



MUTUALLY  
**BENEFICIAL**

(item # 53-0126)

## Northwestern Mutual may be known as the “quiet company” but, as CEO **Ed Zore** explains in an exclusive interview, the insurer’s unique relationship with its policyholders and employees means they’re far from silent partners. By Ben Thompson

It’s a pretty good time to be a Northwestern Mutual customer right now. This year the company – one of the nation’s largest providers of insurance, wealth management and business planning with over \$1 trillion of life insurance protection in force – expects to pay out dividends of more than \$5 billion to participating policyowners this year. The company recently topped a customer satisfaction survey carried out by the American Customer Satisfaction Index, and has also won plaudits for the quality of its products and services. Satisfied customers? Check.

It’s a pretty good time to work for the company, too. *BusinessWeek* has called it one of the 50 best places to launch a career, its internship program has just been voted one of the 10 best in the country and it regularly wins kudos for being among the best companies to work for in America. In a recent *Fortune* survey, the company’s people management practices also won top marks, and the company is rightly proud of the fact that in its 150-year history it has never laid off an employee. Happy workers? You bet.

All of which suggests it’s a great time to be Ed Zore, Northwestern’s President and CEO. “Things are going pretty well at the moment,” he acknowledges with a modest smile. “We’re No. 1 in individual life insurance. We’re No. 2 in disability income insurance. We’re No. 4 in long-term care. We’re gaining market share in investment products. So all in all we’re pretty pleased with the ways things are going right now.” A contented chief executive, then? Absolutely. After all, who wouldn’t be pleased with being named America’s Most Admired insurer in *Fortune*’s prestigious annual survey for a landmark 25th year – the only company to have led its industry every year it has been included?

Zore attributes much of the company’s sustained success to its unique business model.

“It’s different than just about everybody else’s in the industry and it works very well,” he says. “We don’t sell our products through any channel but our own field force, meaning they are aligned with our values. We call it the circle of success. We’ve been practicing it for 150 years and it gets more complicated and more difficult every year, but we want to link everybody together so that our customers, our field representatives and employees all have a common interest in the outcome. We’re a mutual company, so we don’t have to worry about short-term earnings volatility or quarterly earnings per share, which gives us an advantage. And because our business model is so successful, the latest industry fads or trends don’t distract us. We don’t have our head in the sand, we just continue to keep getting better at what we do.”

### Recipe for success

It certainly appears to be a winning formula. “I think our competitors look at us and think that we’ve got it all figured out,” laughs Zore. “My peers often say to me that they don’t even think we have the same problems. They think that we’re somehow immune to the issues they deal with. The fact of the matter is we’re not; we just deal with them on a different basis. And because we have our own aligned field force, we don’t have to produce the product de jour. We don’t have to come up with mispriced products if we don’t think they’re going to be viable in the long-term.”

The most recent example of this commitment can be seen in Northwestern’s recent foray into the long-term care market. “We did all the risk analysis and looked at claims expectations, and we came out with a product that was priced 85 percent above the market,” says Zore. “Our field force thought we were nuts. But we kept running the numbers and felt that we had the price pretty much nailed

### Number crunching

**\$1 TRILLION +** of life insurance protection in force

**\$157 BILLION** in total assets

**\$21 BILLION** in revenues

**3.3 MILLION** life insurance policy-owners with more than five million policies

**\$5.6 BILLION** in benefits paid to policy-owners or their beneficiaries in 2007

**\$5 BILLION** in dividends expected to be paid to policy-owners in 2008 during 2007



**“We’re trying to deliver long-term product value and solutions to our customers, and that involves a lot of innovation internally”**

market share in a competitive environment, and is growing at double-digit rates in an industry that has seen declines in sales over the last few years. “Our sales force criticized us at first for pricing the product so high, but because they believed in what we do they just got on with selling it and now business is booming. They’re getting real traction with it.”

As you would expect from a company that has built its reputation over a hugely successful 150-year history, being in it for the long-haul is critical to its plans for the future, too. “It’s really about having everyone – our employees, our field force and our policyowners – buy into

else had it wrong. What happened next? Everybody else either left the business or had to raise their prices to the extent that we’re actually now very competitive.”

The result is that Northwestern Long Term Care now has a healthy four percent

the company’s core values,” says Zore. “They know that in the long-term we’re going to produce the right products at the right prices; that’s the bottom line. Everybody understands that we’re not in the business of making the most money, we’re in the business of delivering the best long-term value to our policyowners – and as a result, everybody involved with the organization is going to be a beneficiary of that.”

**No place like home**

In many ways, the company can be considered an extended community of stakeholders – and like any community, it has a real sense of place. For instance, unlike other insurers, Northwestern has taken the strategic decision to focus on the US market rather than expand overseas.

It’s a bold move in an already saturated market, but one that Zore believes can reap enormous returns. “We took a look around the world at how products are sold and what kind of products are offered, and they don’t match with what our core competency is – delivering solutions through an aligned distribution system and building long-term customer relationships,” he explains. “On the other hand, we already have a big footprint in the US and we’re gaining market share in all of our products, so why should we go wandering around the rest of the globe when we’re gaining market share here? It’s a huge market. I think we can probably double or triple where we are right now, and the only thing holding us back is getting more people out in the field to interact with prospects and clients and take care of their needs.”

