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FOCUS 2000: FUTURE OF THE INSURANCE BUSINESS

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- o What will the insurance business look like in the year 2000?
- o What are the most important external factors that we should consider today?
  - -- Internationalization
  - -- Demographics
  - -- Value systems
  - -- Public and private systems
- o How can we plan for and manage our business today to maximize opportunities?
- o How will the actuary's role change in this environment?
- o What should the actuary (and the Society) do to prepare for this role?

MR. DANIEL J. MCCARTHY: For our panel we have recruited three actuaries, all of whom have senior executive positions in insurance enterprises. First, we figured we had to get actuaries in order to command, if not your respect, at least your attention, and second, we wanted to get people who are in positions in their companies such that part of their job is to look forward to what's going to be happening 10 or more years hence. Our panelists are in order, and I will name them and describe them for you now and then not interrupt in between as each of them speaks. First is John Turner. John is president and chief operating officer of the NWNL Companies, Incorporated, whose principal life insurance subsidiaries are Northwestern National Life and Northern Life. Second is Dave Lenaburg. Dave is chief executive officer of Legal & General U.S. Legal & General is, as you probably know, a large British insurer that has substantial insurance interests in the United States. And our third speaker will be Peter Hutchings. Peter is Executive Vice President and Chief Financial Officer of The Guardian. So, fundamentally we will have speakers in executive positions from a domestic stockholding company, a stockholding company of foreign ownership, and a mutual. I think those are perspectives that will be very helpful to us as we think about ourselves and the insurance business looking forward 10 years.

The format will be this: each of the panelists will take a little while to set forth the framework of his views. We will then have some interchange either among the panelists or between me and one or more of the panelists or both, and then we will be happy to have questions or comments, as time permits, from any of you. With that, we are ready to start.

MR. JOHN G. TURNER: I have to say when Dan called me about participating on this panel I was really intrigued by the subject, which seemed like a lot of fun, and maybe more because I had a good excuse to attend my first Society meeting in quite some time.

PANEL DISCUSSION

It's nice to be here. I enjoy the process of sorting out my impressions of the future. I guess, first and foremost, my view of the life insurance business in the year 2000 is basically quite a positive and optimistic one.

It may be important to start out expressing that optimism, because a number of the vignettes that are elements that I'll focus on might not be viewed as particularly positive. It's worth emphasizing that overriding the specific elements is a belief that demand for our products and services will continue to expand. Initially, my focus will be on elements of the insurance business that will look different 10 years hence. Now, specifically, there'll be, roughly, half as many companies as in 1990. The process of consolidation will continue at even a faster rate. I think the image problem faced by the insurance industry today will cause consolidation to occur rapidly, primarily because lack of industry credibility will cause great difficulty in raising capital. Lack of capital will force a number of companies to look for merger partners. Managements will tend to look more favorably on being a smaller part of a larger organization. Second, the baby boomer generation should, and I believe will, dominate the strategies of the life insurance business. Baby boomers will be influenced by the expectation of a longer retirement life span and relatively greater financial resources. The importance of postretirement financial security products will increase dramatically as this generation approaches retirement age. The assets accumulated by the group will represent, obviously, a very attractive market for the industry.

The major security concern of the baby boomer cohort will be health care. Our industry will have a central role in providing health care directly or in providing financial protection against unexpected expenses. The attitude of the baby boomers about how we do will have a key impact on the industry's future role in the health care system.

Prospects of an extended postretirement life span will cause people to be concerned about maintaining their lifestyle. This will occasion the development of products and services that specifically address this concern. Probably the current best examples are continuing care retirement communities.

The work force in 2000 will reflect dramatically greater diversity as to cultural and racial makeup, family composition and age. A fundamentally different approach to managing the work force in 2000 will be required. More about this later.

By the middle of this decade the European Economic Community will represent the largest single market in the world economy, even without the Eastern European countries. Setting aside the issue of actually going into the international insurance business, financial institutions of all types will be required to participate in international financial markets, both the European Economic Community and the Japanese markets. The market forces impacting the pricing and availability of all types of financial instruments will become increasingly international in scope and nature. Thus, it will be impossible to avoid the internationalization of financial markets. Virtually any insurer with assets to invest will be operating internationally, whether or not that company actually sells products and services outside the U.S.

I think foreign competition in the U.S. will be moderately greater, but foreign ownership of U.S. insurers will have increased fairly dramatically by the end of the decade.

Products that involve asset value risk assumption by the policyholder will increase. It will continue to be socially unacceptable for insurers to invest in so-called high risk assets, but increasingly we will have policyholders who are comfortable with the risks inherent in this investment strategy -- thus, continued growth of variable products in which the policyholder takes the asset value risk.

My reference to the socially acceptable asset risk profile of life insurers really relates to the fact that regulatory and industry image issues, as well as rating agency concerns (and I think that latter element is a very important facet), are going to have a great influence on the industry's asset management strategy. That will be a change that will cause or result in continued heavy attention on the asset side of the balance sheet. In addition, the freedom of insurers to exercise effective risk selection will be limited. I really believe ill winds are blowing in this area. Public distrust of insurers, the unwillingness of society to hold people accountable for their actions, and the issues presented by genetic engineering make heavier regulatory interference with risk selection a virtual certainty.

