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MEETING RECAP

Moderator: JAMES L. LEWIS, JR. Panelists: DAVID R. CARPENTER, GARY CORBETT, DALE R. GUSTAFSON

MR. JAMES L. LEWIS, Jr.: This executive wrap-up session is the first of its kind at a Society meeting. Its purpose is to give you a birds-eye view of the entire meeting and to help you firm up the good ideas you have identified to take home. It will also give you a chance to learn what you missed at the sessions you were unable to attend. The moderator of each of the 12 concurrent sessions will tell the two or three most striking points to come out of his session. Our three panelists, speaking respectively from the perspective of a synthesizer, a futurist and a senior actuary, will then pull together all they have heard.

MR. RODNEY R. ROHDA (Concurrent Session I: Effect of Governmental Actions and Consumerism on Product Design and Pricing of the Future): This panel consisted of individuals from three very different backgrounds: a State Insurance Department regulator, a consumerist lawyer, and a company officer having responsibility for governmental affairs within his company. Notable in this panel, considering its diverse composition, was the lack of open conflict regarding issues. In fact, there was a surprisingly similar theme that ran through the comments of the three panelists. Battle lines were not drawn over such issues as state regulation versus Federal, term insurance versus permanent, or the use of the interest adjusted versus the rate of return cost comparison methods.

There was general agreement that state regulation of life insurance was not all that it should be, but no one jumped quickly to the conclusion that the problem would be solved by Federal regulation. Our state regulator representative pointed out that the need during the 1970's of regulators to focus on auto, property, casualty and health insurance had caused a reduction in the amount of regulation of life insurance. He said that this trend toward decreased regulation would continue during the 1980's.

There was disagreement as to whether organized consumer groups in fact speak for the individual person on the street, the consumer. There was reference to a Sentry Insurance Company survey alleging that, of the various groups, top company officers were the ones least sensitive to the real needs of the consumer.

Overall, the three panelists definitely agreed that during the 1980's we must all work together. We as insurance company officers must see that company time and money is devoted to regulatory improvement and the elimination of inconsistencies. We must provide ways for consumers to make their thoughts known. In these ways we can move forward into the 80's with thoughtful regulation and insure that our companies are providing the products that our consumers need and want.

MR. DAVID R. JOHNSTON (Concurrent Session E: Risk Classification in the 1980's): After reviewing what was meant by terms such as risk classification, causality, and controllability, we discussed the issues involved in current developments such as the following: the Dingell and Hatfield bills in the United States which prohibit sex discrimination in insurance; the abandonment by one company of sex distinctions in their retirement benefits; and privacy and other human rights legislation in Canada, including a case where the sale of an individual annuity to a female at rates different from those for a male was ruled discriminatory.

From these discussions it was evident that regulatory influences will continue to have a major impact on risk classification through the 80's, although the effects will be different in the three scenarios. The effect will be particularly strong in the social democracy scenario. So far the indications are that U.S. regulators are more preoccupied with sex discrimination than their Canadian counterparts.

There was a consensus on the part of both panelists and audience that it does not hurt to be scrutinized in this way by outside forces. We must rethink our theory and react appropriately. We must maintain an openness toward the subject and not merely defend the classifications that we always have used. The work of the Academy will be very important in this regard. To illustrate our openness to the subject, at one point in the discussion we were on the verge of discovering a whole new theory of unisex actuarial science.

We really did not settle whether on balance the drive on the part of some companies to more numerous and sophisticated classifications would overcome the effect of regulatory forces pushing for fewer classifications. In regard to the latter, the thought that came through most clearly was frustration in having to deal with the political and emotional factors, rather than just being able to argue with the statistics as we have become accustomed to do. We almost concluded that, while we always have tried to substitute demonstrations for impressions, in the future we may be substituting impressions for demonstrations. However, it would be said better that we will have to argue social issues more than we have and relegate statistics to appendices.

MR. ARDIAN GILL (Concurrent Session H: Nonforfeiture and Valuation Concerns in the 1980's): It was pointed out that we are about to enter a new era of lower net premiums and reserves due to changes in mortality and interest standards. The possibilities, and indeed the probabilities, include changing interest standards on a dynamic basis (that is, through some external indexing with appropriate lagging) and changing mortality standards so that such factors as non-smoking male and non-smoking female mortality can be accommodated.

The Federal income tax interplay between the valuation interest rate and the Menge formula and the possible throughput of interest to the consumer with 4½% maximum interest rates was covered prominently.

The basic issue of solvency was raised in an important way. John Angle pointed out the shrinking surpluses of companies in the time of guarantees which are historically the most liberal and well above historical lows for interest. Interest rates were a bit above 2% during the Truman adminis-

tration, while rates being mentioned now range between 5½% and 12 3/4%. Some people thought those were too low and others too high. What is at issue is probably the continuation of the enterprise as we know it with guaranteed products. There was some sentiment that the changes envisioned in the standard nonforfeiture and valuation laws may be merely shifting the chairs on the Titanic when we need a new mode of transport.

The U.K. and Canadian approaches were mentioned as leading indicators or possible solutions to the 1980's problems of U.S. life companies. If interest rates can be switched and mortality changed with some facility, then we are practically there.

