We'll just go to \$25,000 on critical illness.

We've been online for a little over a year. We've sold almost a policy a day. However, this has not been the main focus of the UnumDirect marketing group. They've had a lot more success partnering with marketing outfits and selling through other mass marketing channels, but that's where we are right now. We don't have e-signature capabilities. The application comes in. We have to print it off and send it back for an actual signature, and we're not getting very many of them back.

As I said, we don't underwrite for occupation online. We have to take that back to the home office and take a look at it. We do underwrite for amount of coverage. We'll allow up to \$3,000 a month for disability if you don't have any other coverage. If you have group coverage, we take it down to \$1,000 a month. And we do make sure we're eligible to sell in that state. You also get the quote. For accident-only coverage, we're not doing much underwriting. We're just asking if are you currently disabled, and if you're not, we'll take you. We do ask activities of daily living (ADL)-type questions. Another question is whether or not you have disability insurance. For the critical illness and the simplified accident and sickness (A&S) product we actually ask about 10 questions, but they're very simplified, and we do a very low level of underwriting.

We do have the capability of storing all the data there and being able to analyze it and look at whatever parameters we need to look at. With 250 policies you can't break it down too much. But that is going to be a valuable tool when we're out there and able to test against our underwriting criteria and then go back and test against claims.

We do have the pre-ex—12 months back, 24 months forward, like I mentioned, the short-term benefit period. There is a worker's comp offset. That's explained to some degree on the Web site. It would be good not to have one, but we felt like we needed to have it for risk-control purposes. It's an any-occupation definition of disability that actually changes to an ADL-based definition if the insured is unemployed at the time of his or her disability. This is a guaranteed renewable contract.

Again, the underwriting has low limits—\$3,000 per month if they don't have any other coverage. It's \$1,000 a month if they do have coverage through their employer. We ask a few medical questions, but it's really the bare bones stuff. As for occupational, we have some excluded industries. The only other occupational-type question is the degree of manual duties that you have as far as which class you qualify for, but we don't have those broken down like the traditional individual policy would be.

Another issue is the pricing considerations. We have low participation of eligible lives. We're about one in a million. You're going to have a lot of selection against you, including distribution costs. As Scott said, you're going to be able to save money if you generate the volume. If you don't, then all you've done is replace variable cost with fixed cost. But you do have to realize that it's a price-sensitive market. If you're getting out to the blue-collar market, the \$20-40,000 income, nobody going's to pay a lot of money for disability coverage. So you have to try to control the risk as best you can through the product and underwriting because you can't just load up on the price.

You need to be able to move fast, to get your policyholder profiles, and to find out

who's not coming through the underwriting process. Is there a way to bring more occupations in at a little bit higher cost? Analyze the claims quickly. Where are they coming from? Especially occupation. What is the cause of claim? Are there any additional questions that you need to be asking on the disability side or the critical illness side? Then adjust the underwriting as necessary.

At UnumDirect we're not looking at sales through the Internet so much as a stand-alone vehicle but more as part of an overall marketing program, and the key is driving the consumers through your Web site. It doesn't matter how good the product is that you're selling there if nobody's getting there. The key for us is going to be working with some marketing partners that are successful selling other financial service products through the Internet and try to integrate our disability products with theirs.

MR. HITCHCOX: DCG Online has had a Web site up and live since mid-May 2001. Let me take you through what we've been doing. DCG Online is a new venture specifically there to bring group products, with the exception of medical, to consumers and to brokers, the idea being that it's a Web mall. It's at www.ebuybenefits.com. I'll take you through what we thought was a pretty good concept and some of the advantages behind it.

The opening page explains that ebuybenefits is your one-stop shop that provides all you need to select, purchase, and administer group employee benefits for your company. We believe that the average employer out there, having purchased the \$3,000, \$4,000, \$5,000 medical product, is probably shying away from looking at disability and probably not looking at critical illness at all. Wouldn't it be nice to at least afford them the opportunity to come to a site and to pleasantly surprise them with a quote on disability products that is closer to \$200 a year instead of the high cost of medical?

The storefront does allow you to customize the employee benefit plan. As you come in, we follow the three-click strategy. After providing us with some basic information, you are allowed to choose your benefit design and to check out the various insurers that are on the site. Each insurer has a unique feature. Aetna, for instance, is the first insurer on our site and offers what's called Legal Choice. It's not necessarily a product tied to the disability or to the life product. It's something that they make available uniquely to their policyholders with assistance around things like will preparation. It is fully administered online.