With respect to a number of product categories, group and individual marketing strategies will come together with more individual products underwritten and distributed on a bundled or group-type basis. In the group segment companies will be endeavoring to develop a more meaningful linkage to employees insured under employer-sponsored benefit plans, moving more toward a type of relationship characterized in the individual insurance segment.

I believe that the private sector will essentially fail in its efforts to control health costs. Health care delivery in urban areas will be dominated by managed care in a variety of forms with industry involvement. In rural areas the ability of the private sector to deliver needed products and services will be put to a severe test.

Certainly within the decade we will have experienced a variety of collaborative efforts, and I would have to say intrusion, by the government in combination with the private sector in attempts to nationalize the delivery of health care.

Banks will represent a major distribution channel for certain types of life insurance company products. There'll be a few life companies that'll be owned by banks. The regulatory walls between banking and insurance will have disappeared or all but disappeared. However, I believe the weakened capital structure of the banking system likely will have prevented it from running roughshod over the insurance industry.

Finally, information systems will play a different role, much more proactive than is currently or has been the case. In particular, information systems applications will be directed much more toward solving distribution issues in the insurance industry rather than directed at back office issues. Dramatic advances in communications technology will result in improvements in communications between insurers and our distributors, between distributors and their customers, and between insurers and our customers.

Communications technology will improve the efficiency of insurance industry distribution but not necessarily the nature of the process.

Really I feel compelled to address specifically the demographic changes which will have occurred 10 years hence. There are two very important ways in which the insurance industry will be affected. First, as the baby boomer generation matures, it will continue to accumulate wealth and will generate great demand for financial security products. The insurance industry will and should provide a large share of these products. In order to secure its position with the baby boomers, our industry must invent additional products and services that strengthen the linkage with this generation. As I mentioned before, concern about longer postretirement life spans will be paramount in the minds of people approaching retirement. Our industry must, and I think will, find ways to address these concerns. These opportunities represent products that (1) probably don't resemble current products; that (2) relate to contingencies we haven't thought about insuring at this point; and that (3) will obviously require new skills and disciplines.

Another important aspect of demographic changes has to do with the insurance industry's work force in the year 2000. The traditional sources of the industry's work force participants will not be available. This will inevitably result in our industry employing persons of more diverse backgrounds, different family situations and, most certainly, lower educational qualifications than is currently or has been the case. The employment of retirees will become commonplace. This represents interesting challenges in training and development of our people. Furthermore, given the shortage of qualified workers, the importance of reducing employee turnover becomes much greater. The baby boomer generation represents a factor here also because as an industry we had better be prepared and in a position to hire or rehire them early in the next century.

There are two critical factors in continuing to maximize opportunities for the life insurance business. First, from a management standpoint, is to develop focused strategies for our businesses and to maintain the discipline to implement them effectively, and second is to provide our people with the most attractive possible opportunities. In the total scheme of things the most critical resource shortage we will face, along with really all other industries, will be people. It's not too early to begin developing the values and culture necessary to attract and retain a highly motivated, highly satisfied, challenged and stable work force. Management faces the task of making work challenging, enjoyable and meaningful for all our people. I really believe mastering this task is perhaps the most important single challenge that we face.

It seems obvious that information technology will change the role and job of actuaries. The opportunities for pure "techies" will be limited compared with persons with actuarial training who are equipped for broader management roles. The involvement of actuaries in general management, strategic planning, marketing, public policy and public relations will increase markedly over the next 10 years. I think actuaries as data jockeys will tend to be replaced by people with, as we see currently, more MBA-type training. This leads, obviously, to a reduction in the demand for actuaries functioning in certain traditional actuarial roles. However, I do believe there will be a higher proportion of actuaries who are involved in management roles at a variety of levels.

There continues to be much discussion, obviously, and that's why we're here, about the necessary ingredients for the proper education and training of actuaries and, specifically, how we can prepare the profession and new entrants for the insurance industry of 2000.

From a personal standpoint my educational background is liberal arts, and I continue to believe, from an education-of-actuaries point of view, that the best answer is to focus on thought process and conceptual framework -- in other words, the problem-solving process rather than the problem specifically -- to effectively address future problems which are not capable of being defined in current terms. I have concern about the continuing trend toward narrowly focused specialties in our educational process as it exists currently.

The very best service the Society can provide is to continue, and, in fact, increase, its efforts to encourage its members to challenge and debate current practices and to encourage the putting forth of new ideas and practices or concepts. This is the type of experience that has historically positioned people to deal most effectively, both intellectually and from a practical standpoint, with change, and change is the one element of the future we can count on. I'm encouraged by what's happening currently. As an example, having recently read the last couple of issues of *Contingencies*, virtually half of the articles at least by my count were directed at either long-term care or closely related topics that probably wouldn't have been even mentioned in an actuarial publication five years ago. I think we're moving in the right direction but possibly not fast enough.

