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FUTURISM SECTION LUNCHEON

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MS. BARBARA J. LAUTZENHEISER: Opportunity! *Roget's Thesaurus* lists the following synonyms: break, chance, opening.

Inherent in these synonyms is change, something none of us likes, and all of us experience. The impact of change is affected by its two basic elements: (1) the rate at which the change is occurring; and, (2) the severity of that change.

Most of us have the perception that change is occurring very rapidly, and although often its impact is relatively severe -- such as Black Monday's impact -- most of the change has only a minor, although uncomfortable, impact. If viewed over a long period of time -- 10, 20, 30 years -- these rapid and minor changes can be seen. However, the result could be changes that are actually slow and incremental, but of extremely severe impact.

In addition, although these changes are perceived mostly to be the result of financial impacts, they are instead the result of behavioral impacts. Having spent nearly one-third of my working lifetime studying actuarial science and the latter two-thirds practicing it, I am beginning to appreciate that I should have spent less time in actuarial science and more time in behavioral science.

It is important, then, to look at these rapid changes of small impact from a different view. We need to see them as small factors in a longer-term change of more impact. By noting what behavioral actions caused them, we can identify opportunities that can flow from them, take action to effect those opportunities and change the impact to one of success.

Some of you may say, "That won't work! Predictions never come true."

Yes, looking back we can always find predictions from the past that didn't come true. For example:

> "I think there's a world market for about five computers." -- IBM Chairman Thomas Watson, 1943

> "With over 50 foreign cars already here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market for itself." -- *Business Week*, 1958

> "TV won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night." -- 20th century Fox's Darryl F. Zanuck, 1946

"By 1980 all power (electric, atomic, solar) is likely to be virtually costless." -- *Time* publisher Henry Luce, 1959

If these rapid changes leading to severe impacts were seen as indicators of what could come as opposed to predictors of what would come, they could be turned into opportunities and options. By being proactive rather than reactive, you can let choice, not chance, control your future. Through monitoring the effect of your actions, measuring their impact on the indicators and managing the new opportunities that emerge, you can hedge your bets on all the threats.

I'd like to share with you some of the long-term patterns I see emerging in the insurance industry, hypothesize as to their causes, generalize as to their effects, and suggest possible solutions to minimize their negative impact and maximize their opportunistic features.

Key to the analysis of what is occurring, what might be happening, and what can happen with intervening influence, is people: consumers, distributors of our products, employees who design and administer the products, regulators and legislators who tax and control our products and the general public who influence these regulators and legislators. People will be the makers or breakers of our industry. Behavioral science, not actuarial science or financial science, is the key.

CONSUMER

The 1960s brought consumerism and civil rights to the nation and, with it, consumerism to the insurance industry. The Moorhead committee was formed to facilitate servicemen's determination of what companies would be best suited for converting from their service life. The results of that committee were the interest-adjusted cost index, which soon spread to the entire industry. The interest-adjusted cost index became the public's and the industry's single quantitative measure for best or lowest cost. With the identification of a single quantification factor and because of the emphasis that the press and persons such as Denenberg, Nader, and Belth placed on it, cost soon became the number one factor influencing the purchase. An FTC report that followed these crusaders put further emphasis on the interest-adjusted cost index and the time value of money. All of this then led to an emphasis on term, which has subsequently led to an emphasis on interest rates. All were rapid though small changes.

The long-term result? A slowly occurring but profound impact on insurance product design, the basis on which the product was sold, and especially on how it was sold by the field forces.

As a result of the computer and rising interest rates, universal life, variable life, universal variable life, interest-sensitive products, optionally funded products, and other new money products could be developed, illustrated, and sold on "numbers." Coupled with the consumerism movement and the emphasis of the FTC report on term and interest rates, this caused the determination in the insurance purchase to shift from an emotional sale to such things as the separation of insurance and the funding for it -- i.e., buy term and invest the difference, buy term and invest the difference with us (universal life); sales on numbers; on the lowest cost, no cost, vanishing premium; or emphasis on the interest rate rather than on the insurance being purchased. Did this shift cause the consumer, the salesperson, and some home offices to forget what they really are selling -- i.e., life insurance? I suspect that in some cases it may have.

In spite of the fact many consumers have become better educated as a result of the consumerism movement and understand the subtle differences between the various forms of products that we sell, and many do in fact want the highest rate or the lowest cost policy possible, I suspect many of them do not understand and would in fact prefer different services. How do you suppose some consumers feel when they hear variable loan rate, direct recognition, new money, investment-year method, portfolio method, short-term rates, long-term rates, T-bill policies, universal life, variable universal life, traditional whole life, fixed-premium universal life, indeterminate premium whole life, etc? What they really want is insurance to replace uncertainty with certainty -- not uncertainty with more uncertainty. For these people, the numbers "game" may not be appropriate.

In the past, we merely sold the salesperson and the salesperson sold the policyholder. What we may possibly have forgotten is that we must ultimately and continually sell the policyholder, not the salesperson. Marketing may need to take on a more traditional approach like that used for soap, soup, and socks. Bartles & James sells the most wine coolers. They have some of the best commercials on television, but they don't necessarily have the best product. They don't tell us the number of people who prefer their wine coolers over others. They don't tell us the percentage of wine their coolers have over others. They don't tell us any numbers. They sell the sizzle not the steak -- an age-old marketing axiom.

Retailers would call our product a continuity program because it requires not only the initial purchase, but continuing purchases. If we want our business to be persistent, should we not pay attention to those things that make the policyholder not only comfortable with the initial sale but with the subsequent and continuous payment of premiums as well?

Do we make continuous payments easy? We say we do; we've had check-o-matic plans for years. But most people today think plastic and credit -- not checks and initial double deductions (double deductions are what an initial check-o-matic requires in practice). How many of you allow premium payments by credit cards?

How many of you give a policyholder the flexibility of establishing the day of the month on which a check-o-matic payment can be drawn to allow the policyholder's options? Or worse yet, how many of you decide unilaterally you'll change the date on which the check is to be drawn and just "notify" the insured (like my company did) because it was easier for the company to do it that way? Customers want options not hassles.

What about customer service to insure that persistent business? Everything and everyone is on a fast track -- fast news, fast booze, and fast food. McDonald's has made such a business of the consumers' concern with speed and fast food that they are opening a new restaurant every 17 hours! What are you doing to make customer service fast and easy for your insureds? Are you providing such things as self-addressed post cards for address and beneficiary changes? Or better yet, are you providing 24-hour, 7-day-a-week telemarketing to facilitate such changes or to answer customer questions and provide information about their policies? Are you placing outgoing telemarketing calls? People like to be paid attention to. What a good way to build public relations and persistency at the same time. Just let them know that humans, not computers, run your company. Or do they? How many times do you do what you do because it's the easiest way for the computer? That's not artificial intelligence, that's artificial negligence.

