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COMPETITIVE FORCES IN THE INSURANCE AND PENSION INDUSTRIES

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MR. CHARLES E. FIERO: What will the insurance industry look like in the next five or ten years? Will it, in fact, be integrated into larger broader based financial services industry including banks and security houses? Will most of the integration take place only at the distribution end, with underwriting remaining largely unaffected? How many independent underwriters and distributors will there actually be at the end of the decade? Will the picture be different for mutuals and stock companies; for life and casualty companies? How international will the industry become? What type of regulation will there be? What will separate the good players from the poor players?

Obviously we would all like to have answers to these questions. Regretably all one can do is speculate and that was very well emphasized in the last two days in the confusion in the U.S. Congress in how it wants to regulate the banking industry and the insurance industry.

A host of powerful forces are at work - literally shaking the very foundations upon which the entire industry has been built. It is far too early to predict with any accuracy what their final impact will be. At best I think we can take a closer look, suggesting some patterns that likely will emerge as the industry and the various concerned parties formulate their responses.

I would like to focus on three patterns - deregulation, competition, and technological development. There has been much discussion about these. In order to distinguish my presentation from others, I will emphasize the impact of these forces on the banking industry, for I believe banks will play a dominant role in shaping the whole financial services sector in the 1980's.

Through a better understanding how that shaping will take place for the banks, we can gain important insights into one of the forces for change in the insurance industry.

Deregulation emerged as one of the most powerful elements of change in the 1970's. While this has been felt mainly in baking, there have been, and will continue to be, important consequences for the insurance industry. Of direct interest to insurance companies, the phase out of interest rate

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ceilings now scheduled for 1985 will permit banks to compete more freely for funds and put more pressures on the life insurance product. Furthermore, opening up commercial banking to savings banks with their existing life insurance portfolios may well be paving the way for direct competition from all banks. In a broader sense, the weakening of geographic barriers imposed upon banks has already led to nationwide banking in so far as lending is concerned. The nationwide deposit taking is close behind, and is already a reality for Merrill Lynch and for many other security houses.

Finally, antitrust practices, which heretofore severely restricted mergers and acquisitions, are being eased as regulators have begun to recognize that a growing competition from both within and outside the system has altered the need to be so restrictive.

A number of studies have appeared in recent years attempting to forecast patterns likely to emerge from this deregulatory trend in banking, based upon experience in other industries which have deregulated, notably the trucking industry, the airlines industry, and the like. While they differ in nuances, the conclusions are surprisingly similar. Banks will go through a period of extensive mergers resulting in the reduction of their numbers from over 14,000 separate banks in the United States to perhaps a few thousand by the end of the decade.

Leading the pack will be perhaps 50 to 100 large, fully diversified banks, offering a complete range of services on a national and international levels, competing aggressively among themselves and having access to huge amounts of funds.

A second category of institution will emerge, not necessarily all within the legal definition of bank (which is getting more and more clouded as we proceed), to provide selected banking services at low prices to appeal to the cost conscious market. Aided and abeted by new technology, and not fettered by existing investments in high cost distribution systems and operating centers, these institutions will do away with any service pretense and let us "pump our own gasoline" - or money if you prefer the analogy.

An important element of this movement will be the entry of newcomers, taking advantage of special capabilities or skills they enjoy over the traditional players in the new structure, particularly in operations and distribution.

For example, food chains and retailers, taking advantage of their alternative distribution systems, are already offering stripped down banking services in some locations and are exploring the possibility of offering other packaged banking and insurance services as well. Computer utilities are exploring do-it-yourself software that performs many of the services provided by bank trust departments.

The remaining institutions will specialize and drift into various niches left by the nationals on the one hand and the low cost operators on the other. The niche opportunities will be fostered by demand for special skills, quality service, special knowledge and the like.

While the initial impact of deregulation will be in the banking sector, there will be an important spillover into all financial services. The major banks will seek out every way to compete with other financial intermediaries, including insurance companies, either directly if permitted by law, or indirectly via agency arrangements. Citicorp's recent announcement of its intent to acquire a bank in the Dakotas to get into the insurance business is just a harbinger of things to come.

