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STRUCTURE OF THE FINANCIAL SERVICES INDUSTRY IN 2013

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- o Many believe that the financial services industry is in the process of consolidating into a few firms operating on a worldwide basis. Others feel firms will continue to operate on a niche basis similar to the current industry structure.
  - -- What are the more likely alternate scenarios over the next 25 years?
  - -- What will be the effect on the life/health insurance industry under these scenarios?
  - -- What will this mean to you?

MR. ROBERT D. SHAPIRO: This session will evaluate likely future financial services industry scenarios and assess their impact on the life insurance industry. Our panelists include a bank president, a life insurance company president, and the president of a human resource consulting and search firm that concentrates on the life insurance industry. Hence, we should be treated to some very different perspectives on the structure of the financial services industry in 2013.

Before we place ourselves 25 years into the future, let's briefly examine the way things are in 1988. We in the life insurance industry face an overwhelming set of issues (and related opportunities). Consumers increasingly demand convenience and personal attention. This often clashes with our industry's historic rigid systems and processes. We also are learning painful lessons regarding relationships between products, distribution channels and markets as we witness numerous cross-selling failures across financial institutions and distribution systems. Although technology continues to develop at a very rapid pace, it is almost always accepted more slowly by consumers than originally predicted.

The product proliferation of the past decade has increased our business complexity and cost and, in the face of today's intense price competition, has placed tremendous pressure on our profit economics. Finally, the hopes and expectations that many organizations placed on diversification and mergers often have

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turned into nightmares because of reasons such as unrelatedness, poor market timing, and diffusion of limited corporate resources.

MR. JAMES N. VON GERMETEN: It is indeed daunting to think of addressing a group such as this about the topic of futurism. Futurism, if you go back only as far as October 19, 1987, is not a topic that one engages in easily. On October 20, 1987 a rash futurist would have said there is going to be an October 25, 1988 and we are all going to be able to meet in a room and talk reasonably, rationally and not emotionally about the financial services business at all -- to say nothing of the future in it.

I am going to discuss what might be the scenario, what might be the environment, what might be going on in the year 2013. To get to that task requires exercising generally one of three disciplines. The first method is to extend what exists today. Indeed, that is the usual way of looking into the future. Take all of the things that exist today, extend that forward by 25 years, and see what they look like. For example, your two-year-old child will be 27 years old.

The second way is to forecast. Take the events that exist today, try and understand the trends that exist today, and forecast into the future based on an extension of those trends. The trend of your two-year-old, who will be 27 years old, in the two years that he or she has been alive has been to grow larger. He has grown from two feet to, say, three feet. At that rate, the forecast would say that in 25 years he will be 400 feet tall. That is one of the vulnerabilities of forecasting.

A third way is to make a prediction, to stir up all this stuff, see what people are doing or how cultures are evolving, and leap out there and predict a certain environment. It is not statistical, not extended, and perhaps not reliable. In this case, my two-year-old child, now 400 feet tall, is going to be a basketball player. As I look at basketball players today he is going to be a darn good basketball player. That prediction is far more speculative and far more given to errors. We can, in combination, make a prediction and back it into a forecast and then into an extension. We test how many of those things do not fit today. Then perhaps we get a more reliable prediction.

My prediction is that the next century will usher in what is then known, or will become known, as the century of Japan. The century of Japan will be based upon a series of events that occurred during the 1990s. Given some of the situations that exist in 1988, I feel that the next President will face some very serious problems. These problems will be caused by the contraction of the substantial debt that has been put in place as a result of a series of larger and larger leveraged buyouts in our economic system. That contraction or that problem will be triggered when the Chairman of the Federal Reserve is instructed by the President to begin taking action to defend the dollar or to buoy the economy or to stabilize interest rates which results in a tightening of monetary policies. There has not been, since the Federal Reserve has existed, a period where they could monitor or modify their events so successfully on such a fine-tuning basis that they did not cause either an overexpansion for too long a time or a recession and a decline in GNP. If that were to happen today, or indeed anytime within the next 5 to 10 years, the fallout would be very substantial on these spindly structures that exist to support the purchase of corporations.

Secondly, the less-developed-countries loan problem will have been essentially resolved. The banks will have had earnings sufficient to write them off against equity and will have weakened their equity base. Alternatively, they will have traded them off, as they have increasingly been doing, for ownership interest in foreign ventures. In other words, if you have $200 million in debt to a government, that government may offer you hotels at 60 cents on the dollar for the debt. That particular trade, while it might work wonderfully, is certainly at best a questionable transaction.

Thirdly, the deregulation that did not occur in the financial services industry in 1988 would most assuredly have occurred by 2013. Organizations that have been only marginally able to compete in world or domestic markets in the financial banking lending fields will enter all kinds of wonderful new fields like investment banking, mutual fund management, mutual fund selling, and trading. In my view, they will demonstrate an extendable degree of management success and not do particularly well in all of those fields.