How much do you know about the profile of your policyholders? Do you know who pays the bills? Do you know who brings in the mail, opens it, and determines whether or not a check will be written, and actually writes the check? Do you know who really is in charge of persistency? The secretary? The wife? The retired husband? How can we effect persistency when we don't know who controls it?

How easy are you making it to obtain insurance? How fast can you issue a policy? Are you using all of the available technology to get policies out before your competitors do? Yes, all things come to him who waits, but sometimes they're just leftovers. Facsimile equipment, virtually not used a year or so ago, is now so inexpensive that it can be carried around by your salesperson. Other possibilities are personal computers for delivery of policy information, cable TV for sales, personal computers for direct-marketing sales, and policyholder access directly to your computers by a personal computer or cable TV. Automatic Teller Machines (ATMs) for either service or sales were once considered "too complicated" to be of any benefit to policyholders. There are times now that I cannot get through a hall or down a sidewalk because of the line formed in front of an ATM. There isn't a child born within the last ten years that doesn't already know more about computers than most of us. Computers will not be threatening to them. They will be required by them in the next 10 to 20 years when they become insurance purchasers.

Time not only controls the consumer's desire for fast service but controls the consumer's and salesperson's desire for a fast sale as well. Prospective applicants are no longer willing to spend an entire morning or night talking about an insurance plan. The salesperson has a difficult enough time getting an appointment, whether it is with an executive during the day or a family in the evening, let alone requiring a significant amount of time in which to make the sale. Sales materials designed in a direct marketing mode to help a fast sale are ways in which the attitude of "I don't have the time" can be overcome.

It's clear that consumers want ease of access for the sale and service. Time is precious for all. Will cost then become less important for some consumers who are willing to pay more for speedier service, personal service, quality service, or immediate access to information?

Profitability has become a key concern for many insurers with interest rates not only dropping on policies, but also as a result of volatility of the market following Black Monday.

Are some companies still crediting more than they are earning on their interest-sensitive policies and putting the solvency of their companies in jeopardy? Will the combination of crediting interest in excess of what they are earning plus the AIDS impact further propel the potential insolvency of many companies? What if many do become insolvent? What impact will that have on the guarantee funds and your contributions to those guarantee funds? What impact will that have on your earnings? Will it further decrease the interest rates or dividends you can declare? How will policyholders and prospective clients react to declining interest rates on policies, now that we've made the interest rate the primary focus of sale?

With the economy and interest rates volatile, many companies have moved to selling variable universal plans with the funds invested in bonds, preferred stock, common stock, or real estate. In doing this, as well as in developing interest-sensitive products, the companies have eliminated the volatility of the investment risk for themselves. However they have merely transferred the risk of the investment to the consumer. Once the consumer determines this, will he or she continue to buy? Doesn't the consumer buy insurance to eliminate rather than to take risks? With volatile interest rates and losses on Black Monday, will consumers not want more guarantees rather than fewer? We're in the risk transfer business. Shouldn't we find sources other than the consumer to whom to transfer the risk? Is there any possibility we can transfer risks more through a casualty approach or can we transfer risks through the international market? Or should we be emphasizing insurance rather than investment so that we can again take the investment risk?

With interest-sensitive products, virtually all of the investment profits flow back to the policyholder on a year-by-year basis. With expenses continuing to climb and mortality now volatile as a result of the AIDS issue, profitability on these products become a concern. With the possibility of consumers not understanding that it is he or she taking the risk, the minimal or questionable profitability of interest-sensitive products, and the consumer's desire for guarantees following Black Monday, is it not time to reconsider needs' selling as the best way to sell?

Needs' selling is, of course, not a new approach, but nonetheless a valuable one. Over the last few years, consumers have consistently identified that they wanted to be considered "special" and that their individual needs were the ones that needed to be identified and filled. The cafeteria approaches now being utilized by many employers is a clear indication that employees don't want to spend money for those benefits they feel are not valuable. Needs' selling, best done through financial planning, also quantified the amount that a person needs to fill the financial contingency they wish to cover. A $100,000 life insurance contract may sound like a lot of money, until one identifies how much it really will provide in terms of lifetime benefits. Retirement, too, once was considered the "end of one's life." It is now the commencement, the beginning, of what is frequently a second career or at least a second but relatively long period of life. The average woman is expected to live 19 years after age 65, and the average man is expected to live 15 years after 65. Thus, with one-fourth or one-fifth of one's lifetime occurring after age 65, the need for, and opportunity for, sales of life insurance continue to be strong in spite of the outmoded perception that after retirement life insurance is not necessary.

Target marketing has been discussed, and possibly even thought to be practiced, for some time. The targets, however, have generally been the income level of the person, the tax or investment opportunity created by the product, the method of payment, such as minimum deposit or vanishing premium or business versus personal. All are numbers-oriented. Markets can be identified, however, by age group, such as the continually growing elderly group, by marital status, or by sex. Women continue to be an untapped market. Today 53% of the work force is made up of women. Unfortunately they are considered a monolithic group when, in fact, they are not. With such a large number of women prospects, they too can be further segmented by marital status, age and whether they work in or outside the home. The vast majority of the nation's wealth rests with elderly women. Do you have advisers on sales and services to women?

Ethnic groups, too, could be targeted. The Hispanic and Latino populations are yet other growing untapped markets.

Large employers have long been identified as a market tapped by many insurers, but how many insurers have done something to accommodate the growing number of at-home or sole-employee persons, a trend that is expected to continue in this information- and service-oriented society.

As new types of targets are identified, products can be designed, sales material developed, and distribution systems identified separately for each market. Some markets will want personal service at a cost. Others will want fast service at a cost. Some will want faster service at a lower cost, some will want hassle-free buying and service, others will want flexibility of premium payment. All will want individualized sales literature to make them feel special.

Packaging is important in sales and in service. Other industries have known this for years. A McDLT is still a hamburger, it's just boxed and sold with sizzle -- and cold. Your products may not be that different from others, but how you sell them, and how you service them, and how you present that sales and service should be.

The attitudes of consumers have been changing and will continue to do so. As insurance products continue to be sold as financial products, as opposed to insurance products that have financial attributes, the public will continue to compare them to other financial products without seeing their special insurance provisions. As they make these comparisons they will then want access to their funds, access to information about their funds, and access to other services on the funds in the same manner they have been provided by other financial institutions. Insurers, therefore, will have to either provide those same services and make them as readily accessible and available or they will need to identify those elements of the insurance contract that make it special and unique. Competition will require differentiation one way or the other.

