Centered on Relevance

John E. Schlifske

An Interview with John E. Schlifske, Chairman and Chief Executive Officer, Northwestern Mutual

EDITORS' NOTE *John Schlifske is also a member of Northwestern Mutual's board of trustees. Schlifske joined Northwestern Mutual in 1987 as an investment specialist. He later headed various aspects of its investment function. Schlifske is a director on the corporate boards of Kohl's Corporation and Russell Investment Company. In the Greater Milwaukee community, Schlifske is Co-Chair of Milwaukee Succeeds and serves on the boards of Children's Hospital of Wisconsin, Froedtert & Community Health, and the Metropolitan Milwaukee Association of Commerce. Schlifske received a bachelor's degree in economics from Carleton College and a master's degree in finance and accounting from the Kellogg Graduate School of Management at Northwestern University.*

COMPANY BRIEF *Northwestern Mutual (www.northwesternmutual.com) is the marketing name for The Northwestern Mutual Life Insurance Company and its subsidiaries. Northwestern Mutual was among the "World's Most Admired" life insurance companies in 2013 according to* FORTUNE® *magazine and has helped clients achieve financial security for more than 156 years. Northwestern Mutual and its subsidiaries offer a holistic approach to financial security solutions including: life insurance, long-term care insurance, disability income insurance, annuities, investment products, and advisory products and services.*

What has enabled Northwestern Mutual to perform so effectively year after year?

We are constantly focused on improving our relevance with clients, policyowners, potential clients, and so on.

It all centers on relevance. If you go back 30 years, the relevance of this company was dependent on one key product – life insurance – which we did a good job of manufacturing and distributing. Today, we see that there is a lack of financial planning for people throughout their life stages. We have remained relevant because we have evolved into a company focused on filling the gap around this lack of planning.

The innovation we have driven at Northwestern Mutual is not around product features or social media – although we're in good shape in both areas, –but how our relevance to our clients has evolved and strengthened over the past 15 years.

The industry faces a key issue, which is that a lot of products are sold in a transactional format. There is nothing wrong with that approach, but it's just a product sale – it's not tied to holistic planning. We're evolving to provide one plan and a lifetime relationship with a trusted advisor. Because of that, our growth is accelerating.

Many talk about the complexities of this business. What do you look for in your people today?

The first is the notion of being well trained. That is not just the classic Chartered Life Underwriter (CLU) designation, but it's also evident by other designations: Chartered Financial Consultants (CFC), Certified Financial Planners (CFP), Chartered Advisors for Senior Living (CASL), and others. The education and credentialing of our field force is growing.

The second thing is that our field force understands that they have to continually acquire knowledge throughout their careers.

Also, the way our representatives are working is changing. In the old days, they were like lone rangers; increasingly, they're partnering. We don't expect our reps to know every technical detail about everything, especially when they're merging the investment side of a client's portfolio with the insurance side of his needs, as we have. So they partner with those who complement them.

Are people aware of the critical nature of financial planning?

Thirty or forty years ago, when it came to retirement, the average person was relying on Social Security, but also the value of a home and a pension. Those things have become less significant, and people nationwide have had to learn more about planning for themselves. But as a country, we haven't made the shift to actively planning.

It has been noted that people spend more time planning a vacation than their retirement. This is why we're confident that the role of a trusted advisor is relevant today. The advisor brings discipline, not just in creating the plan but in helping the client stick to it. We do believe you should start at a young age. The eighth wonder of the world is compound interest and the sooner you start that process, the better it works for you.

How critical is it that your workforce mirrors the diversity of your clientele?

We are laser-focused on it. Both in the field and the home office, we have made a concerted effort around diversity and inclusion and we're starting to gain traction.

When I look at the ratio of recruiting and retaining women and people of color to our field force, it is improving. It's the same thing in the home office. We continue to make progress both at the employee level and the board level.

Part of the reason for our success in this regard is that we are focusing on both inclusiveness and diversity. Our philosophy is that you have to create the right culture so that all people feel included when they join and so they remain with the company to build their careers.

From a demographic perspective, it's clear that the U.S. is becoming less Caucasian. There is no doubt that to fully penetrate the U.S. market, we need a workforce that is as diverse as the general population.

Have you been innovative in terms of client offerings? Do you need to innovate to address the changing needs of customers?

I don't think innovation is what consumers are looking for on the product side. There are three components to an insurance product: your mortality, your expenses, and your investment component.

You can repackage this and add bells and whistles, and put in guarantees over risk transfer or risk sharing but, at day's end, it's more financial engineering than true innovation. It's moving risk-taking from one group of policyowners to another or from policyowners to shareholders.