The shrinkage process from 14,000 down to 2,000 will be accompanied by much thrashing about as many players seek out every conceivable alternative to being absorbed or liquidated. For many of the medium and smaller banks this could lead to acquisition of local service activities, including real estate and insurance agencies unable themselves to survive without a broader product line. Giving up a charter, if that is necessary, and engaging in insurance underwriting de neuveau or by way of a merger with an existing insurance company, could present a serious alternative to some of these banks.

Competition is another powerful force which emerged in the 1970's. In the financial sector U.S. banks have intensified their efforts in the home market, as the lure of international expansion has waned. At the same time, major foreign banks have all established bases here and have been positioning themselves in the profitable wholesale markets.

Cross-sector activity has also intensified competition, particularly for the retail customer. Taking advantage of regulatory lag or structural inflexibilities, and lured on by newcomer advantage, a number of companies have been able to successfully "cherry pick" the lines of banks and insurance companies alike. Obvious examples are the money market funds and the checking accounts offered by investment bankers. Perhaps the most fundamental development has been the perception, on the part of a growing number of nonfinancial institutions, that the financial services industry is more promising than other alternatives open to them. After all, a 15 to 20% return on equity isn't bad these days. While there are a number of examples of this, a current and newsworthy illustration is provided by the automotive industry, where profits from financial services last year provided a major part of the earnings of some of those companies. Increased competition is a predictable outcome of any deregulatory process and is likely to be very intense in banking as the shrinkage process develops.

The pricing structure of the wholesale market is already in shambles. The insistence upon compensating balances to support loans has been successfully assaulted. And the so-called prime rate has long since ceased to be the best rate offered. Concerns about shrinking loan margins have already caused most banks to search for other products offering meaningful profit opportunity. Recent developments in Mexico, Poland, Argentina, and Brazil have introduced a new dimension to the situation. Serious doubt has been cast upon the creditworthiness of important segments of the less developed world and a number of Eastern European nations. This has not only raised major questions bout the banks' existing loan portfolios and their capital adequacy, but has also slowed down dramatically bank lending to such nations. Such loans accounted for a substantial part of the growth of international banks in recent years in terms of volume, but more importantly in terms of profits because of the high margin, sometimes two and three times over those available elsewhere.

A significant portion of such lending will now be diverted to the U.S. market. The result in the near term can only be intense competition, shrinking profit margins, and further pressures to consolidate and expand into other profitable products, particularly those where distribution and production synergies are possible. The insurance option, because it does offer such synergies, will be carefully evaluated and assaulted. Thus, while the U.S. insurance industry is directly involved in these international developments, it certainly will once again be impacted by the thrashing about, the big tail of this dying industry, or this industry which is cutting back to 2,000 players, or whatever is taking place.

The third force of change has been in technology. Looking backwards, analysts will classify the 1970's as the decade of conversion to electronic banking. Late in the 1960's bank credit cards, such as Master Card and Visa in this country, were just getting underway. Today these cards are universal, indeed worldwide, and command a growing list of services. After a slow start in the early 1970's, automatic teller machines have achieved wide scale recognition coast to coast and around the world. Current estimates suggest that there will be over 75,000 such installations in the United States by 1985.

There are over 50 million bank debit cards, the cards needed to operate these automatic tellers (ATM's), in circulation at this time. The latest development is the formation of bank networks within which a debit cardholder can conduct business in his account in any member bank's machine. One expert predicts that within a few years most U.S. banks will be affiliated with one of about 5 or 6 nationwide electronic banking networks, which will eventually consolidate cash and depository services in much the same way that Visa and Master Card have unified consumer credit services.

Looking to the future, network managers are already working on the paperless society whereby we would be able to use our debit cards to conduct most of our banking and retail purchasing transactions in department stores, gasoline stations, airlines, wherever. The emergence of ATM networks is also making it practical for banks to consider home banking seriously.. In the last few years pay by phone systems, the precursor to home banking, have grown dramatically. By the end of 1982 over 400 banks in the United States were offering such services routinely and many others were in various stages of entering the market.

The 1970's also saw important strides in communication. First and foremost, communication satellites became a commercial reality. It is now possible to beam messages all over the world at rates, at least for longer distances which are economically feasible as against other methods of transmission. The exciting aspect of satellites is the wide band capacity. Existing earthbound systems have narrow band widths and are severely limited to data transmittal rates which run around 10,000 bits per second and to the form of the transmission, which is largely restricted to words. Satellite systems have now been built which permit data transmission speeds of many millions of bits per second, thus vastly reducing the cost of communication and making direct linkage of high speed computers, facsimilie transmission, and video teleconferences an economic reality.