MR. LOUIS M. WEISZ (Concurrent Session C: Effect of Taxation in the 1980's): In the U.S. the basis for corporate taxation under the 1959 Tax Act is already 20 years old. There are problems with the law on several fronts. First, there is frequently a taxation on pension business where none was intended. On non-pension business, the Menge ten-for-one rule is not working well now with high interest rates and, in fact, causes a progressive tax. By use of modified coinsurance with a Section 820 election, companies are attempting to reduce their taxation to the level that was intended by Congress when the 1959 Tax Act was passed, i.e., no tax on pension business and taxes based on the exact revaluation of reserves on non-pension business. Finally, companies are questioning whether there should be a full deduction of policyholder dividends. There likely will be a legislative review during the first half of the 1980's. Current work efforts of the American Council of Life Insurance (ACLI) involve a fine tuning of the existing formula rather than a fresh look at the basic tax structure.

In Canada, there was a massive tax overhaul during the 1970's. Canada is about 10 years ahead of the U.S. on this front. Canadian companies are taxed just on the gain from operations, with both mutual and stock companies taxed in the same way. Future changes in Canada will tend to make life companies taxed more like other financial institutions. This will result in tax neutrality between competitors. However, because of differences between countries, it is unlikely that the Canadian type of taxation will be adopted in the U.S.

Under policyholder taxation there is a strong argument not to tax the inside buildup since companies already are being taxed on investment income. One of the panelists felt that because of the tax favored treatment of policyholders and because of the close link between company and policyholder taxation, the efforts for significant tax relief for the companies likely are to be doomed. On the tax qualified front, there will be continued favored treatment.

MR. CHARLES W. McMAHON (Concurrent Session J: Product Innovation --- Response to Consumer Needs in the 1980's): Consumer research studies confirm a continued need for insurance. It is reassuring they also indicate that there will be an ability to pay. These studies can be summarized into four major needs, concerns and desires of consumers in the 1980's. These are financial security, the availability of investments that offer a good rate of return, financial counseling and increased benefits provided by employers and government.

In discussing the products to fit these requirements, Allan Richards, Vice President and Chief Executive Officer of the Life Insurance Company in California, described their Complete Life policies. Mr. Richards emphasized his belief that: permanent life insurance indeed can be broken into its savings and mortality components; the insistence of computing cash values on a prospective, vis-a-vis retrospective, basis is counterproductive; and it is much simpler and more direct to compute cash values from the retrospective approach. There was much discussion of the Complete Life product which brought out many of the details of this product and its sales results.

In discussing existing products it was emphasized that the tax advantaged products will grow. We will see increased use of group insurance for coverage, combined marketing of casualty and life insurance together, and pressure to reduce distribution costs. Continued flexibility and sophistication of products are indicated. Overall, our conclusion was that we can not expect the public to develop the products for us; we have to develop them ourselves.

MR. JAMES F. REISKYTL (Concurrent Session D: The Future of Permanent Life Insurance): The future consumer will have greater flexibility to choose the mix of investment and risk elements within a policy. Double digit inflation and a "consumption" orientation will accelerate the shift in emphasis from "permanent" to "term." Specifically new aggressive "life cycle" forms will be designed combining term with a variety of investment vehicles. The current adjustable products will become heavily term structured and as a result will have less appeal since they are not as competitive as the pure term forms. Cost of living adjusted benefits and premiums will be offered widely and accepted, particularly in the form of term riders or dividend options. Variable life insurance will be reborn, permitting realistic cash values and improved recognition of policy loans.

Most term will be annually renewable and convertible, providing very favorable rates to those who can qualify. A rate war is likely. Joint term products may become popular.

Traditional permanent plans will have to adapt, but their fundamental strengths will permit them to survive and flourish, particularly for specialized markets.

The mix in the social democracy scenario also will favor term, except for estate planning where permanent will expand rapidly as it is used to avoid the confiscatory taxes. Policies in the "incentive and investment" scenario will stress cash values, particularly for the middle income market. If nonpar permanent products are to continue to be sold, they must offer significantly greater death benefits per premium dollar than the par versions. Changes in laws permitting lower cash values and higher loan rates are needed. In any event, products with the benefits and premiums changing with inflation or some other index will replace the formalized, traditional products.

In the high inflation scenario, the general agency distribution system will concentrate primarily on large amount sales. Agents likely will be compensated by fees, rather than commissions, for advice and service.

As for non-forfeiture values, we felt that fully defined future guarantees may be illogical in a volatile decade. With double digit inflation, it would be most difficult for insurers to identify investment vehicles whose performance will permit them to offer full guarantees in constant real dollars. Retrospective non-forfeiture developments with short term guarantees may be pursued. The Canadian approach to the policy loan provision, as well as their income tax structure, should be adopted in the United States.

Our discussion of the future of permanent life insurance became in large part a discussion of the future of the distribution system. Either we were very astute in getting to the crux of the matter or we were too narrow to consider other higher priority items in greater depth.

