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**MANAGING THE ORGANIZATIONAL
CHANGES INTO THE 21ST CENTURY**

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JOHN G. TURNER
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Recorder: CINDY L. FORBES

- Consolidation
- Business moving out of the U.S. and Canada
- Managing the remainder of the business
- Outsourcing
- Lean staff
- More joint ventures
- Downsizing
- Product focusing

MR. LORNE M. COOPER: I have the privilege of introducing a blue ribbon panel of distinguished chief executive officers (CEOs). These gentlemen have done what the rest of us are just talking about in the management sessions. They're going to talk to you about their hands-on experiences. This is not a session on fractiles. This is a reality session.

We have Ian Rolland, chairman of Lincoln National Corporation (LNC), John Turner, president of Northwestern National (NWNL), Peter Wilde, president of Citicorp's insurance operations, and Bill Gleed, president and CEO of Citadel Assurance in Canada. The first three speakers are actuaries. Bill is not, so you'll get a nonactuarial viewpoint as well.

MR. IAN M. ROLLAND: At Lincoln National we have a saying that change is mandatory, but progress is optional. The issue is how to deal with change whether it's positive or negative. It's clear that change is pervasive. It's affecting every business in the country these days and around the world, and clearly the insurance industry is not immune. Any CEO who doesn't think change is a way of life these days hasn't been reading the papers. I was particularly interested in the headline in *USA Today* that said, "Ineffective CEOs walk plank." There has been a lot in the papers recently about General Motors, IBM and a list of major corporations going through huge changes. I think every business has to have built into it an ongoing process for making change happen. It's very important that change be simply a part of a culture of the organization, and I think it is clear that a lot of these companies that are announcing dramatic change, huge layoffs, and major reactions to current situations, probably haven't had built into their processes these mechanisms for coping with change and accepting change as a way of life in their organization. All of a sudden they wake up to the fact that the world around them has changed, and they have to do something dramatic. Too often a lot of people get hurt in the

* Mr. Gleed, not a member of the Society, is President and Chief Executive Officer of Citadel Assurance in Toronto, Ontario, Canada.

process. So, I think it is important to understand that we are living with change. We will continue to live with change, and it has to be a continual part of the planning processes and management processes that any organization puts in place.

We at Lincoln National have been going through a lot of change recently triggered by some strategic decisions that we made about the direction of our business. We decided in early 1990, and in spite of the fact that we had been a changing organization over a long period of years, that the world around us had changed enough that we really needed to take a hard look at everything about our corporation. We decided to go back to the basics and figure out what kind of company we wanted to be, what businesses we wanted to be in, and, in fact, examined the very basic premises upon which we operate. For example, we looked at even something as basic as whether we ought to be in the insurance industry at all, or whether we ought to take our capital and invest it in something totally unrelated. We undertook the process with outside assistance and with the involvement of our own people. We looked at things like our own performance record to evaluate how well we had done over the years. We looked at our skills as well as our weaknesses, the track record of our competitors, the expectations of our customers, shareholders and employees, the attractiveness of the businesses we were in, and the efficiency of our organization.

The first thing we decided was that Lincoln National had produced respectable returns over the years, and when we compared ourselves with some of our competitors, we'd done pretty well. However, when we compared ourselves to particularly more focused competitors in our business, we learned that they had done better than we had. We discovered that we were well placed in a number of the businesses we were in and had good market positions; but we also learned that in other businesses we didn't have a leadership position, and we had nothing going for us that gave us a particular competitive edge in the marketplace. We also discovered that our organizational structure, at least in some of our business units, contained barriers to our being a truly market-oriented and customer-focused organization. We looked hard at our staff operations, and we decided that the role of our staff people wasn't very clearly defined, and there appeared to be, in some areas, excessive staff and probably excessive expense at the corporate level.

We also found that we probably weren't effectively managing risks, at least in some areas of our operation, and we found that we were in a number of very small businesses that had limited potential to contribute significantly to the bottom line, but had a lot of potential to create negative surprises for us. We also decided that we were trying to do too much and had spread our resources too thin. Those were the kind of basic conclusions we reached about our organization; it was a bag of pluses and minuses, and I suspect if you go through this process, you'll learn the same thing about your own organizations. It was a useful exercise, and I think this kind of introspection needs to be done periodically by any organization.

Out of this came a commitment to the insurance business and to remain a multi-line insurer but a far more focused multi-line insurer than we had been in the past. We adopted a vision to become a benchmark company and we're trying to spread that vision through our whole organization. What we want to be is a company against which all others compare their results. We want to be the benchmark. We set

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aggressive financial goals for ourselves that we believed we had to adopt if we were to be truly a benchmark organization: 15% return on shareholders' equity every year, and a 9% per year growth in the book value of our stock.

We then adopted three strategic imperatives which really direct our decision making with respect to every business unit in our corporation. The first is that we will be a top-tier performer in every business we're in. If we cannot be a top-tier performer, for whatever reason, we will exit that business. We've said that each of our business units will create substantial value. That means they have to be large enough to contribute significantly to Lincoln National Corporation's bottom line. We define that to be 50¢ per share of LNC stock, which is about \$20 million per year in earnings. So, if a business doesn't have the potential to either be earning that much now or have the potential to earn that much in a relatively short period of time, we believe we just simply can't waste our resources on that kind of activity.

Finally, we said that we will control, monitor, and understand all of the key risks that we take in our business. Those are the three strategic imperatives that we adopted at Lincoln National. I suspect most of our employees understand our vision, our financial objectives, and our strategic imperatives. We've passed out to every employee a tetrahedron which has these written on it. That tetrahedron sits on every employee's desk. We hope we have the commitment of the whole organization in this process.

Let me just list some of the things that have resulted from this already. The changes were really dramatic, and they were swift. First, we announced our intentions to sell a major line of business, our managed health care group. We didn't believe we were large enough to be one of the three, four or five top players in this arena, and we weren't willing to risk the financial resources necessary to get there. While we were proud of the progress we'd made in turning around our large group indemnity business into a true managed care company, we weren't seeing the return on equity we felt our shareholders deserved. So, we made the decision to sell and reinvest those dollars elsewhere. This was consistent with imperative one, to be a top-tier performer. We simply didn't believe we wanted to devote the resources to turn that business into a top-tier performer in its marketplace.

We also studied several other smaller businesses and made the decision to exit the market or merge them into larger related businesses. We decided we simply weren't willing to spend top management's time on small business units that were only capable of earning a few million dollars a year. We set an annual earnings target, as I said before, for our business lines and determined we would be committed only to those with the potential to reach those earnings targets within a few years.

As we decided to exit the large group health business and a few smaller businesses, we faced the difficult task of dealing with the related job eliminations in as fair and equitable a manner as possible. Here we did something that I think broke new ground in this area. It is quite different from what they're talking about at General Motors, which is wholesale layoffs with very little regard to the commitment of those employees who have been at the company for many years. Guided by a task force of employees from all different levels and all different parts of the organization, we set about developing a process to redeploy top-tier employees who might otherwise be

displaced by the sale of our managed health care group. With little more direction from me than an admonition to make it as fair as possible, this group worked virtually around the clock to come up with a process that allowed us to match job skills corporate-wide. Eventually, it resulted in the successful redeployment of hundreds of employees out of the managed health care group into other parts of the corporation. So, when you walk around LNC, you'll find former managed health care employees working in almost all other departments of the company. We succeeded in retaining the best and brightest of our managed health care staff, and we did it with a minimal disruption to our day-to-day operations. Those employees benefitted, and we believe the company benefitted from an upgrading of our whole employee staff.

