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AN OPPORTUNITY TO RETURN TO THE BASICS -- WILL WE TAKE IT?

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MR. ALLAN D. AFFLECK: Our keynote speaker is going to address a most timely topic. All of us have been reading about the insurance industry in the press recently, whether it be Proposition 103, junk bonds, commercial real estate, or the health insurance concerns mentioned in a recent issue of *USA Today*. Unfortunately the reading is not good. We have someone who works in a related field, the securities industry, which has been facing similar problems in terms of its assets, its management and its public relations. The problems are very similar to those the life insurance industry is facing today. He's going to trace the development of these difficulties and point out some of the parallels to our own situation. As he gives his presentation I'd particularly like you to think about the question, what should actuaries be doing to play a greater role as our industry goes through these difficult times?

David Seifer is a chartered financial analyst and Vice President of Donaldson, Lufkin & Jenrette. Before moving into his present position, he was with the First Boston Corporation for 10 years. He graduated from Yale and obtained his MBA from New York University. David is a member and Past President of the Association of Insurance and Financial Analysts. He has also served as a member of the NAIC subcommittee on accounting and as an advisor to the ACLI on life insurance taxation. He has been a member of the institutional investor All American Team for the insurance industry since it's inception in 1972. He will speak about an opportunity to return to the basics. Will we take it?

MR. DAVID SEIFER: I must say when Allan invited me to speak here I was extremely honored and flattered. I was perhaps even more pleased that I had succeeded in achieving a lifetime goal, what some might call a career ultimate. Certainly us Wall Street types look on this very highly, because I can finally say I was totally Peter Principled. And I'd really done it. I finally placed myself in a situation where I was unquestionably the dumbest guy in the room. That's meaningful to me. For weeks Allan had urged me to gather some industry statistical material. And I considered doing that, but then I stopped because I figured out if I'm going to be at a 9 A.M. meeting, there's no way I was going to turn the lights out so everybody could go back to sleep. You can save that for some of the other speakers. But besides that, I wanted you to get a good look at me because I'm probably the only legitimate life insurance prospect in the room.

Now, I spent a long time trying to understand why Allan would want to include me when he never had before. I know that Connecticut River shad were early this year, and

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they'd come and gone. Then I realized which other financial business has done as much to destroy itself as the life insurance business. There's only one other, and that's the investment business, that's my home. For me to comment about the life insurance business I think it's best to draw some parallels to the investment business. And some of those parallels are uncomfortable. Some of them are uncomfortably close.

First, let's profile the typical Wall Street person. You can tell I'm already forgiving. Number one, impossible ego. Number two, has all the answers, or better yet repeats your answer as though it was his idea. He doesn't listen. He must command. He believes managers and bureaucrats are responsible for all the revenue production and anything that happens positively in an organization. He absolutely hates anyone in a branch office, especially creative, entrepreneurial sales people. He believes management and strategies are better operated in the company across the street.

Now, when I began on Wall Street in the late 1950s, the New York Stock Exchange volume averaged a million shares a day. Commissions were fixed. A good sales person made $15,000 a year. An extraordinary one made $25,000. A partnership was probably worth $50,000. Junior researchers earned salaries of $6-9,000. A senior analyst earned $12,000. Bonuses aside from partners averaged 2-6 weeks salary. The key to survival was low fixed costs, with variable compensation. Incentive compensation bonus related to the firm's profits. Expenses were tightly controlled. Believe me they were tightly controlled. Partners, of course, were excluded from any of these restrictions. Wall Street partnerships restructured their capital requirements in division of profits on an annual basis. The daily concern of any up-and-coming employee was the health and well-being of some senior partner whose capital could make or break a firm. So every time somebody sneezed, 30 guys had their handkerchiefs out. As a result the business strategy of the typical Wall Street firm had a one-year timed horizon. As the average daily volume moved from the one million shares of the 1950s to the hundred million shares of the late 1960s, more and more Wall Street partnerships limited withdrawal of capital until age 65, so that they could protect and keep their operations going.

Now, in the early 1970s, three mavericks, Donaldson, Lufkin, and Jenrette, thought that they could compete with the Wall Street establishment and effectually demutualized the investment business by doing a public offering. It was considered heresy at the time, but was soon adopted by Merrill Lynch, Morgan Stanley, and as it's turned out, all the other survivors.