MR. JOHN F. FRITZ (Concurrent Session G: The Future of Single Premium Life Insurance and Annuities): The feeling at our session about the future of single premium deferred annuities as we know them was not overly optimistic. The general feeling of our panel was that the SPDA market would remain relatively strong over the short term but then eventually dwindle over the long term as the combination of taxation, regulation and reduced field compensation erodes the market. Under the high inflation scenario, most tax advantages from a company standpoint probably will be eliminated. Treatment of excess interest as dividends has a high probability. Under the incentive and investment scenario, other savings media probably will be brought up to an equal footing with the life insurance industry in terms of tax benefits. For the social democracy scenario, the company tax benefits and perhaps even the individual tax benefits probably would be eliminated.

From the individual policyholder standpoint, the product probably will keep its tax free buildup of interest under the first two scenarios, at least for the foreseeable future. Possible changes in the non-forfeiture and valuation laws, to be consistent with the Canadian situation which values annuities on a GAAP basis, probably will come too slowly, if at all, to offset the potential unfavorable effects of the anticipated tax treatment.

In the area of sales compensation, it was felt that commissions would continue to decline and bottom out at perhaps a 1% level under all scenarios, as is already the situation in Canada. This may eliminate most of the agents' incentive to sell these products, except perhaps as an accommodation to their clients.

Overall, the effects for single premium life insurance in all of the above areas would be less severe. This product will be used widely as a replacement vehicle.

MR. DONALD R. SONDERGELD (Concurrent Session A: Assessment of Today's Marketing Distribution Systems): The panel did an excellent job of describing six distribution systems: full-time agents; debit agents; brokers; property and casualty agents; personal producing general agents; and direct response. They also discussed advantages and disadvantages of each of these systems. To overgeneralize, the greater the cost the greater the control and vice versa.

One of our panelists addressed the topic "Current Market Share and Trends in Market Share." Although figures are not available easily and there is always some fog surrounding definitions, it was estimated that about 50% of new business comes from full-time agents, about 20% from debit agents, 15% from brokers and property and casualty agents, 10% from PPGA's and 5% from direct response business. In the 80's, this mix should remain about the same, the exception being that the share from debit agents will reduce and the PPGA's share will increase with perhaps a shift of 5% of the market share.

I found the discussion of the topic, "Relative Cost," most interesting. Our panelist gave us some indices of relative cost to use in ranking each of these distribution systems. As you might expect, full-time agents came in high with an index of 135% of first premium and direct response low with an index of 90% of first premium. It was pointed out that, although these indices can be thought of as the potential underlying relative costs, there are wide variations by company. Some companies operate distribution systems with expenses near the relative cost benchmarks and others run much higher. Any of these systems can be successful or not so successful.

Also discussed were various differences, other than costs, between these systems, e.g., mortality, persistency and premium rate levels. Again to oversimplify: although there are differences, the major reason for differences is the market served or products sold rather than the distribution system per se.

Finally, the panel discussed the effect of the three scenarios in the 80's on these distribution systems. What I learned was that the scenarios would affect the markets served and methods of compensation but none of these systems would disappear.

MR. BENNIE W. BAUCOM (Concurrent Section F: Successful Distribution Systems of the Future): Because of the panelists' unique backgrounds and responsibilities and their perceptions of the future as it relates to the distribution of our products, this session was very provocative. Our first panelist presented the point of view that competitive pricing and disclosure will force a significantly reduced first year compensation, something in the neighborhood of 25%. He also stressed that in order to survive in that environment the agent is going to have to spend part of his time doing other things. He is going to be a stockbroker or a financial planner or be housed and compensated by a financial institution such as a bank or savings and loans. This panelist even suggested that by 1990 attorneys and accountants would be selling life insurance. The common ingredient of these distribution channels is the fact that each of them has a ready made source of prospects.

A second panelist indicated that the coming decade will see more independence on the part of producing agents. Producers will demonstrate more loyalty to their clients than to their companies. Companies will become primary carriers rather than having exclusive arrangements with the producers. There will be trends toward larger agencies and associations of agencies negotiating independent contracts with companies.

Finally, one panelist did an excellent job of describing the kinds of actions that will be necessary in order for companies using career agency distribution systems to ensure the survival of those systems through the 80's. He pointed to specific companies and actions that have been highly successful in creating desirable results in terms of building and holding a career agency system together. This panelist also effectively pointed out that if the career agency system fails to negotiate the 80's, it will reduce severly the source of producers and result in the demise of the independent forms of distribution such as PPGA, independent agents and brokers. In other words, the success of the industry depends on continued success of the career agency system.

MR. ROBERT D. SHAPIRO (Concurrent Session B: Pricing Technologies for the 1980's): The discussion regarding pricing technologies for the 1980's was far-ranging. Some of the issues and challenges that were discussed include (1) the need to plan carefully for profits because of the pressure on our existing business blocks coupled with the increased uncertainties and apparently narrowing profit margins on new business, (2) the viability of traditional life company approaches to products, marketing and management and (3) the likely but undefinable discontinuities that must be recognized in any attempts to extrapolate past experience in our planning.