I do want to revisit, finally, the prospects for our industry. I've mentioned that I'm optimistic about the opportunity we have to provide financial security products for our customers. I really believe we will see a dramatic expansion of that demand, particularly with respect to products that relate to postretirement financial security. It is a great opportunity but one that we can mess up if we don't listen to our customers, which leads me to a concluding observation about opportunities for and responsibilities of actuaries in the year 2000. By far the most important skill for actuaries will be the ability to listen carefully to customers and then to convert what was learned into products and services that add value for all our stockholders. A requirement for our industry to continue to prosper is for everyone to get closer to our customers. I strongly believe that the actuary with a broad-based perspective and analytical ability is in the best position to create value as a result of that proximity to the customer.

When all is said and done the success of our industry really depends on how we meet the expectations of our customers, and you can be assured that the world out there has ever-increasing expectations. We, as an industry, must be certain we are in a position to deliver on those expectations.

MR. DAVID SCOTT LENABURG: I find 10 years to be an awfully uncomfortable time frame to look forward in the future. Twenty years would have been easier because nobody's going to be here to say whether you're right, wrong or indifferent. Ten years is close enough that you can be held accountable for what you say. So, be very careful not to say too much.

I look after the American side for a large, foreign insurer; one whose home base is in London, with operations in the Netherlands and France, Australia and America. Like

most companies, we're usually in a fight for capital. Over the last two years I've been in a fight for capital for acquisition for growth in the U.S. To give you again some idea of the significance of the 10-year time frame, a lot of time was spent by all of us deciding where the best opportunities were in 1992 in Europe, and I'm sure many you have read a lot of the press on this subject. A lot of efforts were devoted to predicting where the greatest need was. We're looking at all the demographic data of all of the European Economic Community (EEC) and determining where one could expand profitably in Europe. Multiples went up. Various countries came out on top. Other countries came down on the bottom. It became a very expensive proposition to determine where to go in Europe, and then all of a sudden Europe does not look the same today. So, when predicting for 10 years, you can have a difficult time because the world may undergo some very dramatic events.

The other thing you do when you want to look at a 10-year time frame is that you start to look back. What happened in the last 10 years? I think your chances of being correct in a judgment call on a 10-year time is about the same chance you have, after you've passed your first Society of Actuaries' exam, at guessing when you're going to pass the last. It tends to be highly variable. But if one looks back at where one was 10 years ago and at the change that's taken place in the industry through the 1980s or beginning in the 1970s through the 1980s (the advent of things like universal life and of personal-producing general agent marketplaces), one could either consider that we've had a lot of change or very little change, that it's been slow or it's been rapid. That depends upon how you measure change. If you're fairly uncomfortable with change, you can take a look at the industry today and say it hasn't changed all that much. If you're comfortable with change, you might say the industry has changed rather dramatically. Predictions were made 10 years ago that there'd be half the number of life companies, that there'd be a lot more mergers and acquisitions. In particular, the tide seems to go up and down with regard to mergers and acquisitions. If you look back, you can see one thing that stands out: the changes have been driven by what's happened on a world economic scene. The changes that have occurred over the last decade were driven very much from the high inflation rate that we had in the 1970s and early 1980s. It changed our products. It changed the way we market our products, and it changed the industry to a certain degree. So, I think if one looks ahead in the next 10 years, one also has to look ahead and try to guess what the world economic scene is going to be 10 years hence.

Indeed, I think we are in a global market now. We can watch the stock exchanges of New York, Tokyo and London and follow them around the clock today. There is a certain amount of globalization in that way. There has not been much globalization in our particular industry or products. They don't seem to cross national boundaries very well because of different nationalities, prejudices toward savings, and different tax structures from one country to another. Nevertheless, our industry is driven by what happens in different economies so that one has to look beyond the U.S. borders to see what's happened and see the effects there and how people deal with them in other countries. This is the same as someone who's trading on the New York Stock Exchange today and would certainly be looking at what happened in Tokyo, followed by London, before he or she made any major trade. This is particularly in a time when we have the instability that we do today, because the markets and the economic scene follow each

other around the world. And I think there's a challenge to be able to look at these particular economic scenes and see how they fit with our own.

I can remember being inundated early on with unit-linked products in the U.K., and the prediction was that they'd be selling to a greater extent in the U.S. than they than they are today. Why? There are some simple reasons why they've probably been slower here than they were in the United Kingdom or in other parts of Europe. Some of it has to do with the particular economies in those countries that are different from our own. For example, the ability to enter into the equities market in the U.K. is much more difficult for an individual investor than it is in the United States. Hence, the equity-linked-type products appeal to a broader spectrum. It gave those investors a way to participate in their local marketplace that they didn't have available to them by any other means. So, I think one has to look at the global changes that are taking place and how they differ from country to country and why they're there.

The other thing I think that's important is that, if we look over the 1980s, the changes have been rather slow. It usually takes a lot more time for something to develop than we tend to think it's going to. If anybody has misjudged, if somebody was standing here in 1980 judging what would happen in 1990, I think not as much happened as we thought would. Industry doesn't seem to change rapidly because our world economies don't seem to change rapidly. There has to be a need for something to occur, and we have to watch for that.

