Robert Kerzner's 2007 LIMRA Annual Meeting speech

Good morning. Thanks for being with us with us for our 2007 Annual Meeting. I am glad you are here with us in historic Boston. This has been another momentous year for LIMRA—we have published some important pieces of research, seen growth in our international business and continue to grow and develop our services in compliance and strategic planning. All of these support our core principle of being relevant and valuable to you, our members. And of course we are eagerly anticipating the merging of LIMRA and LOMA into one organization, a very positive development for our industry.

At our meeting last year, we talked about the incredible opportunities that lay ahead for the financial services industry and explored many ways for you to take advantage of the changing demographics of the world. But perhaps the one comment that most stood out at the conference was when one of our panelists, John Murphy, the CEO of Oppenheimer said:

"Who's going to win?"

Many of you who were there will remember this--it hit a nerve--and for some may have even been a wake up call. Will life insurance companies "leave the opportunity on the table" as John said? Or will we take a look at some of the reasons that we have not been as successful at capitalizing on opportunities as others in the financial industry?

Consider this: in1985, the life insurance industry had $826 billion in assets. In 2006, it had grown to $4.5 trillion. Certainly impressive growth, but pales in comparison to the mutual fund industry that had more than $10.4 trillion in assets in 2006—I certainly understand it's a different business, but the mutual fund industry is capturing more assets. What are they doing that life insurance companies aren't? Is there anything we can learn from them? If they are able to add riders to mutual funds that imitate the success of your variable annuity riders will this pose a threat to some of your companies?

So our program this year will key into the "Art of Execution." We want to focus on what companies need to do to make sure they capture a significant portion of the $11.5 trillion retirement dollars of the Boomers that's available for investment.

I had this sign in my office at the Hartford that said EXECUTE.

I felt there were many companies that had solid strategic plans and that certainly you needed a good strategy to be successful. But I always believed where most fell down, was on executing the plan. That's why I had that very large sign up where every one visiting my office could see it.

It was a constant reminder that the best plans were only good if they were executed. I wanted to be sure my team understood that actions—not words—would distinguish whether we were successful or not.

I always told my direct reports they needed to execute, or I would execute them…so in fact the sign had a double meaning.

In the past few years, LIMRA has dedicated more of its resources to develop strategic, forward-looking, research to help our members compete in tomorrow's market. We believe the rate of change will intensify, and we want to help you be prepared.

At last year's Annual Meeting, we introduced *Memories of the Future* in which we predicted four possibilities of what the world might look like in the year 2016 as it relates to the demand for life insurance. We identified the biggest drivers of future change and created four scenarios.

You also have probably heard us talking about the Market Maturity Model. Using our knowledge and expertise of markets worldwide, we have created a model that can help emerging markets predict the future. But we have expanded the model and will be talking more in the year ahead about Phase Five of the model, what are some of the things likely to occur in North America and Europe.

These tools provide insight and knowledge about what is most likely to affect the life insurance business and give real and practical solutions to issues that most companies will face

We want to be your thought partner—where you come for not just benchmarking but for guidance on what lies ahead and how to create practical, enduring strategies.

Today, I want to talk about the future and about just how different the world we live in could be in the next five to ten years and help you think about what the effects would be on your asset accumulation and risk businesses.

I am going to key in to technology and medicine, which I believe will be huge drivers of how our business develops over the next decade. What is likely to happen and what the implications are to our business.

First, let's look at technology. It should be no surprise that technology will continue to grow and advance in the future—and at a faster and faster rate. Experts say "You ain't seen nothing yet."

According to Ray Kurzweil, an inventor and futurist who has written numerous books on artificial intelligence, transhumanism, technological singularity, and futurism, and all of these things I can barely say never mind understand, but he believes that technological progress follows a pattern of exponential growth, following what he calls *The Law of Accelerating Returns*.

He believes that whenever technology approaches a barrier, new technologies will cross it. He predicts paradigm shifts will become increasingly common, leading to “technological change so rapid and profound it represents a rupture in the fabric of human history.”

It sounds sci-fi, but it look how much technology has already changed our lives and our business.

How many of you have one of these things? Blackberry, Treo, whatever kind you have, these have certainly changed our lives and how we do business. And there are probably days when we wish we didn’t have one (KEEP IT LIGHT).

But if you look at the life insurance industry—we have not fully capitalized on the technology available like some industries have.

