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FUTURES RESEARCH: HOW TO MAKE IT WORK

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- o What is it? Where did it start?
- o Who uses it? Why? Does it work? Who benefits?
- o What are some simple futures research techniques?
- o How to make it work: a "4-STEP" approach.
- o What are today's key trends for tomorrow's insurance industry?
- o How to start a simple futures research program.

MR. DAVID S. WILLIAMS: We have a speaker with us today who is a futurist, well known in both Canada and the United States (U.S.). He has worked as a planning executive with Barclay's Bank in England, and with two major Canadian banks--The Toronto Dominion and The Canadian Imperial Bank of Commerce. This international banking experience has provided him with valuable insights into management problems and opportunities, not only in financial institutions but also in a variety of other industries.

His career as a professional futurist gained momentum in 1980 when he became Chairman and Director General of the First Global Conference on the Future, held in Toronto. The conference involved almost 1,000 speakers, more than 400 panel discussions, work shops and seminars, and attracted people from all over the world. He has been a futurist ever since, currently heading the Global Management Bureau, consulting a number of leading multinational corporations and foreign governments. His clients include China and Mexico, the World Bank and the International Monetary Fund. He conducts strategic planning seminars and publishes a monthly bulletin titled "Canada Tomorrow." He has made appearances on network radio and TV.

I would like to take just a moment to remind you that the Society of Actuaries, some time ago, adopted and published a strategic premise for actuarial education. It challenges the actuary to be an inquisitive,

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PANEL DISCUSSION

forward-looking individual, actively aware of the future implications of the dynamics of societal changes in North America, skilled in managing these forces and in communicating them to clients. The premise contains three key words--awareness, management and communications. Discussion time is being allotted to each of those areas in the current sessions. Our speaker is going to talk to us about futures research, providing some specific pointers on how futures research can help us to meet that challenge successfully.

MR. FRANK FEATHER: This is not going to be just a teaching session, I'm also going to give my view of what the future's going to be like. That should make the discussion somewhat provocative.

People often ask me why I'm a futurist, and why I gave up a banking career. I give them Mark Twain's answer: "I'm interested in the future because that's where I'm going to spend the rest of my life."

I think we are all obligated to look to the future, to realize that the present doesn't actually exist; it is simply a fleeting microsecond of time in going from the past to the future. So as far as I'm concerned, the only thing we should be concerned about is the future. It's only in the future that we can learn from and correct our past mistakes, and do some new things.

There's a Japanese saying that: "Those who fail to look far ahead will soon have problems close at hand." Now actuaries are supposed to be doing this; but the future keeps changing on us. Even as a futurist I find it very hard to keep up with the amount of change that is going on. It's like trying to put together a giant jigsaw puzzle. You get some of the pieces in place, but when you go to put in the next piece, you find somebody has moved them all. We're "living in very interesting times," as the Chinese say.

What is futures research? There's nothing mystical about it. Futures research is now a demonstrated scientific approach to understanding what the future environment will be. It can be pursued either as a discipline in its own right, or as a subspecialty of any other profession. It attempts to delineate alternative futures; to say what the future might be like; to ask "what if" questions. If this happens, how will the world change? It involves numerous variables, a lot of assumptions and, quite frankly, a lot of judgment. This is why there tends to be a credibility gap.

In futures research work, we do some linear forecasting, some exponential smoothing, and we also use other computer models. But we use these tools simply to confirm our judgment. It is only when we don't understand why our judgments don't jibe with the numbers that we start digging deeper. It's somewhat like using your intuition instead of logic, and you come to trust your judgment.

You might find futurists divided into optimists and pessimists. I'm a long-range optimist and a short-range pessimist. I think that makes me a realist in terms of how the world's changing.

FUTURES RESEARCH: HOW TO MAKE IT WORK

Where did futures research start? Some people look back hundreds of years and point out people who tried to forecast the future: Nostradamus, Jules Verne and so on. Maybe Arthur C. Clarke is a futurist; he wrote 2001 and 2010, and conceived the notion of geostationary orbiting satellites. NASA didn't come up with that idea, Arthur C. Clarke did. In a sense, Einstein was a futurist. He came up with the idea of $E = mc^2$. Then scientists set out to prove whether that was right or wrong. How did Einstein do it? He said that, in his mind, he used to ride a light beam through the universe; so in his imagination, he came to a conclusion, which he knew scientific and empirical evidence would prove to be correct.

In any event, futures research officially started around the time of the second World War, and it started in a number of different places. My choice for a starting point would be McDonald-Douglas Aircraft Corporation in 1946 with the creation of Project RAND (Research and Development) to study the future of intercontinental warfare. Two years later, in 1948, a new organization called The RAND Corporation spun off from the project to conduct scientific research into the future in general, not just warfare. This corporation was the world's first think tank. People like Herman Kahn, who headed up the Hudson Institute, originally worked for The RAND Corporation.