While we were divesting the managed health care group and a lot of other small businesses, it became clear to us that we needed to downsize our corporate operations significantly. Our corporate staff operations were supported about one-third by revenues from the divested businesses, and so we had the job of downsizing corporate by a third or more. We used an AVA process to streamline corporate operations. Instead of just focusing on increasing efficiencies, that is, doing things right, we wanted to look at the effectiveness of our activities -- that is, were we doing the right things? This AVA process, which we call the corporate operations restructuring effort (CORE), will result in savings over and above what we needed to achieve -- \$60 million for LNC over a three-year period. It'll add about 50¢ a year to the earnings-per-share of Lincoln National Corporation.

Just as important, it helped us put a value on each of our activities, and we eliminated redundancies. It's amazing how many things you do that you don't really need to do if you examine them. It also created a baseline for future planning and budget activities. We're holding that process up as a model for the rest of the organization and asking our business units to go through the same process.

What else resulted from this comprehensive analysis of our operations which we began in early 1990? Well, just last month, we announced the restructuring of all of our life and annuity operations to bring them all under the same roof, both organizationally and physically. Until this year we had used a strategic business unit (SBU) structure under which we had fragmented life operations, fragmented annuity operations, all working on their own and, in a lot of cases, competing with each other. We've now brought all of our individual life and annuity operations into one organizational unit which we believe will be considerably more customer focused and market focused than the individual business units have been in the past. In addition to being more customer focused, we think the organization will be far more efficient.

These are briefly some of the things we have been through at Lincoln National Corporation. I think some lessons that we've learned as we've gone through the process might be instructive. First, a change process has to be very carefully planned. You have to know in advance what you expect to achieve, what processes will be in effecting change, and be very clear about that up front. In my view, the change process is most effective if it can be done with the broad involvement of the employee base. If it can be perceived as something other than a top-down mandate on the organization and as something a broad cross-section of employees have participated in, it will be far better accepted in the organization.

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Second, the process has to be very carefully executed, based on good planning, with people who are leading the effort and understanding clearly how they fit in. I believe the change process also has to be perceived as being fair by the organization. People's lives will be affected by it. You can't avoid that. There will be job eliminations, job changes, and so forth. I think it's important that you make sure your organization believes that people are being treated fairly. We've tried to do that in our process.

And then I think it is very important that communication be extensive. We've learned that no amount of communication with your employee base is enough. No matter how much you communicate, they want more. The change process also has to be accompanied by visible, dramatic actions that convince the organization you're really serious about the effort. In our case the dramatic action was the decision to sell a major business unit.

Finally, it has to be led from the top. If the CEO and the top management of the company aren't committed to this, it won't be done because change is difficult and resisted in many quarters. The organization has to understand that the top of the company wants it to happen. So, top management has to be very visible in its leadership.

Managing change is a process that requires a lot of attention, but at least I can tell you in our case we believe the results are well worth the effort.

MR. JOHN G. TURNER: I had my eye on some of the same *USA Today* material that Ian did, but I focused on another aspect of it. I guess I might take issue with Ian about his comment that progress is optional because, given the elements that are influencing corporate governance these days and specifically how boards view their responsibilities, I submit that progress is not optional, and what we see happening at companies like GM really speaks to that issue.

The difficulty of developing a position on each of the issues that are outlined in the program and a number of others related to change obviously is compounded by their extreme diversity and the urgency with which they demand a decision. Our gut reaction may be to line them up in a queue and start swinging away as if, for instance, we're in spring training, but with this approach our goal is just to render a decision, really any decision. Without a set of guiding principles based on the goals of an organization, how can we make a good, carefully considered decision on any of the issues? I think the answer is that we really can't.

As a result of times of dramatic change such as these, I really believe that the most important ingredient for managing change successfully is a set of values or beliefs across the organization that fundamentally does not change. I think that you heard basically the same message from Ian. These values can take on the form of a company vision or mission statement or they can be expressed as the principles that guide an organization's actions. It really doesn't matter what label you put on it. What matters is that the set of values or beliefs has been defined and that it's clear to everyone in the organization what they are and how they should be applied in the decision-making process. We've done this at NWNL through the development of a vision statement that first includes a couple of basic strategies. First, that we're

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focused on a few, specific segments of the market, and, second, that each of our businesses must have the potential to be a leader in its targeted segment.

Our vision also includes four basic values that support the strategies. First, is providing quality products and superior customer service. Second, is achieving operating efficiencies driven by our clear business focus, and that's essentially superior execution. Third, is recognizing the importance of strong relationships with our distribution channels. Finally, we are continually developing and challenging empowered employees. We identified these four values through our top-down and bottom-up, very participative process that involved very significant portions of our organization. We believed input at every level was critical to making sure that the values were the correct ones for our organization and instilled a sense of ownership among all of our employees right from the beginning.

Of the four values I listed, one is really the premier guiding value for everything that we do. Of course, I'm talking about the quality and superior customer service element of our value system. Despite fairly great diversity in our business units, we've really been able to rally around the shared value of superior customer service and continuous improvement in our work processes. Why? The shared value of superior customer service provides a context for addressing the kinds of organizational change that we've been talking about. As we confront change and our challenges with difficult decisions, a question that we need to ask ourselves continually, is what will provide the greatest value for the customer now and in the future? Two obvious examples from the program are outsourcing and joint ventures. As organizations become more focused and look more critically at the value-added elements of each of their activities, outsourcing and joint venture opportunities will inevitably become widely adopted strategies for meeting customer needs. At NWNL we've just begun to scratch the surface in finding ways to use outsourcing and joint ventures to our advantage.

One example of outsourcing we've implemented is in a new business unit where we wanted to provide 401(k) plans to small employers. The market research we did prior to going forward with the new venture told us that the main reason that employers switch plan providers was poor service. The challenge, then, was to provide a consistently high level of service while maintaining competitive pricing. Eventually, we decided the best way for us to achieve our customer service goals and our profitability goals was to use a third-party administrator to handle all the plan administration. It really didn't make sense for us to try to build an internal capability when an external one already existed, and since plan administration is all our vendor does, we know that it achieves economies of scale that we never could in a small, internal operation. It also provides us with the opportunity to offer service guarantees, thus ensuring the satisfaction of our customers or refunding a portion of the service fees.

Besides exemplifying the use of outsourcing, this new business also offered an opportunity for joint venturing. The same market research indicated that 401(k) customers wanted a product name they knew and could trust, particularly in light of the negative publicity that has surrounded our industry. To meet that demand, we formed a venture with Fidelity Investments which gave us an opportunity to put together a variable annuity product that meets our customers' requirements. That's one example of outsourcing and joint venturing. Other examples can be found in the

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marketing agreements that we have with other companies for the distribution of products that we don't or can't manufacture effectively. For us, outsourcing and joint ventures really dovetail with our strategy of product and market focus.

The customer-oriented organization must ask itself if its customers are best served by its own product portfolio or if customers could benefit more from a hybrid product made possible by pairing up with another provider. I think looking at issues from the perspective of your customer ensures or supports foolproof decision making. Put the customer's interests first, and the payoffs can really be remarkable. Leaving them out of the process means you're making decisions in a vacuum with little rationale to support the decision. Customer-focused organizations can more easily make the tough decisions about the businesses they want to be in. As a result, I think it's easier to make tough decisions about downsizing and staffing levels because we know decisions are based on what will result in the best product and best level of service for the customer.