Insurance consumers will want their needs filled, not the insurers' needs filled. The Life Office Management Associations (LOMA's) report, "The Future of Pension," summed it up correctly. That report quoted an insurance customer as saying insurance companies "need more commitment to real life . . . they're reactive." Yet another customer said that perception problems and lack of flexibility are hurting the insurance industry. Another complained that insurance companies get "so bogged down with administrative details." Another stated that "insurance companies must be more accommodating." And still another from a large midwest employer, addressing a group of CEOs of insurance companies, said: "Don't react with excuses; don't rationalize; don't bother to justify."

Customers don't care about our problems. It's their needs that are important to them. Their needs, their attitudes, their expectations are changing, slowly but dramatically. If we address them and accommodate them, we'll obtain and retain them as clients.

DISTRIBUTION SYSTEMS
Current distribution systems reflect ongoing short-term attitudes of many insurance companies to minimize expenses. Fifteen to twenty years ago, most insurance companies had a captive field force. Insurance companies are increasingly, however, moving toward noncaptive field forces, and relying on fewer companies to train and develop field representatives. In so doing, long-term trends are again being established.

The first is that although there are currently adequate field personnel to act as brokers for the vast majority of insurers, this will not be the case in the future. Some means will then need to be established for the training of these agents outside of the insurance company, or for education, funded but not provided, by the companies. If neither or these occurs, there will be even greater competition for a limited number of self-educated salespersons who will require even greater compensation. It seems to be self-evident that if no new people or relatively few new people are being trained by a few companies, those few companies may discontinue doing so and even if they were to continue to do so there would not be an adequate supply of field representatives for all insurance companies. Are those insurers currently using noncaptive field forces, making preparation for what they will do to have adequate supplies of field representatives available in a the future? With fewer salespersons being trained today to provide "experienced" salespersons for tomorrow and fewer people demographically available to even train as life insurance salespeople, will they become rarer than actuaries? I suspect not. But there will be too few, and they will be inexperienced. Will part-time field forces become the norm? As in Japan, will women become the major purveyors of our products?

A second major impact showing up even sooner is that contracts for noncaptive field representatives generally provide steeper front-end commissions than do contracts for captive field representatives. Profitability of products has been suffering not only from smaller margins from investment earnings as a result of their interest-sensitivity but also as the result of poorer persistency. Will even more consumers continue to change carriers every year or two or three and be as mobile as they are for auto insurance? What will be the impact of these higher front-end commissions on profitability?

There will be increased consumer pressure for compensation to actually decrease, particularly on interest-sensitive products. When single premium annuities were first sold in Canada and then in the United States, they were competitive in their commission structure to encourage the salesperson to sell them, so the compensation was high. This was, however, followed by consumer competition for low cost, so compensation became low and resulted in an approximately 4% per year level commission. Will universal life, variable life, and variable universal life be forced to low-level of compensation in order to be competitive with other financial products?

Would it not be better to begin working towards a low-level-commission-on-top-of-salary concept in order to maintain adequate compensation so that the salesperson can feed his or her family? This would enable the pricing of products on a basis where persistency does not have a significant impact. Salary plus low, level commissions also picks up the efficiencies of the larger volume sales. With commissions now as a percent of premium, the large expenses of commission and manager or general agent fees go up as the volume goes up. There are no economies of scale in our current system. Salary plus low, level commissions too could even bring in a new group of salespeople.

With the decrease in premiums that has been taking place over the last ten or twenty years, the low-income and lower middle-income markets have already been vacated by insurance companies' field forces. Will more and more of the middle-income market continue to not be addressed by the field force of companies as new salespersons are not trained, and experienced salespersons move to higher income prospects? If these markets are not accommodated by insurance companies, will stockbrokers, banks, HMOs, retail stores, and grocery stores become the sellers of our products? Deregulation is already propelling this. Would we not be wiser to expand into other distribution systems -- such as direct marketing, joint venturing with other distributions, or using employers more?

Direct marketing is already used by many companies. Many in your field force use it for prospecting right now. You use it all the time -- it's called sending out a premium notice, a loan interest due statement or dividend statement. Are you utilizing all of your direct marketing through mail potential? When you mail, have you added material to the full weight allowable? Stuffers can help with PR, GR, and SR -- public relations, government relations, and sales relations. Do your mailings and service literature match the profile of the person handling your insured's policies? Note I said the person handling the policies -- not the insured. They control the policy, not the insured. Are these people old or young? Male or female? Professionals or laborers? Each responds differently. Some respond to numbers, some to pictures, some to quality of paper. Do your words and numbers clarify or confuse? Are you anticipating what your customers do want and will want in the future?

If we've not found it feasible to reach middle and lower income markets through our field force, rather than leave them to other distributors, would it not be smarter to have some of the profits, rather than none of the profits, by manufacturing the products and joint venturing with other distribution centers, retail stores, and grocery stores to distribute them?

That's been tried and it didn't work, you tell me. Did every field office you opened work? If it had we wouldn't be terminating captive field offices as we repeatedly have in the last few years. We've been "testing" field offices for decades now. Some companies have determined they can make none work. The point is, each joint venture is a test, just as one wrong element can cause the test to fail.

When Ford failed so miserably with the Edsel, General Motors decided to test its new Nova in the Mexican market. Their test failed miserably and no one could understand why, until someone pointed out that Nova means "no go" in Spanish.

Again, it's not just what you do but how you do it that creates success. If one joint venture fails, analyze it, determine why, and test again. More knowledge has been gained in all the sciences by what didn't work than what did work.

Employers have long been distributors of insurance products, through welfare and pension benefits provided to their employees. However, they will also be modifying their plans. As these benefits have grown more and more costly, employers have been searching for ways to reduce these costs, even prior to the tax law changes. As a result of the current tax laws, however, smaller amounts of these benefits will be deductible and they will be taxed at a lower rate than in the past. There will, therefore, be an increasing incentive for employers to reduce welfare and pension costs by providing current compensation in lieu of these welfare and pension benefits in order to not only maintain or reduce actual insurance costs but to reduce administrative costs as well.

The government's ultimate desire is to make every possible welfare benefit available to everyone, through any form of practitioner. However, since the government recognizes it cannot afford them, it wants the benefits to be provided by private industry. This will continue the increase in mandated benefits that has been occurring in the past. The continual mandating of benefits of a social system, through private insurers and employers, will cause more and more employers to self-insure, and ultimately, as a result of the current tax laws, to even stop self-insuring and to provide compensation instead. Thus, cafeteria plans, possibly not subsidized at all by the employer, are becoming the major way the employer provides benefits to his or her employees.