Second, and less well-known, the successful flights of the two U.S. space shuttles paved the way for substantial further reduction in communication costs. Heretofore it has been impractical to launch satellites with large antennae. Thus users have been forced to maintain large receiving and sending disks and powerful equipment at considerable cost. All of that will soon change. Now that we can launch larger satellites with large antennae, users will soon get by with much smaller installations with the disk alone a small fraction of the size of its predecessor, probably not much bigger than a dinner plate. The reduction in cost will be substantial and will make it practical for every company of any size to have its own interplant satellite communication system. By the end of the decade, it will be just as easy to communicate by voice facsimilie and video from New York to Nairobi as it will be between two floors in the same building.

To gain some insight into the significance of such a communication system a few banks, which already have in place dozens of satellite linked computers around the world, are in a position to price virtually every major competitor out of the transaction base corresponding banking market should they so desire.

Perhaps the most interesting technological development for the financial service community has been the creation of inexpensive home computers. Technologically these computers are capable of being programmed to communicate with banks, brokers, retailers, and insurance agents, and to process whatever transactions consumers desired. Software packages capable of financial planning, insurance analysis, investment selection, and many other services are already in production and can be very easily designed today. Furthermore, a growing number of companies, including banks, are entering the information service market offering on line access to all kinds of data. To date such data has been designed to services businesses or the wholesale market mainly but we are only a few years away from such data being available economically to home computers as well. It is already being experimented in Iowa.

Thus it is not difficult to foresee the day when consumers will be able to comparison shop all sorts of products, including insurance, through information brokers without ever leaving their home. Furthermore such information brokers will be able to collect and display a host of other relevant data about competing products now often overlooked, either because of ignorance or because of poorly trained sales personnel.

Many financial institutions have been exploring the feasibility of product software for use by platform employees to aid in the conduct of their sales through existing delivery mechanisms. More recently interest has centered on the feasibility of setting up computers in retail locations offering product software packages for direct use by clients - sort of a video arcade for financial services completely bypassing sales or platform personnel except for the most complex transactions. This is only a short distance away from making such software available for home computers.

In essence we will have reached the day when the "tube" is conceded to be more knowledgeable and certainly more objective than the conventional image of a sales person. For those of you who are offended by this thought, don't be. Take a realistic look at the surly bank teller, the harried branch managers, and the hard-to-reach overly aggressive insurance agents and compare that with the "tube." For today's generation, the "tube" will be far more acceptable and, incidentally, more fun because we will design the software that way. We will make it into games.

Storage capacity has been an important constraint in the application of home as well as office micro computers. Research is going on in this area, particularly in chip technology, and some experts anticipate major breakthroughs in the next few years - substantially extending the capacity of home computers. I recently heard that a Japanese company announced that it expects to be marketing a chip within a few years capable of storing billions of bits of information in a space no larger than your finger nail. If you want to put this in context, you can store in your home the Library of Congress, if you want it. This is a multiple of thousands, perhaps millions of capacity of over what we currently have in the micro computers you are all working with.

Another critical development of importance is climate. Atari and Intellivision in the United States have educated a whole generation and, I might add, their parents. Already this generation is outgrowing games, moving into a host of far more sophisticated equipment, whereby they are successfully designing their own decision systems and companion software. They are starting at ages as early as eight or nine. The message here is that home computers are not a dream for the future. They are here and we have a whole generation ready and able to move at whatever pace we set.

But it's not just the kids. Banks in the United States, Germany, and France are actively experimenting with home computers as the preferred means of conducting banking business. Early indications are that they have been well received by the public - young and older alike. I don't mean to slight the progress being made by operations centers of financial service institutions. This will continue and lead to important cost reductions as we minimize paperwork and maximize direct computer interface capacities. However, a critical ingredient controlling the extent of this effort will be the pace of automation of our distribution systems. The more automated our distribution system, where the customer actually makes all of the entries, when we don't have to involve people at all, the more automated we can make our operating system.

