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Northwestern Mutual Strategic Audit

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Abstract

Northwestern Mutual is one of the largest financial advising firms in the US. It provides holistic financial advising, which includes life insurance, investments, and retirement planning. It is the largest life insurance provider and is top ten in investment planning. This report investigates the internal and external analysis of Northwestern Mutual business models and the strategies it has incorporated to sustain a competitive advantage in the constantly evolving wealth management sector. This report explicitly focuses on the life insurance sector of the business. There are two main tools used to analyze the external environment are Porter's Five Forces and the PESTEL analysis. This report also provides strategic recommendations for Northwestern Mutual's next steps as a firm.

Keywords: Life Insurance, Strategy, Analysis, Northwestern Mutual, Porter’s 5 Forces, PESTEL

Strategic Audit

Background

Northwestern Mutual is a US financial advising company specializing in life insurance and investment products. The company is based in Milwaukee, Wisconsin. The company President is John Schilfske, and the Vice President is Michael Carter. Northwestern Mutual has 6,700 financial advisors who serve over 4.9 million individual clients in all 50 states. It was named one of the world's most admired companies for the Fortune 500 ratings and was awarded the #97 spot in the Fortune 500 company rankings.

Northwestern Mutual is most highly known for consistently paying out dividends to policy owners. The company has done so for 150 straight years and is expected to pay out 6.8 billion dollars in dividends this year. It achieved the highest rank in all the financial strength reports for 2021. These include A.M. Best Company, Fitch Ratings, and Moody's Investors Service. It received the second highest the S&P Global Rating score. Northwestern Mutual currently has over 260 billion assets under management, growing at a rate of 5.3% yearly. Its vision statement is to provide financial security, impact the financial professional, and create generational wealth to create a legacy for clients. Core values include learning sessions, diversity, employee-led involvement, and putting clients first (Home).

Timeline

Northwestern Mutual was founded in 1857 under the company name of Mutual Life Insurance Company. The company started working with life insurance and providing funds for people in the form of loans for various reasons. In 1968 Northwestern Mutual created Northwestern Mutual Investment Services LLC. This company division manages investment planning and related products for clients. In 1989 Northwestern Mutual saw its first year of being ranked in the top 10 insurance companies in the nation and has not looked back since. In 2006, it saw the first year of being included in the Fortune Magazine's yearly produced edition and received its first award for World's Most Admired company. During 2018 the company took a massive step of adding an online digital platform for clients and reducing underwriting time for insurance which helped move it ahead of other insurance companies when the COVID-19 pandemic hit (Northwestern Mutual History).

Business Model

Northwestern Mutual uses a mass-market business model. It does not favor or seek any specific type of consumer and is willing to target all consumers who desire the products offered. It offers both products and services. Some products offered include life insurance, disability insurance, long-term care insurance, annuities, and investments. It provides services that include estate planning, business planning, education planning, retirement planning, trust planning, and wealth and asset protection. The company's two principal areas of focus are life insurance and annuities. It is the largest provider of individual life insurance and ranks in the top ten in annuities. Northwestern Mutual is one of the few insurance providers that does not allow any other company to sell its company-specific products. This gives it advantage in product differentiation as it offers unique products suitable for clients' many needs. However, it does not sell a proprietary mutual fund products and works with Pershing for brokerage work (Northwestern Mutual. Cleverism).

Northwestern Mutual has a cost-driven structure and aims to decrease expenses through low-price value propositions and significant automation. The biggest cost driver is the cost of insurance benefits. The firm’s primary revenue is from premium revenues for insurance, net investment income from different investment options, and other fees and insurance add-ons (Northwestern Mutual. Cleverism).

PESTEL – a macro environmental analysis

The PESTEL analysis is a framework companies use to monitor and analyze the macro environment or external marketing environment. It looks at the factors that impact the organization, company, or industry. A PESTEL analysis helps to identify some of the threats and weaknesses of a company in an industry. This tool looks at six different sections, which include political, economic, social, technological, environmental, and legal factors (Industry Research). The industry that this tool will be focused on is the life insurance industry.

