

TRANSACTIONS

ADDRESS OF THE PRESIDENT, JOHN M. BRAGG

INTRODUCTORY REMARKS

THE Society of Actuaries now has more than 5,700 members. It is the largest actuarial body in the world, with a mantle of tradition dating back to 1889. The Society has a budget well in excess of \$1,000,000 annually. These dollars are devoted to a wide variety of educational, literary, and professional purposes directed toward the advancement of actuarial science.

Our membership is diverse—company people, consultants, individual specialists, group specialists, pension specialists, educators, government people, men and women, Canadians, Americans. All of us have one thing in common. We respect the Society of Actuaries as the body that has given us, and continues to give us, the foundation necessary for our careers.

It has been my privilege to serve as your elected President this past year. The position can be a full-time job, and more. This past year has been filled with a succession of challenges, crises, and developments. We have seen the overpowering reorganization issue; the advent of the enrolled actuary; negotiations with government personnel regarding the role of the profession in the future training and examination of pension actuaries; dividend philosophy questions; fundamental balance-sheet questions; formal statements made to governmental bodies; the setting up of a Committee on Complaints and Discipline; the setting up of a new Committee on the Future; new mortality tables for valuation and nonforfeiture purposes; and the unisex mortality table controversy. In addition, I have made speeches to twelve actuaries' clubs on the subject "Actuarial Science—a Service to the Public." Altogether a busy year, but it was a privilege, an honor, and the supreme capstone of any actuarial career.

Only once is a President of the Society allowed to address you formally, and that on his penultimate day in office. However, he is allowed to select any topic of his choice—and he has neither the Committee on Papers nor the discussants to contend with. I have selected a topic which is general and wide-ranging. It is "Prospects for the Life and Health

Insurance Industry in the United States Seen from a Wider Viewpoint in A.D. 1976." I do hope it will be of interest to our members, although crystal-ball insight is not guaranteed!

More than five hundred years ago Machiavelli speculated that the future would come 50 per cent by chance and 50 per cent by design. Perhaps, then, the prospects for the life and health insurance industry are at least half *within our own control*.

PROSPECTS FOR THE WORLD SYSTEM

Before examining the life and health insurance business, a preliminary look is needed at a wider scene so that our comparatively narrow field can be viewed in its proper perspective. I propose to take a preliminary look at the widest possible scene of all, the world system.

Of the many organizations of futurists who have studied the world system, the Club of Rome has achieved the most fame in recent years. Two reports have been made for the Club of Rome—the first in 1972 entitled *Limits to Growth* and the second in 1974 entitled *Mankind at the Turning Point*.

Through computer modeling and in other ways, the first report studied problem areas such as population growth, food production, resource depletion, and pollution. It also studied many proposed solutions to these problems. Exponential growth, an inexorable process, was seen as the chief villain and as finally uncheckable by any controls. The first report was gloomy, reaching the conclusion that "the basic behavior mode of the world system is exponential growth of population and capital, followed by collapse." This first report, although much respected, was criticized for its failure to take account of man's ability, when challenged, to adapt to changing circumstances.

The second report, although not optimistic, provided hope. The world of the next fifty years was the subject. This world was divided into ten regions. Although unregulated growth was seen to be disastrous, a form of "organic" growth was seen as desirable. Organic growth, in effect, was improvement of the condition of the deprived by the voluntary actions of the affluent, on a worldwide basis. I will mention the seven "must" recommendations in this second report of the Club of Rome:

1. Worldwide diversification of industry, leading to a truly global economic system.
2. Investment aid, rather than commodity aid, to the poorer regions.
3. Development of a world consciousness rather than a national or regional consciousness. (A riot in Cape Town is as disturbing as a riot in Washington.)

4. A new ethic in which saving and conserving of material resources must replace spending and discarding.
5. Harmony with nature as a replacement for conquest of nature.
6. Development of a sense of identification with future generations. *Homo sapiens* must be sapient enough to take those steps that will benefit future generations. Do we not know that future generations will identify with us, and indeed blame us or praise us?
7. A spirit must develop of *truly global cooperation*, to replace the alternatives, which are division and conflict, hate and destruction.

Perhaps the life insurance business can fit comfortably in this picture. Are we not already in the business of transferring resources, voluntarily, from the "haves" to the "have-nots"? Do we not already generate investment resources that can be influentially channeled in such desired directions as solar energy production? Do we not already have a strong sense of identification with future generations, by the very nature of our business? Can we not help to build a spirit of truly global cooperation?

