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IMPORTANT TRENDS IN INSURANCE INDUSTRY AND THEIR FUTURE SIGNIFICANCE

A number of major factors seem likely to influence the future course of the life insurance industry. In what respects are the industry's operations likely to be different in 1970 from what they are now as a result of

a) Governmental regulation and taxation?
b) Possible expansion of tax-supported programs providing old-age, survivor, disability, and medical expense benefits?
c) Competition from other media for the savings dollar?
d) Changing underwriting and marketing concepts?
e) The trend toward further automation?
f) Inflation?
g) Changing areas of life insurance investments?

MR. BRUCE E. SHEPHERD opened the discussion with the observation that the best one can do in predicting the future is to examine some of the forces currently at work and try to determine their future effect if they remain unchecked. He dealt with two such forces, the obvious unrest of our field forces and the effects of federal taxes on the availability of executive talent to the insurance industry.

The field forces are dissatisfied today with their home offices, particularly with the way business is being sold and distributed. They feel that present methods are undermining their market and undercutting their livelihood. This could be because the industry's methods of marketing and distributing insurance have not kept up with a rapidly changing market. The value of life insurance need no longer be emphasized in marketing, for this is an accepted fact. Advice in how to make the best use of life insurance is the current need. The industry should adapt its methods of compensating agents so that they will have an incentive to provide such service. Mr. Shepherd hoped that our business would take a serious look at this situation, and that there would be some changes in the future.

The present federal income tax law penalizes the insurance companies which pay taxes only under Phase 1, since they are unable to take any deduction for general executive salaries. Because such companies therefore pay their executives on the basis of 100-cent dollars while other corporations are paying on the basis of 48-cent dollars, and because bonus and profit-sharing plans are not easily applied to life insurance companies, these companies find it difficult to compete for executive talent. Just what the effect of this would be over a period as long as 20 years was hard to say, but it would not be good and Mr. Shepherd hoped that something could be done about it.

MR. HAROLD R. LAWSON believed that we are in the process of an industry revolution and that is what the agents, amongst others, are caught in. We should not hold back from developing whatever may seem best to serve the public, just to protect the agency organization. He could see where our industry has had continuous development in both group and ordinary lines. Ordinary business no longer consists of only ordinary life and 20 payment life, but is made up of such things as pension trusts, minimum deposit plans, family plans, and guaranteed insurability options

One of the things that inhibits the life insurance business as a medium for the savings of the public is the fact that it is tied to fixed income investments. Not everyone is prepared to invest all his money in fixed income investments. Some people are going to save some of their money in common stocks and that means that they can't do it directly through life insurance. This could be done through a mutual fund, and with this idea in mind Mr. Lawson's company has acquired interest in a mutual fund. They have improved on the mutual fund idea as a means of providing retirement benefits by making available with their mutual fund a variable annuity which will be insured by the parent company, the National Life Assurance Company of Canada. Mr. Lawson wished to emphasize that his company was not selling the variable annuity through their life agents. It was merely a service that was available to those people who had saved some of their money in common stocks through the medium of this particular mutual fund.

MR. WALTER KLEM confined his remarks to the competition for the savings dollar and its effects in 1970. Economists have demonstrated that there is a remarkable stability in the ratio of personal savings to personal disposable income. The form of these savings is continually changing, however, and in the past decade the changes have been substantial. Savings and loan associations have had the largest gain of any financial intermediaries in the share of these savings. Mutual funds and funds in state and corporate pension plans are next, while insurance companies and mutual savings banks have had a decline in their proportion of these savings.

There are two reasons why life companies have not been getting their proportional share of the public's savings dollar. One is the recent years' growth of the popularity of equity investments. Of importance in this connection are the long-term rise in stock market values, the formation of many new investment companies, such as mutual funds, with vigorous selling methods patterned in considerable degree after the sales methods of life companies, and the recurring public fear of inflation. The other reason lies in the growth of formal pension plans and the different situations which have existed for insured plans, both taxwise and investmentwise, as compared with self-administered trusteed plans.

This is the situation today. Mr. Klem was optimistic that current and future changes will arrest this decline in the life companies' share of the public's savings. Group annuities, which play an important part in the share of savings that life companies get, should improve their position in the future. The gradual elimination of a substantial portion of the federal tax discrimination as between insured and trusteed pension plans is an important development. We can expect additional state legislation that will tend to give insurers the kind of equity investment powers for pension plans that are now available to trustees. We have seen in Connecticut, Massachusetts and New Jersey a break in the long-held line in the matter of legal limits and the power to invest in common stocks. In the matter of the disparity between the current yields on new investments available to a trustee and the use by the life companies of an average yield on total assets, we are beginning to see the emergence of a new approach to surplus distribution and experience-rating which is gaining acceptance as a fairer method of crediting investment return to the account of an insured pension plan.