Now, when I entered the brokerage business, successful business strategies included these components: Living wage salaries with bonus dependent upon the success of the firm. (And I've already alluded to that.) Customer or client contact accomplished by telephone, written product and personal visit. (Now we've got FAX machines, voice mail, and car phones.) Individual entrepreneurs called registered representatives, or retail sales people, were the primary producers of Wall Street revenues. All investments and all service employees were concentrated on maximizing the productive efficiency of the commissioned sales person. Since big producers produced the big revenues, the way to lock those people up was to make them partners. So anybody who could produce any kind of revenue was a king. And when I came to Wall Street everyone asked, "what do you produce?" And when I said "nothing, I don't know," there was total disinterest.

Because with one million shares everybody had to carry their weight from day one, and if you couldn't figure out how you could carry your weight from day one, there just wasn't a place. We're going back to that. So the big producers were the keys, and they represented Wall Street power.

The total focus was on the point of sale and the point of service. Now, about 20 years after World War II, the United States, and this is arguable, began to refocus it's capital inwardly. New financial markets began to develop. Fixed income markets, both taxable and tax exempt were established. Merger and acquisition programs to absorb tired or outdated industrial operations were being formed. As the federal and the state tax requirements increased, loosely held or private businesses utilized the growing liquidity of financial markets to go public.

This liquidity expansion also recreated the entrepreneur rater who reasoned that trading high-coupon debt paper in an undercapitalized balance sheet for the cash or equivalent of a conservatively managed balance sheet, was a good idea, and a good deal. This was the late 1960s when various computer operations gave out worthless paper to buy some of the insurance companies. And if it wasn't for those acquisitions, the computer operations would have gone bankrupt. One of those even tried to take over Chemical Bank with worthless paper.

Out of this growing complexity of financial markets where you had the expansion, exploded the accumulation of assets or the money management business.

Now this diversification of new financial businesses and products revolutionized Wall Street. Many of these new programs were extraordinarily labor or capital intensive, which was very much unlike what the industry had before, where each individual had to pull their own weight and bring in revenues.

Partnerships that had practiced financial risk aversion learned the new vocabulary of accommodation, felicitation, subsidization, product research and development, institutionalization and the most important, capitulation. The forward-thinking Wall Street firms realized that their simple feed-the-point-of-sale strategy of the 1950s and 1960s was being replaced by a product-driven environment where the financial stakes, compared with the old carriage trade retail approach were mind-boggling. The financial business had evolved from simply attacking the hopefully wealthy mom and pop next door. Or, in your case the wealthy prospect, the individual prospect, or the partnership or closed corporation prospect. And it moved that to a strategy of advance, attack and exploit the wealth of the corporation pension program, mutual fund, bank and insurance, and savings institutions. This applied not only in the United States, but in any capital reservoir anywhere in the world.

Wall Street in the late 1970s and early 1980s was big time, but was not perfectly managed. In attempting to develop and test new products, allocate capital appropriately, staff new businesses with quality personnel, compensate fairly, and create business strategies of more than one-year duration, Wall Street was living in an environment foreign from any that its managers had ever experienced, because they'd all come up through the retail, one-on-one, individual side of the business. And suddenly they were dealing with mortgage-backed securities, junk bonds, leveraged buyouts (LBOs), and just an entirely new vocabulary.

Capital needs were extensive and expanding. Suddenly you had to go out and you had to put out $500 million on a risk basis, hoping that you could find somebody who would buy those securities from you, after you had made the original transaction. That's called a bridge loan. This was very different.

Data processing and telecommunications, designed to create a fractional time advantage over the competition became a necessity. Staff, with the necessary education, mathematical and financial aptitude to understand the new products, the direction of those new markets and what the competition might do, suddenly became the ballgame. No longer could Wall Street hire a Rockefeller, Harriman, Frick or Mellon heir and feel that they had it made. Back in the 1950s you could bring one of those people in and with their capital they could keep the firm floating for as long as they wanted to.

It learned quickly that it had to find the original visionary entrepreneur promoter to manage these businesses. Third cousin George Carnegie just wasn't going to do. It had to be Andrew or nothing.

Now Wall Street management could be likened to Captain Kirk of the *Enterprise* without a script. But this Kirk was not sure whether Spock or Scottie existed to bail them out of a potentially fatal time warp. There were no proven management methods for measuring the success of products or people in an environment of strong or weak economy, high or low interest rates, and high or low inflation.