As a result of the current nondiscrimination rules, many employers will need to exclude executives from the qualified plans, putting them in separate non-qualified plans or providing the benefits to the executives on a significantly less favorable basis. This will cause the prior incentives for top executives to implement and/or maintain plans to diminish or vanish.

Other aspects of the law will also increase the costs of plans. Part-timers must be included for nondiscrimination testing for welfare benefits and eligibility. The cost of covering these employees, or the cost of tax consequences of a discriminatory plan, will further propel compensation in lieu of benefits, since nondiscrimination requirements do not apply to employee-pay-all plans. This is especially true for industries with a large number of previously nonparticipating employees -- i.e., hospitals, retailers, and banks.

Qualified plans will require more rapid vesting and all costs, regardless of vesting provisions, will not only increase actual plan costs but administrative costs as well, since more people will be vested and/or eligible for benefits, and the required joint and survivor coverage will be extended to a larger group of employees. These will even further propel compensation in lieu of benefits.

At a conference last October, Dallas Salisbury, President of the Employee Benefit Research Institute (EBRI), expressed that under the high tax rates of recent decades, there has been a strong incentive to use employee benefits. The lower rates adopted as part of the Tax Reform Act change those economics and could make employers and workers more carefully question why they want employee benefit programs. Tax-driven design of the late seventies and early eighties should not be the driving force today or tomorrow, and reevaluation of the decisions made in that era would appear to be in order.

In addition to these factors, Salisbury also cautioned not to overlook the huge impact government has on employee benefits. "The government giveth and the government taketh away, when it comes to employee benefits," he noted. "It is the largest provider and has a strong interest. What we're doing in the employee benefit field today is about 98% a function of government policy -- far more than corporate profitability, far more than employee choice.

"If you look at the laws and you look at what employers have implemented, you see that it is corporations that have followed the lead of government policy, in the addition of benefits -- not the other way around," Salisbury commented. "It stresses that the government has determined what kind of plans you can have, what their design features can be, what they can and cannot do to people, and how much you can spend on them on a tax-favored basis."

According to Salisbury, the future of employee benefits will represent a marked contrast to that of employee benefit programs developed from 1945 to 1980. That period represented growth in employee benefits across a broad spectrum. New benefits were added on an ongoing basis by both the public and private sector. On the government side, there was a great deal of legislation aimed at making it advantageous for employees to provide more, which encouraged the provision of new and different benefits on a tax-advantaged basis. The private sector responded by adopting programs and expanding those already in place.

Today and in the future, however, approaches must be different, Salisbury warned: "Building the fire line in anticipation of the inevitable dry season is far wiser than waiting to prepare until after the fire bell begins to ring." And clinging to traditional human resource approaches, while changing the business dramatically, makes little sense. Changes in the business environment will better reinforce the need for reevaluation of the structure of employee benefits and other human resource programs.

Employees, however, have been well ahead of the industry and the government in wanting cafeteria benefits with the options to choose what best suits their particular needs. Lifestyles are so varied today -- i.e., there has been a significant decrease in the nuclear family (husband working, wife working at home, two children), and a concomitant increase in dual income and single-parent income families. Cafeteria approaches may be the only way to make what have become entitlements, fringes again.

This change in the way employers provide benefits will change the way insurance benefits are distributed through employers and has the potential of decreasing substantial amounts of insurance distributed through employers unless changes are made. Once again opportunity arises! These same benefits can be provided through salary deduction or salary allotment programs. Benefits are continued to be provided but not necessarily paid for by the employer. The employee can pay for those benefits that the employers are not willing to subsidize or fully pay for thus allowing the benefit programs to continue to be sold through mass marketing distribution systems but in different ways than previously done. If this form of distribution is not considered and adopted by insurers, premium income through employer-distributed programs could substantially decrease.

As more and more employer-sponsored pension plans also move to defined contribution plans, there will be more potential that these defined contribution plans will not provide adequate benefits at retirement. Employees may not realize that account balances may not have adequate gains from the contributions and interest to provide enough dollars for the retirement income they are anticipating. Identifying this potential then provides the opportunity for additional sales with employee contributions to make up any additional dollars for the retirement years.

The tax laws are also placing more emphasis on pensions (i.e., benefits at retirement, rather than savings) by placing heavy penalties on withdrawals. If the government continues this trend, what opportunity does this provide to develop products for saving, in addition to products for pensions?

Long-term care is also a growing concern. Making employees aware of the additional moneys that will be necessary for long-term care benefits also provides an opportunity for additional insurance sales.

In spite of employers possibly having less desire to provide benefits, employees are going to have more desire to acquire benefits through them. The distribution system will remain, but the products and who pays for them will not. Shouldn't we be looking at ways of selling even more through the employer?

Distribution systems are customers' field people, employers, men and women in banks, retail stores, grocery stores. And when an opportunity arises for them to maximize their income and/or minimize their expenses, they are going to take actions to do so. Their behavior patterns, therefore, will affect the distribution systems of the insurance industry.

Technology, too, will have an impact on our distribution systems. Today the sale is seldom made without a computer illustration of not only the new policy, but in many instances of the in-force policy as well. We've had difficulty coping with this, but it's just the beginning. Laser printing and desk-top publishing are already here, but not yet fully utilized in sales. They will be. When people talk about superconductivity, they usually talk about levitating trains. Those will occur, but it's the airline industry they'll revolutionize. Where superconductivity will affect us is in our data management, data communications, and data storage.

If we daydream a moment and go to the year 2020, all computer hardware could be laser-driven, voice-activated with communication lines created with no interference or resistance through advanced superconductors. Paper would still exist but would be almost obsolete due to optical scanning and storage and display of data, with easy changes made through a portable laser pen, the size of a pencil, fitting into your pocket when not in use. There will be immediate update, evaluation, and reporting response of policyholder records. Databases as we know them could be nonexistent, since system software could be completely part of hardware. No tuning will be necessary, since future hardware will be self-adjusting. It's almost impossible to visualize but it's on the way and those who take the opportunity to anticipate and to take advantage of these changes in technology will have a significant competitive edge.

EMPLOYERS

The only inventory that a life insurance company has is its people and data processing equipment. Even with the rapid change in technology, hardware however is easier to manage and control than are people. Many companies have been increasingly concerned about their expenses and the loss of profitability arising from those escalating expenses and minimum margins as a result of interest-sensitive products and AIDS mortality. Although expense control is necessary, it must be done with the least amount of negative impact on employees as possible. As technology continues to escalate, the white-collar workers will be replaced by silver-collar workers with substantially more technical and professional skills than we have seen in the past. Attracting those persons and keeping them will not be easy in an environment of heavy cost control. Although it is anticipated that the average working week for a laborer will drop from the 40 hours per week in 1980 to only 32 hours per week by the year 2000, an opposite trend will occur in the length of the work week for the executive. His and her work week will increase from an average 55-hour-week to 60 hours per week by the year 2000. To attract and keep these people, cost benefit rather than cost will become imperative in determining how various cuts should be made.