Like most other insurers, NWNL went through a significant expense reduction effort earlier this year. However, unlike some companies, we didn't mandate across-the-board staff or budget cuts. Our process is really driven by business strategies, and through 1991 we exited a number of businesses and narrowed our focus. As a result, we were in a position to determine the organizational structure that best supported a more-focused company and the needs of our targeted customers. To do this, we involved employees at every level across the company to review work processes and determine where we could become more effective. These efforts enabled us to identify and implement large expense savings representing about 12% of our total enterprise expenses without jeopardizing the service that we offer customers.

The same concept of customer-focused decision making is applied in considering international expansion. In one of our business segments, customers told us that they expected us to have a foreign presence if we really were serious about pursuing the particular strategy involved. We listened, acted, and the results have been very favorable. We opened an international operation in Copenhagen almost a year ago, and it met its 1992 sales goals by the end of the first quarter of 1992. Furthermore, on the international issue, I think most companies are finding themselves obliged, in response to concerns about product and service value, to develop capabilities in international asset management.

I think you can get the gist of what I'm saying. I don't think it's necessarily helpful to provide more examples. What I have tried to do is explain on a case-by-case basis the results that we've seen with a customer-focused decision-making process. In addition to the individual successes, I think we've realized a benefit that's much more far-reaching. By looking at issues through the eyes of our customers, we've made far more progress than we anticipated in our ability to view problems and issues the same way, in the same context, and across our enterprise. As a result, a common language and a common system of thinking has developed as we consider our major priority which is meeting customer expectations; at the same time, we've made considerable progress in serving both internal and external customers.

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I think really placing value on internal customer service has been extremely important in getting our people to buy into what we're all about. This can be attributed to everyone having a clear understanding of who their customers are and what customer expectations are. I also think it's due to people knowing how they fit into the customer service chain, being aware that even though their immediate customer is internal, they still have a significant impact on the level of service that's ultimately provided to the end customer.

Throughout this learning process our people have observed the importance of the other three basic values that I mentioned earlier. By applying the concept of continuous improvement to critical business processes, our people realize that superior execution really defines our ability to effectively serve customers. Our people also see clearly that to a very large degree good relationships with distribution systems depend directly on superior service, and this service really supports the strength of the distribution systems in our various businesses.

Finally, with our investment in training and development, and particularly investing in quality training, along with broad-based employee participation in the problem resolution process that we've developed, we provide employees with the tools to support the value of empowerment. In no way do I want to imply that we're at the end of the journey. We recognize very well that this is only the beginning. As we apply this same thought process to customer service requirements across our enterprise, we recognize that there are really great opportunities remaining for continuous improvement.

In closing, I merely repeat that there's nothing easy about managing change, especially when change has a tendency to compound itself. Before we give into the temptation to make hasty decisions, we must remember that the most important ingredient for managing change is a set of values or beliefs that does not change and that people throughout the organization can relate to, interpret and use to form the context in which to make sound decisions. Open, honest and frequent communication helps a whole lot, too.

MR. PETER R. WILDE: My remarks are framed by three different work experiences: almost 30 years with the Connecticut General, culminating in what was then the precedent-setting merger of equals – an interesting phrase, no doubt – with INA, which created what some people have referred to as that new pasta company CIGNA. Those 30 years were followed by three-and-a-half years at the Equitable during its rise into diversification of distribution and rapid consolidations thereafter when we found we didn't have the capital to do it after all, and finally four years at Citibank. People have a hard time trying to define what my job is because no company in the United States is allowed to be called Citibank Life. So, once in a while they'll try to string those two words together. That's against the law. The closest we could come would be Citicorp Life because it would be improper to let a bank and a life insurance company get that close, in terminology at least.

During those years I participated in both the rapid diversification and subsequent consolidation in our industry, and I was struck listening to the two speakers before me who have spent most of their careers in one company. I've had the fun of watching some of this from a couple of different perspectives. So, perhaps my

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comments will be from a different angle. Some of you have probably gone through the same experience of thinking that diversification was the perfect solution for a while and then found out that consolidation was the preferred tack. Often, I think it was driven by the need for more capital, although we occasionally couch it as a back-to-basics strategy.

I was at the Connecticut General when it was making a rather symbolic change – the decision to work with Ross Perot at EDS and let them manage our data processing system. At the time we had a Smithsonian of data processing capabilities in the basement of the Connecticut General, most of it batch processing, and it was terrifying to think of bringing in an IBM on-line system to handle the individual business. So, we decided to have Perot run the business for three years which he did quite skillfully. Subsequently, we brought it back into the Connecticut General in the Allied Van Lines. We hooked it up on a Saturday, and it worked rather well.

I point this out to you only because the challenge of first explaining to my peers and senior managers that we were going to do this was a rather daunting task because a company of that size was not permitted to think about taking its data processing business outside. But it did work well, and I cite it because it gave us tremendous experience in negotiating every single element of how we were going to deal with an organization that is very precise. If you didn't have it in the contract, you were going to get charged extra to have it. I think that made us tougher and more thoughtful managers. We set service standards because we had to and, of course, the system had to respond promptly so that the employees would be, in a sense, indifferent to whether that big, black box was in Camp Hill or down in the basement. It's interesting that we're still struggling in some companies trying to figure out whether that's the proper road to go. I think it's a very apt concept for some of our products, if not whole lines of business. The idea of using a firm of that type deserves more consideration than some companies have given it.

The second thing we did was to finally decide that the term insurance business was totally unprofitable, and rather than having all of the agent advisory committee meetings talking about the term rates, we just decided we would become a national general agent (GA) and source five companies' term products as we had previously done for the highly substandard business. That worked quite smoothly. Then we could get back to talking about those products in the advisory committee meetings that made some money for us. I think with the benefit of hindsight, we probably should have done that five years earlier and stopped fooling around with reentry term and some of those other noxious things that were causing all of us a great deal of difficulty you will recall if you were involved in the pricing business at the time.

There were a lot of issues to deal with when we did both of those things, including what do we do with our employees? Happily, it was done at a somewhat more lush time in the industry, and it was somewhat easier to redeploy talent in the organization than I expect it is now, including perhaps even helping people get jobs with competitors, but I won't repeat the comments made by both Ian and John on that task. The communication issue is immense, and you can never overcommunicate what you're trying to do; it does help if you're in a company where there is some tradition for people moving between businesses, rotation programs or whatever. It's not as threatening to the organization to think about deploying people from the managed

health care business into the individual disability income business or the single-premium annuity business or whatever else is hot at the time.

I think one of the issues that hasn't been touched on yet is how the field force is affected when you do some of these things. I think despite all of the noise and furor from sales organizations about wanting to do their own thing, by and large they like the idea that the company will provide some guidance and "Good Housekeeping Seal of Approval" on the kinds of products you're sourcing from outside. I believe that worked fairly successfully with us and eliminated some of this penchant for sales guys to go off and try to do it on their own because it takes an enormous amount of energy on their part. I don't believe they do it terribly well, and they get kind of mixed up in the process and distracted from doing what they should be doing.

Another challenge during these years, of course, was the desire to expand distribution channels, and for a long time I think we in the insurance business were loathe to diversify our distribution because we thought the agents would be unhappy with us. Well, the reality was they were long gone from the barn in terms of their desire to diversify, and I think it took the manufacturers a very long time to wake up to the reality that what's fair for one is fair for the other. When I subsequently got to the bank it was sort of fun to be on the other side of the table talking about this issue as a recipient of a product from outside carriers as opposed to trying to find new channels when I was in manufacturing.

While I was at the Equitable a rather interesting question came up about single-premium annuities. Some of you may remember in those days that the securities firms had gotten into deep trouble by offering products manufactured by piano firms and a few other firms like that, and in a flight to quality they decided to run for the high ground and find companies that had a somewhat better reputation. One in particular pled with me to buy Charter, and I told them that not only would I not buy it, but it would cost quite a lot to take it. The upshot of all that was a discussion to create a joint venture with Merrill Lynch to offer products through a company called Tandem Financial.