Many of the new players were unknowns. They were unproven in financial intellect, marketing capability, moral fiber (we've had a few of those), employer loyalty (we've had a lot of those, so have you), common sense and maturity.

Equally immeasurable was the response quality of the carriage-retail-trade-trained managements supposedly guiding these new efforts. Limousines, sports cars, vacation homes and immorality invaded the Wall Street that had once been the home of the living wage employee partner. It was destroying the expense control concept that had kept it all together.

Inadequate management administration spawned the uncontrollable Wall Streeter marketing uncontrollable products known to us as the four horsemen of the apocalypse: junk bonds, collateral mortgage loans, liquid promotional real estate, and LBO bank paper. Damage has been done. In my opinion it's not irreparable, the correction process is underway.

Now I believe some of these Wall Street activities have their parallels in the life insurance industry. For example, the introduction of new products and the repricing of existing products have accelerated to the point where staying abreast of what is happening in the marketplace is a full time job. It was not that many years ago when a rate book was overhauled every 3-5 years.

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Looking back at the 1980s I believe it is clear that the large life insurance companies responded slowly to the new products being introduced. Fear of losing highly profitable blocks of seasoned in force business caused, in my opinion, a lot of managements to adopt a head-in-the-sand approach to the situation. In a sense that would have been okay, because if people had done nothing, this whole thing would have passed and the balance sheets would have stayed in place. But you had sales forces and in addition you had a couple of management mistakes, which led to an increasing amount of brokering by the large company agents, and a decided loss of loyalty on the part of an increasing number of agents to their housing companies. If someone across the street was going to pay them 5% more commission and the home company was paying the other guy's agents five points more to come across the street, that was not the way to keep loyalty in confusing situations. And it happened in many, many instances to many, many companies.

As more companies began to look to brokerage business as an additional or perhaps exclusive source of new business, competition among companies for brokers increased. Since agents were initially attracted to companies with more competitive products, and higher cash compensation, the competition between companies for agents was fierce. More and more agent loyalty was related to the product and program that would make the sale and less to the insurance company's balance sheet and who would pay the ultimate claim or the benefit. In turn, life insurers operating in the brokerage market realized the sales successes of the most competitively priced products.

Now these competitively priced products led to competitively priced investments. Give you what they've got, or I'm going over there. And if you haven't heard that from your top 50 salesmen in the past 10 years going over to the First Executive, then maybe you didn't have 50 of them.

Now, over there is no longer over there. The other guy's personnel, marketing strategy, and investment quality all have been exported with all the goodness of an uncontrollable heterosexual with AIDS. The life insurance industry has lost capital, asset liquidity, and image. Those big dumb guys are now not so big.

Equally important as the self-imposed castration of voluntarily twisting mature cash value programs, were the expenses that had already been absorbed into universal life and interest-sensitive products with minimal or no margins and heavy up-front expenses, which proved extremely costly. No longer are there the cash value investment income reserves standing behind the typical life insurance operation allowing the luxury to experiment, test and yes, even fail.

Entering the 1990s, the timing of these decisions couldn't be worse. Standing in the winds are the financially capable German and Japanese banking insurance consortiums. Their future path has been eased by the financial weakening of the United States life insurance industry in the 1980s.

I am sure life insurers will improve the quality of their investment portfolios in the next couple of years. Expenses are and will be attacked aggressively. New products will be looked at more intelligently, with some chance of realizing profit margins. And I think that the flow will definitely be toward products with a profit margin definitely in them.

But just as the property/casualty insurance industry has been incredibly silent in answering its critics regarding its philosophy toward private passenger automobile insurance, I have not heard the life insurance industry answer its critics about why cash values are necessary to maintain level premium pricing.

People like me represent three necessities to the life insurer. We are prospects for life, health and disability products. We are eventual premium-paying policyholders who can help support the operation. Third, and most important, we are voters. If there's anyone in this room who believes the life insurance industry can prosper without the support of the voter, I think you're in trouble. So, you have to talk to me. You have to educate me. You have to teach me to understand why life insurance companies do what they do.

Lastly you have to change whatever message you have been delivering in the past 10 years. You have to get the voter, the policyholder, the prospect into the situation. You have to educate them. They're willing to be educated.