One of the exciting things about building this site from the bottom up was, for once, we had a single server, and on that single server I have everything from my rating on one side to my benefit administration on the another side. Each system actually talked to the other. It was wonderful as far as not dealing with Legacy systems. So when it comes time to paying the claims, we actually go straight back to the bills, and we can see what was actually paid by the employer. We still have to confirm what the basic monthly earnings are, but it's lovely to go back and see what the

employer was paying for premium and what the basis of that was. And it is a secure transaction.

From a work process standpoint, it's available 24/7. You can get on at any time, get a quote, initiate a purchase, and send questions to us. There is a one-time entry of the census, and I'll take you through a little of that. We have real-time rating. I came from an environment where if you could get the rates 24 hours later, that was exciting. Then we got to the point where you could get them three hours later. That was revolutionary. So to be online, to actually push a button and have it come back immediately, is part of the 21st century.

You can initiate a purchase all the way through to issue. One of the keys here is getting the complexity of products back to something where we are trying to replace income or help you with estate planning if you're into life insurance. Selling it on the Internet really does require us to get back to some fundamentals.

And the big key is that, if there's a bad part of dealing with employee benefits sometimes with employers, it is the myriad of carriers that they have to deal with. Nothing is worse than knowing if you have STD with somebody, LTD with somebody else, and life with a third party. Bringing that all together under one shell and just being able to administer it as a common carrier we think is a major advantage of ebuybenefits.

We provide you all the details around what the carrier is and what the product is, everything from the financial ratings and market position of the carrier. One way we set it up was that there are live links to the carrier. You don't ever leave our site. When you click on that link a separate window comes up that will take you to Aetna, for instance, and you can dive into Aetna and find out all you want about them. We also have several referrals, and I'll show you that page, by which you can go out and check with Dun & Bradstreet (D&B) and some other rating agencies and also make any confirmation you want about the quality of the insurer. This is the same with the product. There are links throughout the pages that help you understand what the contract is. I don't know about you, but I would love to see an underwriting manual where, as you got to the more complicated phrases, you actually could click on it and go get the definition. We still live in a world where you're going back and forth just trying to understand the basic fundamental contract. So it's actually been quite nice to have a contract online that gives you ready access to the glossary of terms.

One of the things that was a challenge at first was that it is spread-sheeted. The carriers are put up one against another, and obviously we all know you're going to end up picking the lowest price each time. There is a way around that.

As far as distribution, we've mentioned channel conflict several times, which is an issue. I made the claim earlier that there is enough market out there, particularly at the small end of the market, for reps and brokers to be getting most of the business and still leave a lot of it under-penetrated and available to come in through

an alternative distribution channel. Access to that significant market just cannot be understated. It is a simplified product, and from a distribution standpoint, I think makes a lot of sense. If you're willing to come through a simplified product, and you're just trying to buy something very straightforward, you should be able to do it. If you want to add on the bells and whistles, really compete with the business next door that has a better employee benefit plan, then that's when you should engage a broker and should get back to the carrier directly and buy a more sophisticated product.

As I mentioned, there are hyperlink referrals, so that any time you're at the site you should be able to jump away from the site and seek additional information, and then come back to the site. One of the other revolutionary parts of this is a rating model.

We're looking for four carriers to be financial partners. Aetna has signed on. We have two in the wings, and we're looking for a fourth. Each carrier takes on up to 20% of the risk, and this is where the spread sheeting twist comes in. As opposed to each carrier standing on its own and causing them to be priced against the next one, we've really brought them all together to create a pool. An ERC sits behind that pool, and they take the additional 20% of the risk that's left over. If Aetna decides a certain industry is something they want to sell the most of, they can bring in that business. They'll retain 20% of the risk, and the rest of it gets put in a pool.

If another carrier comes along and decides that it has another industry that it's more interested in selling to, they can have that business as it comes in directly, but again, they only retain 20% of the risk, and the rest of it gets pooled. It's a wonderful way by which all the carriers really have to appreciate that they participate in a common risk-sharing feature without necessarily having one of them worry that the other guy is under-pricing the business and exposing the rest of them to anti-selection.

Let's look at some of the advantages. One is decreased transaction time. I don't think there's any question that if you can get online, get through a quote, and be looking at a proposal 20 minutes later, that you've bettered the performance from any other carrier and any other broker that could possibly be out there. There's a lot of excitement for me behind the scenes.