During the 1990s then, I see the discipline, the combination of industry, banking and government and the focus that combination provides, enabling Japanese and their counterparts in the Far East to emerge and begin their dominance of world financial markets. This should not be as frightening to us as I sense it is because for the last 60 or 70 years that is what happened in the United States. People in France, England, Spain, Italy, and Germany have not particularly suffered as a result of it. In fact, some would say they enormously prospered. So it should not be thought of as a ominous event but rather one to be dealt with.

The marketplace will be a truly global one. The technology that we have developed, perhaps in the United States, that the Japanese are able to expand and apply, will enable communications by almost everyone to be instantaneous, to be complete, and to be mostly electronic. So Americans will be able to own assets and have debts, to both buy investments and make loans, in securities and currencies of most countries of the world.

Telephone terminals and screens, will be extended to take care of payments, collections, dividends, interest, financial planning, paychecks, and other kinds of debits and credits without your ever leaving your home. An interesting phenomenon will have been offset. That is the fact that the development of communications capabilities has been essentially on a rapid growth rate upward while the development of ability to move people around has been declining dramatically. The only transaction of a physical nature that will occur is the exchanging of some commodity for cash. Cash will still be necessary to pay for things in grocery stores or to pay for things on a person-to-person basis.

As a result, there will be little need for true branches in the banking or other financial services industries. There will be little need for bankers because with the electronic arranging of information and data, financial decisions will not necessarily have to be made by judgments. There will be little need for brokers or sales people of all kinds because presumably all the financial planning techniques will appear on your computer screen. With a push of a button in either direction you will be able to make choices as you want.

Tax returns undoubtedly will be done on a computer terminal. I can foresee that you punch in your name or social security number in a software model for deductions and payments. You enter the amount of money you made for the year. That amount is verified against sources of dividends, interest and earnings that were, of course, automatically reported. You see that on the screen and confirm if it is correct. You push, as you do now, "yes" or "no." If you push "yes" another number appears equal to your tax. That tax is debited from your checking account, making it relatively painless except for those people in the tax advice service.

Little will be added by personal interface. The service providers will sell to networks (for example, a retirement association or an industry association), not to individuals. That association or affinity group stamp of approval is what will enable consumers to choose. Organizations may sell to networks on an electronic or computerized basis.

You might ask, "How can this happen?" This is such a massive change in which the service, the communications, and the technology will dominate all aspects of the economy and our business.

In reviewing history, up until the 1880s it took most of the people in this country working in agriculture to feed the population of the country -- a far smaller population than obviously exists today. That peak probably occurred right at the beginning of the industrial revolution. It probably engaged 80-90% of the American population in one process or another of the agriculture business. By 1930, one of the great issues of the time was the fact that agriculture was being taken over by industry and people dramatically were moving to the cities. The fact is, in that industrial age only 40% of the population were able to feed the entire population of the country. In 1988, probably not more than 3% of the population feed our entire United States population (a far bigger population) with surpluses left over. 60% or more of the population are involved in manufacturing. A growing percentage, 30% perhaps, are now involved in the services industry of one sort or another. This again is viewed as a bad trend or something that we should try to resist. But in fact, the services industry is at least as stable as other industries. The services industry is at least as reliable for future growth, for providing jobs, revenues and profits as either the manufacturing segment or the agricultural sector has turned out to be over the past 75 years.

Services industry stability rests not on weather or soil or cheap labor or even on the low price of raw materials or cheap transportation costs. Rather, that stability lies in the fact that a service, by definition, can only be provided within the constraints of the individual involved. Even though haircuts may be 6 cents in Korea, I am not going to go to Korea to get a haircut. Even though McDonald cheeseburgers may be $3 in Boston and 50 cents in India, I can neither go to India to get a hamburger nor reliably have a hamburger sent from India to me, with any hope that it would be as good as the $3 one I buy in Boston. The element of service is that it is done on the spot and therefore the stability of service is that it will continue to have demand, growth, and reliability in the future. So by 2013, perhaps as few as 1% of the population will be feeding all of us, perhaps as little as 20% will be in manufacturing, and the substantial rest of the population will have been involved in services for some time. Services, in turn, will be in the process of replacement by the technology that we are experiencing or beginning to experience in our personal lives today.

In conclusion, the Japanese have been proven to be the best at applying technology in the last 25 years. They have thrived through the technological demands of the world. They have become more than global in their dealings with the rest of the world. Most of the top ten banks in the world are Japanese.

They have a substantial presence worldwide in most industries, a strong presence in finance and banking, a continuing trade surplus to invest in both present and future geographic, manufacturing, human and physical resources. Therefore, in my view, they will be in charge of the century beginning in the year 2000, which will be termed the century of Japan.