Many changes in technology are occurring. Companies are making more frequent aggregate reviews of existing business profitability. Pricing is more and more on an aggregate rate book basis with less focus on unit profit constraints. Overhead often is evaluated at a rate book level. Companies are looking at dynamic or "stretch" assumptions; in stock companies this has been facilitated by new products such as the non-guaranteed premium plans. Profits in general seem less predictable and less stable. This creates an environment in which we must do a better job of relating risks to expected returns in our pricing.

Opportunities exist for those who are solid managers. The capable manager will "win." Sources of profit must be monitored carefully. Managers must understand the sources of their profits; to what extent did they evolve from mortality gains, expense margins, investment margins, sales success, or something else?

We must identify the information needed to plan properly for the future. We have to be creative and flexible. We should try to understand the various alternative futures that could emerge. We need to be sensitive to our business environment in order to be able to recognize critical signs of change. In short, we must anticipate and not react.

MR. ROBERT D. HOGUE (Concurrent Session K: Impact of the 1980's on the Surplus Distribution Practices of Mutual Companies): Each panelist was assigned one of the three alternative future scenarios from which to address the topic in general and each of the questions listed in the program booklet in particular.

Under the high inflation scenario, the major comments portended a change in company investment practices which would shift investments to a short term program. This would change dramatically company surplus distribution practices with respect to excess investment income. Under this scenario, there also was seen a continuing and increasing shift away from permanent insurance to term insurance.

The incentive and investment scenario was seen as the ideal environment for mutual insurance companies. Unfortunately, the panel agreed that this was the least likely scenario to occur. The social democracy scenario would create the most problems for mutual companies. Two major problems would be (1) the increasing influence of outside regulators and consumerists groups on mutual company practices and (2) an overall declining market for family insurance along with a slightly increasing market for the tax favored insurance programs.

With respect to the seven individual questions considered, there were some surprisingly similar and some widely divergent answers. For example, the panel agreed that investment generation practices will not become more prevalent (although for different reasons). We agreed that the trend of lowering gross premium and dividend levels will continue and will be associated with the now current sales shift away from permanent toward term insurance.

Certified opinions by actuaries are becoming a reality. The panel saw this as being a positive thing because it will lead to uniform practices and will alleviate some of the pressures from the regulators to govern mutual company internal practices.

Two outside groups will continue their influence: the consumerists and the regulators. The proper response by the Society and Academy will be to continue their self-regulatory activities.

The need for higher surplus levels depended on the scenario chosen. Surplus needs seem to be tied primarily to the investment risk element. As that risk goes up and down, surplus needs go up and down. The level of inflation surprisingly will not change many basic company practices, with the possible exception of investment strategies and practices.

MR. DAVID P. VANDERSCOFF (Concurrent Session L: Impact of the 1980's on the Financial Position of Stock Companies): The concensus of opinion in all three scenarios and by all three panelists was that life insurance will survive in the 1980's, but not as we know it today. In particular, in each scenario, we saw drastic profit margin declines and, in some cases, the extreme of negative profits leading to the demise of many small and medium size stock companies.

One panelist expressed concern that we were not following the scenarios since the same ideas and possible solutions seemed pervasive throughout. But the panelists did follow the scenarios! They did address the assigned topics. It is just that in almost every situation, and in particular in the most difficult of times, there is a common theme.

As Professor O'Toole said so well: The key to survival in the 1980's, as it was in the 1970's, is good sound innovative management. This will become even more significant and more necessary in the 1980's. Management must be capable of flexibility and possess an entrepreneurial instinct. "Management", as O'Toole said, "must plan, plan, plan." Further, management must have the courage to react quickly to the changing times by using sound management principles and sound actuarial principles. Quite simply, management must possess the ability to change direction quickly and effectively. But in order to do this, there is a need for top quality people in all levels of management.

Additionally, there is a drastic need for more responsive computer capability. It is time to stop letting the tail wag the dog. In order to survive during the 1980's we must streamline our operations and become far more efficient than we ever have in the past.

MR. LEWIS: How would you draw together all of these ideas? How would you fit the ideas from yesterday and today together? What themes do you see emerging for the 1980's? Synthesizing what he has heard, Dave Carpenter will share what he sees.

MR. DAVID R. CARPENTER: Without completely going back over everything that you just have heard, I will try to summarize my impressions and what I learned.

When it comes to futurism, Mr. O'Toole told us we can approach it from any of three perspectives: certainty, chance and choice. My impression is that we did a pretty good job with the first two and we did a pretty poor job with the third. But that is to be expected. This is all new to us. Overall it was an outstanding meeting and the ideas were very exciting. I am sure if we do it again we will notice improvement among all of us, certainly including myself.

Mr. O'Toole also pointed out, and I agree, based on what happened subsequent to our first general session, that it is very human (I think especially for actuaries) to go to the extreme or to go too far with the consequences of a scenario. There are at least two reasons for this. First we have a tendency to reduce things to a simplistic solution. Secondly, we are so accustomed to working with extrapolation. This gets us right back to why we are not too good at handling surprises. But we will get better as we go along. It was a very succienct comment that Gordon Gaddy made yesterday: "If you do not know where you are going, any road will get you there." The only problem is you don't know where "there" is.