Who uses futures research and why? Well, many departments in the U.S. Government use it. The Central Intelligence Agency (CIA) has one of the world's biggest data banks on future events. Many Canadian Government Departments use it, the Agricultural Ministry and the Environment Ministry for example. Provincial and state governments also use it. Almost every ministry of the Ontario, Alberta and Ottawa Governments subscribes to the "Canada Tomorrow" newsletter. The subscriber list of a newsletter like that is interesting reading in itself. You find very few smokestack industries subscribing to futures research material, so is it any wonder that they're going out of business? Other governments use it. The government of India uses it; they have what they call a Futureology Commission. My firm has done work for the government in Mexico. The governments of China and the Soviet Union use it. They have centralized state planning systems for formulating five-year plans. We pooh-pooh that idea in the West and call it centralized bureaucracy and state control, but in actual fact, it can work very well. Japan uses futures research; long-range thinking is part of its culture. That accounts for Japan's success, and that is now going to account for China's success in modernizing its economy.

In the corporate world, what I would call the leading-edge corporations--and they are not necessarily listed in In Search of Excellence--are the ones using futures research. Companies doing that well are AT&T, Sears and Security Pacific Bank; in the insurance industry, they are Allstate (part of Sears), Prudential and, of course, the Trend Analysis Program (TAP) of the American Council of Life Insurance.

Within corporations, futures research is used by a variety of different professional and/or functional groups: strategic planners, marketing people, public affairs people, government affairs people and so on. It

PANEL DISCUSSION

can be conducted by a separate corporate unit, or different aspects of futures research can be allocated to different functional areas.

Futures research has also spawned new disciplines. The issues management specialty is relatively new. There is now an Issues Management Association, which has about 1,000 members. There is also an Association of Political Risk Analysts. Corporations, particularly the multinationals, realize that they are working in a total world economy and that they need to know how stable various governments are, so they are doing what's called "political-risk analysis."

Does it work and who benefits? I would say most certainly it works. I think the success of the people who are using it could ascribe to that. I wouldn't be in business if it didn't work. There is a demand for my services and that of other futurists. It's quite a competitive field, and a difficult one to break into. Even the actuarial profession now has its own sizeable Futures Section. Mr. Williams told me that about 1,000 people belong to that group.

Futures research formed the basis for the strategic diversification of Sears. It played a role in the diversification of General Motors, which has just taken over Hughes Aircraft. It had a part in Shell Canada's decision to shut down its Toronto operation and move to Calgary and in Bendix Company's divestiture and retrofitting.

Everyone benefits from futures research. If a company is better directed, in terms of predicting where it is going to be successful, then the shareholders gain, the employees gain, the customers gain and management gains. Futures research provides that decision-making framework. It provides a process for making day-to-day crisis decisions. Without a vision or goal, all those decisions lack consistency and direction.

Roy Anderson, who is Vice President of Planning for Allstate, has used futures research for years. Back in 1979, he was talking about the demise of whole life insurance policies. Why did he reach that conclusion back then? Because of the futures research he was doing. He also foresaw deregulation of the entire financial industry, one to two years before Ronald Reagan's Presidency began.

What are some of the techniques used in futures research? As I indicated earlier, for me, futures research is essentially based on informed judgment. And because judgmental circumstances lend themselves to different approaches, a lot of different methodologies have evolved. A common one is trend extrapolation. That is what was used in the Limits to Growth study, conducted by the Club of Rome fifteen years ago, which said that the world is running out of resources. The same kind of projection was used in the "Global 2000" report under President Jimmy Carter, which, in my view, was based on a computer model with not a lot of judgment incorporated. The world is not running out of everything. Although I don't necessarily accept the contrary point of view of Herman Kahn either, that all these problems are solvable. I think the truth is somewhere in the middle.

FUTURES RESEARCH: HOW TO MAKE IT WORK

Brainstorming, delphi techniques, simulations, scenario writing, decision trees and cross-impact analysis are some other techniques used. In cross-impact analysis, a matrix is set up to indicate how variables impact on each other. In scenario writing, an illustration of the state of the world on January 1, 2001, for instance, is described. The delphi technique is used by several companies.

What is a delphi study? Essentially, it is a sophisticated way of developing "expert opinion." To do this, a questionnaire is administered to a minimum of 15 people, probably a maximum of 50, both within the company and outside. Outside individuals are needed because the knowledgeable in-house people may be caught up in what's going on inside to really understand what's going on outside. Then their answers are explored to develop a full range of possible decisions. After that management attempts to reach a consensus on action to take.

For example, you may make a statement on a questionnaire that the world is going to run out of energy by 1995, and then ask: "To what extent do you agree or disagree with this?" After collecting all of these pieces of information, you try to synthesize and analyze it. Then you recirculate the results to the group, showing what the group's tabulated responses were, for example, "5 percent said there was a 10 percent chance of running out of energy, 5 percent said there was a 90 percent chance, the rest are scattered in-between." With that feedback, another question is asked of the experts: "What do you think now that you've seen the collective group assessment? Do you still want to stick with your original opinion or give us something new?" Also, at this point, new questions will be added, such as, "If this does happen, what are some of the implications for the life insurance industry or for the actuarial aspects of the industry?" That is the basic process of a simple delphi to develop the opinions of experts. It can be more elaborate. It should be structured very carefully. How you ask questions is just as important as it is in public opinion polling. Selection of participants is also important, and the study has to be carefully managed in terms of feeding back the responses.