MR. RODNEY R. ROHDA: My assignment is to forecast the structure of the financial services industry in 2013 as it relates to the life and health insurance industry. At least from this industry veteran's standpoint, this is a daunting challenge when heading into it cold. To get myself started, I have drawn on the "Back to the Future" concept -- looking at the past in order to identify what will be happening in the future. I pretended that in the summer of 1963 I was asked to appear on a panel titled "The Structure of the Life Insurance Industry in 1988." As soon as I looked at my assignment in this way, it became somewhat easier. First, I entered the business in 1963 so I was able to readily identify with that point in time. More importantly, this approach has the benefit of being able to look back over the last 25 years.

In going through this exercise I titled the imaginary speech, "The Future of The Life Insurance Industry" as opposed to our present reference to "Financial Services." This, in itself, is significant. Twenty-five years ago most of us saw banking, securities, brokerage and life insurance as entirely separate industries with very little in common. That certainly is not true in 1988.

The changes in the industry from 1963 to 1988 can be roughly separated into 4 categories:

1. Financial Product Innovation.
2. Corporate Consolidations.
3. Significant New Additions.
4. Emerging Globalization.

The first major change is financial innovation. The 25 or even 50 years prior to 1963 saw little innovation compared to the last 25 years. Jim Anderson's "Cannibal Life" article appeared in the 1970s and described an entirely new product which he suggested would have significant, industry-wide ramifications. Following that article, universal life was born, grew dramatically to become the industry's number one seller and has now, from some perspectives, moved past its prime. Single premium products, which have been around for years and received scant interest, suddenly developed premiums exceeding those of all conventional products combined.

The second category of change is corporate consolidations. Within the life insurance industry, previously independent companies were combined. CIGNA, U.S. Life and American General, are but a few. More significantly, especially when looking out from this point forward, major steps were taken in the formation of new financial service giants. The most notable were Sears and Allstate; American Express, Shearson and IDS; and Prudential and Bache.

This consolidation reduced the number of independent, stand-alone companies. Yet the absolute number of companies in the industry did not diminish during the past quarter century. Instead dozens of new life companies sprang up.

Some withered soon after their birth, others quietly exist in various special niches. A few, however, moved from birth to industry prominence (or some might suggest notoriety) in less than 25 years. The A.L. Williams and Massachusetts Indemnity and Life combination, Executive Life of California, and Jackson National Life come quickly to mind. All three now rank among the top 30 companies based on current insurance in force and none were around 25 years ago.

The fourth development is the emerging globalization of our industry. The U.S. presence of Canadian companies is substantially greater in 1988 than it was in 1963 -- Crown, Confederation, Sun Life and Great West to name but a few. Far more significant when considering the future is the fact that as of December 31, 1987, eight of the 25 largest life insurers in the world were Japanese. Unfortunately, I do not have the corresponding number for 1963 but I can assure you that it was closer to one or two than eight. Parenthetically, you should know that based on December 31, 1987 assets, only one of the ten largest banks in the world is non-Japanese.

Let's now stand back from these specific industry changes in the past quarter century and consider the major forces that impact our industry. If we can get a better understanding of these forces we should be better able to comprehend the impact they will have on our industry in the future and how we and our companies can best be prepared for them.

Five major underlying impact items are as follows:

1. Globalization -- the extent to which foreign companies stake a major claim in our country and industry.
2. Demographics -- how changes in the age distribution and living and working patterns of the population impact our business.
3. The Economy -- the extent to which stability or instability in key financial indicators impact us.
4. Government Regulation -- where government chooses to draw the line between the public and private sectors and the degree of regulation imposed by government on the private sector (particularly as it relates to financial services deregulation).
5. Technology -- the rate of innovation and adaptation in computing and telecommunication technology.