I think that there'll be a fight for capital as we go into the future. We're an industry that let our profit margins and returns on equity sink, whether we're talking about a stock company or a mutual company. We all are much more concerned with the amount of capital we have available today than we used to be. It's pretty hard to change our competitive products overnight. That takes time. And with our returns on equity that do not match some of the other investment vehicles out there today, it's very difficult to raise capital, and it's going to become more and more difficult for the industry to raise capital. We could all name countless nonlife companies that have bought life companies and then decided to dispose of them. The returns were just not there. So, I think you're going to see some change in our particular industry, and it'll certainly be affected by the change in the economy that we have in the U.S., but we're going to have to show better returns in order for individual companies in the industry to expand. The life insurance industry is going to have to show that it can put the money to work as well as any other industry. So, I think we're looking for a way of doing that. I would hate to want to start up a new stock life insurance company and raise capital in America today. It'd be very, very difficult to ask somebody to be as patient for a return as you currently would have to ask them to be.

We look to the banks for competition. We look to the banks for strength, and it's very difficult to estimate what's going to happen there. If, again, you look outside of the U.S. where you can find some countries such as Australia where the banking industry is dominated by four, large national banks, you would think it'd be a bomb. Once the banks are allowed to enter the insurance market and vice-versa, allowing more banks to be formed, you think it would explode overnight. It didn't. Things seem to be very slow again. There seems to be a need that has to develop before you see the effects on the

marketplace. One has to be sure that whatever track one's going down, that the world and national economic conditions are going down the same track, because it seems we have gotten in the most trouble when we've tried to move counter to whatever the rest of the country is doing as far as financial institutions and the economy are concerned.

What does this say for an actuary? Well I have to express the same fears that John Turner expressed, that we tend to put ourselves into categories and to break up the profession into small pieces. In looking to employ actuaries the first thing one asks is, "Does he have street sense?" And what do I mean by that? Why does one look for that kind of person? It relates back to whatever the economy does is going to have effect on what the companies are going to do. Whether it's inflation that puts us into products, that tend to lower our returns on equity that tend to put pressure on our investments, that tend to put pressure on our service, that tend to put pressure on everything else as we try to find continuing sources for more profit that didn't exist before. It's basically happened because the outside world changed on us.

What we're looking for from actuaries in the future is that one can take a particular economic scenario or a particular scenario and follow it through, not just in terms of price, setting your reserves, or recommending cost bases to management. You have to do it all. Future actuaries are going to have be able to take certain basic assumptions and work with them and be able to recommend to management where to go and what to do and what the effects are going to be. That's been, I think, the traditional job of an actuary in the past, and I think it's one we've moved away from a little bit. Today we look at somebody and we consider him to be a pricing actuary, a valuation actuary, a reinsurance actuary. I think we have to be actuaries first, and that means we have to worry about what the rest of the effect is on the company. I think as actuaries we cannot put out products with lower returns on equity and expect it all to be made up by the chief investment officer. We would be putting pressures on that particular individual that might be a bit difficult in this day and age to meet.

So, I think the challenge to the future in the actuarial profession is to be able to tie it all together. We have a syllabus for exams that is extremely broken down. We tend, over the period of time that we're preparing for the exams, to take each one individually. We're starting to do things like have new Fellowship seminars that are supposed to help us on the ethics basis and on the globalization basis of the syllabuses. We have to go a lot further than that. Having completed the required number of exams, it's difficult after taking all those particular items individually, to have to tie them all together in our work. We can all name countless problems that have occurred in our own companies and various other companies of where they got into trouble because somebody didn't tie different components together, didn't understand that the road down this particular path was going to cause problems in 13 other paths that weren't considered at the time, that the pricing actuary and the valuation actuary are one-and-the-same person looking at different lengths of time in the same segment, of dealing with the same problem, of interfacing with the investment area in the same way. What demands is one putting in that particular area? What demands is one putting on our information service people that they have to produce at what cost to monitor what products? We haven't been very good, I think, as a profession of tying that together. We've left a lot of loose ends. We left a lot of loose ends in the tax area, and we're now starting to pay for them. Nobody

believes us anymore. I wonder why. As to what the taxes paid are going to be for the life insurance industry, people are very skeptical. We have a very difficult time in even judging our own innovative ways of getting around the particular tax bases for whatever scenario that is set forth.

So, I think, to me, the dramatic challenge of the future is to be able to adjust to it and to be able to adjust to it in a rounded fashion where we're more interested in the company as a whole, in the industry as a whole, than any one segment of it. I think we've gone down some rough paths in the 1980s and the 1970s. I hope we've learned some lessons. We certainly have more and larger companies today under financial challenge than we've ever had before, and I think we have a lot to explain for our role in it. I think we have a lot to explain because I don't think we've predicted to the degree we thought we did what the cost of maintaining certain systems would be, the cost of keeping that bright idea that we had alive for the next hundred years or the pressure that is put on our chief investment officers of the various companies to find the assets to back the products that we invented so freely. So, I think the role of the actuary is one that will expand. I don't think we're going to find it restricted. And I think we're going to find the future a challenging one.

