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Session 1GS
Overview of Insurance Industry Issues and the Role of the Actuary

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Speaker: CARROLL A. CAMPBELL, JR.H

Summary: Overview of insurance industry issues and the role of the actuary.

Ms. Anna A. Rappaport: It gives me great pleasure now to introduce former Governor Carroll Campbell, Jr., who will talk to us about the insurance industry issues and the role of the actuary. He will provide insight on how changes in the life insurance industry impact us all. Before joining the ACLI as President and CEO, Carroll Campbell, Jr., served as Governor of South Carolina from 1986 until January 1995. During that time he became recognized as a national leader in education reform. He also served as chairman of the National Governors= Association in 1993 and 1994. In addition, he helped South Carolina track an unprecedented $22 billion in capital investments and created more than 230,000 new jobs. In 1996 the American Economic Development Council awarded him its Excellence in Economic Development Award for his work to attract capital investments and create jobs in South Carolina. Prior to serving as governor he had a distinguished career as a state legislator serving in the South Carolina House of Representatives from 1970 to 1974. In 1976 he was elected to the South Carolina Senate. Then in 1978 he was elected to the U.S. Congress where he served for eight years. During that time he served

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HMr. Campbell, Jr., not a member of the sponsoring organizations, is President and CEO of the American Council of Life Insurance (ACLI) in Washington, D.C.

on both the Appropriations and the Ways and Means Committees. Governor Campbell holds a Master=s Degree in Political Science from American University and nine honorary doctorate degrees.

Carroll A. Campbell Jr.: There once was an awards ceremony at Myrtle Beach, and there were several people getting an award. One of the people who was getting an award happened to be an elderly man of age 87, and he was seated at the head table next to a very young man who was about 15 years old. The young man was very nervous. He wiggled around the whole time he was there, and it really got under the skin of this older man. After a while the young man started tapping on his glass with his knife. The older man tried to get away from him, but the young man tried to engage the old man in conversation. He said, AI never have been to Myrtle Beach before. Have you?@ And the old man said, AYes.@ The young man asked, AHow many times have you been here?@ The older man replied, AI live here.@ The young man asked, AYou live here in Myrtle Beach?@ The older man replied, AYes, I live here in Myrtle Beach.@ The young man asked, AHow old are you?@ The old man replied, A87.@ The young man exclaimed, AMan, you=re one of the luckiest people in the world.@ And the old man asked, AWhy? Because I lived to be 87?@ The young man answered, ANo, because at age 87 there are nine women living for every man.@ The old man looked back at the young man and said, AThat=s the most useless statistic I=ve ever heard.@

I=m from Strom Thurmond=s state. He=s 95 years old, and he fathered 4 children at age 70-something. He is still going strong as a United States Senator (R-South Carolina). I wonder who wrote the first policy on him a long time ago. During the three years I=ve served with the ACLI, I=ve come to understand that actuaries are the very heart of our business. There=s no question about that. I work with our actuaries all the time, and they are the ones that keep us out of trouble a lot of the times, and I really appreciate the role that all of you play in the companies that you serve.

I realized that you are not all in the life insurance business. That=s going to be the focus of my remarks, and I hope that you=ll agree the issues that we=re dealing with are relevant across the board. They=re not just limited to one particular industry, whether it=s life or health. The year 2000 is just around the corner. As we face this new millennium the insurance industry has reached a crossroads. We=ve been approaching this crossroads for years and years. The rules that have been applied for a long, long time are now changing. The whole world is changing, and we're going to have to change along with it.

In the first half of 1998, policymakers have taken on a number of relevant issues, and a lot of questions have arisen. Number one question: Will policy be changed to neutralize the tax advantage that our products have enjoyed? The Clinton administration came straight after the inside buildup in the first version of their publication of their budget this year. Fortunately, Congress defeated it, but it showed you right quick where the administration's heart was. They were going right after money, and they saw that as an easy picking. That seems to be the mentality of some in Washington.

Second question: In this climate of financial evolution, who is going to regulate our business? We're sitting here with banks in the insurance business, insurance business getting in banking, securities in banks, securities in insurance, and vice-versa. There is no governance structure. We still operate under two old laws. We operate under McCarren-Ferguson and Glass-Stiegel, but when you go beyond that how are you going to bring it all into one? The people of this country are way ahead of the people in Washington. The marketplace is always in front of politicians. Politicians jump out and grab something they think is good that's already happening and try to sell it and do well with it, but they're way behind the marketplace.

