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Secrets of Our Success ▸ Northwestern Mutual

# Survival of the Fittest

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*How Northwestern Mutual Does it Best Year After Year*

**I**t's not a pretty picture these days: Life insurance companies are fighting for their lives, begging for bailouts, watching their profits and ratings slip. Insurers are laying off workers and slashing dividends, some for the first time in their history. Carriers are cutting annuity supply to keep reserves from fading.

Alongside this scrum for survival, an alternate universe hums away. It is where an insurance company conducts a conservative investment strategy quarter after quarter over decades, holds the highest ratings possible, builds a steady but burgeoning book of business, plans to pay out \$4.6 billion in dividends this year, and adds to its field force. No, it is not 1995; it's Northwestern Mutual.

For most people in the life/health industry, it is not surprising that Northwestern Mutual, America's largest direct provider of life insurance, would be doing well even in the worst times. Its success transcends time. It maintained the No.1 position of its industry in the history of Fortune magazine's "most admired" survey, for 25 years (until this year, when Fortune combined the American and world lists).

What's the secret to the company's success? Doing the right thing. Like all paths to achievement, it is not hidden – just tough. You want to lose weight? Diet and exercise. You want to run a successful insurance company? Promise and deliver.



A big part of the company's success derives from being a mutual company. Like its well-respected brethren such as New York Life and MassMutual, Northwestern does not have to dance to Wall Street's tune, which, of course, has been a bit dissonant lately. The company does not have to chase after the short-term gains that stockholders demand. But the company did indulge in risky investing – slightly. The company had less than a half of 1 percent of its assets exposed to subprime markets at the end of last year, when other companies were gasping from their toxic assets.

That's part of the company's long game. Twenty percent of its investments are in a diversified portfolio of equities. The other 80 are in fixed income securities. The company learned the lesson of prudent investing when many people did – during the Great Depression – and has not forgotten it, no matter what high-return thrill ride pulled up.

That's also the company's way with products. The company prices products based on prudent underwriting, even when the actuaries crunch numbers that come in above market. "Our goal is to price our products so that we never have to go back to our policyowners and ask for a premium increase," according to Gregory C. Oberland, executive vice president of insurance and technology. "We never want to be in the position with our policyowners where we need to raise prices on in-force policies or get tougher with claims" to make the numbers work, continued Oberland.

Even when they're not competing on price, the sales force has stuck with the company and "The Northwestern Mutual Way," knowing that a conservative underwriting strategy wins over time, Oberland says.

The sales force is another feature that sets the company apart.

## Northwestern Mutual Quick Facts

- ❖ Founded: March 2, 1857
- ❖ \$155 billion in total assets
- ❖ \$13.4 billion in surplus and asset valuation reserve
- ❖ \$22 billion in revenues
- ❖ 3.3 million life insurance policyowners holding 5 million policies with more than \$1 trillion of insurance in force
- ❖ \$6.1 billion in benefits paid to policyowners or their beneficiaries in 2008
- ❖ \$4.6 billion in dividends expected to be paid to policyowners in 2009
- ❖ Products sold exclusively through the Northwestern Mutual network
- ❖ Northwestern Mutual's network of financial representatives comprises more than 7,000 professionals nationwide

Northwestern has a legendary recruiting and retention program. In its 2007 report, Moody's said, "The Northwestern Mutual Financial Network is one of the best trained, most productive and efficient distribution forces in the industry."

While others in the industry are decrying the absence of new blood, Northwestern is pulling in college students and young graduates by the thousands. In 2008, the company recruited 2,300 college interns and hired 2,089 new full-time representatives.

For 13 consecutive years, the company's internship program has been ranked among America's "Top Ten Internships" by the Internship Informants in the Vault Guide to Top Internships. Training magazine named Northwestern in its 2009 "Training Top 125." And in 2008, for the third year in a row, BusinessWeek magazine named Northwestern one of the "Best Places to Launch a Career."

Once new people are aboard, Northwestern gives them tools and time. First, they are introduced to the financial security pyramid. At the base is risk protection, covering early death

and disability. New representatives are expected to focus on that bottom layer for the first five years and expand their client base. Next comes wealth accumulation, and at the top are wealth preservation and distribution.

"Our representatives are out there forming relationships with people and engaging in financial security planning," Oberland says. "It's the nature of our business."

Recruits are taught that nature over the first 60 working days, much of which is spent learning the Granum system. Al Granum was Northwestern's top agent for decades and developed a system in the 1960s that is still in use today. It is the 10-3-1 method, which means that for every 10 contacts comes three appointments leading to one sale.

Todd Schoon, Northwestern's senior vice president of agencies, swears by the ratio. He said he reviewed his sales over decades and it fell within that pattern. Even the sales record of the entire New York City office followed the numbers.

The next piece is the practice management system, part of which is also an outgrowth of a Granum

method, the one-card system that allows financial representatives to keep track of their clients' needs through the years.

Schoon says Northwestern doesn't want new representatives to focus entirely on the investment side of the business, which is why the one-card system is so useful. "It's really about client and relationship building, and helping clients achieve financial security through a full suite of financial services," he said.

That is also part of the company's long-term perspective, since the

average Northwestern Mutual client relationship can often exceed 40 years, Schoon says.

"It's all organic. We have 87 network offices across the country led by managing partners," Schoon says. "All 87 managing partners grew up within our system. They generally sold for five to 10 years. They've had another five years of leadership experience. So when they are appointed managing partners, they've been in our system 10 to 15 years. It all starts with treating your recruits right."

And doing the right thing. [INN](#)



Northwestern Mutual Financial Network is the marketing name for the sales and distribution arm of The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability income insurance, annuities) and its subsidiaries and affiliates. The article describes the investment strategy for the managed assets in Northwestern Mutual's general account. The dividend scale and the underlying interest rates are reviewed annually and are subject to change. Future dividends are not guaranteed.

## Did you know?

Did you know the vessel made famous by Gordon Lightfoot in *The Wreck of the Edmund Fitzgerald* was named after a Northwestern Mutual president? The ore carrier was named for Northwestern Mutual President Edmund Fitzgerald, the company's president from 1947-1958. It was built by Northwestern Mutual as an investment and leased for operation to Oglebay-Norton, a mining and shipping company. Construction started in 1957 at the River Rouge Shipyards near Detroit. Northwestern Mutual's Board of Trustees voted to name the carrier in Fitzgerald's honor as he was approaching retirement. Launched in June 1958, it was the largest vessel to hit fresh water and set many volume records on the Great Lakes in its years of service. It sank in a storm on Nov. 11, 1975, taking 29 sailors with her.