Political

The political climate in the life insurance industry is subject to change because of the dependence on government regulations. Political regulations change based on the countries where these policies are being sold, and life insurance companies must comply with laws and regulations in each of different countries because of the drastic differences in demographics. The increase in external conflicts around other countries has forced insurance companies to rework their tactics to promote stability in a time of less government certainty (Hersch).

Economic

The life insurance industry is reliant on and built on managing risk. During downtimes in the economy, insurance companies are much less likely to want to or be able to take on more risk making underwriting stricter or premiums more expensive. This results in fewer people being able to afford life insurance. Still, on the other hand, when the economy is doing well, potential clients are much less likely to see the importance or need for life insurance because other investment accounts are doing so well. This makes there a very fine economic window where the insurance industry can thrive during (How).

Relating to the actual life insurance policies, when the economy is poorly performing, the insurance company investments in will produce less money resulting in difficulty keeping prices to the consumer lower and return fair dividends to insurance holders every year. Many factors impact premiums on life insurance policies. Interest rates are one factor that has a significant impact on the life insurance industry. When interest rates are high, companies can expect to see an increase in the ability to pay dividends and growth of the cash value in contracts. The opposite of this happens when interest rates decrease. However, these changes affect clients very slowly, and changes can take years to impact a policy, and most policies will go through highs and lows of interest rates. The life insurance industry's premiums are projected based on these interest rates. When interest rates are higher, this allows these projections look better than the policy might be. This impact is more of a long-term effect and changes projections and can result in policies either not performing as well as they are supposed to or dying out sooner than expected. On the other hand, it may result in the policy giving the client more cash value and a longer-lasting death benefit (Seltzer).

Social

Many social factors impact the life insurance industry. One of the most dominant is that the population is becoming older. This results in insurance companies needing to offer and focus on various products. This change makes the need for life insurance very high. With social security reduced to a level where it will be gone eventually, the importance of older people being able to have money to survive past retirement is higher than ever before.

Another social impact on this industry is the decreased birth rates and increased immigration in the US. Lower birth rates result in fewer clients for these insurance companies to target. The increase in immigration is also very impactful on the life insurance industry because of the underwriting process. Since life insurance involves a risk for insurance companies, the underwriting process is a rigorous and challenging process for most immigrants to want to pursue or be able to in order to purchase life insurance or annuities.

Consumer attitude toward life insurance is has been decreasing annually. Since 2011 the rate of Americans who hold a life insurance policy has dropped from 63% to 54%. This decrease is partly because of how well the economy has been performing, which changes consumer attitudes (Jason).

Technological

The life insurance industry will be impacted by several quickly developing technological trends. The first impact is from the emergence of AI and the work AI can do to replace humans. Underwriting and determining what products best suit a client based on specific needs and personal life are two areas that will be impacted most by this trend. The ability of technology to accurately determine what products a client can receive and what benefits them the most will change how insurance producers distribute their products because they will be so much less dependent on human opinions (Krishnakanthan, K).

The products offered in this industry are also changing due to technological improvements. With the ability to gather data at a much more efficient and accurate level, insurance companies are beginning to look at different products that capture a more "umbrella" type of coverage where multiple products are combined into one. Since data collection is rapidly improving, insurance companies can more accurately what will happen to most people. They can develop different products that make them money while lowering financial risk. This allows consumers to get the products at a lower cost while still feeling like they are just as protected (Krishnakanthan, K).

Environmental

The environmental sector does not play a key role in the insurance industry, but it has slowly been having more of an impact. There is a movement toward renewable energy and companies being environmentally safe to help keep their brand image. These companies are beginning to focus on promoting less pollution, recycling, and using power in a less harmful way. Insurance companies are recommended to comply with more of these trends because of the importance of keeping the consumers pleased with company brands. Since companies offer similar products in this industry, having a strong environmental focus is needed to separate themselves (Hersch).