THE PRESENT STATE OF AFFAIRS IN THE NORTH AMERICAN REGION

Now I would like to give you some information about the present state of the "North American region." Canada and the United States (the service area of the Society of Actuaries) constitute one of ten world regions analyzed in the second report of the Club of Rome. This North American region contains 5.9 per cent of the world population. However, it is comparatively far richer in resources. Here are some examples:

Arable land:	16.2 per cent of all world resources
Oil reserves:	7.1 per cent of all world resources
Gas reserves:	17.3 per cent of all world resources
Coal reserves:	16.5 per cent of all world resources

Also taking into account the industrialization of North America, it is apparent that our region is clearly the leader in the coming struggle for organic growth and global cooperation.

The economy of North America has been on a gradual upward trend since the recession low point in the spring of 1974. However, in the summer of 1976 a phenomenon known as "the pause in the recovery" was seen. Was it just a pause? Or did it presage a downturn? In August, 1976, the United States government's index of leading economic indicators declined by $1\frac{1}{2}$ points after a continuous eighteen-month rise. Throughout the period of the recovery, unemployment has continued high (over $6\frac{1}{2}$ per cent) and is especially high among the young. This wasteful situation has negative implications for the life and health insurance business.

If I were to select one word to describe the dominant force now at work in North America, it would be *egalitarianism*, the struggle for equality. Equality is demanded by activists representing many segments of society. Historically, the egalitarian struggle has taken place on the legal rights front. But recently the struggle has turned to the economic front. The actuarial profession and the life insurance business are presently confronted by a perfect example of the egalitarian struggle, the demand by women activist groups for unisex mortality tables.

The egalitarians seem to believe that goods and services should be available as *rights*. For example, life insurance, which is generally seen as a valuable product by the entire population, can be considered by egalitarians as a right. The psychology of entitlement has negative implications for the life insurance business because this opens the door for further government intervention.

The egalitarians are willing to sacrifice equity and even liberty in order to achieve perfect equality. Perhaps the motto of the French Revolution ("Liberté, Egalité, Fraternité") was a three-way contradiction in terms!

What all this creates for the life and health insurance business is a continuing and increasing need to sell its unique role to the public.

THE PRESENT STATE OF THE LIFE AND HEALTH INSURANCE INDUSTRY IN THE UNITED STATES

I would like to mention nine characteristics that bear on the present state of the life and health insurance industry in the United States:

1. The overwhelming bulk of sales is in traditional products (for example, fixed-dollar permanent and term plans, group insurance plans). Such plans are package plans designed to fit specific needs.
2. The system of agent compensation continues to flourish (i.e., the American agency system). It is just as clear as ever that insurance must be sold, and that the plans which are typically sold are traditional "package" plans designed to fit specific needs.
3. Exotic products have generally not caught on. In this group I would list variable life insurance, cost-of-living policies, life-cycle products, mutual fund adjunct sales, split-dollar sales, and group permanent insurance.
4. A raft of tax advantage products has come to the surface, with some success. This would include IRA's, "section 79" products, and deferred single premium annuities with high interest guarantees.
5. Competition from outside sources, such as banks, savings and loan institutions, and the stock brokerage community, appears to be increasing. This is especially true with respect to the savings dollar. In addition, the threat of competition from the government continues.

6. The group annuity market is in a state of flux because of the burdens of ERISA.
7. The health insurance business, which experienced a disastrous claim situation in 1975, is in a state of uncertainty because of impending national health insurance.
8. Expenses are increasing because of inflationary pressures. This is a very negative situation.
9. Consumerist and regulatory pressures are increasing. Examples include the net cost comparison issue and the women activist pressures for unisex rating and compulsory maternity benefits.

Tables 1-3 give some information about the present state of the life and health insurance industry in the United States. Table 1 shows the

TABLE 1
NUMBER OF UNITED STATES LIFE INSURANCE
COMPANIES AT YEAR-END

Year	Total U.S.	Arizona	U.S. excluding Arizona
1950.....	649	3	646
1955.....	1,107	25	1,082
1960.....	1,441	108	1,333
1965.....	1,631	172	1,459
1970.....	1,787	346	1,441
1971.....	1,774	352	1,442
1972.....	1,765	388	1,377
1973.....	1,780	399	1,381
1974.....	1,781	401	1,380
1975.....	1,790 (est.)	403	1,387

SOURCE: *Life Insurance Fact Book, 1952-1976.*

trend of the number of companies since 1950. In looking at such data, it is necessary to consider the curious "Arizona phenomenon." Arizona requires only \$37,500 to capitalize a company, and now possesses 23 per cent of all the companies in the United States! This fact has been responsible for the apparent growth in number of companies. When the Arizona phenomenon is netted out, we see that a peak of 1,459 companies was reached in 1965, followed by a slow decline to 1,387 companies in 1975. Table 2 shows the growth of premium income since 1950. There has been a sevenfold increase in this twenty-five-year period. Health insurance has shown the most spectacular growth, (twenty-fold). However, taking the year 1975 alone, annuity considerations grew at the fastest pace, both in percentage and in absolute terms. Table 3 shows

the relationship of life insurance to disposable personal income per family. In 1975 life insurance per family was \$28,100, which is approximately two years' disposable income. Twenty-five years ago life insurance per family was \$4,600, equal to only one year's disposable income. So progress is being made!