MR. PETER L. HUTCHINGS: I'd like to give you a scenario for the life insurance industry over the next 10 years, and I'd like to place a special focus on the implications of that scenario for an actuary working in the life insurance area and working for a life insurance company. I'd start out by echoing my fellow panelists inpredicting a gradual reduction in the number of insurance companies. Actually, this process is already underway. John Angle has published a couple of articles in *Probe* magazine, and using McKinsey data, John has shown that over the 1985-88 interval the number of life insurance groups was actually decreasing at the rate of about 5% per year. This is masked in the aggregate figures by the growth in other types of enterprises, like producer-owned, reinsurance companies in Arizona and other things that are outside of our scope here. So, this decrease in the number of insurance groups appears to be underway already, and if it took place in the 1980s, which was obviously by and large a boom decade, it seems reasonable to anticipate it'll accelerate in the 1990s, which hardly anybody thinks is going to be a boom decade. So first, by any real means of measurement, there will be fewer companies.

Next, there will be fewer lines of business or profit centers, if you will, per company. In the last 10 or 15 years there's been a significant increase in the minimum critical mass necessary to make a line of business or profit center function effectively. Using group health as an example, the conventional wisdom is now you need about a billion dollars of group health premium to have a viable critical mass in terms of your computer system support and so on. If you happen to think that national capabilities and the alternate delivery system are an essential factor, then it's probably quite a bit more than a billion dollars. In the individual life profit center I don't have a number to throw out for you, but I think it's clear that the critical mass has increased there as well. Several factors have served to increase the critical mass necessary to have a strong operation: the cost of computer systems, which you heard about earlier; the cost of maintaining distribution systems; and product complexity, if you consider second-to-die products or universal variable products, which are very intricate products. When I started out in this business

in the 1960s, there were people still forming insurance companies by taking the rate book of a major mutual company, subtracting one cent from all the rates, and off they went. You can't do that anymore. The critical mass has changed.

There are other factors that are also serving to put pressure on the number of lines of business per company, in my opinion. We have, obviously, some profitability issues. Apparently we're in for some kind of taxation increase. There are capital constraints being discussed to a greater extent than in a long time. And, finally, the role of the rating agencies has evolved. Moody's and Standard & Poors are becoming almost de facto regulators in some market segments, and top management, the board, the policyholders and the press all pay a great deal of attention to what these agencies have to say. By and large, the rating agencies have an institutional bias against small subsidiaries, small ancillary accommodation lines of business. So, I think all of these factors will combine to reduce the number of lines of business per company. So, if you've got fewer companies and fewer lines of business per company, it'll give you those two factors.

Here's a third factor that you may not agree with. It's sort of a qualitative kind of a thing, but it's the change that I've seen over time in the role of the actuary in a life insurance enterprise. I spent the first 10 years of my career working for a large, Eastern mutual insurer which was organized on functional lines in those days. There was an actuarial department headed by a chief actuary. There was a computer department, a law department and so on. Most, but by no means all, of the actuaries worked in the actuarial department, and that meant that most actuaries had actuaries as bosses, actuarial students and clerks and subordinates, and it was a very coherent group of individuals. The chief actuary was a senior policy player in the company by virtue of title and could be expected to be at the table on any major strategic question. In the ensuing years there's been a move away from functional to line-of-business organizations. So, instead of having an actuarial department and a data processing department and so on, you're now more likely to have an individual life department and a disability income department, what I would call a line-of-business structure. Now, in a line-of-business structure the actuaries are dispersed throughout the organization, not entirely but significantly so. To the extent that many profit centers do not have actuaries as heads, then you have many actuaries who, instead of being in a little island of actuaries working by, for and with actuaries, are now dispersed throughout the company, and this means that the impact and power of any particular actuary is going to be dependent on that person's ability to make a difference rather than on his being part of this unified entity that I was familiar with when I started out. You may or may not accept that, but I call that, in short, the concept of a changing role of the actuary.

The fourth factor that I think is much easier to argue is the increased role of the consulting actuaries in advising insurance companies, especially the very largest. In the roughly 10 years I was with my first employer I believe it used one consulting actuary in the federal income tax area, which was probably only a few weeks' worth of work. Everything else was done entirely by staff actuaries. There was, of course, a very vigorous and active consulting actuarial profession in those days, but the client base tended to be medium and smaller companies. Today that's all changed. I would surmise that every major insurance company uses consulting actuaries from time to time and sometimes pretty heavily, and it's interesting to reflect on why. I'm sure it must vary

from situation to situation. Perhaps the consultants have worked on a similar problem before, and management doesn't want to reinvent the wheel. Perhaps there's an element that you have a defined task that you want to start, pay for, finish and be done with rather than have an ongoing cost center of an open-ended nature. There may be an element of checking the work in a peer review sense of the staff actuaries. Again, I don't know that I can generalize about the factors, but the observation, I think, is clear. There is a much greater role played by consulting actuaries in advising insurance companies.