You'll get good responses. People like to give their views on what they think the future is going to be like. It gives them a mind stretch, where they've never had the chance to do that before. It'll be surprising how many bright people you'll identify in your organization by doing this kind of survey.

Another aspect of gathering information about the future is what is called "issues management." In issues management you try to identify what some of the upcoming issues are, whether political or social. One way to do that is the way John Naisbitt, the author of Megatrends, does it. It's called content analysis. In its simplest terms, you clip a lot of newspapers and magazines so you can read between the lines of that information.

Let me try to explain. If nothing else comes out of this session today, I want you to start reading the newspaper differently than you do now and I want you to start listening to news broadcasts differently and reading magazine articles differently. Every time you see a newspaper

PANEL DISCUSSION

or article or magazine headlines, or listen to a newscast, you should ask the questions: "What does this really mean? What does it mean for me? What does it mean for my job? What does it mean for my company--not just today, but next year and the year after next?"

In other words, is it only that a typhoon went through town; or is it that the City of San Francisco has passed proposition P outlawing smoking in the work place? The latter happened more than two years ago. To use a pun, that was the first smoke signal of the anti-smoking movement, in terms of the changing regulatory environment of the work space. This trend is sweeping across North America, the U.S. and Canada. The City of Toronto is now debating regulations, and it is about to pass bylaws to prohibit smoking in the work place.

You simply spot one little item. Then you may be reading the newspaper two months later, and there it is again in Washington D.C. Is this a trend or isn't it?

You try to spot the trends and the issues as they come up, from the grass roots level, to see how the world is changing. You gather a lot of information. Corporate planners take what is called a "4-STEP" approach. STEP is a framework for organizing all the information you've been gathering about how the world is changing. Your paperwork gets sorted into four baskets labeled S for social trends, T for technological trends, E for economic trends and P for political trends. You'll find that everything fits into one of these four baskets.

You can subscribe to this information, you don't have to collect it yourself. Or, you can do as the TAP program does. You get 100 people to read selected materials and send you a copy of interesting items. I say selected in the sense that you have to get a balance. If you read the Wall Street Journal and Forbes and Fortune or Business Week, you'll get a super-optimistic pro-business right-wing view of the world, which isn't reality. If you read The New York Times and The Washington Post, you'll get a slightly different view of the world. If you read underground newspapers or things like Mother Jones, you get another view of the world. If you read The Economist magazine, you'll get a view of the world which is not North American. It is not global either; The Economist sees things through European lenses. If you read a magazine called South, which is also published in London, you'll get a third-world perspective on how the world is changing. If you read material from Moscow, you'll get another view again. I think it is necessary to get all those views, as part of an issues monitoring system, if you're really going to do it globally. Even though you may be just a North American corporation you can't focus only on the North American environment any more.

Simple measurement of size of articles may be misleading. US Today may have two or three paragraphs, but the New York Times may have half a page on the same story. It depends on the depth of coverage. Also, the editorial policy of a particular publication may favor an issue more than that of another publication. You've got to consider that as well. You have to read between the lines of the material your monitors have clipped. What are the key newsmakers really saying? What

FUTURES RESEARCH: HOW TO MAKE IT WORK

politicians say to the media for public consumption may be totally different from what they are actually thinking about. After awhile, you get to be able to interpret what they say and don't say. You get to see that the White House constantly plays down negative economic information. The electorate doesn't like bad news. But somebody who is detached from that in the business world has to look at it objectively.

Issues management is a kind of a tracking process where you are gathering and sifting a lot of information. In addition to printed, radio and TV information, you need to rely on a network of people who know what's going on. One of the secrets of our success at my company is that we know many people on the inside--in government, in business and elsewhere--who are movers and shakers, who are dreaming up policy for two or three years from now. So, we know when to expect things to come about. We know who's trying to push what on the world scene. It may go wrong, their plans may not work out, but at least it's something that's not even in the newspapers yet. Many of the studies of the Hudson Institute, the CIA and the Pentagon are to try to figure out what's happening strategically in terms of political shifts. You've got to look at your information in that sense. You're gathering strategic intelligence. It's detective work. It's fun, because you're trying to figure out how everything fits together.

Allstate does issues monitoring. It takes part in the TAP program as well. Then it uses this information in the strategic planning process. It is part of the data base from which long-range plans are made and it's out of those long-range plans that day-to-day decisions are made.

I'm going to run one future scenario past you, a broad-brush picture of how the world environment is changing. I'm simply going to throw out opinions, but those are conclusions based on thousands of hours of research, analysis and judgment. There are, of necessity, generalizations. But I'm prepared to walk out on a limb; if you want to saw me off, that's fine. If futurists are going to do a professional job, they have to be prepared to put their necks on the line.

Let's look at North America in particular. One of the big phenomena is the Baby-Boom generation. It is one-third of North America's population. We're going to have a mini boom sometime in the 1990s because some of the Baby Boomers are going to start having babies of their own. They have confounded the demographers by going out to work and putting off having children, so this little echo Baby Boom keeps being postponed. But it is starting; the birth rate is increasing again. The so-called Yuppies are a part of this. They have new values and lifestyles. Stanford Research Institute has broken the Yuppies or Baby Boomers down into nine groups under its "Values and Lifestyles" program. These people are healthier, both in terms of mind and body, than the previous generation. There are new family arrangements, with high divorce rates and smaller families. They are very concerned about health.