Both banks and insurance companies have a major stake in these developments but I suspect it will be the banks who will lead the way. Why? The banks have already made substantial commitments to consumer automation via credit and debit cards. Citicorp alone spends on the order of magnitude of $200 million a year in this area. The relative frequency of banking transactions versus insurance transactions makes it inevitable that the banks will shape the home computer market. The banks have the potential of far greater savings by computerizing the interface with their clients.

In short, I see the banks as the main investors in the application of new technologies to the consumer market, both retail and wholesale, and therefore being in the forefront of developments in the best position to educate the consumers. I also see the banks being under the greatest pressure to seek out new service opportunities to stave off eroding margins. Some banks have already seen tremendous profit opportunities in serving commercial and home appetites for data and software to manipulate it and have made substantial investments in decision support systems and an assortment of data bases. I expect to see these investments accelerate in the years ahead and be responsible for a substantial portion of the earnings of such banks. The existence of this preferred interface, with both retail and wholesale customers, poses a significant threat to the insurance industry.

Banks have another edge. Hay Associates has, for some years, been conducting climate surveys in banks, insurance companies and other financial intermediaries. These are the studies where we attempt to understand the spirit, the way in which a company conducts its business, the way in which it operates. These studies are designed to gain understanding of how well organizations are working and to test their readiness for change. While there are notable exceptions, our data suggests that there is far greater cultural support for change in banking than in the insurance industry.

For one thing, in comparison to banks, the average insurance company ranks quite low in goal clarity. For us this raises serious questions about the extent to which insurance companies' management are realistically facing the challenges of our time. Second, the average company also ranks low in the timeliness and quality of decisions versus banks. This raises questions about the capability of existing management to formulate responses rapidly to opportunities which develop. Finally, insurance companies as a group score poorly in the performance orientation, particularly as it relates to accepting personal accountability and demanding performance. This raises questions about the ability of insurance companies to implement important changes.

There are two messages here. First, banking is better prepared for change, if our studies are right, and has a greater likelihood of being able to implement what it sets out to do. Second, insurance companies, with notable exceptions, are still geared to a more stable environment and have more obstacles to overcome if they are to respond successfully to the growing pressure for change.

In summary, banks will be going through a period of significant adjustment in the next five to 10 years in response to deregulation and growing competition. While the period of adjustment will be longer than other deregulated industries, in the end there will be a significant contraction in the number of players. During this adjustment period, there will be extensive thrashing about with major consequences for the insurance industry:

(1) Growing competition for the savings dollar will severely impact traditional products.

(2) Pressures on loan margins will put a premium on new products which can be sold to existing customers via existing distribution systems and those being developed. All forms of life, as well as property/casualty insurance, are natural targets.

(3) Many small banks seeking to find alternatives to being acquired by larger big city banks will seriously explore cross-sector mergers or ventures with insurance agencies and underwriters.

(4) This cross-sector activity will be accelerated by new entrants, not necessarily falling within our traditional definition of banks or insurance companies, which will provide at low cost many of the services now offered by banks and insurance companies.

(5) Banks will continue to invest substantial amounts in technology, with a major focus upon direct consumer linkage via business and home computers. Initially, this electronic consumer interface will play a critical role in bringing down their personnel costs. Ultimately it will provide them with an important jump on the whole financial industry as they exploit new technologies and respond to the growing demand of customers for product analysis, software, decision models, and new data sources.

(6) The insurance industry, save for the direct writers, is already losing what control it has had over its distribution system, which may not be able to survive in its present form short of new linkages to new institutions offering broader product opportunities.

(7) With a few notable exceptions, the insurance industry has not yet developed an internal climate which supports an aggressive response to those developments or perhaps the style needed to make such a response once it is framed.

(8) Unless they do change, insurance companies will run the serious risk of sector-myopia, believing that they are insulated from developments elsewhere when, in fact, they are not.

MR. JOHN A. MILLER: While it is true that ours is a troubled industry, I believe that our meetings tend to highlight the negatives. Our meetings are like newspapers - good things don't make good stories. Problems, on the other hand, make for great speech material. A high percentage of the speeches given at these meetings begin, "I've been in this business for 25 years and I've never seen such problems," or "I've been in this business for 20 years and there have been more changes in the last year than there have in the previous 19," as though change in itself was an incredible negative. Statements are made like, "We are an industry under attack," or "There will be 500 life insurance companies left in five years."