Legal

Laws and the resulting regulations have a significant impact on the life insurance industry. The laws surrounding life insurance are becoming stricter faster than ever because of the corruption levels and verified cases of some companies taking advantage of people. Expanding laws and regulations result in more paperwork and back-end work for companies.

Another critical legal trend in this sector is ensuring clients' data is safe. Consumer protection and intellectual property laws are increasing due to the rapid increase in online access to almost all data. Since insurance companies are required to have virtually all personal information of a person, protecting this information is at an all-time high with the increase in cyber-attacks on companies (Get in touch).

Porter's Five Forces Analysis (Industry-Specific)

Porter's five forces is a tool developed in 1979 by Michael Porter. This theory is focused on the competitive intensity and attractiveness of a market. It helps to show where the power lies to impact profitability of an industry. This tool helps a determine if an organization should move into a specific market. The five forces that are looked at with this tool are supplier power, buyer power, competitive rivalry, the threat of substitution, and the threat of new entry (Porter's). The industry this tool will be focusing on is the life insurance industry. This tool differs from a PESTEL analysis because it focuses more on the competitive environment in an industry. In contrast, the PESTEL analysis focuses on factors that can affect an organization in a particular industry.

Industry Rivalry

Rivalry in the life insurance industry is high. There are a considerable number of life insurance producers and little room for product differentiation. The number of life insurance companies has been drastically decreasing since 1990, but there are still 747 companies that sell life insurance (Rudden). Almost all these companies sell similar products that function virtually the same. Companies are not able to drastically change prices because of government regulation, so the market is saturated with the similar products. The three most prominent players in this industry are Northwestern Mutual, New York Life, and Mass Mutual. The only opportunity to differentiate in this market is through outstanding customer service and showing clients that these companies put them first. In this industry, many companies focus only on making money and sales. Building relationships in this industry and selling products that achieve the client's goals is the best way to reduce this significantly over-saturated and highly restrictive market.

Threat of New Entrants

The threat of new entrants in this industry is low. Although there is a lot of room to make a substantial amount of money in this industry, there are many hurdles to overcome first. Entering the life insurance industry is expensive and requires a lot of capital to start. Companies must build up many financial means to first be able to assume the risk that comes with life insurance because although the numbers are very accurate, it is still impossible to guarantee when someone will die and ensure that your sale will end up making you more money than you lost. Companies also must develop an extensive staff to do underwriting and sell these products at a high enough rate that the risk will continue to lessen.

This industry is also heavily regulated industry. A new business must meet many licenses for every state with operations and every product offered. The NAIC regulates this industry at a rigorous level. There are also many compliance obligations that life insurance companies must follow, or they are at risk of having their license revoked (Howk). Keeping up to date with all these different requirements in this industry is very time-consuming and challenging for a new business to achieve in a short amount of time or without investing significant capital.

Threat of Substitution

The threat of substitution in the life insurance industry is shallow. The general life insurance products that include term insurance and whole ordinary life perform a specific job of providing clients with a death benefit payable upon death to whomever they may elect. There are no other products available that offer this particular feature. The only alternative option for this is for clients to set aside and save money to develop a fund their family can access upon their death. There are some substitutes for cash-value life insurance plans that provide a death benefit but also accumulate money within the plan for the client to use for different purposes, usually involving larger income purchases. Consumers can start investment accounts like annuities which can have a death benefit and produce more cash value than life insurance, but they are much riskier and more dependent on the stock market.

Bargaining Power of Suppliers

The bargaining power of suppliers in this industry is low and diminishing. Most insurance companies work directly with their own products and deliver them to consumers. There is limited use of intermediaries in this industry, and this trend is increasing. The influential suppliers in this industry are from the software products insurance companies use to determine what product best suits a client. Even with this, companies are beginning to create technology that collects data and produces the correct reports the company needs to determine the best possible product for a consumer (Kulkarni).