Society is evolving towards what I call a leisure culture. By the year 2000, people will be working only 20 to 24 hours a week. In fact, the whole concept of work will have been redefined by then.

PANEL DISCUSSION

Another phenomenon is the changing status of women. I think that, currently, 12 to 15 percent of the members of the Society of Actuaries are female. I suggest that by the year 2000, if not before, female membership will be 50 percent. I would suggest that by the year 2000, 50 percent of all large organizations--corporations, government departments, ministries--will be run by women. Even if that figure is only 25 percent, it's going to mean a major change in the way organizations are run and the way decisions are made. That is because women think differently; they've got different values. They've also got economic clout. Half of the new cars in North America now are bought, signed for and driven off the lot by women. How many women are there in car sales rooms? Hardly any! Car dealers are missing the boat. More and more women are buying stocks and shares in their own right. Women are moving into politics. It's now okay for a woman to run for the U.S. Presidency. If you look at lower level municipal, state and provincial politics, there are a lot of women politicians. They are working their way up the system. Equal pay is inevitable.

North America has an aging population. Statistics Canada just released a study which says that by the year 2030, one-third of Canada's population will be senior citizens. The totals shift as the Baby Boom works its way through the system, and as people start living longer.

On technological change, the electronic revolution is the biggest revolution that humanity has ever seen, and yet we've only just begun to scratch the surface. It's totally changing the way that we store, retrieve and communicate information, in the same way that the Gutenberg printing press did. It changes organizations. It changes the management process. Eighty percent of North America's work force is already working in the service sector of the economy. About 40 percent of the work force are now information or knowledge processors. It's estimated that 40 percent of gross national product (GNP) comes from the information sector. We talk about an information society. Eighty percent of us will have a home computer by the year 2000; 50 percent of us will have one within the next five years. Personal computers are going to become as common as calculators. The talk about computer literacy is all irrelevant. Computer operations are becoming so automatic, it will be just like driving a car. You don't need to know what's under the hood; somebody else can worry about that. All you need to do is be able to get into the information. This electronic environment is very interesting. Marshall McLuhan, the media guru, told us in 1964, in a book called Understanding Media, that electronics reverses all processes; turns everything upside down. Instead of being centralized, you decentralize. In an electronic world, the work place is any place you want it to be. You can deliver your products electronically.

One important idea that John Naisbitt talks about in Megatrends is high tech-high touch. In other words, the more that technology comes into our world, the more we need to compensate through human interaction, because technology causes stress.

Another aspect of technology of particular interest to you is the biotechnology revolution, the genetic revolution, the impact on health care

FUTURES RESEARCH: HOW TO MAKE IT WORK

of genetics and anti-aging pills. Transplants of one sort or another are an everyday occurrence. The bionic man is here!

On economic trends, the North American economy is in transition to what's called the "Post-Industrial Society." Some call it the "Information Society," some the "Information Age," other the "Service Society." The reality of this is that we're in a global economy. You are not going to make something in North America if it's wanted on the other side of the world; it simply doesn't make sense economically. They've got cheaper resources and labor and they can get the same technology. So the world is going through a process of sorting out who's going to make what and where it is going to be made. It's painful, it is going to cause job loss. However, people should be celebrating because humanity has won the technological revolution; it has gotten rid of hard work, and people are heading toward a leisure society. In this leisure society, people are going to be doing things other than hard work--such as pursuing knowledge, searching for information, being concerned about health, welfare and fitness and so on.

Along with Japan, North America is going to be the information center of the world. It will be selling information and knowledge about natural resources--not the natural resources themselves. The two biggest customers of North American wheat are China and the Soviet Union. China will be self-sufficient for wheat within five years. Gorbachev is going to attempt to reform the Soviet economy and, if he succeeds, the Soviet Union won't be buying any wheat either. It's conceivable that by the year 2000, the bread basket of the world will be simply the bread basket of North America. That will totally restructure the economy. Free trade will come. There will be a North American common market; there will be Latin-American common markets; there will be African common markets.

The bad news, as far as I'm concerned is that there is a recession coming. All the indicators are pointing to that. I think the recession is going to be as severe as the last one. The shake out isn't finished yet. The economy isn't restructured yet. There's too much debt. The situation has gotten worse during the last four years. We are now on the edge of a potential depression. The amount that the less-developed countries are in debt is over \$900 billion and is expected to be \$975 billion by the end of this year. The amount of debt in the world is growing much, much faster than the economy is. Therefore, it is becoming more difficult to service. All we're doing is rescheduling it, and sweeping it under the rug. Paul Volcker is doing a wonderful job, and has been for the last ten years. I don't know how long he can keep on doing it. Nobody knows the solution to this problem. We have to somehow earn more money in order to get out of that debt situation; and if a recession comes, even a mild recession, I'm not optimistic. Argentina is again saying they can't pay and the International Monetary Fund (IMF) is refusing to give them money.