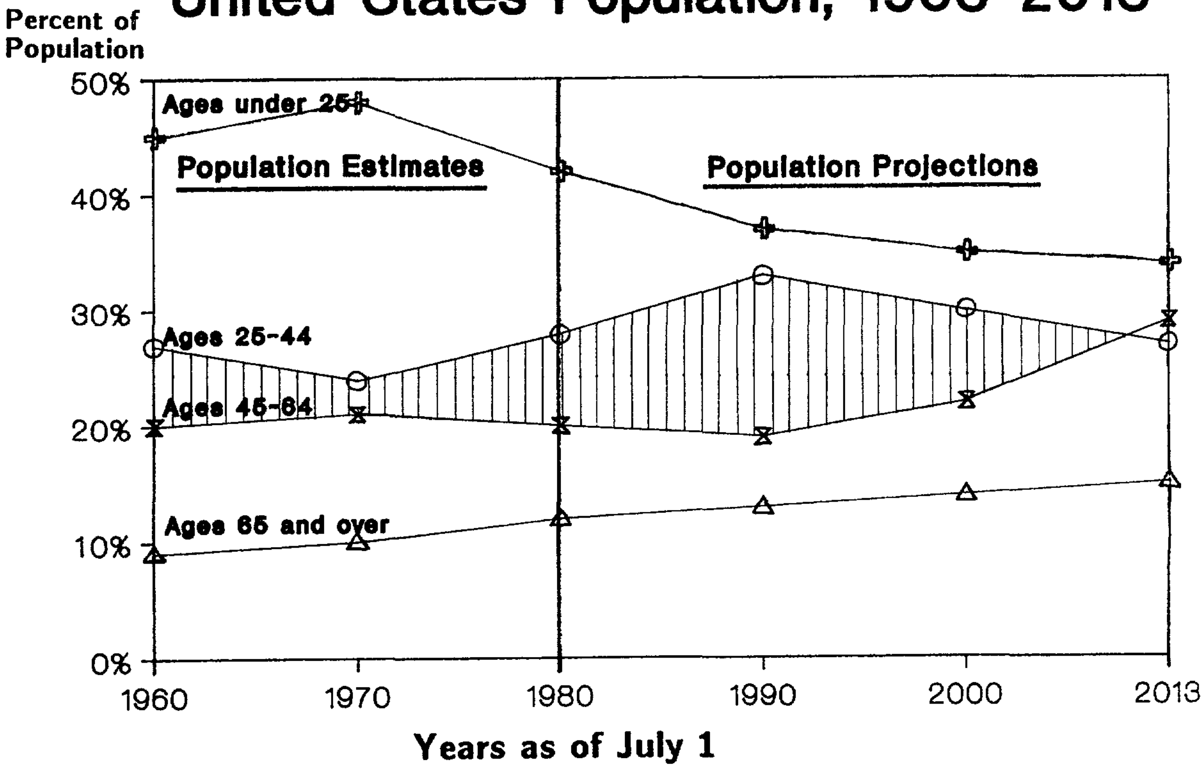
Let's turn our attention to the future of our business. The program asks for the more likely scenarios for the next 25 years. This strikes me as making a difficult job even more so -- I cannot just dream up one prediction but rather am supposed to produce multiple ones! Instead I intend to briefly review the dynamics of each of the underlying impact items and point out what this means for our business. My hoped-for result is to give you a sense of the trends that will impact you and what they mean to our business.

Let's start with demographics. Graph 1 shows the percentages of the United States population in various age categories based on actual statistics for the period 1960 to 1980 with projections to the year 2013.

The most important point in this chart is the spread between the percent of population in the 25 to 44 age category (dubbed "baby boomers" today) and the percent of the population aged 45 to 64. Stated simply, the 25 to 44 age group can be categorized as "spenders" and the 45 to 64 year old group as "savers."

GRAPH 1

Trend in Age Distribution of United States Population, 1963-2013



September 20, 1988

The spread between the spenders and savers will hit its maximum within the next 18 months. Thereafter, it is going to steadily decline and actually cross over around the year 2010. Put another way, by the year 2000, the number of people in the United States aged 40 to 54 is going to grow 50% to 59 million. Translating this into ramifications for our business, it could adversely impact the relative need for pure death protection. This loss will be far more than offset by a corresponding increase in national savings. In fact, it is projected that our current national savings rate of around 3% will steadily increase to almost 10% after the year 2000. Our major challenge is to have the products and image for those in this age group so that the industry can get its share of this growth in savings.

In addition, look at the steady increase in the proportion of those over age 65. The increase in this proportion, coupled with the overall growth in the population, means a substantial increase in the absolute size of the over age 65 population. Since members of this group are the most important consumers of medical care and health insurance, our medical care crises will become even more of a major national issue.