The question that we're going to have to face beyond who's going to regulate our business is, will banks be allowed to sell and underwrite our products? That's the big question. Because we're going to have to deal with that because the banks are looking to do it. Will we be allowed to continue to underwrite our own products using traditional risk classification procedures? There is an attack on risk classification procedures right now in the political community because they want to group everybody together, and if you're going to do that, how are you going to underwrite? These are the questions that we're going to be faced with over the next year or two, and they're just some of the issues that the ACLI has been placing in the legislative arena. This is not your usual legislative laundry list. We deal with a lot of issues every year. These have much broader social economic implications than anything we've dealt with before, and for insurers they strike at the very core of our business. As actuaries, how these issues are resolved will greatly shape your role in your companies in the years ahead.

Let me talk more specifically about some of the crucial questions we=re facing from a legislative point of view. We=ve already had quite a year. 1998 started out with the administration=s budget, a real bombshell for the life insurance industry. Bill Clinton proposed $8 billion of taxes on the life insurance industry on annuities and life insurance products right out of the box. He didn=t get it, but he=s going to try again. We know that we have a problem there. We=re usually a target for revenue, and, quite frankly, we expected to be hit again on corporate-owned life insurance for the third year in a row. What we did not expect was the magnitude of that hit, or an attack on annuities and on variable life. That=s a move that flies in the face of the importance that Americans attach to these products and the role that they play in providing financial retirement security. The American people aren=t saving enough money to retire. The products that they=re buying are under attack at this particular time.

Where is the future? What=s going to happen? Who=s going to feed all these people if we don=t provide retirement protection in the process? Who is going to take care of them? Social security cannot do it. There=s no way. Anybody who=s a mathematician can see that the baby boom generation has another generation behind it that has one-third fewer people in it. Generation X cannot support the baby boomers in retirement. Something has to be done. These are the issues that we=re going to deal with as we go forward over the next couple of years.

The budget that the administration was spending it gave us a mixed message. On one hand it called on Americans to take more personal responsibility for retirement. On the other hand it would impose greater tax burdens on those who try to do so. We deal with this sort of thing all the time in Washington, but it=s very hard to bring it all down to some reconciliation. Within 24 hours of the budget=s release, ACLI had print and radio ads in production that were on the air the next day in the Beltway, and we had a full frontal assault on the Capitol. We unleashed a full-scale, grassroots effort that produced 120,000 telegrams to Congress, 50,000 telegrams to the Ways and Means Committee, and 5,000 personal business contacts to Ways and Means and Senate Finance members. We also activated our grassroots network which is about 118,000 people to write letters and call the Congress of the United States. We won. It was tough. Can we win again? I don=t know. We will face this again. Congress is always looking for revenue, and our industry=s tax advantages are always a target.

It=s crucial for all of us to keep stressing the important role that the products play. We can expand that somewhat by saying that we=re helping people manage their risks at every stage of life. We have to tie the products to that and educate the political community to help them understand that if these products aren=t there to supplement Medicare and Medicaid, which are in serious trouble, how are people going to take care of themselves? We have a mentality in Washington that everything has to be done in the political community. Ladies and gentlemen, I come from the private sector. I=ve been in the private sector all my life. I own two businesses now, and I serve on a number of corporate boards. I don=t think the political community has the leadership, and I=m going to tell you why I don=t think it does.

As I look at members of the Congress, I found that a very large number of them have never worked in the private sector. They have never owned a home, met a payroll or been in the private sector, but they=re running this country. Some of them are in the White House, some of them are in the Republican Party, and some of them are in the Democratic Party. They=re good people, but they don=t have a clue about what makes the world click. That scares me to death.

We have a very brilliant and bright young man named John Casey who is head of the Budget Committee. John came to Congress as an intern, served as a staffer to a congressman, and eventually got elected himself to Congress. He=s writing the budget. Where is his perspective? We=re having to look at that very carefully. He=s a good man and he=s trying to do the right thing, but he=s never been there before. That=s what we=re getting into. More people who have run and been elected to the U.S. Congress are decent, fine retired social workers or school teachers. I=m afraid of what=s going to happen over time. It=s really important for us to keep promoting our products and explaining to the public that you can, in fact, in the industry that we have, guarantee somebody an income that they cannot outlive. Nobody else can do that. Nobody else can do it. The banks can=t do it. The securities industry can=t do it. But our industry can do that. If we can head off some of the other assaults on our products, then we should get through this year without a real catastrophe. Most people enthusiastically agree with our overall message. It comes out of some groundwork we=ve already laid on the retirement security issue.

We=ve been aggressively spreading the message that simple accumulation does not a secure retirement make, and it=s amazing the number of people that think that they have saved enough money to retire. The baby boomers literally have no savings, but they have high earnings. They say, AOh, they=ll take care of it.@ Anybody that=s in your business or in my business understands that wealth accumulation comes over time. The baby boomers are shortening their time for wealth accumulation for retirement because they=re living today, and if they live today, they may not live too long tomorrow if they aren=t careful because of the situation they=re putting themselves in. It=s hard to explain that because we=re in a great economy. Everybody is making money. Opportunities abound, but it=s a spending economy, not a saving economy. That=s where we=re going to run into trouble.