The economy is going to be in a state of continued hard times through the 1980s. I don't think there has been a break through to the next boom. However, I think that the 1990s will bring the biggest economic

PANEL DISCUSSION

boom the world has ever experienced all over the world. But we have to do a lot of house cleaning first.

Politically, the issue of importance is coming to be that of fiscal responsibility. Politicians in North America did not want to deal with this issue in the last election. They are now going to be forced to deal with it because the international financial community is going to pass judgment on them, and it might move its funds somewhere else. The deficit will have to be looked after. Baby Boomers want good fiscal management, and they don't want their future mortgaged away.

There will be an end to party politics. Futurists have been talking about this for four or five years. There will still be a Democratic party and Republican party, a Tory party and a Liberal Party. But the party that addresses the issues of the day will be the one elected. At present politicians can't give the electorate bad news. But these things will change.

There will be electronic voting in the future. One problem with today's so-called democratic process is that people can't be bothered to go and vote. In communities in the U.S. and Canada where there is electronic voting, the electoral turn-out is about 50 percent higher than it is in communities with normal polling stations. It's a way of getting people back in to the democratic process. There will be more and more referenda, which is something that started in California. The people in that state are changing the political process. It's through watching these things that you spot the issues and the trends that are going to impact on your business. In Ottawa, by the year 2000, 50 percent of the MP's in the House will be female and we'll have a woman Prime Minister. There could be a black President in the White House before the year 2000.

I have a lot of rationale for all these opinions, which we don't have time to get into.

There will be a continued push towards decentralization so that more and more responsibility will be given to provinces, to states and to municipal governments. There will be continued deregulation of different industries including the financial industry. In economic hard times, people search for new solutions, and they get rid of all the rules and regulations. As a result, the banking system is now becoming more fragile on its way to becoming stronger. But it's part of a process it has to go through. What Toffler calls "demassification" of these institutions will come about and they'll set themselves up differently.

Now, that's the future. What does it mean for the insurance and the financial services industries? The expression: "May you live in interesting times," is a Chinese curse. We're certainly living in interesting times, and we cannot assume that the world is going to stay the same. It clearly has not over the last 25 years, and it won't over the next 25 years. How can you try to figure things out? You need to do what I call geostrategic thinking, which has three components. Those are the abilities to think globally, to think futuristically and to think creatively.

FUTURES RESEARCH: HOW TO MAKE IT WORK

The ability to think globally is to mentally sit on the moon so you can see what's going on in the world. It's the same with trying to understand the insurance industry. You have to step outside of it, then look inside and say: "What is going on here? How is it changing? What are the larger environmental dynamics that determine success or failure?" This is global thinking.

Once you get the big picture, you've got to be able to think futuristically, which is the second component. How is this pattern changing? It's not enough just to get a snapshot. You've got to say: "What are the fundamental dynamics?" And remember one caveat of futures research: "Trend is not destiny." A line going up is not necessarily going to continue going up. Things don't necessarily repeat.

Third, you need to be able to think creatively. If you can think creatively, you can see that "trend is not destiny," and you can also see that for every driving force in one direction, there is a countervailing force in the opposite direction. For example, the Equal Rights Amendment (ERA) was a driving force, but it has suffered setbacks during the last several years. Don't think ERA is dead! ERA is going to come storming back stronger than it ever was, simply because it has been strengthened by the Reagan Administration's opposition. ERA proponents have reassessed the situation and said, "We've got to do a better job of selling." They've become a lot more resolute and stronger. Pendulums keep swinging backwards and forwards and issues keep competing with one another. Every problem in the world presents an opportunity. Opportunistic thinking may be a better term than creative thinking. You have to say: "What does all this mean? Where is it heading? Where are the opportunities? Where are the threats?" This is what issues management and planning are all about. You have to try to decide the outcomes for your particular profession, and your particular niche in that overall picture.

Once you've done that thinking, the vital outcome is to take some action. You need courage to take risks and, particularly in today's environment, that means courage to let go of the past. We can learn something from the past, but we are probably going to have to modify what we've been doing. And even then, when we decide upon a new course of action, we have to constantly review that decision and ask if it is still relevant, because the world is changing so fast.

Let's quickly run through some of the implications of the social, technological, economic and political trends for the insurance environment. I have these in two groups.

Let's look at the internal environment. Internally, you are going to have new employees and a new kind of work place. First, you have women in your work force. Because women have been underpaid, you are going to have rising labor costs. Second, you are going to have minorities. The U.S. will be the second largest Spanish speaking nation in the world within a few years. The minorities in the U.S. will soon be the overwhelming majority, not just in numbers, but in clout. Third, you'll have new values to cope with; the Yuppies will be

PANEL DISCUSSION

controlling electoral outcomes, purchasing power and so on. Fourth, you have single parent families. Maybe you need to provide child care.