Early in my career the companies jokingly said, "we don't want to educate them -- keep them confused, that's the best way." I think it's damaging the way that approach has developed over the years. So I urge you to change whatever message you've been delivering in the past 10 years. Because it's just not reaching your prospect, policyholder, the voter. There are a lot of people out there. I urge you to talk to people in the Wall Street community. And you have to figure that if they're not in jail, maybe they have some chance of helping out. I think we have a view. I think there are a lot of analysts, people like me, who would like to talk and would like to help in the education process, the way in which all of your companies present their arguments and programs.

My feeling is that if you can be a little less parochial and have a few more meetings with people outside the industry, it will be a great help. I'm here to say that the analysts in the Wall Street community are available. We're a bunch of nuts. And there isn't a normal one in our group, but we buy your stuff. Please use us and get out there, get outside the companies, get outside the industry meetings and talk to people. They all have a point of view, and I think they can help get the life insurance industry back to where it belongs. Because we've just lived through a situation where the buyer of insurance products bought a conceptual yield, or total return, without being at all mindful of the preservation of capital and the payment capability of the company offering those products. And that's just got to change.

MR. AFFLECK: I think your message for us is one that we might not want to hear, but I think it's reality. Again let's go back to what role we should as actuaries be playing in our own companies to counteract some of the things that David has talked about.

MR. MICHAEL E. MATEJA: I think in your comments you laid the groundwork for the position that somehow the risk posture of both the brokerage business as well as the insurance business has changed. To what extent has the brokerage community been, in fact, a purveyor of increased risk to its constituents? The whole junk bond fiasco, as well as a lot of other instruments that are out there, just seemed to be ladened with a lot more risks, so that the brokerage community as intermediary has been purveying a lot of that. Any comments that you would have on the relative risk-taking of the people on the brokerage and now on the investment side would be interesting.

MR. SEIFER: I totally agree with you, that's why I felt it important that I castigate and denigrate the securities business. Before I lay it on you guys, I think there has been a tremendous number of errors made in the brokerage business. A lot of the new products have become more risky. Many more brokerage firms are carrying junk bonds and bridge loans, and have risk to their assets of $300-500 million or a billion. This is just so different from the cash-in cash-out basis on which I came into the business that it's astounding. And now the problem is that the managements didn't realize what their risks were. And I can't believe that the Drexel Burnham management knew what was happening to it. The week after Drexel Burnham went under, we had all 5,500 of their employees go through our operation looking for a job. It is a horrible thing to see people who had faith and trust wiped out. You can say a lot of negative things about the Drexel management, but still a lot of them a week before the company went under had taken, well their president took, $2.5 million in stock.

In one respect, that really doesn't say a whole lot for him. But I do think that it shows that he didn't know either. The Wall Street firms that survive are going to find out.

The greatest thing about Donaldson, Lufkin, & Jenrette is that there's only one member of management who's computer literate. And everybody else is just scared stiff. As a result they never put up any money for computers and fixed costs. No telecommunications in the walls, no nothing. And so, the fixed costs in our firm are very low. I wouldn't say we have people on roller skates putting marbles into the telephone systems, but compared with some other firms I've been with, that's true. And as a result, with those low fixed costs the firm has been able to do things on a variable basis with its expenses related to revenues or revenue-producing operations that other firms haven't been able to do.

For others that have put heavy fixed costs into telecommunications and computer networks, the only answer they have for reducing their costs is to lay off people. We're going to be seeing a collapsing of those fixed expenses as fast as is humanly possible. It's going to be a horrible social result. It already has been if you were at Drexel or Shearson or Merrill or any of the other firms that have had some huge layoffs.

We have more to do. Our business is not going to be fun for another two years. I hope that helps.

MR. MICHAEL PALACE: Our company and many of us in this room are probably in a similar situation and find that a lot of our efforts are toward short-term earnings. We possibly are taking positions that are sacrificing long-term potential in order to achieve short-term results. Part of the pressure, or the perceived pressure, for us to achieve those short-term earnings goals is not necessarily from within our own industry, but is because of the perception that the external analysts are mainly concerned with next quarter's earnings. And they're not taking a closer look at whether we're positioning ourselves for the year 2000.

As a representative of the investment community I wonder how you might view that kind of situation.

MR. SEIFER: It's a good point and I hear it all the time. It's not something that I personally go along with. I mean we're always asked, what are your quarterly earnings estimates? And I really work very hard not to give them.

