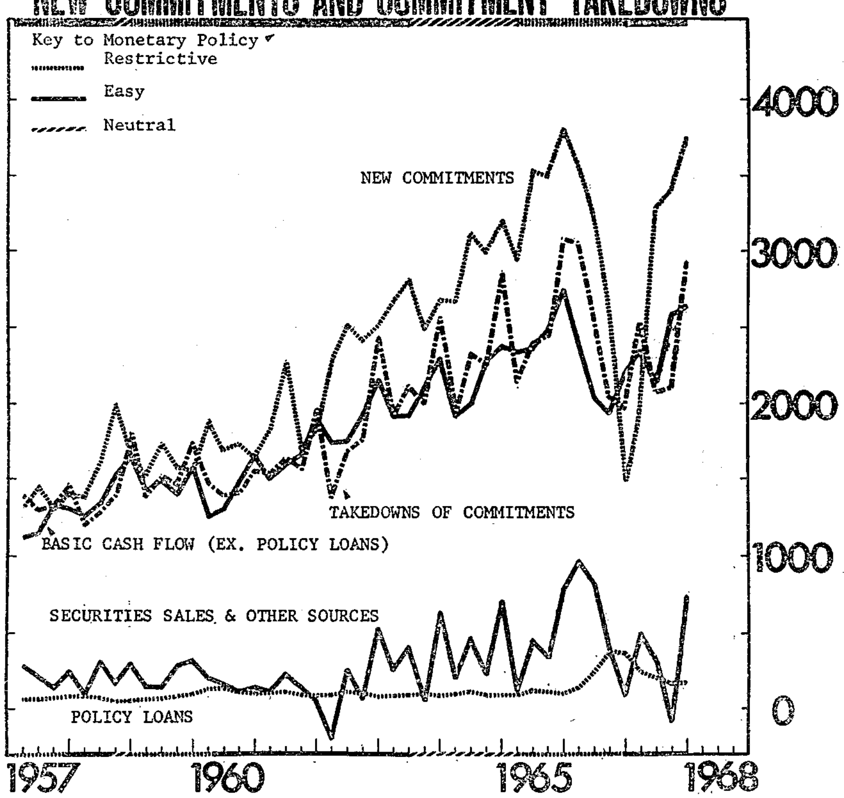
to borrowing from the companies on an increasing scale. Apparently the funds are used mostly for business purposes and hence are diverted from the companies but not from the capital market itself—a form of direct investment that has the effect of disintermediating the life insurance business.

Because of these developments, little in evidence 20 years ago, the investment operations of the life insurance companies are becoming increasingly responsive to the influence of monetary policy. Changes in cash flow very soon are reflected in commitment policy. Most of the larger companies commit ahead and rely on their cash flow to meet the eventual takedowns. If the flow falls short of expectations, additional sums can usually be generated from sales of securities or from bank loans, but these are temporary havens of limited resources. Unless an early recovery in cash generated is confidently expected, commitments must be curtailed.

This essentially is what the record shows as illustrated in chart IV.[1]

CHART IV

LIFE INSURANCE COMPANY CASH FLOW, NEW COMMITMENTS AND COMMITMENT TAKEDOWNS



[1] Like the cash flow statistics, the commitment series includes several new companies beginning in 1967. The commitment and cash flow series do not cover the same companies but they do account for close to the same proportions of the industry's assets.

Source: Life Insurance Association of America.