



SOCIETY OF ACTUARIES

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Competitive Advantage cont'd.

formation of a destructive coalition of agents and consumers against the industry. (The textbook strategy of three-player games calls for two players to form a coalition against the third.)

- Even if stability within the life insurance industry is achieved, external competition will be a serious potential problem. Individual life insurance products are usually the highest cost personal-savings products and, as such, are always vulnerable to extra-industry competition from the banking and securities industries, which enjoy significantly lower costs. Eventually, the life insurance industry must become competitive with these alternative producers of financial security products.

- The cost structure of the life insurance industry is high primarily because its distribution system is labor-intensive. In particular too many man-hours are spent prospecting. Technology and sophisticated customer information may provide the opportunity to reduce the labor cost involved in the inefficient process of prospecting by agents.

- At least in North America, the traditional agency distribution system is in trouble. Eventually, and perhaps soon, companies may be required to choose between their own survival and the survival of their cherished distribution systems in their present form.

The message for the life insurance industries in other countries is clear. Unless circumstances are very different, the problems now present in North America may soon appear elsewhere. The capital cost of developing a North American-type agency distribution system is very large and the pay-back period is very long. Today, in Europe and elsewhere, an undertaking of this type should be approached with much caution. A better plan might be to invest the same resources in the development of a different and more efficient type of distribution system — one better able to withstand the internal and external competitive forces of the future.

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Editorial

by Daniel F. Case

As people we are all deeply concerned over the AIDS epidemic. As actuaries we have a special additional concern: the impact of the epidemic on financial security programs and what to do about it. We have special skills and resources in the area of data-gathering and analysis. Should we be using those skills and resources in additional ways?

There have been some solid investigative efforts: (1) the report, "AIDS, HIV Mortality and Life Insurance," by Michael Cowell and Walter Hoskins; (2) the work of the Society's AIDS Task Force; and (3) surveys of AIDS-related life and health insurance claims, which have been carried out largely by actuaries working within the insurance business.

The Cowell-Hoskins model and others have shed light on the course of the epidemic. They are generally based on reported AIDS cases and deaths, observed rates of progression from HIV infection to AIDS, estimates of the numbers of persons infected by HIV, and estimates of the numbers of persons considered to be at highest risk of becoming infected. The weakest areas of the data base are the estimated numbers of infected persons and of persons at highest risk.

This issue of *The Actuary* contains an excerpt from a draft paper, by Linda Bilheimer, on the problems of AIDS-related data collection. The excerpt which we have printed deals with a very difficult area: estimating the numbers of infected persons. Ms. Bilheimer explains that two basic approaches have been used in the U.S. One is based principally on the observed prevalences within a few small groups of high-risk individuals and estimates of the total numbers of high-risk persons in the U.S. The other is based, more simply, on ratios of seropositives (infected persons) to AIDS cases within those same observed groups. Neither approach is reliable, and the government is looking to larger scale seroprevalence surveys to improve the estimates.

The largest bodies of seroprevalence data now available come from the blood banks and the armed forces. Neither can be considered representa-

tive of the population at large. Blood donors (because persons in high-risk groups and persons who have tested positive are asked not to donate) are deemed to constitute a relatively low-risk population. Military recruits are too young to have reached a representative level of seroprevalence, and active-duty military personnel, who are also tested, are also not typical of the population at large. The government would like to make a nationwide random survey, but indications are that the percentage of persons agreeing to participate may not be high enough to make the results meaningful. Various surveys are being carried out locally, some on an involuntary, but anonymous, basis. Since anonymity severely limits the amount of demographic information which can be attached to each specimen being tested, surveys of this type will be of limited value.

It is widely agreed that detailed seroprevalence data are important in order to learn the extent of the epidemic and better predict its future course. Can the actuarial profession contribute to the data-gathering effort? Large numbers of HIV-antibody tests are given each year to applicants for life or health insurance. The results of those tests must, of course, be held in the strictest confidence. Within that constraint, however, it may be possible to use this abundant source of information for research.

The demographic information which insurers send to their laboratories may not be detailed enough for a meaningful study. The information which insurers give to the Medical Information Bureau is even more limited. The insurers themselves are, presumably, able to keep fairly extensive demographic information in their confidential files. Should the Society consider whether studies could be based on such information? As always, data for such studies would be purged of information that might identify the individuals involved.

Certainly such studies would have their own limitations. For example, they would not include all the risk characteristics of the tested persons. In view of the great need for seroprevalence information, however, using insurers' HIV-antibody test results for prevalence studies deserves serious consideration.