A week ago we sent out 20,000 flyers as our first marketing effort to the state of Illinois, which was the first state we were approved in. We literally saw a flurry of activity that began in response to these flyers. They were all from Illinois, and we watched as potential buyers actually walked through the screens and got right up to the screen where they could enter their credit card number. They didn't quite push the button, but it was really a great way of watching what is taking place in mining that data for opportunities. One of the things you'll hear about in the world of the Internet is dropouts, and this idea of the three clicks really is a response to the fact that you will see dropouts as they take place. It's a wonderful way to

monitor and watch what pages are causing dropouts. It's a great way to go back and see if any pages are a little too complicated or need to be changed.

We use cookies to get some fundamental information from the employer or broker coming on, and we can customize the pages as they go through. If you leave a session, you actually have an I.D. to come back in, and if you either re-enter that I.D. or it's in your cookie, you can be brought into the session exactly where you dropped off. And, as we've said several times, I think it does a great job of broadening your market access and is a great source of new business.

We have five tabs across the top of our site—"get a quote," "products," "the insurers," "related links," and "about us." The "about us" tab explains who ebuybenefits is. It's a Web mall intended for the 2-99 life market. I don't like Form 5500 so we intentionally cut it off at 100 lives to try to stay away from some of the reporting problems. We also feel that above a hundred lives you really are talking about a market that is serviced, as Scott pointed out, by brokers. There's no reason to intentionally inflict pain upon yourself.

There are basically the three products—disability, life, and AD&D. We've lumped disability together. Again, the consumer is not looking at it as STD and LTD. They're just looking at disability protection. And one of the nicest ways we found to try to help somebody through the products is really to pose a series of questions. We ask everything from. "What can a disability cost you?" To, "Do your employees need life insurance?" We try to create a way by which we can educate them about what the products really are about.

We have a "get-a-quote" screen. As you go through the "get-a-quote" screen, you're given the three product groupings—disability, life, and AD&D. You can always click to learn more, which helps you to dig a little bit deeper into the products. And we have three people who are licensed agents at DCG Online who are available to answer phone calls. An employer or a broker can come right to the source and talk to a person at any time.

When you've clicked on the "get-a-quote" tab, we ask for the number of employees, your zip code, and your industry. With those three pieces of information we will generate a quote. No census. It's binding. And it's that straightforward. It was an interesting challenge to see if could you actually apply it other than individual by individual. I have to have life-by-life, and I have to have everybody's occupation.

Well, I thought for once I could actually apply group principles to the group product and get away with it. We actually have census profiles that have been pre-programmed, based on gender, age, and occupation. Now, there is a little danger to that, and what you get out of this is a very straightforward plan. So you get, for instance, an LTD. You would get a 60% plan, 180-day elimination period. To get those additional choices that I spoke of before, you have to actually tell us who is

who in your group, but it allows us to get through this three-click rule, get you to an answer, and satisfy, at least, the initial interest. I think we've all dealt with price sensitivity. You've gone after that million-dollar case where you were at \$.44, and somebody was at \$.43, and the sales rep threw up his hands because they were \$.01 off.

A two-life group that's paying \$15 a month could go find that coverage someplace else for \$12.50 a month. I have a certain belief that at the low end of the market price sensitivity tends to go away. So that's one of the bets we're making, that if you get on this site and you're pleasantly surprised that it's not \$1,000 a year-type coverage, that you'd be willing to buy it. If you want to give us the census, we'll even provide you with a better rate and with more flexibility around the plan. So I think it's a pretty good tradeoff to at least provide the answer in a reasonable manner within the three clicks, and yet, at the same time, open up the opportunity that if you want to take a little more time and give us some more information, you can certainly seek out a different plan and potentially a better rate.

Finally, just to cover a couple of the last tabs, we have an explanation of Aetna, who is our current insurer on the site. There's a live link to www.aetna.com that will take you right to their site. And finally, the related links go on for about 50 pages. So there's no question that we're trying our best to provide all sorts of other sources of information so you can confirm financial details. And we have information on a more personal level, such as how to find financial advice and things like that.