Overall this meeting has been super with regard to expanding our perspectives. I know it helped me expand mine, even though I was already working on that because of the nature of my job. I hope that you feel likewise.

Basically we looked at most of the factors that are intriguing to us and which we need to look at. We looked at marketing and distribution, although we did not do a very good job of distinguishing between those two. We looked at taxation; risk classification; the law, especially with regard to valuation laws and nonforfeiture laws; consumerism; and the consumer. We looked at politics and at fiscal and monetary policy. We talked about the psychology of entitlement, which has been very important but which may be an extrapolation which will not prevail.

But too little was said about certain things. First, I did not hear enough about costs. Secondly, we did not hear enough about the pressure on and availability of capital and surplus as we move through the 80's. Thirdly, although we gave lip service to it, we did not hear enough about management and the quality of management and what our unique problems are there. Finally, there was not nearly enough examination of the competition outside our industry and what we could do to respond to it in order to get back into the real swing of things with regard to financial security.

On the topic of risk classification, I was interested to learn that even the Canadians have their problems with this area (compared to the United States, Canada seems to be in better shape on many issues). I was pleased to hear that it is fairly well acknowledged that the work the American Academy of Actuaries has been doing and is continuing to do on risk classifications is considered effective. We will see changes in risk classification techniques in the 80's that were not discussed and have little to do with the consumerists' debate or social debate over discrimination but will come about for other reasons.

Taxation is very complex. On this issue, the policyholder is going to win and not the companies. But we must view insurance taxation in light of how it fits in with the entire scheme of all taxation, not just between our companies and the policyholders, but compared to other types of financial institutions as well. Here again Canada came through with flying colors.

On the subject of product innovation and consumer needs, I was very pleased to hear that we were able to zero in on financial security, the need for financial security, and the need for products with a good investment return. That's why we hear we are going to move from permanent to term. I only wish that we could all go back and think better how we can reverse that trend and compete with other financial institutions. That is why the universal life concept, although I am not promoting that particular concept, should be examined in even more detail. I am glad we did take a look at it here, because it may be the kind of answer we are looking for.

In closing, I would give this caution. When you look at some of these futuristic factors, don't automatically put them in a box, whether they are good factors or bad factors. This is what Mr. O'Toole was trying to tell us. Things are not all good or all bad. Look at them in the right perspective. Take Federal Income taxes for instance. It came through as one of the bad guys, right? But is it not intriguing that it also came through as one of the good guys? From a product standpoint the products that seem to have a secure niche in the future are the tax favored ones.

I suggest that when you go home the first thing you do is to get all the material you can from this meeting and synthesize it yourself. There is just too much here to summarize in a few minutes. Examine all this information. Try to get to the facts, and when you encounter a contradiction, examine the source. All of us are prejudiced to some extent about some things. Be as objective as possible in formulating your own conclusions but be humane about it as well.

MR. LEWIS: Our next panelist, Gary Corbett, is a member of the Society's Committee on Futurism. He was very involved in helping our Life and Annuities Continuing Education Committee develop this program. He will help us look at this meeting from the viewpoint of a member of the Committee on Futurism.

MR. GARY CORBETT: One of the basic goals of the Committee on Futurism has been to introduce elements of futurism into all society meetings for the past couple of years. This generally has meant specific sessions on futurism at most meetings. But with this meeting devoted entirely to the future, to the decade of the 80's, we thought it was incumbent on us to encourage futuristic thinking throughout, not just at one session.

We chose the three scenario approach to give a perspective for futures-oriented thinking. Were we successful? Did we encourage the level of futures-oriented thinking that we hoped when we helped put this program together? Generally speaking, we were quite successful. In many concurrent sessions the scenarios were addressed specifically. I am aware of a few concurrent sessions where exactly the same format was used as with the CEO panel; that is, each panelist took a specific scenario, put him or herself in it and described how he or she would operate and what would happen, relative to the subject area of the concurrent session, within the environment described by the scenario. In other sessions there was general discussion of subtopics as they were listed in the program but each speaker concluded his or her remarks by telling how a specific scenario environment would alter his or her subtopic. In a few concurrent sessions the scenarios apparently were not used at all. I do not know whether the scenario approach was carried out in the workshops.

As to whether the scenario approach should be used in future meetings, I believe we should, but perhaps we need not use full-length comprehensive scenarios like we did this time. Comprehensive, internally consistent scenarios are tough to write. There were probably details in the scenarios that were not used and were not necessary to give the flavor, or the essence, of the environment. I would suggest, instead of full scenarios, partial scenarios that would dictate future conditions in such specific areas as interest rates or the regulatory climate. For instance, you might specify that in 1986 we are going to have 15% long term interest rates; or maybe 5%; or for another example, specify the elimination of section 213 by some date. You just prescribe these happenings, not worrying about how you get there. What about the absolute prohibition of sex-based mortality tables or rates? Or to be even more futuristic, what about the abolition of age-based tables? Think about that! These conditions could be specified for an entire meeting, for sets of concurrent sessions, or just for one concurrent session and its associated workshop. For instance, single premium life insurance and annuities are much affected by 15% or 25% long-term interest rates. This approach would require speakers to consider discontinuities because the discontinuities would be prescribed for them.