So, those are my four factors: fewer companies, fewer lines of business per company, a changing role of the actuary in life company management, and an increased use of consultants to support top management. Call that, if you will, the demand side.

What about the supply side? Well, the October 1990 issue of *The Actuary* gave a series of statistics. In comparing 1970 with 1989, the number of new Fellows has, roughly, doubled. The number of new Associates has a little bit more than tripled, and the number of successful part one students has quadrupled over this interval. Now, I don't mean to suggest that this is anything other than a good thing. It reflects a greater respect among the general public for our field. A lot of you, I'm sure, have worked to increase students' and college people's awareness of the field. So, I'm not saying that this turnaround on the supply side is a negative, but it's something you want to keep in mind.

Now, I've given you all of these comments without postulating any particular cataclysm. I have no depressions, recessions, widespread failures and all of this other pop journalism that we're all exposed to. I think there is going to be a significant pressure even without that. Obviously, if there actually is some form of a contraction from the external economic environment, that would only compound the situation.

I'd like to talk a bit about how you might think about this as an individual actuary in terms of your own situation. I'll give you four questions you might ask yourself, and the first question would be, How's my company doing? Now, keeping track of how your company is doing ought to be pretty straightforward. You've got the outside rating agencies to stay in touch with. You've got the general press. You've got a trade press. Probably best of all, you've got gossip, rumors and so on, and you really ought to be able to keep track of your company. I don't mean to suggest by this that you can't have a good career in a troubled company. Troubled companies can be a fascinating situation, but you at least need to know what you're dealing with.

The second question you want to ask yourself, if you are in one of those profit centers I was talking about, is, How is my profit center doing? Now, if the answer is, we're growing, and we're making money, that's great. If the answer is, this profit center is the hub or the core or the central definition of what this firm is all about, that's great. The things you want to watch out for are if your profit center is maybe not growing, perhaps shrinking, maybe not making money, perhaps losing money, perhaps losing a lot of money. If the profit center seems to be something the company got into a long time ago, and nobody's too sure why, if you start to get those kinds of feelings, then you ought to think about that. Turnaround situations can be very, very exciting, but if you buy my

earlier comments on a contraction in the number of profit centers per insurer, and it looks like yours is one of the profit centers that's going to be contracted, you want to think about this.

The third question I would suggest you ask, and I'm going to try to phrase this one carefully, is, How important does my company think my job is? Think of the work you did in the last year and what that contributed to the firm. Did your work have something to do with growth? If so, that sounds like a positive thing. Did your work have something to do with profit, either making it, making more of it, turning around a loss situation or whatever? That obviously would be a positive thing. If, however, your job had basically nothing to do with growth, and it had basically nothing much to do with profit, then that suggests that the job you're in, and, remember, I'm talking about your job, not you as an individual, may not be all that valued by your employer.

The fourth question you have to ask is, How am I doing in my job? I know you know how you're doing in your job. So, I won't give you any thoughts on that. But stepping back from how you're doing in your job, if your company is doing badly and/or your profit center is doing badly and/or the assignment you're in isn't perceived as being all that important, then it may or may not matter how good you are at it.

Obviously, I think the 1990s are going to be a real challenge for all of us, and I'm optimistic that as a profession and as individual members of that profession we can rise to the challenge. I wouldn't want you to think to the contrary from what I've said here. If you compare our situation with, for example, architects, lawyers, physicians, or CPAs, I think our profession is in significantly better shape than any of those four professions. But I also think the 1990s will be a time of real challenge to all of us, and the more we think about it intelligently, the more likely we are to rise to those challenges.

MR. MCCARTHY: If you think about Peter's questions, you will know why actuarial recruiters come to actuarial meetings. One of the things that struck me that I would like to seek comments on from the panelists is the focus, particularly from John and from Dave, about issues of specialization, about being an actuary and a problem solver and not defining your role too narrowly. Peter pointed out in his development of the way actuaries work in insurance companies that the switch in insurance companies from functional to line-of-business organizations means that actuaries find themselves within a particular line of business. Now, your point, I think, Peter, was that they find themselves in a different working environment, working for nonactuaries and so forth, but it seems to me there's another issue there as well, which is the kind of training actuaries get from employers, quite apart from the kind of training that the Society gives. I have been concerned for some time, among other things, that people today do not necessarily get the kind of rounded training that they used to if they were in an actuarial department and worked consecutively on different lines of business, and I guess I would seek reactions particularly from Dave or John, each of whom focused on this issue of specialization, as to what they think about company organizations in relation to the training of actuaries.

MR. TURNER: Well, I think I'd even include Peter's comments when his question had to do with, What impact do I have on growth? What impact do I have on profit? I

think the question could easily have been rephrased, What impact on or what relation do I have with customers? I think that the customer orientation of companies within our industry, which I believe is required for success, carries with it a responsibility or a necessity on the part of companies and managements thereof to provide training and development of all the people to facilitate superior customer service, and certainly actuaries should be included in that process. One term that's used is total quality management. I believe that our companies within our industry, need to be dedicated in that direction, and that, in and of itself, addressed the training and development issues you're talking about.