Fifth, what is happening with human rights legislation? What's happening to unions? You may say that unions are all going out of business, because the blue-collar workers are dying. No, unions are going to come into the white-collar sector. In comparable terms, the clerical employee in today's service sector, in what I call "the paper factories in the sky," including insurance companies, is the exploited labor in today's world. He is the parallel of the factory worker on the old production line. In Canada, we've seen unions coming in with increased strength in clerical and retail operations, and that trend will continue for a little while. Eventually, however, increased computer power will drive clerical workers out in the same way robots did factory workers. Union workers will price themselves out of existence if they're not careful. You'll have decentralization of the work place. About 15 percent of North America's work force already works from home; half do it electronically. In the Best Western hotel chain, your reservation is handled by prison inmates in the Arizona State Prison system. Part of North America's work force is working by satellite from the Caribbean; it's cheaper labor. You'll have agent turnover and retraining, putting pressure on the insurance agency. There's recruitment of outside executives to shake up stodgy organizations. The financial industry has been very stodgy. You are going to have things like gliding retirement. Society can't make its mind up; should we allow people to retire early? Or should they work until they are 75? In the end people will say "I want to work as long as I want to work." And people will be given that right.

What does this do, not only to your work force but also to your products? You are going to have to bring technology to all your operations in order to remain efficient, in order to differentiate yourself from other companies. In processing information, you will have to distinguish between what Toffler calls high abstract information and low abstract information. That is, what is decision-making information and what is routine information that the computer should be handling.

Another new organization has started up, called the Facilities Management Association. The facilities manager manages the entire facility of an organization. It's more than office management, it's managing the company's entire resources. In downtown Toronto, one single filing cabinet occupies \$1,000 worth of real estate in terms of annual rent. We've got to get rid of filing cabinets. Downtown office space is becoming astronomically costly. You have to reduce the cost of your operation in order to generate more income and wealth. You do this through improving the value of information and knowledge, just as Henry Ford did with his production line to produce cars. He generated wealth that could be shared with everyone. There is pressure on company costs; I see that continuing. There's pressure on cash flow. The economy is not getting any easier. There are pressures on the sales force to produce more. Products keep changing. This puts still more pressure on the sales force; they are going to have to be retrained and reoriented towards the new products.

FUTURES RESEARCH: HOW TO MAKE IT WORK

There's a buzzword of entrepreneurship, breaking organizations down into discrete profit centers. Subcontract work out; get rid of overhead. In my company, we don't have a single person on payroll. There's a whole new phenomenon in North America called "Rent-A-Person." Every person I employ, including my secretary, is on contract and works freelance. I provide only three desks in my office apart from my own. Everything else is contracted out.

In the external environment, we're looking at new products, new market opportunities, repackaging old products, unbundling products. The Baby Boomers and the Yuppies and the single parents are representative of the new markets. How about divorce coverage? How are the entrepreneurs covered? There is a whole new market there--women. Women have not been in the market for insurance, but now that they are moving up in organizations and the executive suites, they need coverage. But, they often find that insurance is structured to a male breadwinner in the traditional nuclear family setting. Yes, there's a lot of innovation going on, but not nearly enough. It's like buying a personal computer; there's a bewildering array of products. So products need to be simplified and sold in different ways so that people can understand what they are getting.

Life insurance salesmen are the people that customers love to hate. People have to have life insurance but they hate it, because it means thinking about death. Two-career families are affluent people; they need different kinds of coverage. I was asking Mr. Williams before the session: "If I and my wife, or my next wife, go into business together, can we get group insurance for the two of us?" He said: "No, maybe you'll need three." I said, "Okay, I'll hire my daughter as a part-time secretary and then we'll have three." But this sort of thing changes the nature of products and services for insurance companies. What about "work at home" coverage? If I'm not commuting, I'm running less risk of getting involved in traffic accidents and train derailments and so on. Maybe that should change coverage. Maybe my disability coverage is going to change. If people are living longer, with extended life care systems, and are healthier, although more brittle and frail, maybe there are going to be more accidents in old age. So maybe accident insurance is going to have to change. Accidents will be a higher cause of death for older people. Long-term care insurance is going to be required. People are going to be around longer, often not in good health.

In the area of retirement plans, maybe we need a different focus. We need discrete market segmentation, we need a total financial management approach--one stop shopping. That's what Sears is after, including electronic delivery of products. High-tech, high-touch counselling. Keep in touch with the customers, find out what they need, spend time with the clients. Use electronics for efficiency--electronic briefcases for all your actuarial tables. They give a competitive edge. People are living in the electronic age, they want things instantly. We're what McLuhan called "the instant-on generation." If I push the button on my TV, I expect it to come on instantly. That has conditioned us for everything else in life.

PANEL DISCUSSION

Consider the implications of economic restructuring. Who are the best prospects for group plans, apart from entrepreneurs, family and small group units? Seventy-five percent of workers are in the service sector, not the blue collar sector. You've got the empty nest syndrome. There are smaller families to begin with, and then the kids move out and you are left with two people, or single or divorced people. You have bioengineering, organ transplants and health costs rising and becoming astronomical. What role should insurance companies play in this healthful society? Not only in terms of social responsibility but also as a marketing approach in terms of enlightened self-interest. There are going to be more competitive threats but also more competitive opportunities. Deregulation will bring both.

That's the future! These implications need a lot more thought in terms of how valid and realistic some of them are, but we've got to decide what they mean. I think it is very clear that we need this futuristic kind of approach to try to understand what the world is bringing us.