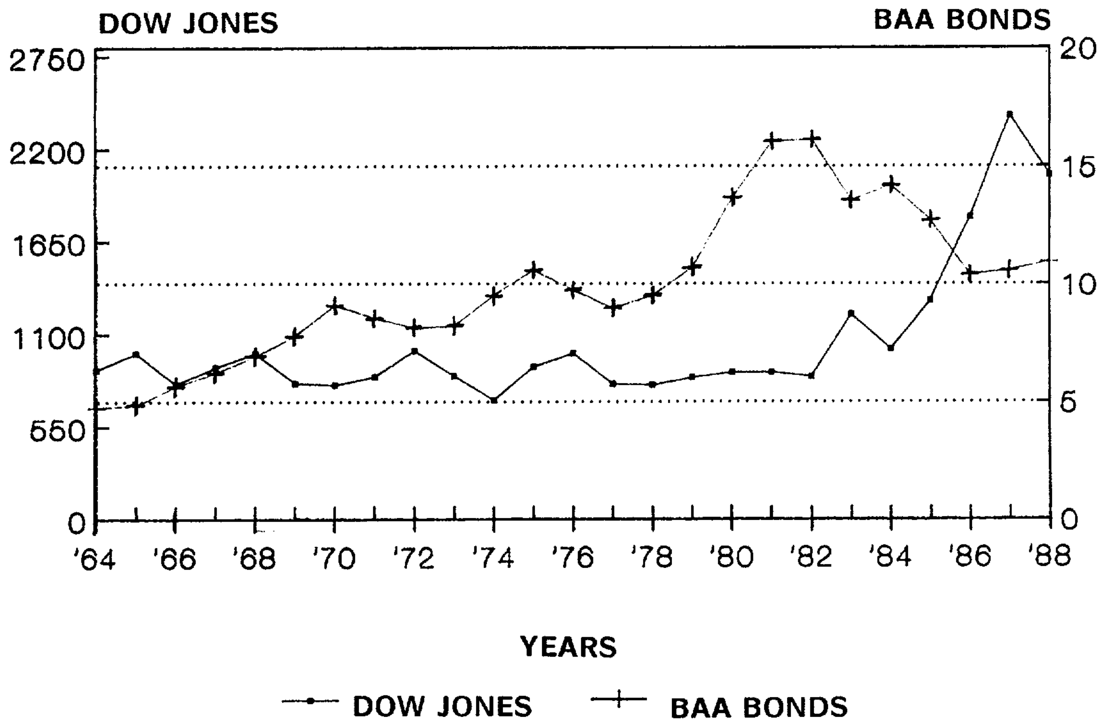
Another significant demographic trend is the decline in the nuclear family, the increase in the number of two wage earner households, and the increased job and geographic mobility of the American public. There has obviously been a significant change over the past 25 years. There seems to be little evidence that this trend is about to reverse itself and we in the industry must deal successfully with this change. As one specific example, fewer and fewer families are interested in an insurance program developed with the assumption that a surviving spouse does not go back to work if the primary bread winner should die prematurely. While the need for life insurance is still there -- it is more likely to be as an income supplement rather than as income replacement. On the other hand, annuities should substantially increase in popularity to augment retirement income since job-hoppers cannot count on a substantial vested pension benefit.

Now consider the economy. Graph 2 plots the annual interest rates from 1963 through 1988 for Moody's BAA Bonds and also shows the trend in the Dow Jones Industrial Average for the same period. Perhaps the single best word to describe this picture is volatility. This volatility, coupled with the vast advances in technology, led to a tremendous explosion in the variety of financial instruments. We now have the "animal group" (TIGERS and CATS), the ladies group (FANNIE MAES and GINNIE MAES) and almost countless other new groups. The cost of money has increased substantially in this period and there has been an increase in the alternative financial uses for it. Today's buying public is far more a tuned to the returns available to it and conversant with the alternatives available to them. This trend, in all likelihood, will not reverse itself.

This represents both a challenge and an opportunity for our industry. We continue to have an "exclusive" on two powerful financial instruments -- insurance against dying too soon and assured security if one should live too long. Coupled with these, our products also offer attractive tax benefits. Our challenge is to couple these benefits with a range of new financial instruments so that our clients are convinced that they have contemporary products that efficiently and effectively put their dollars to work for them.

Let's address government regulation in two parts. The first part relates to health insurance. As I have already mentioned, health care management will be

GRAPH 2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of growing importance. Actuaries should play a major role in this through the quantification of costs, the development of far more detailed and reliable cost-benefit ratios and the forecast of future costs for alternative health delivery systems. Our roles are fairly certain here. What is uncertain is the degree to which Uncle Sam decides to "help" with the problem. The private sector has not exactly distinguished itself and it appears likely that the federal government will play an ever increasing role, especially as it relates to long-term health care for the retired population.

While my sense is that government will play more of a role with regard to health insurance, I believe it will play less of a role with regard to the regulation of financial services. The trend toward financial service deregulation began a number of years ago. It neither shows signs of halting nor being reversed despite such significant recent events as October 19, 1987, and the financial collapse of a number of banks and savings and loans. If this has not stopped the trend, I suspect nothing will.

Next let's review technology. Twenty-five years ago, who would have thought that they would have more computing power on their desk in 1988 than existed in their company's computer room in 1963? Who feels confident enough to extrapolate technology trends based on the current rate of change? I surely do not. Suffice it to say that technology will be a force to be reckoned with. As it relates specifically to our industry, it will give us the opportunity to do increasingly complex operations using increasingly more detailed databases, and will foster the growth of increasingly sophisticated financial instruments. It will allow those consumers who are so inclined to carefully track the results of their financial programs, analyze alternatives available to them and even develop their own projections. Also, advances in telecommunications will expedite emerging globalization.

Finally, the last trend is globalization. In the absence of significant world conflict, I believe we will see continued growth in the globalization of our business. The arrival of the common market in Europe in 1992 will give major impetus to this. In addition, it seems certain that the Japanese will gradually but significantly expand their role in the worldwide insurance marketplace.

When taken together, what does all this mean to our industry and to us as individuals? In shaping a view of what our business will look like 25 years from now, it is necessary to segment the industry into its key components. We can then make observations regarding changes to be expected in each of the specific areas rather than try to project the industry's future as though it is a single indivisible entity -- which it clearly is not.