One of the products was a single-premium deferred annuity which had surrender charges like a CD, unlike the typical industry product at that time, and is now very popular. There are about 1,000 parents for that design, I understand, including Sun Life of America, but I do think we did it fairly early at the Equitable. It worked out quite smoothly. One of the benefits of that concept, which was almost the reverse of outsourcing, was that we basically entered into arms-length arrangements with this new, legal entity to provide many of the products and the services that were already at the Equitable. The investment management function, the running of the data center, and the customer service work were really duplications. It just had a different nameplate.

It was a rather interesting experience to try to find out what the proper charges should be to do business with this rather scary competitor. Merrill had about 10,000 representatives at the time and Equitable claimed they had about 10,000. So, that was a fairly awesome combination of producers. One story that you might find interesting was that we heard a lot of noise about duplication in the customer base, that Merrill would steal the Equitable customers and wouldn't that be terrible? After

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hearing that so often, I finally said to the agency vice president I would happily pay him the agency department override on every documented sale that he could show was lost by an Equitable agent to a Merrill representative as long as he didn't bother me with the first two or three. Well, I was there three-and-a-half years. I've left. I still don't have any letter in the mail asking me for that check which I think is an interesting example. There wasn't as much overlap as we thought, even among 20,000 salespeople.

I'd like to pause for a minute on this particular issue. As a mutual company, there was a lot of chatter about whether or not it was appropriate for us to engage in this business, and some of you may find it familiar to hear the agents talk about using their capital to invest in a new venture. I would suspect that, given the opportunity to do it a second time, management at the Equitable will be a little clearer and more forceful on the fact that the capital belongs to the policyholders or the shareholders, but it surely doesn't belong to the agents. As you get into these kinds of unusual discussions, it's worthwhile remembering that the high ground is important to take early on with the field organization lest you get into a defensive posture as to what is fair and what is not fair.

Let me discuss my move to Citibank. I was sitting here thinking of the remarks of the earlier speakers. I suppose this was an example of personal change in my life. I went with a bank that at the time owned seven life insurance companies, six of them overseas, and the six overseas were allowed to do most things that normal grown-up boys are allowed to do in that market, subject only to something called Regulation K in the Federal Reserve Board regulations. It says, subject to certain conditions, you have to tell the Federal Reserve if you're going to get too sassy and put in too much capital.

I was brought in basically to create change, if you will, in the banking industry and perhaps a tad in the insurance business at the same time. As you may know, banks in this country have been allowed to get rather heavily into the distribution business through state legislation and regulation where it applies. They came perilously close to being allowed to have full underwriting powers until legislation in the fall of 1991 said that on and after this date, no bank, either national or state, shall engage in the underwriting of insurance business unless on or before this date you were doing it. It happens that one of our banks was doing that and is qualified based on the interpretation issued very recently by the Federal Deposit Insurance Corporation (FDIC) to do business as a life underwriter in 30 or so states. It will be interesting to see whether this particular event does cause some changes in the life insurance business in this country.

That was an interesting experience because there was no precedent for going forward on that, and I would cite it only as an example of what it meant in running a business. We had basically three ways of doing an insurance business at Citibank prior to that date, and we were largely acting in a facilitating mode with our customer base. We have some 20 million credit cards, and we offer those people the opportunity to get insurance on occasion. Some of you probably have one of our cards; more people seem to have them than any other credit cards. You can buy a wallet one month and a pen the next month, and every once in a while we give you the

opportunity of buying term insurance, accident insurance or a hospital indemnity policy (HIP).

Up until now, we've had to offer insurance on other companies' paper. So we have had the opportunity to work with perhaps some of you in this room where you have been the underwriter, and we have been the provider of that coverage. We couldn't be the agent, of course. That wasn't permitted. So, we collected appropriate fees for servicing the business offered to our customer base. Now with the passage of the Delaware legislation we will be able to underwrite the business. So, once again we will be confronted with should we manufacture or go back into the marketplace and find manufacturers? It is an interesting challenge because, of course, the banking business, unlike our business, is less prone to think that the agent is the customer and more inclined to think that the ultimate consumer is the customer. So our service standards are geared toward the ultimate consumer, and are a little different. As Ian said, it's interesting to look at the different way they view and measure whether or not the business is viable or not because they use banking measures for determining if it's a good business, and they are prone to measure earnings on a customer basis.

My last comment is that I think it's key as we go forward to recognize, as both John and Ian have said, the need for outsourcing and being clearer on what we do well and what we are not doing particularly well. What may have been viable and appropriate even a year or two back may no longer be that way, or vice versa. One of the options of offering outside company products to your organization is you get a first-hand view of the level of volumes that you're going to do, and if there's a sufficient volume and sufficient diversity, then you can decide to manufacture that product yourself. The other item I would comment on in closing is that the banks, unlike our industry, have found rather interesting ways to securitize assets and package them and resell them in the marketplace. It's an interesting concept in this day of scarce capital to figure out whether or not there are viable ways for us to think about doing the same kinds of things in the life insurance business. Another element to be dealt with is the shortage of adequate capital to grow at the pace we would like to grow.

MR. WILLIAM H. GLEED: To allow a marketing person into a closed-door meeting of the Society of Actuaries is, indeed, a rare occurrence.

When Lorne asked me to address the subject of organizational change into the 21st Century, I thought long and hard and began to think back over my 37 years in the insurance industry. I thought of going back for a moment in the 37 years rather than going forward into the upcoming century. Now, I'm aware this may sound a little strange. However, I firmly believe that we need to know where we have been, to see where we've been, and to closely examine where we are, before we can ever begin to plan and look forward to where we're going.

The industry looked rather different when I was starting out as an agent. I was one of those people who knocked on doors to try and earn a living, but no one at that time, when I started out in this industry and when I was going face-to-face with people, ever questioned the stability or financial strength of the insurance industry back then. You see, we were an industry that had the public confidence and had the utmost trust of the public because we sold peace of mind to thousands of Americans

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and Canadians. You know as agents back in those days, we made at least 100 sales a year. How did we go from such a position of strength, stability, and security to this present state of what must be considered turmoil? Lately it has become all too common to read about increasing insolvencies, substantially reduced earnings, and yes, eroding surpluses. Talk of amalgamation and companies for sale never seems to end. As a backdrop to all of these issues, we had escalating interest rates and compounding escalation in real estate that went beyond our wildest dreams.

Several insurance companies began to branch out, to move beyond the business of selling insurance. Just recently in one company's corporate structure that I examined very closely, I found no less than 48 companies under the banner of the life insurance company, companies involved in all kinds of businesses, including leasing, funds management, marketing management, real estate, property management, holding companies, and so on. Well, what an exciting and stimulating roller coaster ride we've been on. Market share at all costs. Then there is the exciting and stimulating 1980s. Variable life. Universal life. Annuities with compound interest rates of 12.5-14%. Heaped commissions of 65-85% first year and bonuses up to 300% for agents to place business, all on the strength of one month's premium. All of this evolved from basic whole-life, limited-life, limited-pay life, endowment, and some form of term insurance. Yes, from a marketing side, all this evolved from those types of product bases, with commissions and bonuses paid on an as-earned basis.

Well, it's now October 1992, and where do we find ourselves? To begin with, the real estate market has virtually collapsed. Leasing companies have in many cases withdrawn. Surpluses have eroded and are in several instances in a precarious position. Jobs have been lost. I'd like to be a little more specific at this point and comment on how all these changes have affected the thinking at my own company, the Citadel Assurance. When I assumed responsibility of the Citadel in 1984, although we were not involved in leasing or other related activities, we did have an excess amount of real estate.