About three years ago, I gave an earnings estimate on American General and I missed by $.05 a share. I was too high by $.05 a share, which is about $6 million. I think I spent about 30 hours explaining $.05 a share. I decided that never again was I going to give out an earnings estimate. Or if I give one out, it's going to be so low and so off beat that I'm always going to be able to say, well they were better than I expected. There's a great reward in our world if you miss an earnings estimate by 20%. If you're too high, you get a terrible grade. If you're too low, they're very forgiving. So it's better to be too low.

But in terms of Wall Street and investor pressure on quarterly earnings the pressure comes from the institutions, the big money managers. I was to have a meeting with a money manager who had to cancel the meeting because he had to go to his boss and explain why his relative performance that day did not beat the market. That's an incredible way of investing. You just can't compare that with, say, the Warren Bufet method, which is perhaps the exact opposite and which is truly a long-term approach. You compare which is which, and how each is done. And there's no question that the longer-term approach has worked.

As an analyst we want to balance two things. We want good long-term thinking, programs and results. The problem we have is how we can get to the good, healthy, long-term results without doing something good and healthy along the way, on the short term. Let's take for example, TransAmerica. TransAmerica really had a very good first quarter in 1990. Every division showed one or two elements of definite improvement in operations. And I was very satisfied with what was done, because in order to get from today to where I think the company will be three years from now, quarters like the first quarter would be very helpful. And yet the stock market was off; I think TransAmerica was down three last week.

There need not be a total correlation. But there are pressures I personally don't agree with. I don't think that that's the way portfolio managers are going to make or maximize their efforts for the benefit of their clients. But, that pressure is out there and that pressure basically makes them think they can't have a good long term unless they have a good short term every day. Somewhere in between is the correct compromise. Wall Street concepts come and go. My feeling is that after this one is unsuccessful -- that is, let's get it every day -- after that method proves unsuccessful, then they'll go do something a little more rational.

MR. RICHARD S. ROBERTSON: Those with product development responsibility can tell you how difficult it is to develop products that have satisfactory levels of profitability and at the same time are even close to being competitive. And as you observe the levels of profitability of most life insurance companies, these days I think you can see that we're not being very successful at it.

I'm rather optimistic, on the other hand, that things are going to get significantly better as we go forward into the 1990s. And I sense from your comments that you might share that optimism. Can I ask you to tell us how you see the life insurance industry unfolding over say the next 10 years?

MR. SEIFER: Well, there are obviously too many companies; there's going to be a definite consolidation or combination in some way. And I guess when I bought my first policy back in 1961, I think I paid $1,000 for $50,000 of cash value life. And I think today, 29 years later, a less healthy individual can go out and buy $100,000 of one-year renewable term insurance for maybe $135. I don't know how the agent and the life reinsurer handle that: How is there money for everybody? I think there are too many agents, too many companies. So there will be a shrinkage in that regard. I think that there will be fewer companies, fewer agents, and then obviously larger companies.

I think more has to be done in the direct response and telecommunications area. From my standpoint, this just isn't working yet. I get these fliers in the mail, and maybe I'm the wrong person, but I'm always asking what else I should know. What else should be included in this program? I don't have anyone to talk to. So there has to be some combination of telecommunications plus an answering service that can handle these questions. The product should be merchandised a little better than it is to respond to the question of what is not being included in the program.

I think that the very wealthy or the upper 5% of the disposable income bracket, who many companies five and 10 years ago used to work for, will be handled by a smaller, more expert cadre of sales people. The sales people will have to know taxes and estate law. They will certainly have to know the different products. Perhaps they will have to be more of a broker than a one-company career agent to get the job done. But I think that for that upper 5%, certain companies will have the expert sales forces. We already have that. Then for the other 95% I think we're moving toward what 10 years ago I would have called nonconventional-nontraditional-type companies. The products are different. The companies that are surfacing are dealing in the new disability income programs. There are more mass marketing techniques, cheaper amounts of term. It seems to me that the career shop from that standpoint is just being put out of business.

Yet, everyone wants to get control of those career blocks of business. Here's Torchmark and American General. Let's get that very profitable career block. You go into any statutory statement and any industrial block and the after-tax statutory gain versus premium runs anywhere from 25-45%. I mean that's a nice thing to have as a base.