Our industry can be divided into four basic parts:

1. Health protection which in turn can be split into medical, disability and long-term care.
2. Premature death coverage.
3. Extended life protection. This is undoubtedly an unfamiliar phrase to you but it seems preferable to the word "annuity" since it focuses on what it does rather than what we industry gnomes call it.
4. Retirement fund accumulation coupled in some manner with components 1, 2 or 3.

The first three components involve contingencies -- the collection of funds from a sufficiently large population which in turn is repaid in varying amounts to members of that population based on chance occurrences. As such, these three contingencies should remain the domain of organizations chartered as life insurance companies. Our industry has traditionally had a substantial share in the 4th component -- Retirement Funding. This has occurred not because it is based on a contingency but rather because it is coupled with one of the three other components; we are able to provide the consumer with tax advantages as well as ease of payment.

Based on the forces at work which we have discussed previously, the future seems extremely bright for the first and third industry components -- health and extended life protection. While there will continue to be a strong need for adequate premature death coverage, our present demographic trends suggest that its future is not as strong as the first and third components. To say the least, the future of our industry's share of component 4 -- Retirement Fund Accumulation -- depends on the future course of federal tax policy. Time limitations as well as my own uncertainty keep me from giving detailed predictions of future tax policy. I will, however, say that the encouragement through tax incentives of individual accumulation of funds for retirement makes extremely sound public policy. It has in the past, and with the growing proportion and number of retirees during the next 25 years, it makes even more sense for the future.

More specifically, what changes will there be in our industry? Let me highlight four of them. First we will see the continued emergence of global financial service giants. They will use technology, broad market research and a wide array of financial services in order to develop a significant market share. This means that an increasing percent of the four coverage components I reviewed before will be manufactured and marketed by these giants. They will bring to the marketplace name recognition, efficient distribution capabilities, countless cross sell opportunities, valuable consumer demographic information and sophisticated investment and technology resources.

At the same time there will, as always, be opportunities for new companies that can come up with new products delivered in new or refined ways. These new companies can use their fast reaction time as a strategic advantage. Similarly, they can gain a price advantage by having low overhead. Alternatively, they can use an alliance with a specific affinity group to outmaneuver their large competitors in building sales volume.

The continued growth in technology as well as the expectations of financial volatility should encourage substantial refinements in products. Many of these refinements will be concentrated on the areas of health coverage and in the funding alternatives for retirement accumulation. For example, I expect that 25 years from now there will be as many different types of long-term care coverage as we have today with a variety of different life insurance polices. More significantly, both the insured as well as the insurer will have a far more confident definition of the type and true cost of each risk being covered by long-term care.

Technology will also provide the opportunity to make delivery refinements. Over the past 25 years it has enabled us to unbundle the elements of a life insurance policy. A periodic status report for a universal life policy shows the amount and cost of the pure death benefit protection and the rate at which the cash value has grown. The insured has the opportunity to vary these elements according to his current priorities. Twenty-five years ago the audience would have viewed this with wonder. Today we take it for granted. I expect that in the next 25 years, technology will allow us to unbundle at least some of the components of health coverage and mix and match them with life policy components. In effect, this will result in a personal cafeteria plan. Imagine a policyholder status report in the year 2013 available in real time on a translucent desk top in your home. It will show the current benefit amounts and the costs in each of your three separate security accounts: mortality, health care, and retirement. In addition to showing the recent investment results of the five accounts which you have selected in which to invest your accounts' reserves, it has brief descriptions of the 15 other investment accounts presently available to you with most of them making use of global investments. Should you decide to make any changes in your plan you can do so by speaking to the screen.

MR. MICHAEL J. COREY: Had I written an imaginary book in 1963, I would have entitled it: "Those Who Do Not Adapt to Change Die." My definition of dying would not have been physical, but a definition that would mean market share death, human resource development death -- simply said, economic death. My book would have been about change in the life insurance industry.

I would like to revisit the financial services industry 25 years ago when I knew it as the life insurance industry. The industry was converting from the 1401 to the 360. People were arguing about which was better, permanent or term. Interest rates on products were in the low single digits. Companies were using terms like A Life Insurance System (ALIS), Property and Liability Insurance System (PALIS), computer rooms, work measurement studies, Bowles, Andrews & Towne, The White Cross Plan and weekly premium insurance. You never heard anyone use words like HMOs, Universal Life, PPOs, market share, up market, down market, Single Premium Deferred Annuities (SPDAs), American Academy of Actuaries, Personal Computers (PCs), data base marketing, retirement windows, facility management, mergers, demutualization, executive search firms, FEM, FES, and Enrolled Actuary. Nor did you hear much about actuaries as presidents of insurance companies, actuaries as marketing officers, actuaries as chief financial officers, actuaries as management information system (MIS) officers, actuaries employed by the government, automotive industry, computer industry, public accounting firms, and general management consulting firms.