MR. LENABURG: I'd just add one other piece to that. I quite agree with what John said. I think it's very beneficial for companies that do take the effort to train actuaries to be more broad by moving them into various areas and giving them different opportunities and different assignments, both in the traditional actuarial work and what used to be considered nontraditional. I'm not sure there is such a thing as nontraditional anymore. It gives a company a much better and much valued employee if it takes the effort to do that.

MR. HUTCHINGS: I think that most employers, once you get past a student program level, don't really think it's an employer responsibility to develop their actuaries any more than it's the company responsibility to develop anybody else who works there. It's the individual's responsibility to develop him or herself. And I've been struggling against the specialization type personally for my whole career. I really think it's a very unfortunate thing, but it's a society level push, this specialization push. If we're all going to be specialized against our will to some extent, let's make sure we get specialized in something we're good at, something we enjoy, and something that has a good future, as opposed to whatever our last assignment was when we passed Part 906 or whatever examination. As individuals we have to take control of our own careers. We can't sit back and wait for the company to figure it out for us, or we'll be sitting back and waiting much too long.

MR. MCCARTHY: Dave Lenaburg in his comments alluded to the Fellowship Admissions Course, one of whose objectives is to focus people on integrated problem solving. A recent report, based on the first sessions of the Fellowship Admissions Course was very optimistic. The course seems to have been received very positively by those who participated in it, and while obviously you don't teach integrated problem solving in two and a half days, the hope is that it would serve as a consciousness-raiser to enable people to think that way in the long run.

To move to a different topic, both John and Dave, in talking about the banks, suggested that for various reasons they might not be the overwhelming force that people have tended to focus on. There's been all kinds of discussion about banks and insurance and, whether they will drive the insurance companies out of business. Each of you went a little bit counter to that trend, and I wonder if you have any observations about why you think the publicity of this trend is the way it is and why you see it a little bit differently from this juggernaut that's painted.

MR. TURNER: Again, I go back to my original theme. I think it has lot to do with what value a particular industry can add to the process. Over hundreds of years the insurance industry has developed and gained the ability to understand a particular vehicle, and that's the products that we sell, and I think it's going to take a long time to change that. I think it'd be very difficult to think that in the rates of return that we're getting in our current business, that the banks are going to want to jump in full force. It's the same reason why you're seeing a shrinking of the number of insurance companies. I think everybody mentioned that one thing. If instantaneously we could have a return on capital in this industry that was very advantageous, you'd see that reversed overnight. But as long as the return on capital isn't large, I don't think the banks are going to be all that anxious to enter into our market and vice-versa.

MR. LENABURG: There are just a couple of different ways of looking at the issue, one from the bank's perspective and one from the customer's perspective. I think, first of all, the banking industry, we have to recognize, is not viewed by the investment community or in financial markets materially differently than the insurance industry currently, and that, in and of itself, represents a capital and financial capability impediment for banks to move forward as rapidly as they might like to from a strategic standpoint. As with the insurance industry, I don't believe the financial markets' view of banks or financial institutions in general is going to change that rapidly. So, that's a constraint in terms of how fast banks can move. Looking at it from the customer's point of view, banks have a customer perception advantage over the insurance industry. There's no question about that. But banks have a cultural heritage and value system that I think might be a deterrent in marketing certain types of products that are generally associated with the insurance business, specifically life insurance, per se. My own view is that banks will have success in distributing annuities, for instance, because that type of product can be positioned as just an alternative to a savings account or CD that has tax advantages, but bank customers, I think, will have trouble accepting the distribution and customer relations capabilities that banks have with respect to some other products, like life insurance.

MR. HUTCHINGS: I'd very much agree that the customer issues are significant. My bank in New York City had a cash machine on one wall, and on the other wall for about a year had its insurance office. There were long lines of people waiting to get out their cash, and there were no lines at all of people waiting to buy their life insurance, and after a while the banks gave up and put in more cash machines.

MR. MCCARTHY: Now we know what the public wants.

MR. TURNER: It's possible. A good friend and former partner of mine, R.T. Whitman, used to like to say, Why do people go to airports to buy lobster? And I feel the same. Why? They do, evidently. You see all those tanks full of lobster. Why would people go to banks and buy life insurance? And I think the consumer issue is at least as heavy as these other also-heavy issues in terms of rates of return, regulatory issues, and so on.

MR. MCCARTHY: One other thing I noted as a theme that ran through the talks that I wanted to comment on is this issue about fewer companies/fewer lines of business and

the implications of that for numbers of actuaries. Bob Berin, in particular, who's been a Vice President of the Society the last couple years, has been focusing on getting the Society thinking more about other roles for actuaries. It's one of the reasons why, for example, the Society is moving to add more investment courses to the syllabus, not to make investment professionals but to broaden actuaries, and the theme on that has been to think about different things that actuaries by their training should be able to do. Peter, you, in particular, kind of drive home the need for that, if you follow the algebra of the numbers you laid out.