I am not unaware of the problems. We have them and I can list them as well as anyone. They impact on me and on the Provident Mutual exactly as they do on the rest of you. We have suddenly become the darlings of the Federal scene, an arena in which we have serious problems for the first time in many years. We have suddenly become the focus of their attention. The Federal government needs money. They perceive that we have money. Our industry has a tax situation which is tenuous at very best - an intolerable changing scene which makes planning impossible.

We are also being attacked because of sex as a basis for risk selection, and are threatened with retroactivity and topping up which could severely impair the surplus of every company in this room. We must mobilize as never before against that threat. Some of the differences that are splitting us apart had better be healed quickly because we have bigger enemies than people within the industry - we have people outside the industry. To emphasize that point, around the corner looms the real possibility of an attack on the tax free buildup in life insurance policies. I am sure all of you have heard of some of the hearings that Representative Stark of California is having, in which he seriously challenges the tax free buildup in the life insurance business. You know, of course, that is where there is real money for the government to try to tax.

These are future dangers. There are, however, even more fundamental changes that have already taken place within the industry. I have alluded to one of them already. With external pressures mounting, we have increased internal divisiveness. It seems to be small thinking to be arguing among ourselves at a time when we are so threatened by some of these legislative proposals. I really believe that all the discussions about unisex tables, risk selections, etc., must be resolved within the industry so that we can present a unified front.

With increased competition from without and from within, we have badly overreacted in some ways.

What is not so obvious is the incredible impact that our reactions to competition have had on every aspect of our business. Most importantly, we have cut our margins to the bone. I would like to use an illustration which is given to me by my actuarial friends.

Historically, if you put $100 of premium on the books, it took about seven or eight years before you would amortize all the costs involved in putting that $100 of premium on the books. Eventually asset share buildups in that policy would deliver to the company 1-1/2 to 2 times the annual premium. So if you put $100 of premium on the books, you could assume that eventually the company would make $150 to $200. It was in that atmosphere that an old friend of mine used to say that it took more than ignorance to ruin a life insurance company. There had to be malice in addition. Whether that was true or not, we were a high margin business. But when we put $100 of premium on the books in 1983, instead of seven to eight years, in many instances we are waiting until the 20th or 30th year before we amortize the acquisition cost, before profit emerges, and our eventual profit on that block of business is somewhere between 0 and 1/2 times the annual premium. Instead of anticipating $150 to $200 of profit on that particular transaction, you can now anticipate 0 to $50.

There was a headline in the paper yesterday which said that we are now in an atmosphere, not in the insurance business but in other kinds of businesses, where you either adapt or fail. That is the difference between a high margin business and a low margin business. It takes more than ignorance to adapt or fail. That is one huge change that we have imposed on ourselves, and that has been imposed on us by outside competition.

What incredible implications this change has for all of us! Let us assume for a moment that you and I would open up a shoe store and we were told that we were going to make 50% on every pair of shoes that we sold. We could run a pretty sloppy shoe store. If we wanted to replace the carpeting every year, fine, go ahead and replace the carpeting. If we want to have fresh flowers on the table, fine, have fresh flowers on the table. If we want to have old Aunt Matilda stand over in the corner and just look good and pay her a salary, fine, that's all right. You have plenty of margin.

Now let us assume that the margin has suddenly been cut on those pairs of shoes to 10-12%. We now look at our business very differently. No more new carpets, no more flowers, no Aunt Matilda. We are going to run a different business altogether.

The unfortunate thing in the insurance business is that some of us have not awakened to the fact that we really are in a new business. Some of us have so much business in our portfolio still spilling out huge profit, that we are still managing in the old kind of atmosphere. The fact is that it is the new atmosphere that we have to manage in if our company is to have any kind of long term viability. We have been very poor managers in the life insurance business. There has been too much fat, too much tolerance of mediocrity, in both the home office and the field. I honestly believe in terms of higher expectations. We really have to have higher expectations of everyone in the life insurance business. We have just gone through a cost/expense control exercise in our company. It is agonizing, but the truth is that we have all learned that when our expectations are high, the results will reflect that and be higher too. At once you realize that the very survival of your corporation requires new toughness, new leanness, new management. The old gentility has got to go. Some of the long term people in the Provident Mutual, when they are reflecting on the changes that have happened in the company, occasionally will say to one another, "What's happened to the old Provident?" I consider that to be one of the highest compliments paid to me. It is not said as a high compliment but it is a compliment because the fact of the matter is that the old Provident, the old New England, the old Mass Mutual, the old Penn Mutual, etc. cannot survive in this new marketplace. Either it isn't the old Provident or it will not survive.