Playing to Northwestern’s strengths is a strategy that Zore hopes will minimize unnecessary risks for its customers – a key consideration in the current climate. “Pretty interesting times, aren’t they?” he says with a wry smile. The company has a long-held reputation for safety, stability and performance during difficult times, and with fears over a global recession growing he believes this will stand his firm in good stead – and that Northwestern is well placed to weather any potential financial crisis. “We’ve got a well-balanced investment portfolio and in the long run it does very well,” he explains. “But we’ve also got a huge capital base. One of our overall goals is to remain as strong financially as we can in anticipation of rough times, so that in troubled markets we know the capital is there to support the business, to help us grow and to cover any potential problems.”

In fact, he feels the current climate actually provides a time of opportunity for operators such as Northwestern. “The weak players will get flushed out, and we know we’re going to come out of this thing in much better shape than most others. We don’t have leveraged investments. We’re very good at selecting our investments. And we don’t sell products to attract hot money so we don’t

risk a run on the bank. The whole business is managed towards long-term financial strength and economic viability.”

## Keeping ahead of the competition

But, as with any business, resting on your laurels will only result in complacency. So how does a firm such as Northwestern, a byword for steadfast reliability, keep evolving to keep up with the times and stay ahead of the chasing pack? “We’re not trying to come out with new, fancy, gizmos that nobody understands. We’re trying to deliver long-term product value and solutions to our customers, and that involves a lot of innovation internally,” says Zore. “It’s about innovation in our business model. For example, everybody thinks of us as a life insurance company, but we’re really a financial security company. Our field force activity delivers financial investment solutions to fit our clients’ needs, and this is one of our fastest growing areas – if they’re doing a good job of identifying what people need, they’re not just selling life insurance anymore, they’re taking care of a lot more needs. And so we’re still delivering on the promise of good value, but the business model keeps evolving to deliver what our clients and customers need for long-term financial security.”

He cites the company’s operations as one such example of how Northwestern is thinking ahead of its rivals. “Our investment portfolio here is much more innovative and creative than most of the competi-

tion,” he says. “We’ve been managing money on a different basis to our competitors for as long as I can remember – for instance, we were managing for total return in 1980 before most people in our business even knew what that term meant.

“We try to be at the forefront of operating efficiency and we benchmark ourselves against other operators in any activity that we do. So, we continually try to improve how we do things to deliver long-term financial security. And for us, that’s innovation. It’s not coming out with complicated options and products that nobody understands. It’s just doing a good job of keeping the business relevant. To us, innovation is not necessarily about the fancy bells and the whistles. It’s about what you do to your internal processes and your business model, and it’s all about keeping the customers satisfied.”

So where next for America’s most admired insurer? How do you keep improving on excellence? “I would like to think that the folks in our organization have the attitude now that no matter how good we are, we’re going to get better,” he concludes. “We’re going to be in a different place by the time the competition catches up with us, but we’re not going to lose our core values. We’re still going to be focused on the long term. We’re still going to be focused on high quality. We’re still going to be focused on integrity. We’re still going to be focused on relationships. But we’re going to be better than anybody in the world at it.” ■

### Northwestern’s \$121 billion investment portfolio

- 80% fixed income
- 20% equities
- 8% average annual growth over 10-year period

## Q&A: leadership

**BM.** You’ve been in charge for seven years now. Do you think the company in its current incarnation is a reflection of your leadership style, or were you chosen because your particular qualities embodied the long-held values of the company?

**EZ.** I think I was chosen because they believed that I had some skills that would be important at that juncture in the company’s history – they being the trustees, who are like our board of directors.

I came up through the investment ranks. I started out trading stocks, and I still have a Bloomberg on my desk. I love the markets and I know what’s going on, and I ended up creating a whole new investment activity in the company. As a result, I got to be intimately involved in the financial aspects of the company. I became chief investment officer, then chief financial officer. I did a stint as head of insurance operations and even had the investment products area, which is our outside

brokerage activity, report to me. When I became CEO, I think the thing that gave me the edge was my knowledge of the financial markets and my old instincts as a trader. I’m action-oriented and I have a lot of people around me that try to slow me down, which is good. It’s about putting a bunch of skills and competencies together to get the right balance.

And when I became CEO, my two competitors for that job stayed with me, which is very unusual. I gave them big chunks of the business because I needed them; they were happy, I was happy and the company basically got the best of all three candidates. If every company could do that I think it would work well. I didn’t let my ego get in the way; I’ve learned over the years what I’m good at and what I’m not good at, and I try to get really good people to take care of all the things that they’re best at and that to me is what makes a successful leadership style.

The other thing I was able to do was open up communications. I’m a no BS kind of person. I usually tell people what’s on my

mind. I’m very blunt, very direct, very open, and I expect people to be the same with me – in other words, I expect the communications around this place to be very direct, very open and very honest and continuous. So instead of waiting for an internal press release about what’s going on, I expect to have a stream of communication so that there’re no surprises and everybody understands what the deal is. And I think that’s been successful. We’re much better now in terms of how we interact with all of our constituencies than we were 10 years ago.