There is another reason for using a partial rather than a full-length scenario. In order to construct a comprehensive scenario, you can consider only one specific country. We recognized the lack of direct application of the scenarios to Canada. We were pleased to see how well the Canadian situation generally was handled in the concurrent sessions. I suggest that with partial scenarios or specific prescribed conditions you could handle the multi-country environment somewhat easier.

I would like to comment specifically on one session I attended, namely, Concurrent Session L: Impact of the 1980's on the Financial Position of Stock Companies. As the moderator has mentioned, each panelist dealt with one scenario. It was interesting and again significant that in each scenario a number of life insurance companies will not survive to 1990. Some companies will become insolvent, some will be liquidated and some will be taken over by other companies. The price at which they will be taken over, would vary considerably under the different scenarios. But, however, the weeding-out occurs, all three speakers independently came to the conclusion that there are going to many fewer companies around by

1990. Further, a mutual company actuary who attended the session suggested that mutual and stock companies are becoming more and more alike and, therefore, the same dangers that are faced by stock companies are also going to be faced by mutual companies in the 1980's, with the result that there could also be fewer of them around by the end of the decade. All speakers agreed that courageous, intelligent and adaptable management will be required to succeed under all scenarios. I firmly believe that the ability to adapt can be enhanced considerably by what actuaries have considered non-traditional thinking in the past, namely, futures-oriented thinking, dealing with discontinuities, rather than extrapolation-oriented thinking.

I am satisfied, from the point of view of the Committee on Futurism, that this meeting has shown the value of and, more importantly, has encouraged futures-oriented thinking that you can apply to your individual companies. As Dave Carpenter observed, this meeting has generated a lot of material. When you get home, digest it and try to apply it to your own companies. If you don't think these scenarios have any possibility of coming to pass, you must believe there are other scenarios that might. Construct them, or write out just the specific areas that are important for life insurance. Try to imagine what sort of strategies would be best for your company in the environment you have constructed.

In conclusion, I would like to mention a few areas that we did not cover during the meeting. The program listed five questions that were to be discussed at the opening session. Some were not covered well at that session. Question 5 was not addressed satisfactorily at any time during the meeting. It read: "What can the life insurance industry do to influence the course of events described?" That is an important question. To be fair, it is possible that if we had addressed that question, we might not have explored the scenarios themselves, thus losing much of the value we did get from the meeting. Be that as it may, we can influence the course of events. As individuals, as companies, as an industry there is much we can do to make it more or less likely that the scenarios we prefer will or will not come to pass. To think of an illustration of this fact we need only consider the related question: "What precursor conditions could enhance or inhibit the occurrence of the developments described?" The image of our industry is a precursor of regulation, one of the developments often mentioned in this meeting. To the extent we are not perceived as regulating ourselves well, we are going to be regulated considerably by outsiders.

MR. LEWIS: Our last panelist will share his views of this meeting as a Senior Actuary from a major insurance company. Our question to him is: What will you do in the 1980's?

MR. DALE R. GUSTAFSON: The concluding few moments of my remarks will be directly responsive to that question: what am I and my company going to do in the 1980's? But first, I would like to fill in a few blanks I feel have been missed or not given enough emphasis.

First, consider some immediate history. For some years, we have been in a period of cycles of inflation and, if not recession, then less inflation. Each swing has been more violent than the preceding swing and comes a little sooner. When we really started looking seriously at inflation and

its implications, with special emphasis on the policy loan problem, our economic advisors at Northwestern actually plotted these swings. We discovered that when we plotted policy loan demand, that is, the number of dollars that went out each day, it had a very similar shape to the plot of inflation rates. We discovered there had been two cycles before we even knew this cycling thing was happening. So this up and down, up and down inflation and less inflation started back in the mid 50's. We are presently on the peak of the latest cycle. There are some small signs that we may be just past, or at least at, the peak of this cycle.

Over the years our own in-house economists have gradually convinced all of us that they know what they are talking about. One of the things about which they are talking and we are very seriously concerned is that unless proper corrective actions are taken, this series of cycles will continue until we reach one where it does not come back again. Thus, if we were to go off the top of one of the cycles, we would have runaway inflation, calling for perhaps a military take-over or what have you. If we run off the bottom of one of the cycles, there would be a very deep recession and depression.

Now the trouble is this is probably our last one. We will not make it through the next one. It is about that serious. Small savings and loans and banks have been in very dire trouble, a number of them on the brink of bankruptcy. It would not have taken, or would not right now take, very many insolvencies of savings and loans and banks to trigger a panic. Similarly, life insurance companies are and have been in trouble. We are bleeding to death with policy loan demands. We really were feeling sorry for ourselves until we inquired and found it was not just individual policy companies with policy loan demands. Pension companies have trouble of their own with money not coming in and those forward commitments sitting there. Well, I do not know how close any particular company is or has been to having to go to the insurance department for help, but it would not take very many to create a panic. Thus, (this is the gloomiest I am going to be) we as an economy and a nation and a system are in deep trouble. That's it, pure and simple.