Social security=s in trouble. Medicare=s in trouble. All of these things. This great tobacco tax that we heard about, I don=t know whether you know this or not, is not going into all these other things. They=re taking it off-budget. It will never be reviewed by the U.S. Congress. It is being taken off-budget and put in some new entitlement that they=re trying to create. The oversight process is going down the tubes and that=s something else that bothers me. But as we position ourselves, we=re marketing annuities and long-term-care products as essential for Americans as they face life=s uncertainties. We=ve had a great deal of success in demonstrating the value of these retirement plans, and we=re working to increase people=s awareness of annuitization. As we do this, it=s an educational program, and we are on television across the country. We send out leaflets and pamphlets. We do radio shows. We do anything to get people=s attention.

In early June 1998, we participated in a retirement summit, and that=s the kickoff of a national effort that was sponsored by Congress and the White House to increase awareness for the need to save money. Our industry was represented by a strong delegation of our CEOs who reinforced our retirement security message. This was a good thing. They=re going to have two more. This was a good start. And it=s these sorts of ongoing opportunities that we=ll continue to take advantage of to make sure that policymakers know how important it is for people to look to take care of their future and also to take care of the national economy and the federal budget because they=re all linked.

Taxation is an issue that will always be there for us, and it's always going to be a top priority. Another issue is coming, though, and this one gives us a governance problem, and that's the financial services modernization. It stacks up as high as the taxes because many people believe it's a survival issue for the insurance industry across the board. For the last 20 years we have successfully kept the banks out of our business. Several years ago, a series of court decisions and unilateral pronouncements by the Comptroller of the Currency brought us to the table. The comptroller has absolute power over the banks. He's the one person who opened up the Barnett Bank, and swept aside the state regulation. We have to go through the political process. When you have one regulator with that kind of power, that person can do a great deal to you or for you. So, far it's been to us. Hopefully we can secure a better position with him. But we're not going to trust the regulator. What we have done is to work very carefully with the banking and the securities sector, and we've done this in an effort to craft legislation that would resolve the most critical issues associated with financial modernization.

This resulted in a bill called HR-10, and I have to say that from our industry's perspective that bill is as good a bill as we could have hoped for. It got through the House of Representatives. It's now in the Senate. It addresses to our satisfaction the major points identified by the ACLI; that is, it reins in the comptroller by eliminating judicial preference and providing a definition of insurance. It protects functional regulation, which assures that all insurance underwriting and sales are going to be governed equally. To call this bill a banking bill is a misnomer, and it has been called a banking bill. This is all about financial services modernization, and all of ACLI's member companies have a lot at stake in this. The House of Representatives basically has cried wolf at the beginning of this bill, but finally in May they voted to pass it. And the very fact that a bill passed is something that flew in the face of conventional wisdom because nobody thought it could pass. The skeptics said you can't do it, and it almost didn't happen. It certainly wouldn't have happened without the life insurance industry, strong grassroots support, and many CEOs and other high-level executives engaging in actively lobbying the issue.

Our involvement was critical at several junctures. First, during the two years of painstaking negotiations over the content of the bill ACLI was not only at the table, but we kept our allies and adversaries at the table for nearly two years. The staff worked tirelessly with the Banking and Commerce Committee fine tuning language, looking for acceptable compromise, going through the sausage-making process, if you will. That=s what they say legislation is**C**sausage making. It=s not pretty to see, but sometimes the product is. So we did get the successful legislation.

Second, the ACLI activated a series of grassroots campaigns, which included large-scale telegram efforts but focused mainly on the constituents= contacts to members of Congress. We utilized our company employees in a remarkably successful effort, particularly for a bill as complex as financial services modernization. We had 14,000 contacts directly to House members= offices and one-by-one vote. Tell you how toughly this was contested. And at the 11th hour we relied on many of our CEOs, whom I called personally. I got on the phone and said ,@if you want to stay in business, you=ll be on an airplane, and you will be in Washington. You will shake hands with your senator and your congressman, and you will explain what your problem is because if you send a surrogate, they=re not going to get in the door.@ We had a large number of CEOs come into town. It was kind of like hitting the mule in the head with a two-by-four to get its attention, but they got the message. When CEOs of huge companies sit down next to a congressman, who is voting against them, and say, ADo you realize that I have 4,000 people working in your district, and you=re jeopardizing their jobs?@ it makes a difference. That=s what CEOs who had never done it found out, and they made a huge difference. Every contact does matter. Finally, we organized our own legislative whip operation, and we ran it out of the Capitol. We literally rented a room in the Capitol, assembled all of the representatives of all the companies, organized a whip operation, and went door-to-door to every member of Congress. Along with our companies and insurance trades, and some banks, we were the only ones that were pushing the bill as it came through, yet it won. The House leadership stepped up to the plate, and they earned our industry=s gratitude in the process.