In the next ten years, technology will have a huge impact on the sale of risk products — not only how we sell, but what we sell.

In fact most companies are not using even the simplest technology as effectively as they could today. LIMRA is working with one of our technology partners to develop video clips to better train sales people

Now before a sales person goes out on the call, he can download to his computer or IPOD and watch a top sales person making a presentation. Then visit the client, knowing how the presentation should be made.

A new possible best practice to make training more effective.

The point is—we have the technology to allow sales people to easily access training materials and information wherever and whenever it’s needed. And yet few are using it to drive improved productivity.

I am convinced, technology will dramatically improve existing producers' productivity, but—it will also transform the distribution paradigm completely.

We see instant-issue of more risk products becoming a reality. A client will answer questions online with intelligent underwriting systems feeding their information instantly from prescription and medical data bases. Clients can be approved on the spot—in real time.

This is not future vision, several reinsurers are doing instant issue today, and one major company has just launched a program to sell term over the Internet and in financial institutions where the client will be approved in real time. This is a precursor of things to come, and as these systems mature this will alter what we sell and how we sell it.

Doctors in the U.S. are beginning to transition to electronic health records. Electronic files--not paper records--of clients' health history that can be transmitted instantly. Experts believe we could see national and even international warehouses for these records that carriers could readily access to obtain clients' medical records and expedite the underwriting and claims paying process.

What will these warehouses look like? Dr. Bradley Perkins from the Centers for Disease Control and Prevention believes banks could become the repository of medical records.

Think about their trust departments and how they have operated historically--storing records, trusts and wills and administering them to ensure the wishes of the parties are met. They have the networks in place, they are trusted entities—it's not that far-fetched.

Imagine how different the underwriting process would be if—with the proper releases—you had instant access to a client's medical records.

There are others interested in this field as well. Microsoft has recently entered the fray with its proposed solution called Health vault, and IBM, Oracle and Siemens have all been doing work in the field. Marissa Mayer, a VP at Google recently said “personal health records might be stored on a keychain-sized digital storage disc, which would allow the consumer to travel around the world with their medical records.” So big breakthroughs could be just around the corner.

In our *Trillion Dollar Baby* report, 48 percent of Americans said they knew they needed more life insurance and 27 percent said they planned to buy within 12 months, though we know only a fraction of that group actually did.

Could instant issue and the revolutionizing of the underwriting process bridge the gap between what people know they need and actually buying life insurance? If purchasing risk products becomes more transactional, could this allow us to grow sales dramatically?

But it’s not only the process that will change—we expect to see products transform as well.

Consider that even what we sell today would not have been possible without the advent of the computer. Without the personal computer products like UL and Variable life, & linked products wouldn’t have flourished.

And without the incredible computing power available today, dynamic hedging strategies could not exist that have allowed the creation of new investment products with guarantees.

So, even our current growth has in many ways been led by technology gains.

Our research has shown that consumers do value guarantees in our products.

These guarantees are driving annuity sales in the U.S. and elsewhere worldwide. In the U.S., variable annuity (VA) sales reached a record $160 billion in 2006. LIMRA research shows that when offered a guaranteed living benefit at sale, for three-quarters of VA sales premium—approximately $76 billion in 2006—a GLB is elected.

How will improvements in computers allow future product development to evolve?

Imagine having one product that could meet the needs of your customers throughout their life.

A new "WHOLE LIFE," if you will. One that changes as your customers do—more term when they are young and have a family; as they age, it transforms into a policy with more whole life qualities, and as they near retirement—it automatically adds a long term care rider.

The possibilities for new products may be endless. One size will not fit all, but each person can buy a customized model.

New technology will also allow you to better communicate with clients and close sales in very different ways.

Again, if we look to the medical field, we see it is already using video conferencing to meet the medical needs of patients in remote locations. Doctors use the video conferencing to consult with specialists to get help in diagnosing and treating special cases. Military and civilian health care systems have been using this technology in many of the remote rural areas of our country for years—connecting small clinics with large metropolitan hospitals.

Now imagine that same technology being implemented with your distribution. Financial advisors will be able to use video conferencing while they are meeting with a client to hook in experts in life insurance, long-term care and other products where the advisor may not have that knowledge or information. Career agents can have instant access to a specialist while they are meeting with a client.

60% of clients want to meet face to face, but will face to face be the same as it is today?