How can you become a futurist? How can you get this futuristic kind of thinking into your organization if it is not already there? You may say that your chairman doesn't understand all this stuff. Most chairmen don't, most presidents don't. The Yuppies do! But it is no longer necessary to be a closet futurist. I used to hide and say: "Don't call me a futurist because that's a crystal-ball gazer, and they don't belong in the banking business." I didn't call myself a futurist, I was a corporate planner. I used futures research techniques, but I didn't call them that. I called them forecasting techniques. What this means is that you have to understand the organization's culture and be sensitive to it if you are going to be able to sell any of these ideas. You have to understand the decision setting in your company, in terms of what's acceptable and what isn't. Then you have to find allies within the company, either at your level in a different department or at a higher level in the hierarchy--somebody who's on the leading edge and considered way out--to push this kind of a process. You use the company language, you don't use future's jargon. If the word "scenario" conjures up thoughts of science fiction, or a fairy story, change the language. Say: "Here is an alternative future environment that we see XYZ company operating in," or, "This is a new decision making environment for us," and then people will be encouraged to read it. Play down the fact that futures research is any big new deal. It's been around since World War II. It's accepted now. Build on the fact that everybody else is doing it.

Most people in the world are followers. If you reassure them that somebody else has already tried it, then they will get on the bandwagon, because it is seen to be working. When you can point out good examples of who is using an idea and how successfully they are using it, that gets attention. Once you've got that attention, you can start to create an in-house futures research unit. There are over 500 in-house futures groups in American corporations today. You can do the work yourself, just clip your own newspapers and stick them in a file and look at them once a month and say: "What is all this, is there a pattern here?" To begin with, don't read anything except the headline. If the headline is not clear, read the first paragraph. Then

FUTURES RESEARCH: HOW TO MAKE IT WORK

decide whether you are going to clip it or not. Don't immediately go through the whole article to pull out all the little nuts and bolts of what's on the line and what's between the lines. You simply clip the articles, photocopy them, and gather them together.

Then you begin trend monitoring. Prepare some forecasts. It will quickly become known that you are the person who has an insight into the future. "So and so up on the third floor clips all these articles. I don't know what he's doing, he's way off the wall." But after a time, if you sell yourself properly, you will get all kinds of people coming and saying "Hey, do you know what's going to happen to the North American environment in this particular area because of robots?" "Oh yes! I have a file on it." They will love it! They will get all the instant research that you've been gathering and you'll become a fountain of knowledge. You'll be consulted and invited to join committees and planning teams. Gradually, they will all follow your lead.

You can do what Herman Kahn did at Security Pacific Bank. He started putting out a newsletter. It was called "Future Trends in Banking" or something. There wasn't much about banking in the newsletter; it was all about the external environment of banking. After two or three months people couldn't wait to get this newsletter. He gradually built credibility and the whole thing took off. You become an information center, you are the center of intelligence, you become a node for things to happen.

If you find allies in other departments, they can start their own monitoring process, in marketing, in planning, in public affairs, in government affairs. Maybe you have one person who spends an hour a week doing this and gradually the whole thing comes together. You improve the process, you start communicating with a simple newsletter or a memo. You start with one memo and attach a newspaper article but put your interpretation on it. You point out, "Here's an important thing happening; we should discuss this at our next meeting;" and they say, "Yes, we should discuss it." Other people may have looked at the same article and they've turned the page and that's as far as it's gone. But you're the one who's cut it out of the newspaper, brought it onto the table for discussion and changed the direction of your organization by a little smidgeon. And every time you do that, you build up a futures thinking environment; you change the organizational culture in a way that it becomes more future oriented, and people start reading newspapers in a different way.

What is more futuristic than the actuarial profession? If anybody should be doing futures research, you people should. We cannot afford not to do it in any profession, for if we fail to, I suggest that your company's products and the actuarial base that lies behind them will become obsolete. It is as simple as that. That is how companies go out of business. Futures research is a technique whose time has come for everybody, including actuaries. The future is now!

MR. WILLIAMS: Thank you for a most provocative speech. You've scanned the future for us in a most interesting way. You constitute a

PANEL DISCUSSION

one-man information center yourself, and I can understand why they call you "Fearless Frank."

We have time for questions from the floor.

MR. WILLIAM D. JACK: Could you review the assumptions behind your figure of \$1,000 a year for a file cabinet?

MR. FEATHER: It depends on the rental you are paying and the opportunity costs of the space that could be used for something else. You would have to do your own calculation for your own environment.

MR. EDWARD PFEIFFER: Mr. Feather, you've gone out on a limb predicting a recession, even a depression, in the near future. I wonder if you might put a time frame on that prediction.