In 1984-85, we began and completed our disposal of this excess real estate. Subsequently, we stayed out of the real estate environment, and, as a result, we do not need to rely on surplus contributions to match assets against liabilities. However, we were in a unique position. Our company was involved in over 20 lines of business, from conventional property and casualty to life insurance, including annuities, group pensions and group insurance, to special risks, association group business, commercial property and casualty, and we had a book of assumed reinsurance. Clearly, we needed to determine a very definitive strategic plan. We did this by first asking ourselves three fundamental questions. Who are we? Where do we really want to go? And then how do we plan to make sure we get there? When discussing who we are, we quickly came to the realization that we were trying to serve too many masters. The demands for increased technology made from all these lines, the contributions to growth that were required, increasing salaries, the cost of doing business in so many different areas, all were a heavy drain on our resources both monetarily and personally. Where did we want to go? We wanted to get back to a position of strength. We wanted a future that included growth with profitability.

Let me now explain how we're going about getting there. We recognize that to do an effective job we have to reduce the number of our lines of business. By the

beginning of 1991 we had to make a key business decision, and for someone who spent all his life in the life insurance side, this was the toughest decision I've ever had to make in my career. That decision was whether or not to remain in the life insurance business. Given the volatile marketplace, could we support the complete thrust of our general and nonlife business in a very difficult marketplace and at the same time do justice to our life insurance operation? In the competitive environment, the spreads in annuity business are hardly sufficient to produce an adequate return on investments, guarantee the policyholder returns that are competitive, and at the same time pay the agents' commissions and overrides.

As I said, in spite of the fact that I entered this business on the marketing side, for quite some time I felt that we crossed the line in this industry of good judgment and proper balance, and we've allowed our industry to become marketing-driven beyond reasonable terms. In light of the practices and the economic environment of the past several years I have become a strong advocate of some form of leveled commission. In these days of cost crunching and cost containment, we've long since passed the reasonable assumption of bonuses for new business and renewals.

By striving to be competitive, I firmly believe that we've gone too far. What began in the early 1980s as the phrase "in the best interest of the policyholder," I believe has in far too many instances evolved into "what is in the best interest of the agent." We've all seen the practice in which business moves from one company to another every couple of years. It's a practice in which millions of dollars have been spent. If the truth were admitted, millions of dollars have been lost.

While all this was not a major factor in our decision to withdraw from the life insurance business in April 1992, it did, indeed, play a contributing role. Our decision really had a great deal to do with the fact that there are too many players chasing too few opportunities in the life market. We realized in Canada in 1991 that for the first time since World War II the number of new life insurance sales dropped and the actual volume of new business dropped. These were definite, indisputable, and inescapable signs pointing to maturity within the marketplace. This, combined with the inherent increasing cost of technology and the heavy competitive cost of acquisition led to our withdrawal from the life insurance business. I've witnessed and examined statements, as you have, too, of company after company beginning the year with x number of policies, strong objectives in terms of new business and acquisition, and millions of dollars paid for the same, only to find at the end of the year a smaller number of policies than those on the books at the beginning of the year.

Now, I should mention we paid attention to our actuaries. That may come as a shock. I'm sure it does. But we did pay attention. You see, when I questioned our actuarial staff about the amortization of acquisition expenses, I was informed that 7-10 years is the norm. Well, then I asked a very silly question. I asked about the average shelf life of a policy within the industry today. I believe the assumption they gave me at the time was 3 1/2-4 years. Well, if this is the case, and we're amortizing acquisition costs over 7-10 years, and with the thin spreads that were available in the marketplace, how can we expect to earn any money to build solid surplus accounts and financial stability if we continue on this road? In April 1992, we made the ultimate decision to withdraw from any new business in the life and health sector.

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We eliminated 262 personnel across the country. We aligned ourselves (and some may question the judgment in this) in the property/casualty and special-risk product field. It's because we had the largest market share in Canada in special risks. We were good at what we were doing, and we decided we could be even better. Second, our three sister companies in the U.S. are all property/casualty companies, and we were the only life entity in North America. Hence, it was very sound business practice for us to align ourselves in the same strategic fashion.

While we were doing this we changed our organizational strategy. We strongly believed that the best way to serve our agents and brokers was through decentralizing our operations. In doing so we took our underwriting claims and administrative services closer to our clients. We also responded to what we believed is a regional country. Since the breakup of the Soviet Union, Canada has the largest land mass of any country in the world. When you're dealing with the kind of regional disparities from one coast to the other, regionalization becomes a very commonplace and, indeed, a very forward-thinking way to align yourselves. Our four regional offices in Calgary, Toronto, Montreal and St. John, New Brunswick, now provide service directly to the brokers and agents in their area. There's no longer a need to go through a central office. This has led to a more efficient and effective relationship between our brokers and our staff. Our agents and brokers now have the people they need where they need them and when they need them. As I said, given Canada's distinct regional differences, it's imperative to provide products and services that fit a particular region. There are, indeed, variations. And the staff working in our regional office are the best judges of what people in their region want. They have direct access to our agents and brokers and, through them, to our policyholders.

As a result of decentralization, we're now in a far better position to tailor our products and services to meet the demands of our clients in all areas of the country. We've also removed the barrier that exists between marketing and administration within our company. These areas now work together, along with claims and underwriting, under a banner of field operations, and, again, this enables us to provide in the most efficient manner complete and well-coordinated services to our clients. I have a belief that decentralization is a wave of the future. It enables you to form a closer tie with your customer, to get a better understanding of what they want, to provide them with that much more. It has, indeed, allowed our organization to meet the diverse and varying needs of all Canadians.

I've mentioned that some of the organizational changes our company has mapped out for the 1990s and for the upcoming 21st Century, but I would like to stress that careful planning is essential to all corporations associated within our industry. We must take time to figure out where we're going and to plan our route accordingly. Perhaps I could illustrate that point by an example of a couple who were on a car trip. They were enjoying the scenery while they were heading for their vacation destination. After traveling several miles, the wife consulted a map, and she informed her husband that they were lost. "What's the difference?" said the husband, "We're making time." Well, you know I'm afraid sometimes that too many leaders in our industry have taken a similar approach to planning. They seem less concerned with where they're headed than they should be. We've seen dozens of companies grow, and grow rapidly, only to later discover that their growth was not accompanied by profitability.

Before we plan effectively for our future, we must be able to answer the three, fundamental, basic questions. Who are we? Where do we want to go? And how do we plan to get there? Well, I believe we know who we are. We're the people best equipped to manage the life insurance business effectively. We're the purveyors of products designed to remove the threat of bankruptcy and suffering and to provide security and peace of mind. We know only too well that life insurance continues to be sold, not bought, and it's sold to cover specific needs by a capable and well-trained agent.

We must concentrate on answering the question: where are we going, both as an industry and as individual companies? Are we genuinely surrendering this industry that we've worked so hard to develop to the banks? Are we saying the banks will do a better job than we could? Well, I hope not. I hope we remain a strong, secure industry that regains public trust and, indeed, public confidence.

Finally, how are we going to get there? How are we going to reach a comfortable level of security? I believe that underneath everything, this is our most crucial question and one on which we all need to spend time and effort answering. I'm not yet 100% convinced that we've resolved this very important issue. Most important, in that vein, how are we going to deliver these products at an acceptable cost to the consumer? Perhaps, like the driver I spoke of earlier, we should consult our maps and plan our routes carefully before we take off at great speed into the future.

