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Bill Coffin turns 40 and starts to wonder what it really means... if anything at all.  
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## Critical Mass

MassMutual CEO Roger Crandall on where the industry has gone wrong...and what it's doing right

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MassMutual CEO Roger Crandall sounds off on what the life insurance industry is doing wrong...and what it's getting right.

INTERVIEW BY BILL COFFIN

**R**OGER CRANDALL NEVER THOUGHT he would have a career in the insurance industry, but for a recent college graduate in 1987, the job market following the Black Monday crash looked bleak. So Crandall, an aspiring businessman and son of a career MassMutual sales rep, turned his investing savvy to the world of life insurance for what he thought would be a year-long stint. It wasn't long before he realized that he had everything he wanted for a career right in front of him, and so began his climb to the top of one of the world's largest life insurance companies. *National Underwriter* spoke with Crandall recently to get his views on the state of the industry, what tomorrow's best practices look like and what opportunities need to be seized today.

■ LIMRA recently published some depressing figures about life insurance ownership, which is at its lowest point in decades. What does that mean for someone like you?

I think life insurance is profound because when you think of how traumatic it is to have something happen to a loved one, the financial trauma is something you don't need to deal with. I just went through this recently in my wife's family, when someone passed away. I was stunned to find out they basically had bare bones minimum life insurance. Now all of the sudden, you've got a woman in her 70s who's having to make choices on things like whether she needs to sell the family home, all while dealing with the personal

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trauma that accompanies a death. To me, life insurance is such an integral part of how a financial plan should work, which is why I was so disappointed to see the LIMRA data that just came out that states that we have the highest proportion of U.S. households without life insurance in decades.

When you are in your 20s, thankfully, unless you have the tragedy of a lost friend or something, very few people run into the circumstance where they need life insurance. But as you get into your 30s, 40s and 50s, increasingly you get the phone call about a friend who just got diagnosed with cancer and died, or something similar that has happened. The first question everybody always asks is, “How is the family?” That is really code for, “Did they have enough life insurance to make sure their family is going to be taken care of?” Frankly, that's something you don't think about too much when you are in your 20s.

On the one hand, it makes a great opportunity for a company like ours that has made the decision to build its career agency system. With 5,000<sup>1</sup> career agents, MassMutual has lots of financial professionals out there who can explain to people how life insurance can make a difference in their lives. That's clearly contributed to the growth we've seen in our whole life sales in particular. But I have to say that as a whole, the industry has done a poor job of explaining to people how life insurance is a key component of their financial plan. We need to do a better job of that.

■ How did things get to where they are now? You would think somebody would have noticed before it got to this point.

<sup>1</sup> As of 8/31/2010, MassMutual had nearly 5,000 career agents.

It has been going on for a long time. By continuing to invest in its career agency system and growing its number of career agents, MassMutual has experienced very strong sales growth. But across the industry as a whole, the number of agents has been declining. Part of that is due to companies deciding to focus on third-party distributors who are focused on more financial assets other than life insurance.

### ■ How long will it take for life numbers to get back up over 50% or 60%?

All I know is if we can keep growing our own sales by double digits year over year, we're going to help the rest of the industry get there. Just in 2Q, for example, our whole life sales<sup>2</sup> were up 28% over the previous year, and the previous year we had record sales. If we look at 2005 to 2008, we actually grew at a 14% compound annual rate while the industry grew at a 1% rate. And in '09, we had double digit sales on top of that 14% CAR as well. We're living proof (and frankly, some of the other mutuals are, too) that continued investment in training and focusing on the product works.

### ■ Who is MassMutual selling to now, and what are your plans for developing additional markets?

Broadly speaking, we're focused on the mass affluent markets, so folks that have \$75,000 or more of household income would be our broader starting point. Small businesses are also important for us. One thing we discovered in our own research is that 40% of smaller, family-owned businesses are so focused on their day-to-day operations that they don't have any documented succession plan at all. Typically, if you have a succession issue, life insurance can play a key role in keeping a small business in a family's hands when one generation moves to the next. We've created a certified family business specialist designation and we have 350 of our agents who have become certified family business specialists, and we've given them extensive training in the unique issues that family businesses face. So small business is a big opportunity for us.

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The other two places with massive opportunities are our multicultural markets and women's markets. Just think about what's happened with women in the United States over the last 30 years. They are now the majority of college graduates and small business startups. Some studies say they control 60% of U.S. wealth and are more likely to have gone to college and grad school than men. We think that market has been under-represented for life insurance sales, so we're focusing on two things. One is recruiting more female agents; last year, some 25% of our new recruits were women. Also, we're making sure that our offerings are consistent with what women markets might want.

We talked a little bit about the statistics around women; those also hold true of multicultural groups in terms of their representation in going to college and grad school and starting a small business and accumulating wealth. Although most agency forces are still predominantly men in their 40s and early 50s, we are really working to turn that dial. We've been focusing on several key markets, such as the Hispanic market, the Korean-American market, the Chinese-American market and the African-American market. This is very much a roll-up-your-sleeves kind of effort. It's not a massive national campaign. It's in a city like Houston, for example, having a team that's focusing on the Hispanic medical community. You know how they say all politics is local? Well, all life insurance sales are local too. That's the type of program that we've now expanded across our agency force and it's paying good dividends in sales for us.