In the Ordinary field there is a tendency toward deeper appreciation of the worth of permanent plan life insurance from the point of view of investment return, as well as all of its other advantages. This could be due to better education of everyone connected with our business. Also, the attractiveness of stock investments is decreasing and fixed investments look proportionately better. Group health plans, which are largely term plans today, may also be expected to get a larger share of the future savings because policyholders, knowing the high cost of providing benefits for older people, will be setting aside funds to meet these future costs. Taking all these elements of change, we can at least think that 10 years from now we will have held the line on savings and very possibly have bettered today's situation.

MR. COLIN E. JACK gave some figures concerning Canadian business which showed the same trend as those given by Mr. Klem. He pointed out that there has already been recognition in the insurance industry of the need to stress savings as much as protection and predicted that this would receive more attention in the next decade.

MR. EDWARD A. LEW in his discussion of item (*d*) commented on a number of developments likely to take place in underwriting methods during the next decade. He believed that an increasingly competitive market will force companies to seek lower insurance costs through more effective and more economical underwriting. The desired reduction is not likely to come through less costly medical examinations nor from immediate improvements in mortality experience. Various new diagnostic procedures on which researchers have been working promise an eventual breakthrough in the early detection of heart disease and cancer, but until this happens male mortality at ages over 45 will remain close to the level of that in the late 1950's.

If a reduction in costs is to be realized in the next decade it must come from modifying and simplifying underwriting tools and methods. Underwriting costs can be cut on small policies at the younger ages by adoption of the simplified underwriting used for industrial insurance or by mechanical underwriting with electronic equipment. For larger policies and issues at the older ages, more searching medical examinations and more sophisticated tests would appear to be in order. Simple practical tests should be worked out by the actuaries, medical directors, and underwriters to replace the more complex diagnostic procedures currently being perfected. More effective utilization should be made of current tests such as blood pressure readings. Mr. Lew believed that blood pressure reading constitutes the most valuable test we have today and that its utilization can be improved in the future with more accurate readings and through the adoption of ratings that follow actual experience.

MR. ALTON P. MORTON made some observations on the changing trends in underwriting. He said that the trend of replacing some of the higher costs of underwriting with higher nonmedical limits is a good one if it does not go so far that antiselection becomes rampant and our business gets out of control. There is need for a more critical study and evaluation of many underwriting procedures such as the use of inspection reports, attending physician's statements and other underwriting aids to see if their costs exceed the benefits derived from them.

Mr. Morton questioned the practice of companies that have underwriting facts and do not reflect them in actual case decisions, whatever rationalization they offer—whether it was in the name of competition, agency reasons or something else. It is even more questionable to retain old underwriting rules after new knowledge indicates that changes should be made. The Society's recent study in Build and Blood Pressure indicates quite conclusively that some revisions should be made in the underwriting practices of most companies. Very few companies have made such changes. To authorize an expense of many thousands of dollars to develop new statistics and then ignore the findings is a questionable if not a completely indefensible course of action.

In discussing item (*e*) MR. DAVID H. HARRIS touched on the long term effects that automation is likely to have on the caliber of employees working in the home office and on the use of more complicated mathematical techniques in solving life insurance problems. By 1970 electronic data processing will have eliminated many routine clerical jobs. At the same time it will have created a need for more middle and upper level personnel with the analytical ability needed to manage and control highly complex operations. The new systems, because of the combining of functions and the close programmed interlocking of all of the company's operations, will require people with wider spans of understanding and broader knowledge. To meet these future needs, considerable changes will have to be made by the companies in their selection and development of personnel.

Concurrent with the growth of automation and the development of computers, there has been a rapid growth of mathematical technique for solving various kinds of business problems. It can be expected that insurance companies that have acquired electronic equipment with high-speed computer facilities will look for new mathematical approaches to some of the company's problems. The model office, the working tool of the actuary, may be developed for such things as evaluation of alternate courses of investment and personnel recruiting action. The availability of computers makes it possible to go much further in many of these kinds of research than could conceivably be contemplated otherwise.

MR. E. FORREST ESTES stated that he doesn't think that there will be a smaller number of jobs for people because of automation, but rather that more people will be earning more because they are producing more.

MR. NORMAN BENZ, visiting our country from England, contrasted the views that would have been expressed on this topic in that country with those that were expressed at this meeting. In England attention would have been given to the future mortality of annuitants, since many contracts were being sold under which the experience in 10 years' time would be of great concern, and indeed that 20 years or even 30 years ahead. Second, in the U.S. insurance companies were seemingly always hoping to get something out of the Government, whereas in the United Kingdom the more frequent fear was of the Government taking something out of the companies! Points whose importance would be immediately agreed on were the efficiency of sales forces and the trend of interest rates. In the United Kingdom long term government securities could be purchased to yield about 6% per annum and the best class of debentures would yield more. What 1970 will bring in the way of interest rates was hard to predict, but he thought it safe to say that high interest rates would continue to prevail in the United Kingdom for at least another year or so.