The misapplication of this concept is illustrated by an industrial engineer who was sent by his boss to report on a concert featuring Schubert's unfinished symphony. His observations follow:

1. For considerable periods the oboe players had nothing to do. Their number should be reviewed and their work spread over the whole orchestra.

2. All 12 violins were playing identical notes. This seems an unnecessary duplication and the staff of this section should be drastically cut.

3. Much effort was absorbed in the playing of semi-quavers. This seems an excessive refinement and it is recommended that all notes be rounded off to the nearest quaver.

4. No useful purpose is served by having the brass section repeat the passage already handled by the strings. If all such redundant passages were eliminated, this concert could be reduced from 2 hours to 20 minutes. And if Schubert had attended to these matters, he would probably have been able to finish his symphony.

Unfortunately, in spite of how expense control and downsizing are accomplished, they will have an attitudinal impact upon the employees remaining. Anytime the work environment is made riskier, at least some employees will tend to minimize their risks. This not only reduces the creative and entrepreneurial attitudes of these employees, since they are unwilling and possibly unable to take risks in the riskier environment, but also tends to reduce their loyalty and willingness to make work an end unto itself as opposed to being a means to another end -- i.e., leisure or recreation.

The LOMA-sponsored Arthur D. Little report, "The changing human-resource equation," stated: "Today's workers have changed the values and structure of your workplace, establishing ideas of worker involvement, participatory management, and team-building. When the organization man dedicated his life to his organization, he expected it to provide worthwhile work and long-term security. Today, especially in the insurance industry, trends in the marketplace make long-term employment contracts unwise or unavailable. And from their side, people today decide on a lifestyle and them find a job to support it."

As a result of downsizing, insurers may also find themselves using more consultants and contract labor in order to accomplish the results they need in a more immediate time frame. This will reduce the cost of fringe benefits that are not payable to consultants and contract workers as well as pay for the time that is only absolutely necessary. But there could be some trade-offs -- in consistency of the work product and knowledge of how it was done -- that could be useful in later years.

Also as a result of the paring of expenses and downsizing, many companies are replacing middle- and upper-level managers. It is estimated in the LOMA report just referred to that over a half-million executives have been displaced in the last five years. Although this replacing has the desired effect of reducing expenses, it generally also reduces experience, since the person being replaced has frequently been with the company a significantly longer number of years than the person who is doing the replacing. This lack of experience could be detrimental if there is no access to that experience through some other means. As expense control is implemented, it is imperative that long-term company development is not sacrificed on the altar of short-term profits.

Another impact will be the size and demographic mix of the employee population. Much of the downsizing that is now occurring, intentionally, will ultimately be occurring automatically. The national work force is aging rapidly as the baby boomers pass through their 40s and into their 50s. The pool of young entrants is shrinking substantially even with larger numbers of female workers. Minorities, available both because of immigration and higher birth rates, will increasingly comprise the work force to fill that gap. Unfortunately, in an age of technological advancement and the need for more silver-collar workers, the work force will instead contain larger numbers of the lesser educated. This will require more employer training. In addition to employee training, issues of childcare, adult daycare (for our rapidly growing very elderly population) flexible working hours, flexible benefit plans, temporary employees, part-time employees, and at-home employees will be the norm rather then the exception. Should we not be retaining and maintaining our best work force for the future?

REGULATORS, LEGISLATORS, AND THE PUBLIC WHO ELECT OR SUPPORT THEM

In spite of the severity of all of the previous threats, none is as severe as the threat of total governmental takeover as a result of the public's misunderstanding of the very basic principles of insurance, risk sharing, risk classification, and pricing. We've done such a good job of convincing the public that insurance is a necessity and not a luxury that they now believe us. Everyone wants insurance, but they don't understand that insurance must be purchased before you need it, not after you need it; that insurance is risk-sharing and it has to be priced fairly and equitably.

Legislators and regulators are moving more and more toward mandating of coverage at one rate for all and insisting that we must stay in a line of business, even if we lose money on it. A 1970, Trend Analysis Program (TAP) of the ACLI identified four major trends that clearly are discernible today. The first was the elimination of personal involvement in transactions. That is, it's corporations (insurance companies) not people (the man or woman at the corner store) that should have to pay. The second trend was a no-risk society resulting in an attitude of "it's always someone else's fault." The third was redistribution of wealth with its attitude that someone should have to pay for every injury, and all forms of insurance should be affordable. And the last trend was the psychology of entitlement requiring that insurance should be not only affordable, but affordable for all. All of these trends have come to pass and are dramatically impacting us today.

If I were to tell you that by the year 2010 (I can no longer say 2000 because that's only 12 short years from now) there would be socialized insurance throughout the United States, you would tell me I was crazy and it was impossible. I may be a cassandra, but I suspect I am not because that process has already begun.

When Medicare was implemented, many insurers were relieved because they felt it was an expense that was not controllable and that government could better fill the need. Still others were concerned about the government takeover and still others found an opportunity in marketing Medicare supplement contracts. That

Medicare "hole" was filled, however, with private insurance that did not provide all of the benefits. The Medicare supplement contracts, like Medicare, did not fully cover catastrophic benefits and long-term care benefits at home, in nursing homes or in custodial care homes. Because those benefits were not provided, legislators will more than likely pass, within the next year or two, the catastrophic bill initially proposed by Secretary Bowen over three years ago. That proposal will virtually restrict all of the medicare supplement contracts to covering only the initial deductible.

Let's take that process further out. As catastrophic coverages are covered by the government and more and more persons live longer and need and want more and more life-saving transplants, Medicare expenses will rise. This will make the Medicare costs larger, thus forcing the government to increase the deductibles on the front-end. But guess whose premiums will have to be raided to cover those deductibles? The insurance industry's, and once again we will be the "bad guys."

The healthcare costs for the elderly are virtually totally paid for by the federal government since the passage of the catastrophic coverage plan, with the exception of long-term care. But insurance companies, apprehensive about the unknown costs, are not providing full coverage, or long-term care benefits. Only limited benefits are available. Unfortunately, this industry's emphasis has not been on prefunding of these benefits but rather paying for them at the time the person is elderly. That makes them a much more costly form of coverage. Time is needed to accumulate funds adequate enough to provide long-term coverage just as they were necessary to provide long-term pension coverage. With private insurance plans not fully covering these needs, will not the public insist that government plans cover them?