The business case for diversity is so powerful. We've already got several states where the majority of children being born are not white. It's anticipated that by 2040,

the U.S. is going to become a majority minority country, so the majority of our citizens will be non-white. To me, one of the most interesting things about this is if you look at the academic research on group decisions, a cohesive group will create decisions quickly, but a group that has more diverse opinions, although it will take a little longer to make decisions, will frequently make better decisions because it will consider more options. That's part of the business case for diversity. And diversity isn't just skin color, gender and age. It's diversity of thought at its most fundamental level.

### ■ Generation X is turning 40. Do you see any larger sales challenges reaching out to this next generation of clients? Gen Xers can be a pretty cynical bunch.

When people make big, long-term financial decisions, they still like to work with a professional and know that they have gotten the advice that they need. That remains as true for Gen X, Gen Y and Millennials as much as it is for Boomers. If you think about the model of the “we're going to recruit a new agent out of college,” one of the first things we do is have them put together the 200 people they might talk to about life insurance and financial planning. Today, that person likely has 200 friends on Facebook. As an industry, we only just got e-mail figured out, let alone what to do about texting and Tweeting and social media. So I think that how we use technology to touch people and provide information to them in the way that they want to get it is really important.

### ■ What do you think will be the Boomer's legacy on the life insurance industry?

The negative side of Boomers, if you will, has been the degree to which they live for the moment. As a country, we might be paying a little bit for that now, and there are plenty of folks who are playing catch-up on retirement savings.

But ultimately, you have to look at the raw tonnage of the wealth Boomers have accumulated and how that will transition to the next generation. Americans

<sup>2</sup>Weighted whole life insurance sales are based on weighted annualized new premium, with single premium payments weighted at 10 percent.

as a whole give the most away to charity of any people in the world. I was reading about the billionaire pledge that Buffett has been getting people to sign, and he's got half of the Forbes 400 to sign it. But none of the really wealthy people in the UK or Switzerland or Asia would do that because of course, it's going to their families. That's the way it's always been. So because Americans are so generous, I think there is a question of how much money will actually go from the Boomers to Gen X and Gen Y and how much of it ultimately goes into charitable giving. It will be fascinating to watch.

There is also the impact of choice. If you go back and think about when these people were born, the number of financial choices was so small. In 1950, you could have a CD in a bank, a whole life insurance policy or you could buy stock. There were effectively no mutual funds, no annuities, and there certainly wasn't the explosion of financial choices that we see today. The Boomers' collective desire for more options changed all of that. Just in the life insurance side, you went from whole life and term to having a huge range of products that all meet slightly different needs of different consumers. With that level of choice has also come high expectations of customer service. If they don't like their service, they're going to go.

### ■ Has this made life insurance a better or stronger industry?

For the surviving companies, absolutely. We have a much broader array of products and we match up better with policyholder needs over their lifetimes, so yes, I think we have a better, stronger industry.

### ■ Despite low numbers for life insurance in general, whole life looks like a pretty successful product.

I'm stunned at how many people I run into who have never heard where life insurance fits into a financial plan

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other than short-term coverage, which has its place. But for the long run, we think permanent coverage makes a lot of sense.

Look, the macro environment resonates with consumers who are going to make a very long-term financial decision. You buy a stock and the stock doesn't work out, you sell it and move on. But if you buy a life insurance policy and 15 years into it you go from being 35 to 50, your ability to just shift somewhere else can be limited if your health is changed in any way. And any way you cut it, your mortality expectation is worse when you're 50 than when you're 35. That's where the long-term nature of whole life clicks with consumers, as well as doing business with a mutual company that is focused on the policyholders makes sense.

The problem is, very few people understand what a participating whole life product is. There is this wonderful mix of stable premiums with guaranteed death benefits and guaranteed cash values, and the ability over time for those death benefits and cash values to grow as the policy moves through time. Last year, we paid about \$1.2 billion in dividends<sup>3</sup> to our participating policyholders. We've paid dividends every year since the 1860s, so through thick and thin, we've been paying dividends. When people realize this about the product, a lot of them buy it.

But ultimately, this is a relatively complicated financial product. It's not like you're selling a mutual fund. You have to actually spend some time to understand how the product fits in. That is why we feel

it is so important to growing our number of agents and teaching them to explain how this product can meet your needs over many stages of your life.

### ■ You have been outspoken on your support of the mutual form of ownership. With the financial services industry still wobbly, why do mutuals matter now?

Stability. In my mind, what happened in the financial industry in 2008 and 2009—when you saw companies ranging from General Motors to AIG needing federal bailouts and the collapse of Lehman Brothers and major banks like Washington Mutual—really showed everybody how financial stability is so, so, so important.

People tell me how this is a really challenging environment, and they wonder how MassMutual is getting through it. I tell them someone had this job during the Great Depression. There was someone with this job during the Spanish flu epidemic after World War I. I know the guy who had this job in the late 1970s, when we had interest rates go to 20%, inflation was 12% and unemployment was 10%. We've seen difficult times before. This industry, but particularly its mutual companies, has demonstrated that it can handle adversity very well.

The CEO of a large public company once said to me, “Boy, it's got to be a great time to be a mutual company.” I said, “It's *always* been a great time to be a mutual company.” There aren't a lot of companies in any industry that have been around 150 years. MassMutual is about to be 160 years old and by helping people understand that and training our agents, we ultimately help them make good decisions throughout any kind of economy. So whether the stock market goes up, down or sideways, or interest rates are low today or high tomorrow, our objective is to absolutely be there for our policyholders, regardless. ■■

<sup>3</sup> Dividends are not guaranteed.