MR. DAVE E. NEVE: When you mentioned you downsized your corporate operations what did that include specifically?

MR. ROLLAND: These were all the operations we would call corporate staff operations. Keep in mind we are a multi-line holding company, so, this really related primarily to the groups of people that were working at the holding company level. It included human resources and corporate communications. It also included data processing because they were a corporatewide resource. It included even the executive areas at the corporate level. Nobody was excluded. Auditing and financial were involved in it – anything at the corporate level that was supported by a flow of revenues from the lines of business. In our corporation, we support our staff services at least in part through flows of revenues either on a service charge basis or a direct charge for the services rendered. So, if they were being supported by those revenue flows, they were included in this. As I said, about 40% of the corporate staff operations were supported by revenue flows from our managed-care group, and so we had to get 40% in order to be even with the board. We got that 40% and even more, and I'd just emphasize in a very healthy way because it was a process that was developed from the ground up where the employees who were doing the work were involved in the examination of the work flows. Those ideas filtered up through a rather well-defined and managed process, with the ultimate decision making about what was going to be eliminated at the top of the corporation.

MR. WILDE: Lorne, there's a tendency in U.S. business, and certainly the life business, these days to think that the functions sort of rise to the corporate level, and they deliver more uniform services to the profit centers. If you're not careful, you find all of a sudden under the guise of uniformity or consistency you get these very large corporate staff areas. I'll pick on personnel because there's probably few of us

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represented in this room. If you're not careful, there's this huge overhang. Ian, I'd be interested whether you found some of that over the passage of time and whether you have to really crack at it to fix it.

MR. ROLLAND: We had a benchmark for determining what ought to be kind of left at the corporate areas, and that saying came to be known as "the bus to Alaska." It meant you ought to be able to get all your corporate people on a bus and ship them off to Alaska. Two things are involved in that. One is that there ought to be few enough of them so you can get them on a bus; second, it doesn't really matter where they come from. They ought to be able to function anywhere in Alaska as well as anywhere else. Now, when I say "the bus to Alaska," that doesn't include, say, data processing because, one of the things we also learned is that we had kind of fuzzed-up the lines between what were truly corporate services and what really belonged in the line operations. So part of the process also involved much more carefully defining what is corporate overhead and what kind of functions ought to exist at the holding company level. We decided that those functions ought to be reduced significantly so they truly supported the efforts of the line operations to be top tier rather than getting in the way of the line operations as they tried to do their jobs.

MR. COOPER: I might point out that it looks like everybody in the industry is focusing on core businesses. I hope this doesn't mean it's an end to innovation in our industry because if it does mean that, we're going to see our industry shrink.

MR. DONALD E. KELLER: I have two questions for any or all of the panel members. They have to do with decision making. All of you have had to make tough decisions, and a lot of times you don't have all of the information or details. You're not close enough to know enough detail to make the same kind of decision that somebody closer to it might make. You have to rely on somebody else. I wonder if you could tell us something about the process that you would use to make sure that you're not getting bad advice. The second question is, have you ever made a bad decision and what would you do differently so that wouldn't happen again?

MR. TURNER: I'll step on a few people's toes and answer the second question first. I can think of at least a couple of bad decisions that we've made, and, coincidentally, they seemed to revolve around not appropriately using consultants or outside advice. I think there's a moral there, and that is that in dealing with issues such as the ones that we're talking about, I think there's no substitute for your own set of values and beliefs and your own counsel. There's no outside source that's going to help the situation. Relative to the decision-making process, I alluded briefly to the process that we went through that was very similar to what Ian just described. I think there's a pattern, which is that top management sets broad parameters, and details are decided at lower levels and generally on a very participative basis. When we went through the process of downsizing the corporate areas, it's an easy example to use, we used a relatively simple approach. We asked what needs to be done? What are the capabilities left after 10, 20, 30 and 40% reductions in cost? The people involved were able to identify what the impact was and what the potential value-added of the remaining organization is at each of those levels and came up with a recommendation. It was a comfortable process, as comfortable as it could be, for everybody. That's one approach.

MR. ROLLAND: I'll address the first part of your question about how you determine whether you're getting good advice. I think a lot of that comes from the trust you have in the person giving you advice. You would hope that in most cases you've had enough of a relationship with that person to be able to judge his or her capabilities. I think you try to surround yourself with people who you believe you can trust and who will be really candid with you and even tell you things you don't want to hear. I think one danger that top management always encounters is getting isolated and having people who are reluctant to bring you messages or advice they think will be unpleasant or you may not want to hear. You want to make sure you surround yourself with people you can trust, people you know who will be straight with you. Then, you simply try to assimilate their advice and also get advice from enough different sources.

In many cases you may not get all the input you'd like to have, you can't get 100% of it usually, but you'll get far enough down the road so that you can make an informed judgment. You make your call, and you hope that it's the right call. It's clearly not always the right call. We're all human, and no matter how careful you try to be, with hindsight you make some bad decisions. The job you try to do is minimize those and hope your batting average is at least better than 50%. Your good batting average should be on the big decisions. We've made some bad calls in our business at the Lincoln, ones that I'd like to have back, but I think that's part of the game. What you have to do is not get hung-up on a bad decision, not try to protect it forever, and when you decide it's a bad decision, move to do something about it, and do it as quickly as possible.

MR. TURNER: I guess I can't add anything to what Ian has already said except to say that so far none of us have had to walk the plank.

MR. WILDE: Did you check the paper to see if you were listed? I think the answer to the question of process about advice is to have a network of people you feel comfortable with when checking opinion, who sometimes come from other companies. This is one of the great industries in that way. You can call friends in the business. Some issues, of course, don't lend themselves to that. In terms of having to do it over, I think for the most part I wish that I had done some things quicker. I think we dilly dally in this business generally too long and don't set out the trip wires in the beginning when making a decision. If certain events don't occur, we're going to act on it. This enables you to set parameters at a dispassionate time rather than having to respond in the heat of the moment. I suspect if we did more of that, we'd be better served.

MR. COOPER: A few years ago Japanese-style management, which actually originated in the U.S. business schools, was all the rage, but Japanese companies aren't downsizing. They aren't retreating to core businesses. They're still multi-leveled and pyramided. I'm interested to see how these gentlemen compare the changes in the U.S. insurance business to the Japanese market.

MR. ROLLAND: Well, I might make a comment on that. We have a relationship with Daichi Mutual Life, which is the second largest insurance company in Japan and the second largest in the world. We've learned a little bit about their operations in the process, and they are a first-class organization, but I think you have to keep one thing

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in mind about the Japanese marketplace: it's a highly controlled marketplace. It is not nearly as competitive as the market we deal with here in the United States. There's much more government control. There's much more collaboration among the companies. If we did the kinds of things they do in Japan here in the United States, we'd all be in jail because of the collaboration they have in terms of setting prices and products they offer and so forth. It is a very controlled market. Also, I think that market is changing.

Daichi Mutual invested in Lincoln National to learn what it's like to deal in a very competitive, very fragmented marketplace where everybody does their own thing, and you compete aggressively. They've wanted to learn how we have done that because they believe their markets are moving in the same direction that ours are today. I think their view is that they may be 10 or 20 years behind the United States, but they're moving down the same path. They're going to be competing just like we do at some point in time. I suspect those pressures will cause them to have to deal with the same kind of things we are today. In fact, you can already see some of the turmoil in their financial markets that are causing them to start thinking about things like matching of assets and liabilities. That has been a very foreign concept for Japanese companies. They're going to come into this environment sooner or later.