I think we're going to see capital trying to buy profitable blocks so they can stay alive long enough to find the marketing process that will allow them to live in the next 10 years. But it is a stinker question, absolutely a stinker question. I wish I had the answer because then we could go out as investment bankers and do things about it. But I think that fewer companies, changes in marketing, use of more complex methods of contacting people with an individual involved, are going to be parts of the marketing process. And maybe, it has to be bigger so you can put up that fixed expense in the early going to reap the advantages. And those companies, those small companies without that kind of capital may have to look for partners.

So it's at best a partial answer. If you had asked me the question a month ago, and I had thought about it, I might have come up with one more possibility.

MR. ROBERT C. TOOKEY: David, you mentioned that the European and Japanese companies kept their powder dry while our life insurance companies were weakening themselves with these excesses of the 1980s. And yet of the 25 huge Japanese companies only one to date has invested in a U.S. life company and they really haven't expanded their position in that. I remember I was seated at a table with the chief executives of Dai-Ichi Mutual about a year ago and I asked them about that, and they said they have no intention of increasing their investment in the U.S. life insurance industry. I wonder whether you had picked up any information on Wall Street. Or do you care to discuss the Japanese subject?

MR. SEIFER: Well we never pick up anything; nothing that you hear on Wall Street is worth anything. I mean that's a given. Look at the net worth and the capital capability of the 10 largest Japanese and 10 largest German bank insurance consortiums. They are intertwined. You have a capability that in the reinsurance business for example would put General Re as the 25th largest property, casualty reinsurer in the U.S. And I forget where it put State Farm, but it put State Farm way down the line. It's not that they will be there tomorrow. It could well be that by delaying, the Japanese and Germans have been doing the right thing. You are in this business. You know that to buy a life or a disability or a consumer finance company today you have to pay a pretty big premium. My feeling is that we have some huge financially capable predators waiting in the wings. Once they get comfortable with their education process they are going to come on. I mean, the Japanese life insurance company does not sell typically the way ours does. There are a lot of part-time working women who go door-to-door with a lot of savings products. It's a different approach than ours. I don't think that they are quite comfortable with just walking into our approach. But there's no question, going back to Dick's question, within 10 years I think they are going to feel comfortable, have a strategy, and they are going to be here with a lot of capital. And a new group of players with a lot of capital can be both plus and minus.

I didn't mean to imply that they are coming tomorrow, because I don't see that. Look at the net worth of a U.S. company and look at the table of net worth of the largest 25 stock or mutual life insurance companies and compare their size with some German and Japanese life insurance operations. And then add to their situation the potential of some of their bank relationships. We have some big international potential competitors in the marketplace. That was the way I wanted my comment to come out but obviously it didn't.

MR. AFFLECK: The Japanese are known to move with glacial speed, but by the year 2000 you figure they'll have a big presence here.

MR. SEIFER: I think that they are looking and learning every day. And we'll see them the day they feel comfortable. I don't think they are comfortable yet. Amazingly I would say the same in the European area where the learning curve is still at the low level of formation. I would have thought differently, and a year ago I would have said differently. But I still think they are not comfortable with our culture. They are not comfortable with our society and our standards. And until then I don't think they are going to move. But they have the money.

MR. JOHN D. KIRKMAN: I'd be interested in your observations on two matters. One has to do with the customer. I think you implied that it's important to reach out to the revenue producer, the customer. My guess is that some insurance companies would view their field forces as their customers. What are the Wall Street firms doing to reach their customers that we might be able to do? And then second, I think the banks probably view themselves as legitimate competitors during the 1990s. Would you view the Wall Street community as being a legitimate competitor for insurance in that same period of time?

MR. SEIFER: My observation of the most successful sales/client relationship is continued contact. And that is life insurance or brokerage. I sold as a retail salesman the first five and a half years I was in the brokerage business. If I didn't generate commission they would have thrown me out. I learned soon that you have to be talking to your clients all the time. My life insurance agents are talking to me all the time. And I would say that continued communication is the key to success. Move from a business to a personal relationship as fast as you can. I talk to 200-300 institutions a month. And certainly my best relationships are where they know all about my kids and maybe they know more about my kids than I do. Move it where you can from a business to a personal relationship.