Now the bill is in the Senate. The Senate offers more perils. We face an uphill struggle to get the bill to the floor before Congress adjourns this year, and I can=t tell you if we=ll be successful, but I can tell you that we=re taking full advantage of the momentum. Senator Alfonse D=Amato (R-New York) will hold hearings on financial services modernization this week. With his upcoming election I don=t think he=s going to be anxious to get a bill out and get into a battle between three enormous industries in his state. He=s up for election, and I think he=ll stall it. He's not going to appreciate me saying that publicly, but I think he'll stall it till his election's over before he takes any risk. But despite the odds we're pulling out all the stops. We're calling our CEOs. We're making the visits again, and we're going on trying to push this, and I think we have a decent chance. But even if legislation is not enacted into law, the marketplace is going to continue to drive this issue, as I said earlier.

The megamergers that are taking place and the continued blurring of lines in the financial service industry prove that change is happening with or without legislation. A lot of this change may take place in the court system. We don't know. But what the market can't do that legislation can is to create a level playing field and make change orderly, and that's what we really are looking for. As we face these and other issues, many of which do not have obvious right and wrong answers, we are trying to craft strategies and solutions that make sense that represent good public policy in the process. We can no longer afford to bury our heads in the sand, and we do all of this in the face of a changing marketplace, a change in regulatory environment, and things that may not respond in expected ways. This is certainly the case as we face the enormous challenges posed in the area of risk classification, genetic testing, and privacy. Those are the biggest impediments.

Over the last 20 years, challenges to insurers' use of risk classification have been mounted over and more and more frequently. Over the years, the industry has responded to these challenges in a variety of ways, communicating with legislators, getting industry messages out to the media, developing print, broadcast ads, initiating grassroots support. The crux of our argument, which has been straightforward, has been that our ability to price fairly depends on our ability to group individuals according to risk factors. Our Achilles' heel has been this: How is it fair to discriminate against someone for something they may not be able to control? That is a serious question. Nonetheless, in most instances we have been successful in diffusing a tax against our underwriting practices, but in some other instances we've had to give some ground.

We've also had to find common ground with our critics to try to achieve the compromises if necessary, and today we're facing an issue that's very different from risk classification threats, very different from anything we have confronted before, one that runs smack up against the control issue that I just mentioned, and I=m talking about the whole set of issues and questions raised by increasing scientific knowledge of human genetics. Adding the concept of genetics to risk classification raises the level of concern dramatically. Genetic testing exposes applicants to information they may not want to know, particularly if there=s not much they can do about it. People object to adverse underwriting actions based on factors over which there=s no control. For instance, if you smoke or you choose to skydive, then people generally agree that it ought to be more difficult for you to get insurance at standard rates, if at all.

The biggest concern people have about genetic testing is that there=s something Orwellian about the whole idea. It scares people to death. How many of you would like to know what you=ve got and how many years you have down the road and worry about it from now on? This is the way people look at it. A lot of Americans are reluctant to take tests for their own medical benefit, let alone for insurance. Why are they scared to know? Because we can find what=s wrong with them, but we don=t have the cures. The day we start finding the cures for these things is the day that people will accept the genetic testing, but it=s not there now, and it=s going to be a while before it ever gets there.

One of our research consultants put it this way: AI=ve done hundreds of focus groups in my life, and this is the first time I=ve ever seen genuine fear on people=s faces when I talk to them about this subject.@ Arguments that we=ve made in the past have very little sway. Very few people are persuaded that genetic testing can make insurance more affordable and available even though it can by helping to detect and cure various diseases. Few people will accept the argument that genetic tests are like other medical tests. They see it as totally different arena. Most of them are afraid of these tests. They can=t explain them. They can=t distinguish them. Few believe or care that a ban on genetic tests would impede insurers= use of all medical testing. It would in time. Research suggests that even if we could convince people of the importance of underwriting, they would still draw the line when it comes to genetic testing.

Another important facet of this whole concern is privacy. People don=t like the intrusion into their privacy, their private lives. They don=t want people knowing things that might cause them to not find a job or get insured. They don=t want you to know. And as you look at this, you have to realize there=s always been some concern about use and confidentiality of medical information, and unfortunately some of that has been justified because some places have gotten that information out. But the use of genetic testing carries the privacy issue to an absolute extreme. It may not stigmatize you for life, but then it might. The broader part of this is it raises a red flag for your children and your parents. Somebody has a gene that=s going to cause things to happen. Do they tell the rest of the family? What do they do? They keep it quiet. And that=s what we=re dealing with. A red flag for your family.