If you go through this fulfillment and purchase the product, 24 hours later the entire policy is made available online. We do a batch process every night to create the PDF formatted documents and other legal documents that you need. From there, a billing screen is set up. If you do not provide a census when you originally created the quote, we then request a census that we can put up on the billing system. It can either be sent to us electronically or the employers or brokers can set it up from themselves. There's actually a listing by employee for what coverage was purchased and what premium was charged. It's a wonderful way of keeping track of everything. When a claimant shows up, there's a direct connect into our claim system so that they can confirm eligibility and do the background check on things like basic monthly earnings. Everything else from there is administered online. There's no online application for claimants. I think that advantage pretty much disappears when you get over to the claim side. You really want to be dealing with a person. There are a lot of legal concerns and security concerns around submitting that type of information over the Internet. So we've chosen not to go all the way and decided that when it comes to claims, we will handle it in the traditional paper way.

FROM THE FLOOR: The advantages of the Internet are obvious from a distribution standpoint and process improvement standpoint. Is there anything emerging that helps with risk management?

MR. MORRIS: The only thing was the claims information reporting that we provide to the large policyholders that helps them manage their claims, but no, other than that, we're not using it internally.

MR. HAGLUND: I would echo what Rick said. You can at least provide the employer with some feedback. Even some of the smaller employers, if there are certain tendencies in their business, maybe even in their employer's supervisory practices, you can start identifying trends. From the employer's perspective you can get some risk management things for them, particularly if you can tell them that it looks like you're out of whack a little bit in your industry on certain types of conditions.

FROM THE FLOOR: Let me ask a broader question since we are talking about disability and the Internet in general. Are we seeing anything as an industry? The distribution side and the expense management side are pretty clear. Are we seeing anything migrating toward a tool evolving at the same time to really help the risk management side?

MR. HITCHCOX: It's a tougher challenge, quite frankly, to actually find out what it is that can be used via the Internet, short of simply gathering more information. It's still been a challenge to find out what more information you can get from the Internet that still flies in the face of good and sound underwriting just like we've always done it.

We didn't want there to be a lot of disparity from one company to the next, so I set all the base rates. Each company though, shows up with its own occupation, industry, and regional adjustments. All three of those are normalized around 1.0. We normalize them so that everybody stays within a certain realm, and then the point is they're allowed to compete price against price. So, with a set of base rates that are consistent, each of them can make their own calls around what they like as far as industry or occupation. The final thing is that at the end of the day, with different prices, we encourage them to offer their own features such as with Aetna's Legal Choice. So it's one little thing that differentiates one carrier from the next besides price.

All four companies are actually spreadsheeted, one against the other. As a result, the choice between the products is the only thing that differentiates them besides price.

FROM THE FLOOR: On the back-end, everything goes in the same pool and they split it. What is the advantage of being the direct writer?

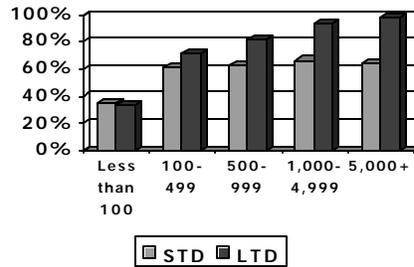
MR. HITCHCOX: There's a lead fee by which they are compensated for basically using the name and the idea that it's still their policy that's being sent out. You're absolutely right. At the end of the day that's the beauty of the pool. It keeps them from having that type of incentive where they would say, "Let me see if I can pull

off more sales, under-price, but gain by volume." So it was intentionally set up as a way to keep the field level and allow them, at the same time, to have some differentiation in price obviously for antitrust concerns. Then at the end of the day, can they convince the consumer that their name is a better name because of that final benefit feature. But financially it's a great way of sharing the risk among all four of them.

Chart 1

Market for Products

Companies offering Coverage by Size of Employer

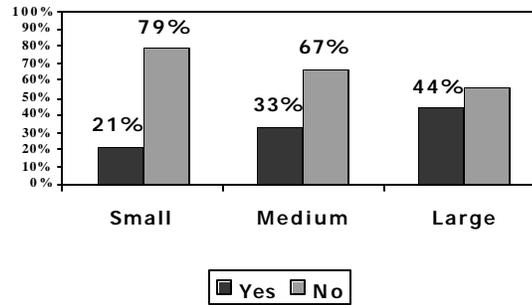


LIMRA's 2000 Trends & Insights Into Marketing Group Insurance & Health Care Benefits Study, Preliminary Results

Chart 2

Employer Needs

Use of Internet to Administer Employee Benefits



Principal Financial Group Data