What about health insurance for the vast majority of the public? Governor Dukakis, presidential candidate Dukakis, is proposing that all employers in the state of Massachusetts provide health insurance for their employees. Senator Kennedy had a similar proposal on a federal basis. Although the intent is to reduce the number of uninsured, the result, however, will be the opposite. Many small employers currently use contract labor as opposed to employees in order to reduce their unemployment and social security taxes. When they are also faced with health insurance premiums of $100 to $500 per month per employee, you tell me how many of their current employees will suddenly also become contract employees. Thus the result could be more uninsured rather than fewer uninsured.

With the total number of uninsured increasing, the federal government then will be even more concerned, indicate that the insurance industry was not able to "solve the problem," and insist that they, the government, must take it over.

In addition, as a result of mandated benefits, many companies have themselves withdrawn from the individual health insurance market. In the mid-1970s there were 100 companies selling individual health insurance in New York. By 1982, that number had reduced to 20 and it is now suspected that the number is less than 10. If those numbers are occurring in an area as populated as New York, we can assume they are occurring over most of the United States.

To further complicate the difficulties of the individual health insurance industry, much of the public and legislators and regulators are perceiving that health insurance is a necessity as opposed to a luxury and therefore should be available to everyone, not just the uninsured but the uninsurable. We therefore see a tendency in all of the hearings proposing to ban AIDS testing to distinguish between health insurance and life insurance. Stating that although testing may be ultimately allowable for life insurance, it should not be allowable for health insurance.

What happens when persons can wait until they are ill before they purchase health insurance? The premiums rise dramatically, more and more people cannot afford or refuse to pay for coverages whose premiums are escalating and once again we have a larger uninsured population, further propelling a national health insurance program.

And the difficulties do not end there. As a result of higher medical costs, particularly driven by excessive testing because of a very tortuous society, with people being more than willing to sue their hospitals, doctors, psychiatrist, and even ministers, health insurance costs continue to escalate at a rapid pace. The February 15 *New York Times* reported that over $1.25 billion was lost on health insurance plans in 1987, with approximately 80% of those losses coming from Blues plans and approximately 20% coming from commercial plans. Some of these insurers argue that this is part of the normal cycle of health insurance. It is true that health insurance has cycles just as the property/casualty business does, and I suspect most of the Blues will stay in business. However, I suspect some of the commercial carriers will not. When a line requires 80% of a company's time to do merely 20% of its business, some companies determine that being in that business is no longer feasible. Several companies have already made that decision on their group health business as well as on their individual health business. Additionally, the Blues in Vermont announced approximately one month ago that they, too, have ceased accepting any new individual health insurance policies.

What then happens when the individual health insurance market as well as the group health insurance market is vacated by more and more insurers? The public and legislators will see a hole that needs to be filled and they will fill it with a national health insurance program.

And socialized insurance programs will not stop there. At many of the hearings on legislation and regulation to prohibit AIDS testing for insurance, many regulators and legislators have indicated that not only a guaranteed health insurance plan should be available to each American, but some form of guaranteed disability income and guaranteed life insurance as well. The amounts for disability income are generally in the range of $2,000 per month and the amounts of life insurance are generally in the range of $100,000, per company, not per person.

The governor of Vermont is reputed to have desired that there be a guaranteed amount of life insurance not just for HIV-infected persons but for all persons regardless of the reason that they are uninsurable. A proposed regulation upon which a hearing was held last December in Florida required that all tests, not just the AIDS test, be "generally recognized" by the medical community. That proposed regulation has since been modified and is much more AIDS-testing specific. However, the concerns expressed by the Florida Insurance Department at the hearing were that it was important that there be minimal "false positives" in any of our testing procedures, because it was not fair that someone be denied insurance based on a test that was not extremely, if not 100%, accurate.

So in spite of the fact that our social security system already provides life insurance in the form of monthly benefits to children whose parents are covered under social security (with amounts ranging from $60,000 to $100,000, depending on whether or not the worker earns an average income or the maximum social security income) those benefits either are not recognized or not perceived to be adequate by many legislators or regulators. What we are seeing then is not a possibility but a real tendency towards socialization of all insurance because it is perceived as a right, an entitlement, a necessity. Further, insurers are felt to be the persons most appropriate to pay these expenses, since that's what "insurance" is supposed to do. My newest "a ha" is that what I had seen as a risk classification issue and concern has now turned into a socialization concern. The risk classification issue is merely a symptom of the larger socialization disease.

The risk classification issue is nonetheless still severe and will continue to contribute to the socialization issue. Seventeen years ago, I began to be involved in the unisex issue because of a comment made by the chief underwriter of the company I was with then, the Bankers of Nebraska. He said that the woman with whom he had lunch and who was the head of the epileptic foundation didn't think it was fair she had to pay more for her insurance because it wasn't her fault she had epilepsy. That comment made me realize that if we did not take a stand on gender-based pricing, where we had a large volume of data, then we ran the risk of losing our entire ability to do risk classification on substandard and medical criteria as well. So I began to work on the issue.

We have resolved the gender-based pricing issue in all states except Montana, where we can't try again until 1989, and the state of Massachusetts, which has attempted to mandate unisex pricing in all lines through a regulation since they were unable to do so by legislation. We have filed suit on that regulation but it has not yet come up for trial.

For those of you who may not have read this regulation, I suggest you do so. Its language reads that a policy must be "unisexed" -- i.e., its male premiums reduced or benefits increased with no premium increase, when a policy is "renewed by agreement" after September 1, 1988. The regulation, however, states that "a policy shall be renewed by agreement when premiums under an existing polaicy are subject to change either by the insurer or the insured by an amount not predetermined by the policy." Notice it doesn't say changed, but says subject to change and that change can be made by the insured.

All existing policies are subject to change by the insured by an amount not predetermined by the policy because their amounts can be decreased and riders can be added or deleted. Some companies also do not specify in the policy how modal premium changes are to be determined. Thus the regulation is retroactive.

And this is only one portion of this regulation that makes it fully retroactive. Since dividends are refunds of premium, at least we've repeatedly argued so to the IRS, the fact that they are subject to change by the insurer requires all participating contracts on Massachusetts residents to be unisexed September 1, 1988. That makes the regulation retroactive.

If you haven't put your actuaries to work quantifying this impact, I suggest you do so. If you had dividends or surplus problems before, you should see what the requirements for these deficiency and other reserve increases would do.