The public fears that if this information leaks out, insurers, employers, and others may know things about you that your family doesn=t know. Even if they never happen, even if they never happen, they=re going to be on your record, and that=s the privacy issue.

The tragedy of that is is that we used to always think medical records were private, but in this day of the Internet, and open communications, there is no privacy. They can access almost anything they want all over the country, including tapping into the federal computers. We have hackers everywhere that can get data. People know that, and they=re scared of it, so that=s affecting our industry more than anything else that I can think of and anything else that I think we=ll ever have to face.

Technology is a great thing for America, but most people believe that once the information gets online anybody can access that information if they want to, and that=s close to the truth. When hackers can break into the Pentagon=s computers, as they did about six months ago, John and Mary Doe don=t stand a prayer, but they know it, and that=s what makes us have a real problem.

We are concerned about the nature of information that we get, and we try to handle these things very carefully, but it=s in this public climate that the insurance industry faces a barrage of state and federal legislation seeking to limit underwriting on the basis of genetic information either directly or through denial of access to necessary information. This year alone there were more than 50 bills introduced and carried over from 1997 in 23 different jurisdictions in the U.S. Sixteen of the bills as introduced are related to underwriting for life insurance, and the vast majority of the bills would limit underwriting for disability income and long-term care. Federal- level genetic testing is also receiving increasing attention.

The issue of confidentiality was raised by the Health Insurance Portability Act, and it=s turned into a genetic information battle. At a recent hearing on genetic information in health care Senators Olympia Snow (R-Maine) and Peter V. Domenici (R-New Mexico), both of whom were sponsors of a bill to restrict access to and the use of genetic information, and they urged the Senate Labor Committee members to pass legislation in this area sooner rather than later. That means not only Congress, but 23 states are taking it up. While this debate is currently being focused on medical expense insurance, it sets a dangerous precedent for life insurers. Equally as frightening is the shift from genetic testing to genetic information, focusing particularly on the use of family history.

Over the last 12 months ACLI policy has been evolving toward a proactive approach that is more sensitive to consumer concerns. We=ve really felt the need to respond. We felt this more than we have ever felt it as long as I=ve been there**C**I=m in my fourth year**C**because we have our backs to the wall. The health industry has its back to the wall. The whole insurance industry has its back to the wall not only to high level of legislative activity, but when you look at the federal side it is really scary. Federal legislation appears to be directed mainly at medical expense insurance, but we=re working with our lobbyists to respond to the concerns of our opposition, and under the leadership of our steering committee, the so-called safe harbor is the way we=re trying to go.

We=re trying to get a carve-out for a safe harbor. Essentially the safe harbor is that we have a right in underwriting to know what you know about yourself, if you already know it. That=s the safe harbor. If we don=t get a safe harbor, we=re not going to have an industry. We=re trying to balance these concerns between consumers and advocacy groups and the legitimate business needs of the life insurance industry. And I have to tell you there are some rather radical advocacy groups out there. I know you all have probably come up in different arenas against some of them, but some of them are really something else. What the policy provides is that in the event that a genetic testing bill seeks a limited underwriting for life/disability income or long-term care, the ACLI is going to support legislation if it preserves the insurer=s ability to have access to and use medical information including genetic information, that exists at the time of the application. That is very controversial because they=re trying to eliminate the genetic part of it. In addition, insurers have to be able to continue to require routine medical tests currently in use today, and there is literally a body out there that=s against us even being able to require routine medical tests.

Finally, recognizing that the technology is rapidly changing and tests which are new and unique today will be commonplace in the future, insurers should be able to access a new test once it is part of a routine medical practice. The jury=s still out on all of this and on the long-term success of this new policy, but it at least gives us the ability to establish a dialogue and provide some common ground. Ultimately, ultimately, if we are restricted in our ability to underwrite, we will need to regroup, we will need to rethink how the business can respond. In short, we will need once again to look to your profession to help in developing the products and processes that still allow us to move forward. It will be a different arena for you, too, totally and completely.

That=s where we are politically as we prepare to enter the 21st century, but politics aside, we=re also facing demographic and technological challenges that when taken together herald a period of dynamic evolution that is radically changing our position in the world. And the 900-pound gorilla is demographic change. We all know about the baby boom generation, 75 million strong, aging rapidly. The oldest of them will be 65 in 2001. Not only are the boomers the largest age group in history, but they will be the longest living generation as well. Given all the advances in medicine and today=s emphasis on physical fitness, a lot of those boomers can look forward to 30 years in retirement. This new longevity offers the insurance industry=s client base and the whole concept of retirement for those customers.

