For three decades the life insurance world I knew seemed stable, predictable, financially immutable. Suddenly the ballgame seems different. I now hear the industry faces potentially serious financial problems and difficult times; some disquieting questions - and little that is reassuring.

How long can the industry sustain a descending curve of product price, intersecting a rapidly ascending curve of inflationary costs? How long can it tolerate relatively reducing premium income fostered by perpetual competitive rate reduction and proliferating volumes of "underpriced" term insurance, nourished by an unprecedented wave of replacement - depending upon: the fantasy of ever increasing compensatory volume; the lure of investment income at volatile interest rates; the illusory concept of a bottomless reservoir of increased efficiency and cost savings - and a run of favorable mortality which may have lulled us into underwriting complacency.

How long can companies tolerate massive surplus outflow via premium loans at unrealistically low interest rates? When will they prevail upon state legislatures to permit floating policy loan interest at realistic levels rather than stopgap resort to borrowing substantial sums at high interest rates to maintain surplus?

When will the industry stand up and be counted, countering the inhibiting, inflationary web of bureaucratic, emotional, politically oriented consumer legislation?

How can it remain maximally healthy, strong and expansive so long as it permits continual erosion of its profit base without realistic increase in the cost of its product?

The game today appears to be management of cash flow. Money managers seem to be replacing insurance executives. Whatever happened to the old fashioned objective - the humanitarian provision of the benefits of life insurance? Where have the spokesmen been for the virtues of permanent insurance? Like Property-Casualty it appeares that the life industry may now be guilty of competitive overkill - price cutting and loosening underwriting standards for the "gold", i.e., premium income at all costs, depending primarily upon investment for financial solvency rather than underwriting.

In short - it seems a potentially unstable house of cards. What happens when and if there is unexpected collapse of any of the major supporting pillars, particularly investment and mortality assumptions? Or - it is possible that premium rates have been so unconscionably loaded that they can yet sustain today's competitive premium rate reductions, inflationary costs and underwriting liberality? If so, this is a well guarded secret.

Whatever is going on is not amenable to simplistic analysis and certainly multifactoral. However, when one looks at the modus operandi - it is easy to assume that reinsurance companies, unwittingly or not, are playing a major role in the current erosion of profit - caught up with direct writers in a flood of competitive underwriting over which, like inflation, no company seems to have any control.

Of course - the maximum socioeconomic benefits of life insurance would be impossible without reinsurance. Reinsurers indeed pioneered expansion of both standard and substandard in the 30's and 40's. This has continued. All companies have benefited, perhaps reinsurers most. Direct writers, however, have ceded massive volumes of profitable business to reinsurers, literally funding their growth and profit - and providing the financial base permitting the aggressive liberal competitive onslaught in the business today. Gradually it dawned upon direct companies they could do it themselves. Retention limits substantially increased. Although the number of companies, both direct and reinsurance mushroomed, particularly in the 60's - new worlds to conquer in reinsurance became harder to find, and the market became even more intensely competitive as both reinsurance rates and underwriting classifications dropped and foreign reinsurers fueled the deflationary rate cycle.

Recently, virtually overnight, faced with an aggressive, seemingly deliberate reduction of both reinsurance rates and substandard classifications - both reinsurance and direct companies found it necessary to fall in line - and a virtual competitive war was on to capture or recapture reinsurance markets and clients; to maintain and sustain sources of business. Polite, gentlemanly business practices gave way to raw competition. The gloves were off. Only yesterday, almost all companies condemned reinsurance shopping for the lowest offer. Suddenly - pressured by competition -
virtually all companies now shop to multiple reinsurers or even substandard companies for the lowest offer, thereby perpetuating a cycle of decreasing premium rates, income and profit.

If the current vogue of “apparent” underpricing of both standard and substandard is appropriate - why then do the majority of experienced, knowledgeable companies shop their business? Obviously, they have serious reservations about it profitability.

A tempest in a teapot? Perhaps? The substandard area only involves about 10 percent of business. Yes - but as the volume of substandard classified as standard increases we may now be concerned with 20-30 percent of business.

One looks for justification. Most are familiar with the common propositions. Reinsurers do not have the acquisition expense of direct companies. They have the experience and volume in the substandard area - a mystique that may be open to question. Our “conventional” classifications were too conservative, based on outdated information, changed by medical progress; our substandard rates unduly loaded; the compensatory investment of premium income; the high lapse rate of high substandard voiding ultimate mortality loss and adding income to company coffers; for foreign reinsurers, dollar exchange advantage - and if this is not enough - the great savior declining mortality.

If the premise is accepted that population and insured mortality have decreased about 20 percent in the past decade - this results only in a mortality savings of about 10 cents on the dollar - appreciable, but immediately evaporated by inflationary costs.

Recent mortality, which has indeed been favorable, is however based on yesterday’s more conservative, possibly sounder selection standards. Both have been shredded and scattered to the winds in the name of progress, inflation and competition - and it seems very tenuous to me to depend upon the nebulous prediction that insured mortality will continue to decline sufficiently to justify today’s “apparent” underclassification and underpricing.

I hear concern about future mortality. No one seems exactly ecstatic about the current climate of competitive underwriting liberality. “Conventional” Table 2-4 or higher is now standard - or is it? High substandard seems uniformly underpriced - or is it? Of course - competition and free enterprise are healthy - the agent and consumer have the best of all worlds; we have sharpened our pencils, revised and updated underwriting standards; but the price seems to be an unbreakable trend of reduced profit. Recently - some reinsurance and direct companies have experienced unexpected increased mortality. Chance fluctuation - or the result of unjustified underwriting liberality and underpricing?

Agents are pedaling furiously to keep afloat as term insurance reduces their income. Companies seem literally giving away the company store as they compete for the shrinking number of agents. The cost of marketing and selecting individual insurance seems gradually rising to prohibitive levels - the time not too far off when we will see marketing by group concepts eventually replace individual selection, the latter limited to only large amounts of personal and business insurance.

Change is perpetual and when recognized, usually resisted. “Prophets of doom” are always among us. In the 60’s they predicted substantial losses from the liberal substandard underwriting and underpricing at that time - and to a certain extent, their prophecies were sustained. Substandard underwriting companies and practices flared and faded; profit margins diminished - yet the show went on bigger and better than ever.

Perhaps, I am now one of a new generation of “prophets.” However, I believe there will be a day of reckoning in terms of unwarranted mortality loss, reduced profits; and a swing of the pendulum to more appropriate underwriting classifications based on experience rather than empiricism and competitive whim. If such predictions are fulfilled the manifestations however may be no more than a mere ripple on the surface; dampened by size and volume; obscured in annual reports. Large companies will enlarge. Smaller companies may merge or disappear - but the life insurance industry is here to stay. However, what do I know? I would be delighted if readers more knowledgeable than I would assuage my concerns and restore my equanimity.