Some in the industry were not as concerned about the gender-based pricing issue because it could be "lived with" on a prospective basis and did not see it as merely the minimum standard in a series of standards that were yet to be placed upon the insurance industry. The next step in those series of "minimum standards" was one we could not have predicted. It is the challenge of our right to test for the HIV infection.

This threat is not only real but extremely dramatic. Many physicians are now identifying the disease as not AIDS but rather HIV infection with AIDS merely being the last manifestation of the HIV infection disease. The Walter Reed Army Institute of Research does not measure the symptoms of the disease, but instead measures the impairment of the immune system. They have found that there is a serious deleterious effect within five years of the point of HIV infection.

The symptoms of the Centers for Disease Control (CDC) definition of AIDS, however, do not appear for a very long period of time after infection. This latency period from infection to symptoms is now averaging between eight to nine years. It is also commonly noted that the probability of progression from HIV infection to AIDS is virtually 100%. Dr. James Mason, director of the CDC, indicated in his presentation to the 1987 annual meeting of the American Council of Life Insurance that "a figure approaching 100% of those infected will develop symptoms of this disease that is invariably fatal."

For those of you who may not appreciate the financial impact of AIDS on life insurance, let's try a simple arithmetic exercise. Assume that 100 men who are infected with the AIDS virus are issued insurance because of the insurance company's inability to test for the infection. Assume each is age 34 and purchases $100,000 of term insurance. The average premium for the next seven years is $200 per year. Assume none of these people die for the whole of seven years. What is the premium for one person? $1,400 right? So the insurance company is able to receive all seven years' premiums, i.e., premiums for 100 persons, totaling $140,000. At the end of seven years, 20% die (the lowest percent expressed by the public health service). The total death benefits payable is 20 times $100,000, or $2,000,000. How can the insurance company afford to pay out $2,000,000 when all they've collected is $140,000? Investment income right? Show me an investment where I can put in $140,000 for seven years that will return an additional $1,860,000, i.e., a 1329% guaranteed return, and I'll retire.

And these are only based on a 20% probability. If we use data from a Frankfurt, Germany study we pay out nearly $4 million requiring over a 2700% guaranteed return.

I will not go into detail about the status of the legislation and regulations proposing prohibition of testing for the HIV virus because that is a speech in and of itself. Suffice it to say that prohibitions on testing on all forms of insurance remain only in California and in Washington, D.C., (which prohibits not only AIDS antibody testing but T-cell testing, which is not AIDS-specific, but tests whether or not the immune system is impaired) and in Wisconsin and New Jersey where no testing is allowed for group insurance. In addition to the efforts that are being made in other jurisdictions so that this type of legislation does not pass, work is being done to see if the testing bans where they already exist can be eliminated. There is some possibility of being successful there as well.

Most revealing however, are the statements that have been made at the hearings, at the NAIC meeting in December 1986, and at meetings with the Massachusetts Insurance Department. They are as life-threatening to life insurance as AIDS is to IV-drug users. At the DC hearings we've heard: "You should be allowed to categorize or classify risks only on what a person can control." We've subsequently heard that it should not only be on what one can control, but on what one can control in the future. "Insurers, not the public, should bear the cost of life-threatening diseases." "It's not fair that someone who has only a 20% probability of dying in the next year (26 times greater than normal mortality and over five times greater than the mortality we will normally take for even the highest substandard rates) can't get insurance. After all, he's the one who really needs it." "Do you discriminate against people with multiple sclerosis?"

At the NAIC December 1986 meeting, we heard the gay rights advocates say: "Testing will increase the economic burden on states and the federal government because welfare programs instead of insurance companies will bear the costs." "The question quite simply is who pays?" "Will the cost of care for those who test positive be borne through increased taxes or distributed among those who are part of the private insurance system?" "With enormous budget deficits, it is far more difficult for the government to assume new expenses. Indeed, the sole purpose of health insurance is to pay for medical expenses." If this doesn't sound like socialized insurance through a private voluntary mechanism, I don't know what does.

In negotiations with the Massachusetts Insurance Department, comments have been made as to the following: Commissioner Hiam is reported to have said, "I know that as a result of unisex rates, subsidized savings bank life insurance, and nontesting for AIDS that some companies won't survive, but that's the breaks."

When the industry expressed a concern about the fact that people, once they knew they were infected, would buy more and even larger amounts, the chief examiner in charge of solvency said, "If I were dying, I wouldn't buy life insurance." I really questioned his judgment then.

The industry said that if we had to write large amounts of insurance on persons who mortality was 26 or more times standard, we would have to charge everyone who was healthy a lot more to subsidize them and that wouldn't be fair. The chief examiner said, "fair has lots of definitions."

The bottom line is that the public, legislators and regulators don't understand risk sharing and the difference between socialized and voluntary insurance. They don't understand that when people have a choice to buy or not buy they're unwilling to pay more than their fair share. They don't understand insurance pricing and risk classification.

Gender-based pricing was only the first threat to risk classification and AIDS is only the second. The next threat will be determined by where there is the most political clout. The gray panthers scare me on age discrimination. They have a very large power base and are easily activated on a grass-roots basis to respond to their state or federal congressperson. They produce a 15% response rate when in regular direct marketing a one-half of one percent response rate is superb. The elimination of age in pricing was already brought up at a civil rights commission hearing in 1978 and is part of the gender-based rate discussions for property casualty insurance. The question that was raised there was, why do the young drivers have to pay more than the older drivers? How does a voluntary market survive if we must treat all equally and not equitably?

Notice also what's happening in the commercial insurance market, better known as the affordability and availability crisis. Ridiculous claims are being filed. A man had a heart attack while trying to start a lawn mower. He sued the mower manufacturer, arguing that pulling the starter rope required excessive effort. He was awarded $1,000,000 in damages plus interest. New York City settled out of court and paid $650,000 to a man mutilated when he tried to commit suicide by jumping in front of a subway train. He claimed the driver was partially responsible for not stopping sooner.

Fault is no longer required and in some cases not even negligence is required to cause a claim to be paid, and with punitive damages. This line of thinking is starting to invade the life and health insurance area as well. One company had a $400 credit life claim become a $400,000 claim because of a lawsuit on procedure. Incontestable clauses are becoming meaningless. One company discovered that their insured lied on the application regarding drug usage, and when he died and the claim was contested, the judge ruled that the insurance company should have assumed drug usage since the insured was a rock singer.

We must begin, and continue, to explain the principles of insurance. How large amounts payable to a few will cause increases to the many, why a voluntary insurance market must function differently from a social insurance market and why risk classification is necessary to keep prices low and fairest for all.