MR. WILDE: Lorne, I had the fun of starting a company in Japan for the Equitable for variable life insurance. That product was shown to an organization called the LIAJ, which is a quasi self-regulatory body. It happens to be populated by almost all of the participating companies in Japan who provided advice to the Ministry of Finance as to whether or not this was a good product. You might imagine that when they went home they thought about what they had read in our filings, and, not surprisingly, by the time we came to market with variable life in Japan, so did most of them.

So, I would simply echo what Ian said, it is a tightly managed business. Some people would even use a word that starts with "c" to suggest the nature of that kind of an industry. The other point is I think the reality is that their whole approach to taxation and savings lent itself to a product line that is not nearly as attractive in other markets in the world, including here, and that's going to change also as their circumstances change. Some of you may know they had the largest postal savings bank in the world. They are allowed to have one account per person. I think there are 120 million Japanese. There was something like 175 million accounts. A rather odd occurrence.

MR. TURNER: I'd like to make one, brief comment on your point, Lorne, that focusing inhibits innovation. I really don't buy that proposition. If you look at the summation of activities that go into providing the products and services that we offer our customers, even in spite of the fact that we might be focusing on narrower market segments, there continues to be just unlimited opportunities for innovation in terms of customer service. That's what we're finding in our organization. Since we've been able to define customers, markets, and their expectations, we've had more innovation in the last year than we had in the previous ten years. I really think the point is, if you're focusing on the customer, you realize, and your organization realizes, that there are unlimited opportunities to improve how you're delivering products and services.

MR. CARL B. WRIGHT: One of the things that none of you have talked about but is going to be very important to all of us as we go forward in the industry in terms of support of our organization, whatever business we're going to be in, is our systems. I know I was up at Lincoln in 1989 visiting with your systems people, and you had two, major initiatives going at the time. One was the CCA system and the other was image processing. If I understand correctly, both those projects have been shut down, and if that's the case, what went wrong?

MR. ROLLAND: Yes. You're correct, and you haven't even pointed out the biggest mistake we made in the data processing area. That was what we call the system for managed care (SMC), which was an enormous computer system meant to drive that business. The commitment to that system was one of the reasons we decided to exit managed-care business. The CCA system would have been used for our individual life business. I'd say the major problem there turned out to be the vendor and the support that the vendor provided for that system. We ended up out in front in the development of that project, and we really didn't want to be out in front. I think one of the things we've learned is that being out in front in the development of computer systems is a very risky venture. It's a lot better, we think, to be a follower, unless you really know what you're doing. We were also out in front in the development of the SMC system, and that turned out to be a risky deal, too.

So, we've gotten a lot more careful about making decisions about these kinds of computer systems. First of all, we try to break them down into modules so you're not committing so much to a single effort. You get deliverables along the way that you can measure. We've also put in place a much more systematic process for developing any kind of computer system now. We put the Navigator System in place which is a process for developing systems that requires a great deal of up-front work on the part of the business people in defining their needs before you get into building computer systems. We've made some mistakes, as I suspect others have, too. I don't think we're alone, but we've learned from those mistakes. We also did shut those systems down when we decided they weren't going to work so as to cut our losses, and we've put a process in place that we think will prevent those kinds of things from happening in the future.

MR. WILDE: Ian, you may not remember that one of the other clients of CCA was the Equitable. I remember very well the worry we had month-to-month about whether they were going to be financially viable. I think one of the mischiefs in the systems area for the industry has been we've gotten sacked with the idea of wanting to have a customer account, but we've also gotten sacked with the idea we have to keep track of all of an agent's business in one place so we can decide if he goes to the President's Club meeting or not. I really believe we have to get away from that nonsense because the reality is the number of cross-sells is not significant. We need a front-end process there to draw, I think, from multiple systems to accomplish some of those same activities. I think that was one of the huge problems with the CCA system. We were trying to make it do everything but dance on the moon, and the thing just never got launched, and part of the reason was those two points I made. We are using image processing at Citibank in our service center in Nashville, Tennessee, to do product work for probably six or seven different carriers where we provide in effect the insurance services as if we were the carrier. It works quite well. It has provided great efficiencies for us. The major challenge is the manufacturer has fallen

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on hard times and is in Chapter XI. I'm not sure how it will come out of that, but it provides good capability, at least for us, on basic products of the kind I described in my remarks.

MR. COOPER: Any more questions?

MR. NEVE: I didn't hear any of you talk about the need to have a flatter organization. I think many companies feel that the old pyramid concept of the CEO at the top has too many layers of management. Have any of your companies done something to reduce those layers? Are you planning on addressing this issue in the future?

MR. TURNER: I'll kick off. That's something we addressed three or four years ago in developing an organization that is really customer-oriented, and we went through the process and really eliminated two layers of management across the entire organization. The objective was to create a significantly flatter structure and one that's better able to deal with customers.

MR. GLEED: I can only say that it was a key component as we went through the major downsizing. We took the management out to the various regions with a substantially reduced management staff and cut corporate dramatically. Our corporate management has about two less layers than it had prior to our downsizing.

MR. JAMES A. BRIERLEY: John, I was very interested in your comments about trying to preserve the corporate values or culture while you go through change. My question is, did you ever find that there were changes you were trying to implement that ran into that culture? Did you ever have to make the decision between your existing culture and the new vision you had for your corporation, and how did you resolve that? My second question is for Ian Rolland. I was interested in your comments that you have to have a dramatic event occur to get people to realize you're serious about change in the corporation. What kind of dramatic events did you implement short of firing senior executives who were playing musical chairs in the executive level of the company?

MR. TURNER: Relative to consistency or actions consistent with our values, I'd have to say that decision making in all levels of the process was in a very real sense guided by the values. I guess my simple response would be that we didn't encounter any situations where we got far enough along the track toward a major decision where a conflict developed. I think that probably the most frequent area of discussion that we've encountered and continue to encounter is how process changes impact customer service. That's really addressed through a ten-step process we have for analyzing and implementing changes in process. As you can imagine, there's frequently some considerable debate about how customers are best served. That's where it manifests itself, but that's on a very specific level. It's continuous, and that's really what the management change process is all about.

MR. ROLLAND: I'd like to make a follow-up comment on what John just said because I think his comments about values are really important. What we have tried to do in our company is distinguish between values and culture. We think there's a difference. It's particularly important, we think, for a multi-line company like ours with very different kinds of businesses and different affiliates that are geographically

dispersed to have values that cut across every one of our business units in the corporation. These are really fundamental things that we believe in, like we're going to do business according to the law. Nobody has the right to disobey the law. Things like that are just an unchangeable guide for all our actions.

We allow culture to be different. We think the culture in our property/casualty affiliate can be different than the culture in our individual life operations, and that they should be dictated by the business they're in and the nature of their organizations. We say we can tolerate different cultures but not any deviations from the values that underlie everything we do, and so we've tried to make that distinction. Hopefully, we have those values in place, and they do drive the change process. They stand there as immovable things as change goes along.

You asked me about the issue of dramatic event. In our case, some of the strategic imperatives, the financial goals that we developed as part of this process, weren't all that much different from some of the stuff we've been talking about in the past. We had an objective to earn 15% return on equity for a long time, but we'd never done it. We have said we wanted to be really good at the things we were in, but we'd really never taken dramatic action to demonstrate to the organization that we were serious about that. So, we got better defined, and felt we needed to do something that said to the organization this is a new world, a new ball game, and we really are serious this time.

The first thing we did was decide to sell our managed-care operations. Here was one of our largest business units totally integrated into the whole organization. So, selling it and getting out was an enormous task, it affected a lot of people, and that was a decision that said to the organization we were really serious. We weren't going to tolerate second-level performance from any business, no matter how big or important it was to the organization.