President Carter and Congress have done some things recently and our economic gurus out in Milwaukee smile as they say, "You know they've done some of the right things, but I don't think they realize that they were the right things." Nevertheless, there is a little more hope at the moment than we have had for some considerable time.

On the other hand, just to show that all is not well in Washington yet, I heard a brief news broadcast on the radio about ten days ago. President Carter's chief economic advisor, Mr. Schultz, was quoted as saying, "By the end of summer, our inflation worries will be entirely over because inflation will be back down around 10%." You think about that. It will make your blood run cold.

The three scenarios -- this is good stuff. I have only one comment in a negative way, and it is really more of a caution. Don't take too seriously the details of those three scenarios. They were designed for the purpose of this meeting, and they are good scenarios, but they are not polished and complete. There are some internal inconsistencies. They served very well the purpose for which we used them, but no one of them is the way things are going to go and probably no one of them is the way things could go.

My personal opinion is that we are going to have some of each, with quite a bit of the high inflation scenario and much of the social democracy scenario. Unfortunately, we will have very little of the incentive and investment scenario. The social democracy scenario (or the British disease, as some refer to it) is a fairly easy thing to define and study. All you have to do is look at Great Britain. Where it was 15 to 20 years ago is where we are now. We seem to be tracking very closely for the last 15 or 20 years. We don't seem to learn from their experience.

I want to tout a book for a moment. It was written by William E. Simon, who was Secretary of Treasury under Nixon and Ford and thus is a conservative. It is titled A Time for Truth. I am going to comment only on two minor aspects of it, one of which is the rise and strength of egalitarianism. That is kind of the obverse of or is related to this philosophy of entitlement. But it is different, and it has a much more dangerous implication. I really became aware of this most effectively about two years ago while spending a whole day with some of the staff of the FTC. For a little while, we got off the subject, which was life insurance cost disclosure, and probed one of these people, a young man who thinks he is pretty good. I do not know what his salary is; I remember thinking then it was probably about $30,000 or $35,000 as a lawyer. His philosophical concept was that he thought he was about as good a young lawyer as there was and he was quite convinced that there was something wrong with the system because there were a lot of other lawyers his age making more money than he did. It was a philosophical concept to him that it was not right that some lawyers made more money than other lawyers. There is an enormous growth of that kind of thinking and it centers, as you would logically realize, in the government employees. The Civil Service may not have been one of the smartest things we ever did because it built us a permanently entrenched independent bureaucracy of civil servants, teachers, firemen, policemen, etc. Not that every one of them has this philosophy; I am not condemning groups. But this feeling of egalitarianism is very powerful and it is inimical to capitalism and the free enterprise system.

The other aspect that Mr. Simon points out is right out of George Orwell's 1984. If any of you have read that and remember, one of the features of 1984 was "double speak." We have double speak coming out pretty strongly from Washington. Example: many of the income redistribution schemes are identified as essential legislation to help the poor; yet when you examine them, in some cases little or no monies spent under the acts go to the poor. Nevertheless, that is the rhetoric: an income redistribution scheme is to help the poor. Even more pointed to double speak is the fact that much oppressing and detailed regulation is identified as "necessary to preserve and protect our freedom." Now that's double speak, pure and simple. I recommend Bill Simon to you.

"Plan, plan, plan." You have heard that before. My company began long range corporate planning about 12 years ago, and it is a very important part of our life. It is the sort of thing that is needed for the 80's.

There are four legs to success in the 80's for a life insurance company: management efficiency, product innovation, an efficient distribution system and good value to the customer. You have to have all those in place. In our case, we probably are going to go right along the way we are: permanent life insurance, perhaps modified a little; traditional conventional distribution system. We think those things are going to work for us. They may not work for other companies.

Response time is critically important. We have spent 20 years at Northwestern building a very effective monolithic centralized data processing system which is terrific except it is very difficult to change anything and it takes a long time. I am sure you have done the same thing. There is a change now. Hardware is cheaper and people are more expensive. Decentralized data processing is what is going to happen in the 80's. It will be more responsive. Our ability to respond flexibly and quickly will improve greatly.

There it is. I have spread a little gloom, recommended Bill Simon and ended on a positive note.

MR. CARPENTER: I want to make a couple of comments that may or may not be disagreeing with Gary. I hope he was suggesting a single specific scenario because of the very real problem we have in putting on a meeting of this sort, namely, the limitation of time. I hope he did not mean a single scenario is inherently best because basically the threshhold we are trying to jump over is to start thinking in terms of an overall modeling approach. We must recognize we do not get any one huge environmental change without repercussion somewhere else. We need to plan with that in mind.

Also, I may not have been clear enough that we should be careful about going back home and using some of the information obtained here as being factual data. Your chairman of the board may be a little disturbed when you, for example, say "Well, we don't have to worry; the debit system will be here through the decade." He may say, "Why do you say that?" You could be in trouble if all you can respond is, "Well, they said so at the meeting. Charlie said it in concurrent session E." Keep things in perspective.