There will be those that will say that the battle is already lost, but as I told the last person who told me to give up because it was lost, "If I do give up I know it is lost." It is never too late to tackle this problem and never too late to turn it around. But it will take attention, because although the impact is not clear on a day-to-day basis, its impact is very clear on a year-by-year and decade-by-decade basis.

And what about taxes? These too are affected by the public and legislators' perception of the insurance industry. In spite of our perception that our large tall buildings show progress and security, what they show to the general public is wealth and excessive profits. Insurance companies are going to continue to be looked at as a large source of government revenue and tax laws are going to continue to be modified to produce these revenues. We've just had a major tax overhaul. People have not yet felt the impact and when they do they are going to respond as they do to any change, whether it is good or bad for them. That response is going to be negative. So changes are going to continue to be made in the tax laws for everyone and especially in the tax laws for insurance companies. The threat of taxation of the inside build-up will not only continue on single premium contracts, but on other contracts as well.

As frustrating as it may be that the tax laws keep changing, it's not too late for you and your companies to help share them. You and your companies have traditionally relied on your trade associations to affect legislation -- tax and otherwise.

But it's time for you, your companies, and especially your field force to take an active role, so you can help enact rather than react to the environment that will control you if you don't control it. Your field force is a very powerful organization, which, if properly organized, educated, and motivated, can influence state legislation, federal legislation, and most importantly, the general public. Who better can explain the need for insurance, the risk-sharing principles of insurance, and the risk classification and pricing fairness we must have to survive in a free market environment? Public education is critical if long-term we are to survive. It's time, too for each of you and each of your companies to actively participate in shaping legislation that will complement rather then complicate your marketing strategies. You and your companies, as well as your trade associations, must be involved.

One would think that I have already identified enough threats and that I would stop, but I see yet one more on the horizon. As Dr. Richard N. Cooper, professor of international economics at Harvard, stated at a seminar I attended last year, countries in the world are continuing to act much as the thirteen states originally did --- i.e., as though they were all independent. If countries continue to act and react only on their selfish interests we will not be able to accomplish all that needs to be done and there will be constant turmoil and uncertainty leading to continued volatility. At some point in time the United States must begin to act in concert with other nations and form a unified economic and financial basis so that each country, like each one of the thirteen states, can function harmoniously and with sufficient security and certainty to be able to assure their own country's success.

We are living in an international world and it is going to become clearer over time that it is that international world that we function in. We have already seen Japanese automobile manufacturers outstrip us and they have got potential of doing so in the insurance industry as well. Many Japanese companies have sent persons over to listen and learn from us over a three- to five-year period. They are returning home to take what we do best and use it and take what we do worst and lose it. Most of all what they do is implement the long-term planning we merely talk about. As we continue with our short-term beneficial but long-term detrimental actions they will keep a steady pace toward their long-term goals and they will succeed.

We must enter the international market, yet another opportunity. Banks and other financial institutions have been obtaining legislation in Western Europe to market pensions. Many companies have already gone international. Eight insurance companies, wholly or partially owned by is corporations, have been granted licenses in Japan.

In addition, Japan and many other countries' general level of education far outstrips ours. Japan's literacy rate is 99%. When you add that to the fact that our education level will be decreasing even further as our available work force decreases, what does that do to our ability to compete internationally? Worker attitudes too are dramatically different. A Yankelovich study showed only 10% of our workers think that if they make an extra effort they receive a benefit. Ninety-three percent of Japanese workers think they will benefit. We have the opportunity to do something about it now; we won't be able to then.

In summary, it's what we do, not what we say, that "talks." Our actions have caused the product we sell to be perceived as merely an investment and savings vehicle as opposed to an insurance vehicle. Our customers' attitudes are constantly changing and their attitudes about the insurance industry will be based upon similar attitudes about other financial institutions. Their expectations of the insurance industry will match their expectations of other financial institutions. Deregulation will increase the numbers of those financial institutions to which we are compared.

We will not only survive but thrive if we take the opportunity to identify what those attitudes are and adjust to them, either by clarifying that we are a different product or by making our products, service and price comparable with other financial institutions. We will thrive if we identify and satisfy customer needs.

Our actions have caused the profitability of our products to decrease. We have emphasized interest instead of insurance and transferred the investment risk, and hence the investment profit, to the policyholder rather than to the insurance company.

We will not survive but thrive if we take the opportunity to return to explaining the product we sell best, insurance, and return to a needs-selling basis whereby people appreciate the fact that many of the needs they have can be filled only by insurance companies and insurance products and we help quantify for them the amount of that need.

Our actions have caused fewer new life insurance salespersons to be trained and steeper front-end commissions to be paid, ultimately creating fewer experienced salespersons and higher persistency and profitability problems.

We will not only survive but thrive if we take the opportunity to implement new compensation patterns for our field force that will cause new generations of field persons to continue, and if we develop other distribution systems for filling the market we have vacated, or will vacate if we don't find ways to fill it.

Our actions have caused employees to become more fearful, less loyal and hence lesser risk takers and creative individuals as a result of our expense savings and downsizing. Insurance companies' major assets and inventories are their people.

We will not only survive but thrive if we will take the opportunity to find ways to make decisions based on cost benefit as opposed to just cost and maximize employee creativity. We must find ways to make their jobs more productive and more interesting and to make their goals be in concert with, as opposed to in contrast with, our company's goals.

Our actions have caused legislators, regulators and the public not to understand our voluntary insurance systems, our need for risk classification and equitable pricing, and the inappropriateness of our providing "insurance" for all, i.e., guaranteed medical payments, disability, and death benefits for all. Our actions of vacating insurance markets will force the government to fill these holes with national insurance plans. Our actions could ultimately result in a total nationalized insurance program.

We will not only survive but thrive if we take the opportunity to communicate to the public, legislators and regulators how our system works; that large benefits to the few must be paid for by the many and that voluntary insurance programs can only provide benefits for those who pay before they need the benefits and who can afford to make those payments.

Our actions of making short-term decisions without analyzing their long-term impact and functioning as though we were in a national market as opposed to an international market will cause our competitors who think completely in reverse to obtain the edge and possibly even a ledge over the way we do business.

We will not only survive but thrive if we take the opportunity to return to thinking long-term and to begin thinking internationally.

What you see is what you look for. You must get out of the logic box and see the big picture and the big threats and the opportunities to change them.

Every truth passes through three stages before it is recognized. In the first stage, it is ridiculed. In the second stage, it is opposed. In the third stage, it is self-evident.

There are three types of people. Those who make things happen. Those who watch things happen. Those who wonder what happened. Don't be the latter.

Opportunities are emerging. Opportunities are knocking. They just wait for you to open the door. What you view determines what you do. Take the right actions and maximize the long-term impact for the good of your companies, the good of the nation and the good of society.