With about three decades before them, a lot of it in good health, retirees of the future will not be looking to pass their declining years quietly. They=ll be increasingly active and vigorous and demand services to support their get-up-and-go lifestyle. Believe me I know. I=ve got a 33-year-old son and a 29-year-old son, and it=s hard to get them to even think about the future. Even though my son is married, and his wife=s a lawyer, and they make a lot of money, trying to get them to save and look to the future is like talking to the wall sometimes. This is a now generation. They are living for now, and that=s a problem for us too.

Baby boomers and Generation Xers are going to need retirement savings. They have income not only to cover their housing and food and a little to spare, but enough to allow them to pursue their varied interests and hobbies. Of course, long life is a great gift. As I said, Strom Thurmond in South Carolina, 95 years old, still going strong, fathered 4 children, all of them after he was 70 years old. Great gift. But life insurers have a tremendous opportunity to find new and innovative ways to meet the needs of all these long-lived retirees, not only to ensure they don't outlive their resources but also to provide for a comfortable lifestyle and protection against any illness or incapacity that they may face. The life insurance industry has the products and the expertise to address people's financial fears and concerns at every stage of their lives, whether it be outliving their income, dying without protecting their beneficiaries, needing nursing home care, or becoming disabled.

Many of you have made your careers working with traditional life products, but as it evolves, actuaries must reexamine their skills and roles in the context not of just life insurance but the whole universe of financial services. It's going to be a different field. By stepping out of your more traditional roles your profession can and will have a major impact on the emerging financial services environment. What will our future look like? That's the biggest question. I think we're already living it. Fifteen or 20 years from now I think we'll see a dizzying array of services and products and a much less clearly defined universe of providers. After all, your local telephone company can offer cable TV and Internet connections. You electric company can go into the telephone or cable business. Why should we think that the financial services business won't see the same type of competition? We shouldn't. We will see it.

Mergers and acquisitions and strategic alliances will continue to be the order of the day. We're not unique in that regard. In the last couple of decades most businesses in the financial services sector have experienced an intense period of consolidation. When I took over the ACLI we had 568 companies. We now have 506. They're bigger and fewer. Look at the banks, bigger and fewer. Consolidation. Look at the securities companies. They're bigger; they're fewer. They're consolidating. What's that going to do to jobs? What's it going to do to everything else? This is a disconcerting time to live in. Even though it's disconcerting for us, it's a normal trend in mature industry. Half a century ago there were perhaps a dozen major American automobile manufacturers, for example, but today there are only three, and one has essentially been taken over, leaving only two that are American-owned.

And what about actuaries? You=re already taking a broader view of what=s happening in our business. Your companies are looking to you for new products that tap into the emerging financial services marketplace. You are absolutely critical in their ability to appropriately manage the risks that they=re going to face in this new world order. Companies are going to turn to you for innovative strategies to address the non-traditional issue that they may face. You will have to redefine your profession in light of all that=s happening with the industry and the marketplace in general. But having said that, the consumer will always be the ultimate driving force in determining what the marketplace will look like, and if consumers like one-stop financial service supermarkets, they=ll flourish. If consumers would prefer to deal with individual service providers, that=s what we=ll see. But the important thing is that in either event people will still need our products**C**life, disability income,
long-term-care insurance, annuities, pension products. All of these are increasing in their importance as individuals assume greater responsibility for their own finances in their retirement.

Only actuaries can give insurance unique elements such as protection and the sharing of risk. Actuary jokes aside, you are the insurance business, not the salespeople, or the owner/managers. Your companies depend on you for expertise and professionalism. Someone once said that the trouble with the future is that it usually gets here before we=re ready for it. The challenge facing financial service providers is to be ready for tomorrow, and that means innovative responsive to rapid, unforeseen change. Yet the American life insurance industry has a 250-year history of adapting to change, and I=m confident that we will show the same ability to deal with tomorrow=s challenges.

I mentioned Strom Thurmond several times. I think he=s a unique individual. I=m going to tell you a little story in closing. It=s told as the truth. I don=t know whether it=s true or not, but I=m going to tell it anyhow. They say that Strom Thurmond at age 74 or 75, was driving through Kentucky with his family, and as they rode along they saw a sign that said, AHome of Seattle Slew, World=s Most Famous Racehorse.@ And Senator Thurmond followed the sign, went down to the farm, and pulled into the driveway. There was an old gentleman there, and the Senator said, AI=m United States Senator Strom Thurmond, and I came down here to see the horse.@ The old man said, AI=m sorry. The farm is closed.@ The Senator said, AYou don=t understand. I=m a United States

