



SOCIETY OF ACTUARIES

Article from:

The Actuary

April 1990 – Volume 24, No. 4

Canadian statistics cont'd

The paradox of census is that while statisticians and governments place high value on census data, citizens often view it with skepticism. Many Canadians view the necessity to provide detailed personal information to enumerators less as a contribution to the public good and more as an invasion of privacy to be avoided.

Statistics Canada has recognized this attitude as a potential threat to the integrity of the data base. In preparation for the decennial Census of Population in 1991, the agency prepared its most extensive ever consultation program with census data users and interested individuals on the nature and design of the questions to be asked.

Out of a total 3,657 submissions, the most significant message conveyed was a need for an unrestricted census that retained concepts and continuity of data over time. While there was no agreement regarding specific questions, topics such as knowledge of official languages, degrees and certificates and many housing questions were viewed as dubious in value or data quality.

The major issues that emerged from the consultation identified social and demographic concerns that will face Canada until the turn of the century. These include daycare, health issues (specifically as they relate to the disabled), housework, volunteer work and other nonmarket labor activities. Above all, those consulted demanded more and better information on the elderly and the aging of the population. Of course, the census cannot cover all the topics. Other means (surveys, administrative records, etc.) that often are costly will be required to assemble needed information.

In 1988 the agency conducted a National Census Test (NCT) of 56,000 households to test potential census questions for 1991. As the results of both the consultations and the NCT formed the basis of the submission of 1991 Census questions to Cabinet, the form and content of the 1991 Census should reflect a responsiveness to the needs of census data users throughout the 1990s.

Edward T. Pryor, not a member of the Society, is Director General, Census and Demographic Statistics Branch of Statistics Canada.

Primary writers and reinsurance: Sharing challenges of the 1990s

by Thomas M. West

(Ed. note: This is an edited version of an article first published in the December 1989 SOA Reinsurance Section Newsletter.)

No one ever claimed that succeeding in the life-health insurance business was smooth sailing. In fact, those of us who've been closely watching the changes of the last decade would say the waters are rough enough these days that a "small craft advisory" ought to be posted. The winds of change are blowing, and they're going to rock many companies.

As an industry, we're facing some monumental challenges. We're dealing with continuing price competition, a rapid pace of new product introductions, and low or nonexistent profit margins in many cases. Last but not least, we're marketing our products to a totally different kind of consumer — one who's extremely skeptical and distrustful of our industry.

Lincoln National, my company, invests substantial effort in learning about the issues and problems facing our clients. I want it that way, because what happens in the reinsurance marketplace is largely a reflection of what happens in the primary marketplace. Our products must support the primary market's needs — and help resolve problems.

One of the most important trends we've seen in the life and health industry is the shift away from the focus on product prevalent in the early 1980s. I see the focus moving to profit. Instead of continuing to develop a broad portfolio of products to meet market needs, companies have begun to emphasize their own need to be profitable.

The growth of America's aging population has diverse implications for our industry, too. As consumers get older, we'll need to develop new products, such as long-term-care policies, that meet a different set of needs. We'll be called upon to

develop underwriting techniques for an older population, and we'll have to do it without much experience on the books.

More and more, insurers will have to compete for their share of the pie. Banks, investment firms and brokerage houses will continue to market their own products. As deregulation occurs, insurance company partnerships may enter the market as well — especially since the success of these ventures outside the United States indicates they will fare well domestically.

One of the most important changes I expect to see in the health insurance industry is that most companies will tighten underwriting requirements. While some carriers know that profitability has dropped, they continue aggressive, liberal underwriting practices in an effort to carve out more market share. I suspect that some insurers will rack up large losses before we see them put the brakes on, but the industry will need to turn the corner on this problem in order for us all to survive.

We'll be challenged to get tighter control of expenses, too. Some companies may choose to flatten commission scales. Others will increase their focus on more effective use of automation, particularly in administrative and issue functions.

The rapid spread of AIDS will hit the life-health industry harder in the 1990s. The effect will be magnified by the failure of many companies to price and underwrite for it. As more life-prolonging drugs and medical treatments are introduced, health insurers will pay a heavier portion of the costs than ever before.

Another challenge we're facing lies with the consumer perception of the insurance business. We've seen this problem manifest itself in many ways, from the passage of California's Proposition 103 to the general insurance-bashing that often occurs in consumer media. Consumers see us as a "deep-pockets" industry with fat profit margins and as easy targets for litigation.

The problem is partially the industry's own fault. Too many insurance companies regard the agent, not the consumer, as their client. Most of their attention and marketing efforts are directed accordingly.

Continued on page 13 column 1

Primary writers cont'd

Perhaps it's time to rethink this focus, directing additional resources to reaching the consumer and rebuilding our own credibility.

The reason we at Lincoln National are watching all these issues so closely is that the viability of our clients depends upon them, of course. However, reinsurers have issues of their own to deal with, which will in turn affect primary insurers.

Life-health reinsurance remains highly competitive, although there are some signs of corporate disillusionment across the industry with the level of margins and mortality volatility experienced by reinsurers. Most reinsurers continue to jockey for market position, intensifying the competitive environment in a level or declining market.

You probably also know that the regulatory environment is changing drastically for reinsurers. Today, new regulations are proliferating. For a variety of reasons, the scrutiny of reinsurance has increased in recent years – all of which has resulted in numerous actions by various insurance regulators, including the National Association of Insurance Commissioners.

I've shared with you the factors I believe will shape our industry in the 1990s. Granted, we face some difficult challenges. However, I feel certain the innovators will find ways to meet the market opportunities. Moreover, we have several important factors in our favor. The industry still has a tax-favored status as a significant product advantage. Its distribution channels, despite some faults, continue to improve their effectiveness in reaching the various markets.

More than ever, primary insurance companies will recognize their reinsurer as a partner in their success. The two will work together to design products and exploit marketing opportunities.

I know there are plenty of industry analysts who warn, "The sky is falling! The sky is falling!" I see it differently. For reinsurers and their clients working together as true partners, the sky's the limit.

Thomas M. West is President, Lincoln National Life Reinsurance.

FACTUARIES

by Deborah Poppel

This is another in a series of profiles of members of the Society's Board of Governors.



Name: Michael R. Winn.

Birthday: December 30, 1942.

Birthplace: Kansas City, Kansas.

Current hometown: Overland Park, Kansas.

Current employer: Lewis & Ellis, Inc.

Marital status: Married to Delores.

My first job was: A struggling actuarial student at Bankers Life Nebraska (renamed Ameritas).

I'd give anything to meet: Mikhail Gorbachev to discuss his views of the political future given recent events in Communist-controlled countries. I'd have to brush up on the Russian I took in college.

The number of exams I flunked: One, after attaining my Associateship.

The last movie I saw: *Batman*.

Nobody would believe it if they saw me: Watching my alma mater, the University of Kansas, winning the games leading to its 1988 NCAA national championship.

The TV show I stay home to watch: I watch only news, some football and basketball, and maybe a movie.

If I could change one thing about myself, I'd: Be a much more patient person immediately.

When I'm feeling sorry for myself, I: Convince myself to overcome the source of my sorrow.

My fantasy is: To complete several large acquisition transactions on the same day.

If I could do it over I'd: I don't think I would make any major changes, only minor ones.

My proudest actuarial moment was: Being elected a Vice President in the Society of Actuaries.

The best time of my life: Is when Delores and I have a nice vacation.