We also made management changes. I think that can be part of it. We did that and pointed at a chief operating officer. We made changes in senior management that we think demonstrated to the organization that we were even willing to take those kinds of steps in order to upgrade the skills that we felt needed upgrading. We put in place people and processes that were really going to get done what we said we wanted to do.

MR. TURNER: If I can just really reinforce what Ian said first on the issue of culture versus values; for what it's worth, I feel exactly the same way. Values are something that have to be uniformly held, believed in, embraced across all the businesses, across the enterprise, but I really believe that we have to recognize different cultures and different businesses, and that's our approach. On the event question, we had basically the same experience except it happened to be our decision to get out of the property and casualty business. I think that step really demonstrated to our people and all our stakeholders that we were really serious about this. While it hasn't been the smoothest process or experience since then, that start really was a help in getting the organization to buy into what we're doing.

MR. WILDE: I think one of the challenges for us is that we tend to wait until the business is in a downgrade as opposed to selling it at the top. One of the challenges

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in evaluating the business, I believe, is to sell it at the top when you can get top value if you are, indeed, trying to maximize your capital gain. I think a lot of companies have waited too long. I believe in the managed-health business, present company excluded, a lot of people waited too long, and then when they tried to get out, they didn't get much for their business, as opposed to looking at it earlier on and saying where is this going? I'm getting out now while it still is viable. I think that has been a pattern you find in all the financial institutions. Sometimes getting out earlier would be preferable.

MR. ROLLAND: *Following up on that, I'd hate to be trying to sell a block of health business today. How many of your companies want it? You have to just make these decisions at the right time in cycles.*

MR. WALTER S. RUGLAND: *Two observations. I think, as I move from company to company, that it's critically important that a strategy be communicable, and I think that was discussed. It has to be communicable by everyone involved. They have to understand what's involved, and I was encouraged to hear you say that. With regard to values and culture, I have found another observation that maybe looks at it a different way. The companies that are successful are the companies that have the decision makers who love the business. When the decision makers don't love the business, things get in the way, and that may be another way of beginning to define values and culture and tying it into success. One thing that I see, which I'd be interested in your comments on, is as decision making gets delegated, there comes a conflict, I think, between long-term and short-term views. I'd be interested to know how you are managing that conflict.*

MR. TURNER: *It's a tough call a lot of times. I manage a stockholder-owned company, and I know we have to report quarterly earnings. You get the analyst estimates on the street, and if you don't meet their expectations this quarter, you have a real problem. So, it's hard to get beyond the next quarter. It's real difficult. They have estimates out now for the third and fourth quarter and for next year, and so that is one of the problems that exists with U.S. business – this short-term focus is created by the financial environment we're in. I think one of the jobs that a CEO has is that you have to get through that. It is important, though, that you bring your board of directors along with you because they have the power to do something about it. So, I think you have to bring your board along, help them understand the trade-offs between short-term and long-term decisions, but I think one of the things they pay the CEO to do is try to get past the next quarter and think longer term about the business and take the risks that are associated with that. Sometimes, that means making some tough decisions that may not be terribly popular in the short run with the financial community or some shareholders, but you make your call and hope it works out in the long run.*

MR. GLEED: *I can answer your question, I guess. As I study it, to know the background is to know how some of the decisions were made. There were some tense moments with our organization. We have a Swiss parent, so we're not under the pressure of this financial-results-by-quarter. The European attitude is more long term than the North American attitude without question. They can see or are prepared to look long term. There was no pressure, I should emphasize, brought to bear on us to make the decision we made. I think the decision was made simply*

looking long term, not short term. I suppose if we were really looking short term, we really should have exited both sides and decided to employ capital and do something entirely different. One would have to say the property/casualty business short term is a very masochistic environment, the likes of which would be hard to find.

At any rate, we did make it on a long-term basis and with no influence whatsoever across the ocean. When the decision was made, there was a profound endorsement because there is a general consensus in Europe that the marketplace for the life insurance business lies more on the Pacific Rim than it does in the North American continent right now. Looking at our situation, I think we looked at both the short term and the long term, and we were not under pressure from outside entities to do anything other than what we did based upon our own judgment. We charted our own course. And we expect to get where we want to go.

MR. TURNER: I think the most difficult aspect of my job, since I've been in position for roughly one-and-a-half years, is the discipline of dealing with the long-term perspective sufficiently. It concerns me that from a personal standpoint I'm not comfortable with the degree of time I devote to longer-term issues. I don't have the answer, but it's a large problem for me as far as the way I do my job. To kind of back up what Ian says, I have one observation -- I hope I don't get in trouble for saying this. I think to a degree the freedom that you have to deal with it long term depends at least in part on how well you manage analysts' earnings expectations in the short term. I think that's a reality we probably all realize and deal with.

MR. WILDE: Well, I thought your question was also coming up from the bottom -- dealing with subordinates who are too short term in their view. I think we've not done a good job. I've certainly been frustrated in my career trying to get people to really plan beyond the current calendar year. We've tried in many places, in many ways, to do at least a 24-month plan or an evergreen, rolling, 24-month plan. I don't think it has, in this country, taken hold very well, but that is one way to help subordinates avoid this tendency to focus exclusively on what's going to happen in the next 30 days. Some of it would be dealt with by compensation if we built our plans a little bit more long range as well. At Citibank, when we have major expenditures, you have to write a proposal that describes what's going to happen in financial terms over the next ten years to justify the capital investment. It is a royal pain to go through, but the process forces people asking for money to be fairly rigorous in the process. Even though they build it into the plan, when they want the money they have to use a separate process to ask for the money, and it gets looked at by a fair number of people. So, I think that's perhaps another way to deal with the kind of question you posed.

MR. JOHN W. HADLEY: We've seen a lot of change in the average tenure of people at companies over the years. Do you see it being critical to have a diversity of work experiences, and do you see it critical to companies to foster that by moving people around to different assignments?

MR. WILDE: Yes and no. I don't mean to be facetious. I think the reality in this era is that lifetime employment at a single employer is not a reality. I have five children, and we have had many discussions about that as they go into the labor force. I just think that you cannot contemplate that because of the need to reexamine companies'

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objectives and things like that. In many instances businesses have been sold even though they're very profitable. So, you cannot build your career on the premise that if you do good work, you necessarily will stay in the same place. I do believe in rotation. We saw that at the Connecticut General before the merger. It was a great benefit. I think it developed good general managers at that time. There was a group of people that were sort of singled-out that said they were going to really work hard. We did that within the actuarial profession as well, because you never know when you're going to have to redeploy. As Ian said, if you take them out of managed health, you'd like to be able to put them back into productive areas. If you had prior experience in other areas, that's going to be helpful.

MR. GLEED: We strongly believed in this cross-fertilization, and I can tell you it worked out very well. A lot of people have got a broader sense of the insurance industry by basically not being forced but strongly encouraged to move across the avenue. Today they feel they benefitted by doing this. I think it's a wonderful thing to expand the knowledge.

MR. ROLLAND: Even though I've been with one company for 36 years, I think one of the advantages I had along the way was to work in lots of different parts of Lincoln National. I thought the actuarial background I got was enormously useful as a base, it enabled me to move around, and I had the opportunity to do that. In the process, you learn a lot about the business, and you pick up some lessons and instincts about management which become more and more important as you move along through the organization.

MR. TURNER: We have a tendency to focus more on staff, making sure that people get both staff and line experience. We believe also that it's important to get experience in different parts of the business, from a succession standpoint and recognizing the necessity to make sure that people are ready to move into key management positions. The developmental process that we have really focuses on making sure that all our people who are potential candidates for management slots have substantial staff and line experience.