The industry has changed as the world has changed. In the early 1960s actuaries spent most of their time dealing with technical issues. Marketing executives were really sales executives, the most feared person in a family-owned company was the chairman's 35-year-old son, and every company had its version of a management training program.

I will discuss the human resource implications of 2013. First, let's investigate some of the progress and lessons we have learned in the last 25 years.

Let's start with the typical management training program of the early 1960s. If you are an actuary in a larger company that had a rotational program you are one of the lucky ones. You spread your time over a period of years in different product or functional areas. It was hoped that you would find the product area where you excelled, so you could be branded for life as a "group actuary," "individual actuary," "pension actuary" or "health actuary." Some were even branded "corporate actuary." If you had what management called a "good personality," you one day could be branded a "chief actuary." If your personality was really great, your management secretly feared they might lose you to become a "consulting actuary." However, the program was loosely managed by a program coordinator and your real training came from your initiative to pass actuarial exams.

If you were not an actuary, advanced human resource training techniques started when the CEO decided that other companies were getting the jump on him by setting up a program to train bright, new college graduates to become insurance executives of the future. The task of designing the program was usually given to a vice president of one of the operating divisions, who, himself had a nice personality and needed something to do. Most programs were designed in the same manner -- spend four weeks in policy issue, six weeks in claims, six weeks in underwriting, eight weeks in a field office, and on and on for about two years. Of course you reported weekly to the vice president with the nice personality so he could collect all the dirt on the other division heads. Needless to say, nobody liked you and the program eventually failed.

Why? The industry was fat; profit margins were large; competition was limited; and competitors were polite. Not many knew of the coming of those unknown terms: HMOs, universal life, market share, up market, down market, and those "three biggies": low commissions, low profit margins, and expense controls.

What happened to those graduates of the actuarial rotational programs and the nonactuarial management training programs? Those who adapted to change are alive and well. Those who did not adapt are not ready to deal with 2013 and most likely are not dealing effectively with 1988.

Where will the financial services industry be in 2013? I am not positioned to talk about the technical issues. However, I feel comfortable guessing where the financial services industry will be with regard to its human resources.

Perhaps you agree that we will see the continued emergence of global financial service giants, that demographics and the economy will impact us greatly, that government regulation will continue to affect us, and that technology is embryonic in its next 25-year evolution. Then we must assume that human interaction has to develop and become more skilled at an ever increasing rate.

It is for this reason that I believe the actuarial profession is best positioned to lead the insurance industry toward 2013 and become much more involved in the total financial services industry. I believe the actuary is the one skilled professional trained to deal with those aforementioned "three biggies" -- low commissions, low profit margins and cost controls. Technology will affect how products are distributed. Database marketing will emerge not only as an effective alternative, but as a desirable alternative. Technology will affect administration costs, underwriting techniques, claims payment systems, and commission levels. Marketing executives will be just what the term means, and I believe the majority will be actuaries. Computers may well be an actuary's game also. There will be a greater influx of actuarial talent into the halls of financial executives and one day I believe most insurance companies will have actuaries as CEOs, Chief Operating Officers (COOs) and Chief Marketing Officers (CMOs). You will see a large number of actuaries in banks and financial institutions of all kinds, and more actuaries in industry and government. The actuary in 2013 will no longer be associated only with the insurance industry. The actuary will be in every business in which you find accountants, lawyers and consultants.

There will be more actuarial positions than less. Actuaries will be better trained in the humanities. Accreditation will be at least as difficult as today. The various actuarial associations will either work more closely together or combine. There will be more university programs. Actuaries will continue to be one of the most highly compensated professionals. Actuaries will be more global. More American actuaries will work in Japan, France, Germany, Holland, Australia, Sweden and the United Kingdom and more Japanese, French, Germany, Dutch, Australian, Swiss and British actuaries will work in the United States. Actuaries are intellectually a tuned and professionally trained to deal with technological issues and the financial services industry of 2013 will be technologically driven.

The last 25 years and the next 25 years will prove out the old axiom that only the fittest survive. The fittest will be better-managed companies with sophisticated financial reporting systems, cost-efficient distribution systems, products designed for consumer needs, and human resource development programs to compensate the best and train the mediocre. The association membership will be considerably larger. The sections within the Society will continue to include all those currently in existence and more such as banking, chemical, automotive, and trade. In the year 2013 more sons and more daughters of actuaries will become actuaries because it is such a preferred profession, but they will be trained in their university actuarial programs to read the terms "mens room" and "ladies room" in five different languages.

MR. SHAPIRO: What can we expect in the financial services industry in the year 2013? We will certainly see tremendous sophistication in market segmentation and customization, as the combination of technological capability and consumer demand allows us to leverage customer databases through modular product design and operating systems. As policy-based computer systems are replaced by customer-based systems, our financial management perspective will replace "value of policy" with "value of customer." Product and profit management will be performed more and more by customer group.