Speaking before this group in the new Provident or in new New England, etc., your function takes on about three times more importance than it ever has before. Think of the significance of the actuarial function in a high margin world as compared with a low margin world. In a high margin world, if you made a few estimates and they were wrong, it was not that critical. You may have achieved plenty of intellectual satisfaction when your estimates came out right, but if they came out wrong, you made a little less money or a little more money, it didn't make that much difference. When you are skating on the edge of profitability, however, the mathematical function in any corporation takes on significance far beyond the point that it ever has before.

The potential implication of this combination of problems that I have referred to are incredible. Not only do we have to endorse state regulation with its negatives, but now the Federal government has an interest in us. The very essence of our products' acceptance - tax free buildup - is being challenged. We may have to endure punitive taxes. Our surplus is at risk due to a spurious civil rights approach. We are involved in an internecine struggle. A number of these threaten to tear us apart. Our margins have been cut to a danger point. We have a lot of problems! What grist for the speech writers mill!

What upsets me is that rarely do I hear the other side. Needless to say, there is another side. It is less intrusive, but equally valid. In the event that you have been to too many meetings, and have had an overabundance of gloom and doom, I would like to take just a few minutes to give the reasons that I believe all of the above is very serious and very material, but not fatal.

I was at a meeting not long ago in Florida. We had two attorneys with us, and they each came to me independently and said, "Jack, you have had a great education, you seem to be reasonably bright - but we would like to know why you are in the life insurance business?" It wasn't a particularly complimentary question as you can tell.

Those are serious questions that deserve very serious answers. The reason that I entered the business 34 years ago and the reason that I am in it today are absolutely identical. I am in the life insurance business because of grimy kneed little boys, who deserve the right to be whatever they are capable of being, whether their parents live or not. I am in the life insurance business because of beautiful little girls in frilly dresses whose best chance of economic equality comes from education and training. I am in the life insurance business so that surviving spouses may continue to live in their world, whether their spouses live or not. Only you and I can stop that by being at the right place at the right time.

When I first came into the life insurance business in the Aetna Life, Bob Coolidge who was the Agency Vice President at that time, used to talk about people in their world, emphasizing the fact that particularly for children, they live in their own world. It is a very limited world with few things involved, and if you take them out of their world and put them into the world, it's a terrible, incredible shock which may have lasting effect.

I am in the life insurance business because life insurance is a parent's love letter even if he or she isn't there to deliver it. I am in the life insurance business because men and women work a lifetime to build an estate, only to have it impaired by their death unless we've been there first. I am in the life insurance business because businesses have a life of their own, separate from their ownership, but when their ownership dies, the business life can die too unless we've been there first. I'm in the life insurance business because men and women become disabled, lose their economic life and suffer double death, and only you and I can solve that. I am in the life insurance business because group health represents protection against economic catastrophe of serious illness which otherwise could wipe out the families of this country, millions of them each day. I am in the life insurance business because only the life insurance business can provide a dignified, secure retirement for the elderly in their world.

Finally, I am in the life insurance business because the life insurance business has been the major source of long term capital in this country for the last 100 years. As you flew into Philadelphia yesterday, as you looked at the sky line of Philadelphia, remember that the tallest building Philadelphia would probably be about six stories high if it were not for life insurance dollars that helped to build those buildings to their present great and imposing stature.

One of the reasons that is never mentioned why this country is not coming out of the recession is that today's life insurance industry is not providing long term capital for the industries of this country. It's easy to forget the business that we are really in when you get involved in RLRs, tax gimmicks, Section 818(c), discussion of sex discrimination, and everything else. It's easy to forget the real purpose of our companies when we're involved in such intense competition one with the other. All this is pretty basic you say. It's like football - when you get in trouble, you go back to basics.