Bargaining Power of Buyers

The bargaining power of buyers is low in this industry. Producers can sell life insurance to every adult citizen. This means that the market is enormous, as over 210,000,000 in the US are over 18. One hundred six million of these people reported not having life insurance which shows that there is still a considerable number of potential buyers for life insurance companies (Cox-Steib).

Switching producers in this market is also costly as many costs are associated with terminating a product, and it usually results in the consumer losing money. The government regulates product prices, which gives buyers a minimal opportunity to influence the costs down or up (Keuren). The limit on the amount of product differentiation also limits buyers' options for achieving their specific goals.

Strategy & Competitive Advantage

Northwestern Mutual's strategy is to provide the strongest financial freedom to their clients and help them achieve their life goals. It aims to build trust and assure clients that they are the company's priority. Northwestern Mutual also focuses on being prepared for catastrophic events that may happen affecting the business continuity plan (Home. Northwestern Mutual). The company works to do this by using the different resources and assets. Its number one asset as a company is its solid financial ratings. It is the highest-rated insurance provider and largest provider in the US. It scores the highest ratings from all four major rating agencies in the life insurance space. It currently has 2.1 trillion dollars of life insurance protection which increased by 50% from the previous year (Home. Financial Information).

Another resource it has is it is that the company is a mutually owned company. It does not have to answer Wall Street or worry about shareholders. Everything that it does is for the benefit of policy owners. The company history is also one of the strongest resources. It has paid out dividends to clients every year since 1872 and pay out more than the following three highest insurance companies combined (Our).

Northwestern Mutual's greatest tangible assets are its strong network of financial advisors and the unique portfolio of products. Northwestern Mutual has a team of over 6,700 financial advisors nationwide in the US, which is at the top of the industry. These financial advisors are the only people able to sell Northwestern Mutual's unique products unlike most competitors, which allow other companies to sell their products offerings. These products enable the company to score higher in every category than all insurance companies and ensure clients receive the highest dividend payout in the insurance industry (Home. Financial Information).

Strategic Recommendations

Northwestern Mutual has dominated the insurance industry in most ways possible. There are many strategic recommendations that the company should consider continuing to hold its competitive advantages and not slow down as a company in a highly competitive industry. The first recommendation is to take advantage of technological changes in this industry. It can be one of the first companies to jump on the latest AI products and high-level data technology. This will allow it to be ahead of rivals and provide clients with the best and lowest cost products that fill all their needs. This will enable the company to make more money and retain more clients because it will be much more satisfying to clients knowing that the products they purchase are almost guaranteed to help them achieve the goals as defined by the plan.

Another recommendation would be for the company to focus on shifting the public's image of the need for life insurance. With all the trends moving more to people believing they do not need life insurance, Northwestern Mutual must focus on marketing its importance. The size and reach of the company allow it to have a large amount of influence on people. If it can put together a clever marketing scheme that summarizes the importance of its products, the company name will provide a competitive advantage in the public eye.

The final recommendation for Northwestern Mutual to continue to dominate its industry and sustain its competitive advantage is to take advantage of the uncertainty in the economy by highlighting the success it has had in past economic downfalls. Northwestern Mutual can take advantage of the high-interest rates in the economy because it allows products to be projected at a higher rate than usual. It has been able to pay out dividends and take care of clients during all the world wars, the great depression, market crashes, and now the COVID pandemic. This is the company’s greatest strength in challenging times and will make clients feel safer through the trust and belief that even in these harsh economic times, they will be taken care of and are the company's number one priority.

Conclusion

Northwestern Mutual has achieved success throughout its time spanning back to the 1850s. It created strong relationships and dominated the life insurance industry while continuing to grow in the investment aspect of the business. It has achieved the highest ratings as a company and continue pushing out record numbers of dividends. Overall, even with success, it can continue to have a competitive advantage in the industry by taking advantage of some of the opportunities in front of it. Ensuring the company stays on top of the technological advancements is crucial. It also needs to take advantage of the uncertainty in the economy and rely on the company's strong history to enhance the image of the company and the insurance industry as a whole.

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