There have been plenty of new products introduced in the market that lower the premium cost to policyowners, but not necessarily the price for the long term.

Where we see innovation is around the planning and the way we deal with clients. For instance, we have many clients today who are newly married couples and recently out of school. They are in mid- to late-20s, with few assets, little investable net worth, lots of debt, and a high potential for future income – this is who we work with.

We are not a stock brokerage firm that needs to have $250,000 to make an account profitable. We start working with young people right away in terms of disability insurance, life insurance, and other needs. As their family situation changes and they pay off debts, perhaps have children, and start on the road to affluence, we can grow with them.

The way we have created that is partially on the product side, but primarily on the planning side. Our reps are trained to speak in an educated way with those two young people about disability insurance. They can also talk to the two married people at age 50 who have kids in college and other issues including, of course, retirement.

What we have going in the retirement space right now is not just about products. It's about how all of the different products come together in one plan around lifetime income and a legacy, be it a charitable legacy or passing money on to heirs.

So what is innovative is how we package those products in a retirement planning module. We have even applied for a patent on it.

Have you put metrics in place to track service standards?

We are very service-oriented and we have all sorts of service metrics to determine, for instance, how fast calls get answered and how quickly the policyowners' questions are handled. With our system, a lot of our servicing is handled by our financial representatives, who are hiring more people to work with them, because the service requirements of their customer base are increasing.

The single best way we measure service quality is something we call persistency; it's the inverse of our lapse rates. Our persistency is the percentage of people in a given year that don't let their products lapse. Our persistency rate is in the 96 to 97 percent range.

What is interesting is that this persistency rate is roughly the same on the insurance side of our business as it is on the investment side. So even for people who have investment accounts with our broker-dealer or with our wealth management company, we're seeing persistency rates in the very high 90s.

There is more than product performance driving that; some of that is service level. We think that persistency is the best way to track total client satisfaction.

What type of impact has technology had on the business?

Historically, we have spent a great deal of money on technology for the back office: running our operations, calculating policy dividends and cash values, processing work. It's something the client never sees, but it makes us an efficient company.

In addition to that, it's important to spend money on client-facing technology. It's how a client experiences Northwestern Mutual. It's having a consolidated view of all of a client's products, including products that we don't sell but the client owns from a different relationship. It's also the ability to see the client's plan and evaluate if he's on or off track with it.

We're spending a lot more money on consumer-facing technology that helps reinforce relevance, but we're trying to do it in a way that is integrated, not just with the back office but with social media and the clients' ability to share information with their advisors.

We don't view technology as an iPad app; we see it as integration around your financial plan, your relationship with your advisor, and your relationship with Northwestern Mutual.

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Is there a good understanding and awareness of the benefits that this industry offers?

I see more of a lack of understanding. The amount of benefits paid out by the life insurance industry on a daily basis is substantial and it compares favorably with the size of benefits paid out by the Social Security Administration on a daily basis.

What we're ultimately selling is peace of mind and the notion that it's a feeling, not a product. The reason why the industry got behind is because of the phenomenal bull market Americans lived through from 1983 to 2007. It created an environment where people thought it was easy to accumulate money – all you had to do was throw your money into a 401(k) and you'd be rich.

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The life insurance industry took a back seat. But what people are increasingly seeing is the stability the industry offers, the fact that we are there when times are good but also when they're bad. The industry's reputation is being reevaluated by consumers.

What makes an effective CEO?

A CEO has to do two or three things really well. For starters, it's having a vision, setting a course of action, and getting everyone to collaborate and work towards that.

A good CEO also has to set standards of high performance – and I don't just mean financial. It's about being exceptional in everything we do and setting those bars high. Generally, if you do all of the little things right, the big things come together.

We have spent a lot of time over the past several years focusing on how we need to get better. Even though we're arguably the best company in the industry, we can't rest. We constantly have to raise our standards – the best must get better in order to maintain preeminence.

The last thing I try to do is focus on "creating the future," so it's more than a vision – it's seeing where we need to be four to six years out in order to be just as relevant as we are now. We call it creating the future, because it's not just seeing where we need to go – it's creating the environment to get us there.

Do you ever take time to reflect on Northwestern Mutual's success?

I make a conscious effort to do that. I close almost every public forum where I'm speaking with an advisory to enjoy the journey. Northwestern Mutual is a 156-year-old company. Hopefully, we will be around for another 156 years. There is no end point in our history, so we think about the mini-milestones along the way. This way, we can stop and enjoy the journey. ●