Senator.@ The old man answered, AI don=t care what you are.@ The Senator said, AYou don=t understand. I=m Chairman of the Judiciary Committee of the United States Senate.@ The old man responded, AI don=t care what committee you=re on.@ The Senator said, AYou don=t understand. I=m the President Pro Tempore of the United States Senate, and I want to see the horse.@ And the old man said, AI don=t care what you=re president of. I=m not going to let you see the horse.@ The Senator said, AYou don=t understand. I=m third in line to the Presidency of the United States, and I want to see that horse.@ And the old man said, AI=m sorry, we=re closed.@ The Senator looked around, and he said, AYou=re going to disappoint my children and my wife.@ And the old man looked toward the car, and there was this beautiful, young wife of age 24, and there were 4 young children. He didn=t say a word. He walked over, and he opened the gate. The Senator went in, came back out, and being a southern gentleman he got out of the car, and when he came back out, and went over to the old man and said, AI want to thank you so much for your kindness, but I don=t understand why when I told you who I was you wouldn=t let me in, but then I introduce you to my family, you let me go in so I could see the horse.@ The old man said, ANo, sir, I didn=t do that.@ The Senator said, AWhat do you mean you didn=t do it?@ The old man said, AI let you go in so the horse could see you.@

Ms. Rappaport: You talked a bit about the consolidation and how we=re down to effectively two automobile companies. Where do you see the consolidation going for the insurance companies and the banks?

Mr. Campbell: We=ve had a great deal of consolidation in both the banking industry and the insurance industry. I=m sure many of you have seen the de-mutualization that=s taking place lately by several companies moving out into the marketplace trying to get stock so they can buy other companies. That=s going to continue. The strong and those with perhaps a very unique niche in the insurance industry are going to survive. Others are going to consolidate. Some will be taken over. And, as I said, we went from 568 companies in the ACLI when I assumed the leadership down to 508 companies 4 years later. We expect we will be down another 25 companies in the next 12 to 18 months. Consolidation will continue. How far it will go we don=t know. I made the reference in the speech about the number of automobile companies we used to have in the country. The banks are experiencing the same thing. There=s a bright side for the banks. It seems that every time a big bank takes over something and goes somewhere somebody starts a little bank. I hope that would take place in the insurance industry as well, but I think it=d be a little tougher for them. Therefore, I looked for increased consolidation, and I don=t think that we=ll be surprised by the numbers going down. Having said all this, with the 568 companies shrinking to 508, we have a much larger financial base in the 508 than we had in the 568 because some of them have been able to grow as they consolidate.

Ms. Sarah L.M. Christiansen: You mentioned that federal regulation was somewhat scary. On the other hand, we don=t have a federal advocate as the Comptroller of the Currency. Do you consider that in today=s day and age that state regulation is becoming an anachronism?

Mr. Campbell: I think that state regulation is in some jeopardy. We still, of course, have the governing laws, but the fact is that there is a possible move to put us under some federal legislation in order to be able to do business, and I do not think that that is a long shot for taking place. I assume that it=s going to take place because companies now, as they consolidate, they=re doing business across state lines. They=re moving all over the country. While we personally like to have the state regulation, the fact is is that the marketplace will drive us to what=s more economically feasible for us in the long term. And with one advocate who can take our industry away from us at one time hypothetically, if they had the Treasury doing that for the banksCthis is just purely a hypothetical answerCit might behoove us, say, to have the Federal Reserve taking care of us. I=m using that only as an example, however, not as something that=s underway.

Mr. William C. Cutlip: If I heard you correctly, I believe you said that one of the core issues with regard to underwriting was the right for insurance companies to underwrite. Let me suggest that there=s something stronger than that, and that is that insurance companies have an obligation to underwrite. They are obligated to their customers to make sure that they pay fairly for the kind of coverages that they get. They=re obligated to their customers to make sure that the payments they make are ones that they can afford in the future. And they have an obligation to the customer to make sure that they can stay in force and stay in business and, as you say, continue to pay money to people so that they don=t outlive their incomes. And I think that obligation to underwrite is very strong.

Mr. Campbell: I totally agree with you. Your statement is right on target. I phrased it differently, and I think you worded it much better. Obviously, there is an obligation because as you take on policyholders, as you write something for people, they are depending on you. They=re depending on that to be there for what it=s represented to be for as long as it=s supposed to be, and that is an obligation of companies. We have had a hard time trying to define all of these things with people that are, for lack of a better term, anti-insurance, in other financial areas. If you look at the banks, they=re used to making essentially short-term loans. We=re using to making policies or having policies and really making commitments that last a lifetime, and that lifetime could be a Strom Thurmond or it could be two years for somebody, but the obligation is there to protect what they have bought to make sure that it will be there for them when they need it, and certainly it=s an obligation. I totally agree with you.