TABLE 2
PREMIUM INCOME OF UNITED STATES LIFE INSURANCE COMPANIES
(000,000 Omitted)

Year	Life Insurance Premiums	Annuity Considerations	Health Insurance Premiums*	Total Premium Receipts
1950	\$ 6,249	\$ 939	\$ 1,001	\$ 8,189
1955	8,903	1,288	2,355	12,546
1960	11,998	1,341	4,026	17,365
1965	16,083	2,260	6,261	24,604
1970	21,679	3,721	11,367	36,767
1971	22,935	4,910	12,897	40,742
1972	24,678	5,503	14,318	44,499
1973	26,373	6,771	15,524	48,668
1974	27,750	7,737	17,123	52,610
1975	29,336	10,165	19,074	58,575

SOURCE: *Life Insurance Fact Book, 1976.*

* Includes some premiums for workmen's compensation and auto and other liability insurance.

TABLE 3
LIFE INSURANCE AND DISPOSABLE PERSONAL
INCOME PER FAMILY IN THE UNITED STATES

Year	Life Insurance per Family	Disposable Personal Income per Family
1950	\$ 4,600	\$ 4,000
1955	6,900	5,100
1960	10,200	6,100
1965	14,600	7,700
1970	20,700	10,100
1971	21,700	10,700
1972	22,900	11,300
1973	24,400	12,400
1974	26,500	13,100
1975	28,100	14,100

SOURCE: *Life Insurance Fact Book, 1966 and 1976.*

TRENDS IN THE ATTITUDE OF THE PUBLIC TOWARD
THE LIFE INSURANCE BUSINESS

What is the attitude of the public toward our business, and what are the trends in that attitude? The answers are obtainable in the annual Monitoring Attitudes of the Public (MAP) study prepared by what is now the American Council of Life Insurance (ACLI). The MAP study is available to ACLI member companies.

It is clear from the MAP survey that a large majority of the public believes that "life insurance is as much of a necessity as food, clothing, and shelter." When this proposition is presented, 67 per cent agree, up from 58 per cent in 1973. Only 18 per cent disagree, down from 21 per cent in 1973. The balance have no strong opinion. This major finding of the MAP survey is very heartening for the life insurance industry.

On the other hand, 27 per cent of the public (up from 22 per cent in 1974) agree that "it makes a lot of sense for the government to be responsible for such things as life insurance and pensions, even though it raises taxes." This again underscores the need for the industry to present effectively its unique role to the public.

Although 47 per cent of the public believe that the amount of coverage should be decided by "what the breadwinner can afford," 42 per cent believe that this decision should be based on "what is needed to make the family self-supporting." This latter figure is up from 36 per cent in 1968, an encouraging fact.

One of the most spectacular discoveries in the MAP survey is the increase in belief that "women should carry as much life insurance as men." Forty-seven per cent of the public now believe this, up from 29 per cent in 1968.

I have been very much involved in the subject of life insurance tied to the consumer price index. It is of special interest to me that 41 per cent of the public feel that a cost-of-living policy is a "good idea" and 27 per cent are at least "somewhat interested in purchasing such a policy." These percentages are amazingly high considering the near-absence of such coverage in the market today.

All told, the MAP survey reveals an encouraging environment for the life insurance industry.

THE LIFE AND HEALTH INSURANCE INDUSTRY OF THE FUTURE

Let us now address ourselves to the future of the life and health insurance industry. It appears clear that in twenty-five years the total number of companies will be less than at present. Companies that do exist

will be larger and more diversified. The industry itself will be more homogeneous than at present.

Given the state of uncertainty in the world today, including the insurance world, formalized corporate planning is and will continue to be a necessity. Continuation of the drifting policies of the past is a prescription for disaster. The corporate planning process must involve a continuing alertness to developments in society at large.

Many specific developments for the life and health insurance business are predictable, including electronic fund transfer, internal uses of GAAP accounting for pricing and other purposes, further uses of data processing equipment to facilitate sale and servicing of business, increase in work measurement procedures in order to reduce expenses, and contract language simplification.

The agency system will survive and prosper. This is partly because insurance still must be "sold." Worth of the individual is a keynote of the new morality, and the agency system uniquely recognizes this. The public at large prefers to deal with individual personalities rather than functionaries or machines. The market of the future seems especially favorable for the home service agent. (But a blending of the "ordinary" and the "combination" philosophies can be expected.) Agent compensation systems will trend more and more toward partly salaried approaches. Excessive turnover rates of agents must and will be curbed through better selection, training, and supervision. More incentives will be given to the agent for the conservation of business.