All this, you say, is simply saying that we are in danger of doing exactly what happened to the railroads - forgetting what it is we are really there to do. That is exactly what I am saying.

I hope you recognize that all the things I talked about are not tied to a particular distribution system, nor to any particular method of debit system or whether its the ordinary system, the career system, or the multiple line system. It is tied to what our companies are really there to do. If you and I were to start a new business today, the major criterion for starting that business would be a demonstrated need in the marketplace. The demographics today look better for us today than they have looked in many years! The baby boom is moving through the population of this country. I saw figures the other day that now there are 79,000,000 people between 19 and 35 which is 1/3 of our total population! Family formation is on the increase, babies are being born! What a wonderful time to be in the life insurance business!

The role of the government is changing. We used to complain all the time that the government is taking over, the government is providing all the benefits, and so we really don't have anything left in the life insurance business. No message has been delivered more clearly to the public of this country over the last few years than the fact that the government is going to accept only a very small portion of the total needs of the public of this country. They are not going to accept much more than that. There was a study done for the American Council of Life Insurance in preparation for their new ad campaign - the tree campaign - which some of you have seen. The study was done by Gray Advertising. They went to the public of this country and they said, "What do you think about life insurance?" And the thing they were told over and over again was that people know that they don't have enough life insurance. They are concerned about the fact that they don't have more, and they know they have to buy more. Everybody else recognizes what a great business we are in. Why would everybody else be getting into it if they didn't think it was such a great business? Are we ready to give up on it? Everybody in the world wants to get into it and we're sitting around talking about how terrible the business is.

There are several things that I think are going to come into greater play in the future. Strategic planning is absolutely essential. Our company has just gone through that kind of process. If your company doesn't have a strategic plan, it is up to you to make sure that they have one very clearly.

I also want to comment, before I close, on the financial supermarket that Chuck's comments implied. You know that sooner or later everybody is going to be buying insurance from this large supermarket, whether it be Sears Roebuck or Shearson American Express or some huge institution or bank or whatever it happens to be. I don't believe that. I honestly believe that there are at least two or three trends going on in this country at the present time and that they are contradictory trends. There is certainly a trend toward some buying in a supermarket kind of environment. I would ask you, however, in the personal services that you use today, do you use more specialists than you did 10 years ago or do you do it more in some general kind of a place where you can get all kinds of services? I would submit that in law you have more specialization, in accounting you have more specialization, in actuarial consulting you have more specialization. In every field, I would suggest that when you go out to shop, you are using more specialization than you ever have in the past. You used to go into the department store, now you go to the boutiques. You buy your running shoes in a running shoe store, you buy your maternity dresses at a maternity store, and so on. We are seeing more and more specialization.

The other part of this, which is extremely important, is that every person and every institution has a certain limit as to how much they can manage. For the banking community, the first diversification that the banks took on about 25 years ago was international lending. That was going to be their big diversification. Now you have the entire banking structure of this country at risk because of the incredible number of loans that are out to the international community, particularly in South America, particularly those oil-related loans which are in very serious trouble. The agent in the field can only manage so many things without getting himself entirely confused in the way he is operating. The typical company can only manage just so many things and do them right and I really believe that many of us are already at a limit into what we can do and should do.

The one reaction to outside competition, that I see as being very dangerous, is simply figuring that your company or my company has to do everything. I don't think you can do that well and progress into the future.

What causes all of us to be scared and to respond sympathetically to the speeches at meetings is that we are blinded to our opportunities by the recognition that we can't do it the way we have for 200 years. That is what really scares us, myself, just as well as you. None of us know whether we are smart enough to know how to change - or adaptable enough to change - assuming we are smart enough to know how to change.

As I am sure you can guess, however, I am very optimistic in spite of all the problems. The future, I believe, will be very kind to those of us who constantly remember that we need to change. We have to fight our inflexibility. We have to fight our foibles. We have to fight our tribal wisdom, our sacred cows. We have to stop fighting among ourselves and recognize that we are a great industry with a great deal to offer as far as the public is concerned. Secondly, and most importantly, the future will be kind to those of us who constantly remember the real business that we are in - the grimy kneed little boys, the beautiful girls, the hospitalized, the disabled, and the elderly.