As companies become more target market and customer driven, their organizations will become more focused as they align their product, distribution, investment and support strategies to their target market segments. The potential applications of technology will be tremendous, the challenge to each company is how to focus and link its use of technology to the "specialness" of its target market segments and corporate strategies. Technology will provide powerful capabilities in many areas, including underwriting decisions, actuarial decisions, MIS, product differentiation, telemarketing, market intelligence, sales management, database marketing, and customer service.

Competition in the financial services business will not abate over the next 25 years. With continued deregulation and new entrants, we have to learn to live with and compete with other industries (like banks and stock brokers) and other countries (like Japan). The term "conventional wisdom" is rapidly becoming oxymoronic.

Which companies will "win" in the scramble for success over the next 25 years? Will life insurance companies win? Will the banks win? Will large companies or small companies prosper? Will the U.S. prevail over increasing overseas competition? Will broad strategies or narrow strategies succeed?

Obviously the winners in the future will need to be close to their targeted customer groups and have the ability to quickly adapt to changes in the needs and wants of those target customers. Just as important, the company will have to perform well in all of its critical businesses, including marketing, investment, risk management, and expense management.

But perhaps, most important, the winners will need a clear vision of what they want to be, with consistent leadership and strategies to support that vision. They must also define what they will not be and establish clear standards by which they can be measured by perceivers both inside and outside the company. Russell Ackoff has said "An organization without a clear vision of what it wants to be is like a traveler without a destination; it has no way of determining whether it is making progress."

The past is no longer a good indicator of the future. We need to establish a clear picture of what we want the future to be (within a reasonable range of possibilities), and develop a clear game plan for achieving the desired future. The clear game plan is critical since management play-calling over the next 25 years will often be a "series of audibles!"

The key requirement for developing a realistic vision of the future is to establish what we are particularly good at and to package these special capabilities (i.e., competitive advantages) in a way that fits the needs of our target markets. Each company needs to reconceptualize its "life insurance business" as a distinctive package of its component businesses of protection, accumulation, marketing, and administration. Because each company manages these component businesses in different ways, we must ultimately bundle the businesses in a distinctive way to reflect our special skills. This, in turn, will determine how we manage each component business and price our products.

Although the challenges facing the life insurance industry are great, so too are the related opportunities. Substantial satisfaction and rewards will flow to the successful companies and their managers.

MR. DENNIS CARLSON: In your opinion, will there be a dividing of our population into two separate segments -- a poorer segment and a richer segment -- in the next 25 years? Will we have, in terms of demographics, two separate populations to serve?

MR. VON GERMETEN: For one thing, I think the Oriental psyche is a little different from that of the West in terms of involvement of all the population. It is a little less than the survival of the fittest. I think it is at least possible that we will have a population which in general is far wealthier. That is, it will have its clothing, its housing, its food, its medical, and all of its other needs taken care of. The separation of the population might come at a higher level for the entire society. It might not be pyramid or diamond shaped, but a square where the people at one level (due to the classic medical, mental or handicaps of their capabilities) were taken care of by a structure of either government, private or quasi-government arrangements. What we have experienced in the two hundred years of our history, but most importantly since the Full Employment Act, is the Western belief that individuals can get themselves up to a level of contribution to society in and of themselves.

In China it is nothing like that at all. In China, for example, society has an obligation to provide a job and the individual has a right to have a job and a responsibility to carry it out. You can criticize in a Western way whether all of those jobs are advanced. Suppose a person has a job to maintain one block of Park Avenue in New York City (let us say comparably, with a broom made out of twigs). You may say, "What kind of job is this?" Certainly it is not brain surgery. However, that job, the obligation of society to provide that job, and the right of the individual to have that job, means that that individual works and has abundance of some sort. Coincidently, of course, that block of Park Avenue stays very clean. If there are thousands of those people and thousands of jobs I do not know if that is workfare. In the future the U.S. will have far more of that than we are used to today.

MR. PAUL A. CAMPBELL: We are here in this group as people, and as a very special kind of people as actuaries. Some major things have happened to us as people over the last 25 years. We have developed much more self-awareness and with that a sense of self-esteem. We have developed an ability and a desire to be pro-active. We have developed a much stronger sense of entrepreneurship. Just look at the percentage of people here at this meeting who are consultants rather than company representatives.

On the other side of the coin, we have been faced with external forces that have seemed almost overwhelming to us in their impact. Perhaps that has caused us to develop tunnel vision as we contemplate each one of them -- almost a sense of complacency and resignation. The one theme that flowed throughout the panel presentation is the sense of adapting to change. We as individuals and we as representatives of companies have the opportunity to make changes. My personal goal is to avoid simply passively responding to all of the things that are happening and to make changes in the next 25 years.