Will the availability of high quality video conferencing along with the instant issue of risk products be the drivers that finally get more financial planners, stockbrokers and bank reps to talk with their clients about risk products, about life insurance.

Imagine: the planner and the client—perhaps even in different places—conferencing in a specialist, deciding together how much coverage is needed; completing the transaction online and then receiving e-mail confirmation that the policy is in force.

In the future, could we see a kiosk near the birthing suites at the local hospital? Perhaps urged on by the mother-to-be, a young husband visits the kiosk to take out a new life insurance policy while awaiting the birth of the child.

Could this transaction really become as routine as buying a candy bar from a vending machine?

We know that career sales forces are shrinking and that overall the producers in the field are aging and looking towards retirement. Everyone is wondering—and rightly so—who will sell insurance products in the next 10 years?

In LIMRA's new report, *New Rules, New Game, New Reality*, almost 25 percent of producers say they will retire in the next six years. That number jumps to more than 40 percent in 10 years. In addition, we know those older producers are the ones writing a disproportionate amount of the total premium. So who will be selling your risk products in the future?

These numbers say we are facing a crisis and its coming quick, the problem is truly on our doorstep.

The question I get asked most often is ‘when are companies going to take it seriously and start hiring more producers again’. I think the answer is most will not. I do not expect to see an increase in the number of producers like we did in the past.

We must use technology to make our producers far more productive and to develop additional sales systems and new forms of distribution.

Nothing will be the same. Technology will be the game changer and this will happen in a big way over the next ten years.

Look beyond the nagging issues of the day, like keeping up with rising producer compensation. Instead, set a plan to invest in the future by growing alternate distribution channels and improving your producers’ performance through technology. That may be the better path to growth, and remaining viable in a changing world..

And what about medical advances?

Breakthroughs in genomics, pharmacology and disease management will extend our life expectancies and change how our industry will assess risks.

We already have genetic tests that can detect a DNA glitch before a disease develops. According to the National Institutes of Health, in the next five or six years, the possibility of finding out one's individual risks of future illness will become quite real for a half-dozen, maybe even a dozen diseases. If this is information we had available, and could use, this would provide more protective data than anything since blood testing.

Medical scientists are coming up with new vaccines to solve today’s diseases like they did with mumps, measles and TB in generations past. In the last year, the HPV vaccination has been made available to young girls to prevent cervical cancer. The World Health Organization predicts vaccines for pneumonia, meningitis, and SARs will come to market in the next five years.

The world of pharmaceuticals is dramatically changing as well. Right now, your doctor can give you a diagnostic test that uses your genes to determine whether a drug will work or not or whether you will have an adverse reaction.

Breakthrough drugs are becoming available that will target genes to treat disorders like leukemia. In the future, expect even more.

Personalized medicine is the next step. Using information about a person's genetic makeup to tailor strategies for the detection, treatment, or prevention of disease will become the norm. Advances in biotechnology and computer software, has allowed scientists to create targeted drugs that are known to work better in people with certain genetic profiles.

Twenty years ago, a cancer diagnosis was a death sentence. Just last week, the CDC announced that since 2002, the cancer death rate decline has doubled from what it was in the 1990’s. Today, people are surviving and living with cancer.

If people are indeed living longer because of these breakthroughs—what are the implications to profitability? You will be certainly happy if you have begun—as many companies have—to take more of the mortality risk. This would be a boom, assuming the products were priced right.

But it also should send a cautionary note to those thinking of developing payout products. Our actuaries’ abilities to assume longevity risk based on the past could be flawed, and the major breakthroughs I mentioned could materially impact the assumptions.

Could insurance companies though have an edge because perhaps a book of payout business offset by a book of mortality business is the best way to hedge the risk.

There will be other factors that will shape our future. Increasingly accounting issues and reserving, as well as changes in regulation will also have a profound effect on how the future unfolds and our CEO panel will no doubt talk about those later today.

But as you develop your strategy and think about what you must do to execute, make sure you think about the role technology and medical breakthroughs could play. Think through what will be the implications of these cataclysmic shifts in technology and medicine, to ignore them as drivers of change could be disastrous.

As you prepare for the future, so are your trade associations. That's why LIMRA and LOMA are joining forces. Together we can meet the changing world head on—one well capitalized organization, well positioned to meet the needs of the industry whatever they are, ready to respond and to help you develop the right strategy and execute.

We want to be part of your solution now and in the future whatever it holds….

Thank you. Have a great meeting.