From the Floor: I appreciate all that you=ve said about everything. I=m a private businessman from Waterbury, Connecticut. I own a small printing and publishing company. Many of our employees want more government help in the health-care industry. It=s very difficult in the small business realm to provide health-care insurance to our employees because of the high cost. As we enter the millennium, we=re very concerned with something with regard to what you talked about , which is lack of the presence of the private businesspeople in Washington giving us more of a say. The people who are writing the laws are not businesspeople, per se. They=re just attorneys who=ve never worked in the small or even the large business sector. We=re also confronted with what Steve Forbes presented to us several years ago which was the idea of a flat tax. What kind of an impact do you think, if it were ever to be passed, would be a flat tax in this country? Would it reduce the government which I don=t think is going to happen? How would that affect the insurance industry as a whole? President Clinton is trying to get more control of our lives by bringing on health care legislation where it=s government-run as opposed to private.

Mr. Campbell: A flat tax would essentially reduce the tax preferences in our industry, just an absolute flat tax. It would alter them dramatically as to what we had as far as the tax preferences. Our industries are tax preferenced, and the tax preference is there for a very good reason. It is not only to have a product that can grow and build up a long-term protection or long-term support for consumers. It=s a vital part of any type of retirement planning. If somebody says, AOh, I=m going to give you a 15% flat tax,@ we=d all jump up and say, AIsn=t that great?@ without looking at it, but it does have serious consequences for the products. It has consequences in annuities. It has consequences in life insurance. It has consequences across the board, so I don=t think that necessarily it would be a winner in our industry. You asked another part to your question. I=m sorry. Tell me what the other one was.

From the Floor: My concern is is that President Clinton is still trying to push his health care legislation where he would control over lives with our choices of medical care.

Mr. Campbell: On the health legislation, we ought to keep as much of this private as we possibly can. They want to grow as much of it public as they possibly can. They came after company-owned life insurance (COLI) for some of these reasons. You see, COLI can be used provide a pension for small businesspeople. It can be used in the health field. They tried to eliminate COLI completely. That begs the question: Why did they want to eliminate it completely? What=s going to take its place in the small business community? Quite frankly, there=s not really a product out there to take its place. The other part that I think is important is the regulations on small business. I am very familiar with this. I own 13 Wendy=s restaurants in Myrtle Beach, South Carolina. I have a large number of employees, and I understand exactly how hard it is to provide benefits. We do, and it is difficult. If I had one store, I couldn=t do it. We have 13 now and are building some more. We just got to the point, after we acquired seven or eight, where we figured that we could do some things that ought to be done. But doing it before that with lesser numbers, wasn=t possible. I know what you=re up against.

From the Floor: What do you recommend for the small businessperson to have a stronger, larger voice in Washington when some of these taxing issues come up?

Mr. Campbell: You have a very good voice in Jack Ferris. He heads the National Federation of Independent Business (NFIB). The NFIB is extremely active on behalf of small business all over the country, and in Washington they do a very good job. If you haven=t associated with them, you ought to talk to them because they are the advocates of small business, and I would suggest that you might want to contact them because they do a super job.

Mr. Robert J. Thiessen: In the risk classification issue I know there=s been some thought that the right to underwrite can be different for life insurance than for medical insurance, or there are different political issues around right to underwrite for medical expense coverage than there might be for life insurance. Do you think that the industry can operate with different regulatory rules for underwriting one type of coverage than for another type of coverage? Would it be a thin wedge that would just keep on growing or is it really something that can be kept separate and maintained with different rules for different parts of the industry?

Mr. Campbell: I think that you must have some different rules for different parts of the industry. We discuss this a lot with the the Health Insurance Association of America. We put together a joint task force of people from both of those industries to see where and what we could do to work together to simplify some things and try to move forward, but we have not found a complete solution yet.

Ms. Rappaport: We=re really concerned about helping our members build their careers effectively, and what are the things that they need to do to adapt to this changing world? Based on your experience with actuaries, are there one or two things that most of us should be thinking about in the next five years to make us even more valuable to insurance companies?

Mr. Campbell: Number one is obviously the continuing education programs that you have because the world=s going to be changing, and you will have to change with some of these things as we move forward. The other thing is what you=re literally having to look at and write will change, too. It could be different products. It could be different types of things. Health is going to change dramatically, and I think that in that field that=s one area that you=re going to have to concentrate on heavily in seeing how it evolves and how you will be able to deal with that in your educational programs. I look for a continued assault on the health side from the government. I had the dubious distinction of sitting on Hilary Clinton=s task force. I was appointed. George Mikkelson was the other Republican governor at that time, seated on the task force. Tragically, he was killed in a plane crash and they quit inviting me back, but it was an interesting thing to sit there with somebody the likes of Ira Magaziner**C**Magaziner, not the Clintons, was running the task force**C**and listen to the ideas that he had and was putting forth in all his conversations. Essentially, he favored a government takeover. The government knows best what to do. I think that=s the scariest thing, and I think you will have to guard against that over and over and over as we go down that road. This will take place more in the health field than it will in the other products.