MR. CORBETT: Perhaps I can clarify the example I gave for my suggestion. For the topic of single premium deferred annuities, the program booklet would list, as a point of discussion, the implications of 20% long-term interest rates. Some participants might want to expand into associated areas, such as likely accompanying inflation rates, but they would not be required to do so.

MR. A. HENRY KUNKEMUELLER: In many of the sessions the concensus has been that if the economy goes to pieces the insurance industry will go to pieces. We have to keep in perspective the reverse of that; if the life insurance industry goes to pieces, probably the economy will go to pieces. We have a little bit of leverage with our various governments as long as we are contributing that very valuable service of marshalling funds to build local economies.

MR. GILL: In the U.S., the era of biggest growth in the life industry prior to the 1960's was 1937, in the depths of the depresssion. It was simply a matter of confidence. The public had lost confidence in the banks, and they put their money in annuities and insurance companies.

MR. PAUL A. CAMPBELL: One issue that I was listening for but did not hear covered by the excellent summaries is the subject of reducing the time frame for changing products in the future. It seems to me, and I am hearing it from LIMRA's member companies, that one of the major problems we have to solve in the future is shortening the time frame for introducing a new product series from 18 months to something in the vicinity of 6 months. This is an issue that should be recognized here in this session as important to the future.

MR. GUSTAFSON: This is the general area to which I was alluding in talking about the development of our large centralized monolithic data processing system that can't be changed. Just a year ago we at Northwestern reversed our philosophy. The philosophy used to be to get the maximum efficient use out of the minimum amount of hardware because hardware was so expensive. That had been engrained in us. We have reversed that now because of the cost breakthroughs on data processing hardware. Whatever we need now, we buy two or three of them because it is much cheaper to have redundancy of equipment and use simplified, relatively less efficient programming and systems. One of the things that this decentralization will bring is making it easier to develop faster response time.

MR. ROHDA: I agree we need to shorten our product delivery time. But right now it is taking 6 to 9 months to get policy forms through the state insurance departments. Your goals of delivery of new products in 6 months are dead before you start even if you have your own computer on your desk. One of the points that Bill White from the New Jersey Insurance Department made in Concurrent Session I was his wanting industry support to try to come up with some kind of a "super" state regulatory agency. Maybe I am not using the word right, but this super agency would, in effect, speak for all the states when it came to such things as policy form approval. This would speed up the approval process and enable a much faster product response time.

MR. SHEPHERD M. HOLCOMBE: I enjoyed thoroughly the challenge of the three scenarios and how we can apply those to our consulting business. We are going to spend some time looking at that. The format here has been excellent.

I want to emphasize and re-emphasize one point that was not covered. That is the question of what the life insurance industry can do to influence the future in some of these things. It is not only the life insurance industry; it is all actuaries, be they with life insurance companies, consulting firms or whatever. They should become involved much more in the political process and try to educate people as to whether they are doing things right for the wrong reason or whatever.

MR. LEWIS: There will be a special topic meeting of the Society in New York in 1981 on "Public Issues Involving the Actuary."

MR. COLLIN VERMAN: As someone who lives and works in Great Britain, I can not let the reference to the British disease go without some comment even if not a defense. I and anybody else who lives in England or who has lived there in the last decade or two can understand more than anybody here why it is called the British disease. I certainly agree with Mr. Gustafson that if you have any choice in the matter you certainly want to think carefully about going down that road. However, it is interesting to note that in spite of the fact that Britain has many of the unfavorable aspects of the social democracy scenario, and for that matter some of the unfavorable aspects of the high inflation scenario, and has had them for quite a long time, nevertheless, the life insurance industry is very, very healthly. It is alive and well. People are buying life insurance in ever increasing quantities. We are not having a trend from permanent life insurance to term insurance. Most companies are making good profit and all is well.

MR. GUSTAFSON: We wish we had your tax advantage.

MR. CORBETT: I agree. I would like to add a comment on taxation. The elimination of the corporate income tax, as described in the incentive and investment scenario, is not very likely. What is more likely is that increased savings by policyholders might be encouraged through reduced taxation of both qualified and non-qualified plans. When the tax treatment of non-qualified deferred annuities is held up as an example of tax abuse, we must remember that life insurance and annuities are taxed more severely in the U.S. than in most other Western countries. For example, we do not have the Registered Savings Plans that are available in Canada. England certainly has more favorable tax laws for individual life insurance and annuities. There is much room for liberalizing taxation in ways that would increase savings through life insurance and annuities. And our industry has a proud record of responsibly investing such savings for the general good of the country.

MR. RICHARD HUMPHRYS: The question of regulation has received a certain amount of attention during the course of this meeting. It has been kicked around somewhat from time to time. It is important to recognize that regulation does not grow in a vacuumn. If it comes, it comes to cure some mischief. Now it may be overreaction in some cases, but I emphasize that it does not grow out of nowhere. One disturbing theme which I detect is something of an adversary position between the industry and the regulators. I would be disturbed if that was a continuing relationship because I think that the regulators, and I know I speak for them in the United States as well as for myself, want only to do the best job for the public interest. We are anxious to get the cooperation of the industry and to work with it, not in an adversary position.