MR. FEATHER: As far as I'm concerned, we are already in a recession. My firm does an annual report on Canada's economy. When we did "Outlook '84," we forecasted that, probably, by the end of 1984 Canada would be heading into a recession. We produced "Outlook '85" last September in which we forecasted that the recession would come in 1985 and last through 1987. Some columnists and politicians are trying to tell us that we're going into what's called a growth recession. I think it's much more complicated than that. Our analysis shows that disinflation is turning into deflation. Bond prices have turned around significantly for the first time in forty years. The scenario is building not just for a recession, but for a rerun of 1929. There are over 30 indices, including production, purchasing, inventories and employment that are all pointing in the same direction. We feel that a recession is coming and that there is nothing anybody can do about it. Society has not used the economic recovery to address deficit spending and the amount of debt in the world is more than ever before. Remember too, that when push comes to shove, politicians can change the rules overnight. The downside risk is a rerun of the last recession. If it occurs, it makes a depression scenario more likely. The upside risk is that it is simply a growth recession, and that we have, in fact, broken through to the next boom. But I don't believe we have restructured the economy enough yet for the latter. Neither have we cleared away the debt to enable that to occur. Inflation turning to deflation will become a certainty if oil prices fall. This will lead to more dumping of commodities and products by Venezuela, Mexico and Nigeria, even Britain. Everybody is strapped for cash and when push comes to shove, they start dumping and the market will go down again.

So, as to timing, I think we are in it and I hope to be out of it within 18 months, but it could get worse. Maybe we'll be out of it by fall, and it will have been a growth recession. But I think there's a recession coming and there's a 50/50 chance of a depression.

MR. DOUGLAS W. ANDREWS: I enjoyed your talk. I particularly liked your analogy of the use of computers to driving the car; all you have to do is know how to drive, you don't have to know what is under the hood. I have a feeling that that analogy applies to the talk that you just gave. There must be a lot more than just clipping newspapers in

FUTURES RESEARCH: HOW TO MAKE IT WORK

those thousands of hours of research that you say are behind your predictions. Something seems to be missing. Can I get a computer package that let's me feed in my newspaper clippings and then gives me the results? What's the part that comes after the newspaper clipping?

MR. FEATHER: Some organizations, including my own, are looking at producing software packages so that you can do your own research in a relatively simple way. But you don't really have to do the front-end work yourself. You can log onto data banks, take the data and graph it. You don't need the thousands of hours, but you need the information condensed and simplified so that you have a description of assumptions and logic that lead to conclusions. That information can be boiled down into a few pages, and you can make your own assessment. In the end, it comes down to your own judgment, because we all see the world in different ways. What most companies are finding now is that the outside services are so sophisticated that it's almost re-inventing the wheel to do their own thing in terms of collecting information. Now, anybody can buy information; how do you get the competitive edge? The edge comes in how you use it; through superior analytical skills and judgment.

MR. BRIAN C. TERNOEY: What do you see going on in the next few years for the inflation rate and interest rates?

MR. FEATHER: I really can't say. Our report, called "Global Economic Crisis 1986 to 1990," predicts a bumpy ride or a breakdown in the 1980s, followed by a breakthrough in the 1990s. So it depends on how long and how severe the bumpy ride is.

Until recently, I thought we were going to get a resurgence of inflation. That was because I thought the politicians were going to try to take the easy way out by expanding the money supply. That would have kept the so-called recovery going and gotten us through to the other side; and we would have somehow been able to cope with the debt, once the economy became stronger. But now I think they have missed the opportunity to do that; it is too late. Or there can be massive money printing, in which case we will get hyperinflation. Or we may have a growth recession.

So we can try to deflate the debt away, inflate it away, or monetize it; but the economy is now so weak that monetary policy is going to be a shock no matter what happens. Inflation is artificially low because commodity prices are down and because of the high U.S. dollar, which in itself has sliced 4 percent off the inflation rate. Inflation today would be 8 or 9 percent if the dollar was back where it was 18 months ago. The agricultural sector which is the basis of the North American economy, is in its worst recession in 40 years. It's worse than it was during the last so-called recession. Land values are dropping, which is what happened before the last depression. Commodity prices are declining, we've come through the energy crunch of the 1970s.

Now that we are heading into a disinflation verging on deflation, which would be confirmed if oil prices drop, what happens next depends on what the politicians do. Will they try to expand the money supply to

PANEL DISCUSSION

solve these problems, or won't they? Even if they do try I don't think they will be successful. So we may have hyperinflation for a short time, but I think deflation is the way we are going.

Remember that when an economy gets into tough times, it is the responsibility of bankers and politicians to maintain confidence in the system. They would be negligent if they didn't try to maintain confidence in the system because it's all built on confidence. Therefore you have to read between the lines of what they say.

Jay Forrester at MIT, who developed the Systems Dynamics model which was used for the Club of Rome Limits to Growth study, is not convinced that there is going to be a depression. Rather, he maintains that we are going to have a series of two or three serious recessions like the last one before we come out the other side. A rerun of the previous recession from 1985-1987 is the most realistic expectation for me.

Beyond that, as I said, I am a super-optimist. I think that the 1990s are just going to be phenomenal, that we will have seen nothing like it. When, in the 1990s, depends on how many bumps we have.

MR. WILLIAMS: Mr. Feather's reference to Jan Forrester was to an article in a recent issue of the Futurist which you might be interested in reading.

In closing, let me mention that another Actuarial Futures newsletter is on its way. One of the things mentioned in that newsletter is that we are anxious to have responses from the readers in regard to any or all subjects that are covered so that we can do a little networking of our own.