MR. TURNER: I'd be interested in any additional comments Dave has on how the people in the U.K. view our industry in the U.S. from the standpoint of business opportunity or relative to the life insurance industry in other parts of the world in terms of capital resource allocation decisions and so on.

MR. LENABURG: That's one I spend a good bit of time on, just trying to judge how the U.K. views the U.S. marketplace. The U.K. companies, in particular, and I can speak more for them than I can for the rest of Europe, look forward to moving into areas that have a common culture. So, if you do that in English-speaking countries, you automatically restrict it quite greatly, and traditionally that's what they've done. They've moved to Australia, Canada, America, and New Zealand. And U.K. companies were all around the former British empire, plus -- whether they were part of the British empire for a short period of time or a long period of time -- they tended to look in those areas and countries formerly like South Africa to expand in. So, they look very favorably on the U.S. marketplace because of that. It's fairly familiar. It's been said we're two nations separated by a common language. There are subtle differences, but it's still fairly familiar. One can move around in the country without any difficulty.

There's an awful lot of interest in moving into Europe, and U.K. companies, with the rest of the European companies, tried to cross those boundaries. In the end result, and that has been going on for three or four years now as that development takes place, America has looked particularly attractive to the English companies through that process because the returns that are being asked for the purchase of U.S. companies are fairly small right now compared to that of Europe. The multiples that you see, even for small Italian companies or companies in the south of Europe (which is probably the least advantageous place to be selling insurance, I think everybody likes to be in Northern Europe), including Spain, Portugal, and Italy, are just astronomical because of the interest in it, and nobody knows yet what the effects are going to be. Europe is looking very much as pre-World War II Europe did and that particularly makes a lot of the English companies very nervous. So, I think there's stability here, and that's attractive. We just last year purchased a New York company, and for a European company to operate in New York, that's the size of most European countries. The Common Market is 360 million people, larger than the U.S., but it's got several different tax regimes in place. Nobody has discovered how to move product across national boundaries, and basically I think the main reason is the regulatory and tax structures are so much different yet. I think it's looked to be a much slower process than one would want to be.

MR. HUTCHINGS: John, I was wondering if you'd elaborate a little more. You said you're quite pessimistic, if I got this right. Ill winds are blowing on risk selection. Do

you think that that is a matter of minimizing the pace at which we inevitably lose or do you think we can turn that debate around?

MR. TURNER: Well, I guess I really focus on the politicization of the regulatory process in total, and I think we're seeing that is what's happening in automobile insurance. I think fundamentally that a widely held view is that people or large segments of the population really shouldn't be held liable for the unfortunate results of their own actions. Such factors contribute to the process, and the issue of genetic engineering will cause all these factors to assume a higher level of visibility and really cause some lines to be drawn and legislative decisions to be made, and all of that will contribute to the process moving more rapidly over the next 10 years than it has in the past 20.

MR. MCCARTHY: I would like to invite questions or comments from the audience.

MR. BRYN T. DOUDS: I was interested in the comment about the trend toward fewer lines of business for a company. I guess partly I'm wondering if you mean this in a technical sense, that is, legal entity companies or company groups. And the second part of the question is, do you think the trend toward financial service companies is really not a trend?

MR. HUTCHINGS: Well, let's see. The number of entities it takes to deliver a particular basket of products changes from time to time, and one of the reasons that we have this distorted idea that insurance company counts are increasing when the reality is insurance company groups are contracting, is there are more entities per company. My own company has started a whole peck of entities in recent years. I think that, as to your second question, whether or not the financial services business is an idea whose time came and went when we weren't looking or -- my own view is much along the lines of the bank answer, really. The customers don't think of a one-stop shopping mentality. The field force can't handle the product complexity necessary to present themselves as multiproduct experts. I think financial services smorgasbord concepts are not part of my own personal scenario for the 1990s, but I'm sure there are people with contrary views. That happens to be mine, though.

MR. LAWRENCE SILKES: The two topics you keep talking about are capital return and other problems. The one item that I think you all omitted, except when you're touching on the banks, is distribution. Is there any way we can lower the distribution costs? And has any effort been made on that?

MR. TURNER: I did focus on distribution when I talked about information systems, and I think that the major resource application in the information systems area will be focused on distribution. Obviously the objective will be to try to identify ways in which the distribution processes inherent in our industry that are viewed currently as inefficient can be made more efficient and more effective, and I think while there are aspects of the distribution processes that currently exist, that will be very difficult to change. I think that rethinking the entire management of the distribution process can result in improved productivity and efficiency.

MR. DENNIS L. STANLEY: John, I was interested in your comment about the declining size of the work force. I see in the insurance industry that we continue to get more and more complex and really have a ticking time bomb. Our products go for so long on the individual side in particular that the manpower shortage is really going to be a tremendous problem down the road. We should be addressing it now, possibly through the ACLI, and forcing our regulations to simplify the business as opposed to making it more complex. It's more of a comment than a question.

MR. TURNER: I agree, and I think one of the trends that will help the process as identified by Peter is the tendency for companies to have fewer lines of business and more focus. This will have the result of improving and increasing the productivity and efficiency of the people that we have.