Cooperation will develop between the individual and group marketing systems, to the benefit of each. The absence of such cooperation in the past has been somewhat of a tragedy.

Company investments will be returned to a more conservative posture. Investments will be channeled in "quality of life" directions (homes, solar energy, pollution control, miniaturization, etc.). New-money interest rates will be lower than the astronomical levels prevailing in the mid-seventies. Many 9 per cent, 10 per cent, and 11 per cent investments *then made* will prove beyond the ability of the borrowers to pay in full.

I have five points to make in connection with life insurance products of the future:

1. Despite talk to the contrary, I feel that the package sale to fit specific needs will continue to account for the vast bulk of new sales, for the next fifteen years at least. The package sale includes, for example, the \$10,000 whole life policy for a young man or woman; \$100,000 term insurance for an executive; the family policy; the joint life mortgage policy for husband

and wife; the \$1,000 jumping juvenile sale for newborns; the cancer policy; and even the \$1,000,000 whole life sale to provide estate tax liquidity for the affluent. These are all package sales to fit specific needs, and they will continue to dominate the market for a long time to come.

2. Nevertheless, some new concepts will become important. Such will include new "savings" type plans, often with high interest guarantees. At present these plans include flexible annuities for the IRA market, single premium deferred annuities, and various group annuity mechanisms including investment-only funds. I believe we will see a development in which companies accept widely deposit account funds (primarily for retirement purposes, but operating for practical purposes like bank savings accounts) as adjuncts to the life insurance business.
3. New products will involve increased emphasis on flexibility (although this may be the antithesis of point 1 above). This will be through the development of life-cycle products and products similar to the universal life insurance policy described by James C. H. Anderson in *Emphasis* (Atlanta, Ga.: Tillinghast & Co., November, 1975). I expect these products to develop slowly, because they are not in keeping with the package-sale philosophy described above. However, they may represent the wave of the distant future.
4. Products of the future will involve protection against the erosion of cash values and death benefits due to inflation. This also will be a slowly developing trend, however.
5. Survivor benefits, possibly tied to the consumer price index, will constitute a new group life insurance market.

There will be a growing trend toward "one-stop selling." This will result from the merging of life and health business with property and casualty.

Health insurance, and indeed the whole system of health care, seems to be in grave difficulty. We see an escalation of costs beyond the ability of society to bear, the explosion of malpractice suits, defensive medicine designed more to fend off malpractice suits than to cure the patient, and the overbuilding of hospital beds. National health insurance of some kind appears imminent in the United States. It seems to me that what is really needed under any future system is a set of stringent guidelines governing the amount and kind of medical care, for any given ailment, that health insurance plans will be willing to provide—in a word, "profiles." I hope that the actuarial profession in the future can give leadership in the construction of such profiles.

The future of the life and health insurance industry seems to be bright, given the will to pursue the challenges of the future.

THE RESPONSIBLE CORPORATE SOCIETY OF THE DISTANT FUTURE

In this final section of my remarks I will try to make some forecasts about the distant future, reaching well into the twenty-first century. These remarks, although general, encompass the life and health insurance business as well as other types of businesses.

In the near future, say the next twenty-five years, it appears that we are in for more and more government control, regulation, and taxation. Indeed, some segments of our business may be socialized. The egalitarians, consumerists, and activists will continue to be successful. We will be in a politicized society where the hope of any organization for survival lies in the political strength it can bring to bear. The climate for business over the next twenty-five years is going to be rough.

What lies beyond that? In his monumental work *A Study of History*, Arnold Toynbee stated that the Universal State is the next-to-last stage of any civilization, a moribund condition that precedes disintegration of that civilization. The Universal State is a monolithic dictatorial authority replacing the formerly vigorous nation-states that existed while the civilization was flourishing. The Universal State gives "bread and public shows" to its citizens (in true egalitarian fashion), but such narcotics do not fend off destruction. The conclusion one reaches from Toynbee's analysis is that a system of independent nations is far superior to a Universal State, provided that the nations are cooperating in a responsible manner. During the next twenty-five years, world society is likely to veer away from any tendencies to produce a Universal State.

The parallel, on a smaller scale, is that a system of independent corporations is far superior to governmental monopoly (i.e., socialism), as long as the corporations act and cooperate in a responsible manner.

The distant goal and forecast, then, is the *responsible corporate society*. This concept goes far beyond the phrase "corporate social responsibility" that we often hear. In short, it means "giving the customer his money's worth." But it involves the concepts of the Club of Rome as well:

1. Worldwide diversification of industry
2. Aid to the poorer regions and segments of society
3. World consciousness
4. The new ethic of saving and conserving
5. Harmony with nature
6. Identification with future generations
7. True cooperation to replace division and conflict, hate and destruction

The life and health insurance industry will exert influence and leadership as part of the responsible corporate society of the twenty-first century.