Relationships are crucial. What can you learn from Wall Street? I think whatever they're doing, don't do it. That's a very important step one. My second axiom is never listen to an analyst. But it's too late for you. I certainly don't look at Wall Street as a competitor. I think you can use us and maybe we can use you. In a sense we're both going after those disposable dollars. We do some products better than you do, and you do some products better than we do, and you have some products nobody else can do. And therefore, that is very good for you. I mean, annuities are terrific. Some of them even make money now. In the 1990s I think Wall Street will be more of a retail-oriented operation than institutional, as it has been through the 1980s. Their profits are happening on the retail side with the individual as the customer, rather than the institution that is really squeezing us to death. A \$.15 per-share commission of a few years ago is now down to \$5 and \$4. And some institutions are asking for \$2. They're going to kill it for us and for them. And so I think it's going to go back to the individual. I think in the 1990s, the individual American will save more and will try to get out of debt. Then the individual will be an attractive market for both Wall Street firms and for insurance companies.

I don't see us as your competitor. Our sales forces aren't stable. They are not predictable. They are not sure whether they're going to sell your products in a given year. You can't tell whether or not, if it's a bull market, they're going to sell your products. So we have a place for you, but I don't think that we're totally predictable.

I really don't look at us as a competitor. As for banks, I think the Glass-Steagel Act is eroding all the time and CitiCorp keeps attacking it whenever it gets a chance. I think the banks have damaged themselves so badly in the last couple of years with their investment philosophies, that I don't think they are the competitors that I thought they would be by now. And I thought that the banks would be into the property/casualty business by 1995, just in time to screw up the next up cycle and kill it.

Now I'm not sure they have the capital nor am I sure that the regulatory environment will allow the banks to step into the insurance industry as fast as I had thought. Certainly you can attack their position on the grounds of what they've done for you lately. Certainly if you don't go to the banks, you can go to the S&Ls with the same approach. So my feeling is that banks and S&Ls will remain distributors for a few more years for the life insurance industry. But sometime it has to change. They will be stepping in more aggressively.

There are examples of insurance companies with nonbank banks. However you define it. But right now I feel you have your markets and I don't think that you're going to be seeing any inroads from either the securities, firms, banks, or the S&Ls in the roads for awhile.

MR. ROBERT J. JOHANSEN: The prices of bonds and to some extent stocks depend on ratings by S&P and Moody's. Now life insurance company claim-paying ability is being rated. As a Wall Streeter would you want to comment on your attitude toward this? As a buyer, and maybe as a seller of policies for some companies? I'd like your comments from the Wall Street viewpoint.

MR. SEIFER: Well I think, as an analyst, one of the biggest fears that I've always had during my career was to analyze the assets on a life insurance company balance sheet. Not so much the treasuries or what few stocks there were, but private placements, mortgages, real estate. I fear having to come into a civic center and know what its appraised value is. Who has the mortgage? How are the payments going? Then to multiply that by 300,000 similar-type propositions per company. Then multiply that by the 2,600 or 2,700 life insurance companies, it is impossible. It is easily the biggest problem that I have had to face, and I'm not in an adequate position to answer that. I've talked to a number of accountants recently. And I said, "I guess you guys are going to have to start appraising real estate on an annual basis now. So at least we have one lucky year at it." And they said, "how do you want us to appraise it? Do you want us to appraise it on a sale tomorrow, next week, three months, six months, three years?" A very good answer but not for me.

My feeling is that we should downgrade every annual report that doesn't have real estate and private placements appraised, or there should be some comment on the nonmarketable parts of the assets on an annualized basis. I was talking about this back in 1974,

1975. Suddenly, I got thrown off the committee. My initial answer to you is total fear, fear about the unknown. Fear about what I don't know about the assets and therefore the claims-paying capability of an insurance company.

I would say that from your standpoint now, as an industry you have to be aware that your marketplace has that same fear. Therefore you have to attack that question as best you can. We get 25-30 questions a day on this, ever since *The Wall Street Journal* articles on various asset qualities. It's amazing what the investor and therefore the probable life or disability or health insurance policyholder do not know about the assets and the balance sheets of their life insurance companies.

You have to attack this. You have to answer it, company by company in whatever literature you put out to your policyholders, or in your advertising program. You have to go after it, because by not talking about it, as the governor of Massachusetts learned, it does not mean that it's going to go away. You have to explain what it is. And by attacking it I think that you'll get your credibility and improve your image and ease the conscience of the prospect.