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A STEP AHEAD

M Financial has grown its ultra-affluent life insurance business since the 2008 crash by anticipating demand. BY ERIC L. REINER

When we last visited M Financial Group (see "A Class Of Its Own," *Private Wealth*, October 2008), the sun was shining brightly on the high-end producer group headquartered in rainy Portland, Ore. But our interviews were conducted just weeks before the financial crisis struck. After the crash, the high-net-worth insurance landscape looked different. Did the change take M down a peg?

Not in the least.

"Since 2008, our member firms have written over 25%—probably approaching 30%—of all the life insurance we've sold in our entire 35 years," smiles Fred H. Jonske, president and CEO of the 140-firm collective that claims to sell more life insurance to the ultra-affluent than any other distribution system.

Clients are smiling, too. M Financial proprietary products have experienced 51 in-force product enhancements with upwards of $150 million in cost reductions. Through risk-sharing as a reinsurer (see sidebar), M wields so much influence with the carriers it partners with—John Hancock, Prudential, Pacific Life, Unum, Nationwide and TIAA-CREF Life Insurance Company—that when policies perform better than expected, the lower costs get passed on to M clients via reductions in their premiums. A nine-figure premium cut is a heap of savings in any economy, let alone an uncertain one.


FROM LEFT: M FINANCIAL GROUP'S DAN BYRNE, FRED JONSKE AND RANDY O'CONNOR

Results such as these sprout from M Financial Group's ability to take change in stride, literally. One of the organization's significant ongoing activities is monitoring the high-net-worth marketplace to stay on top of where it's headed.

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REINSURING WINS THE GAME

Reinsurance is one of those mysterious businesses you only hear about when it's in trouble or causing it. Yet M Financial Re, the reinsurance subsidiary of M Financial Group, is central to its parent's success.

M's early leaders wanted insurers to develop customized products for their elite clients' unique needs, and offering to share in the risk of such products as a reinsurer seemed like a good way to entice them to do it.

So three years after M's 1978 founding, M Financial Re was created.

Here's how it works: When a client buys a policy and the premium is, say, $10,000, the carrier's cost to acquire that business might amount to $4,000. "So the insurance company has $14,000 to fund," explains actuary Randy O'Connor, chief financial officer of M Financial Group.

The first $10,000 comes from the premium. The carrier has to cover the remaining $4,000. "Most life insurance companies lose money on a cash basis on the day a policy is written," according to O'Connor. This strains the carrier's surplus, which must be maintained at certain levels in order to grow as well as meet state insurance department requirements.

Enter M Financial Re. It puts up half the carrier's out-of-pocket cost, or $2,000 in this example. "Under our modified co-insurance treaty with M's carrier partners, when they issue a policy to our client they bill M Financial Re for half the surplus strain and we write them a check for it," O'Connor says.

M clients enjoy access to 27 exclusive products from six carrier partners with features other wealth advisors' clients can't get, such as the ability for the policyholder to shift from one type of guarantee to another. The original goal for M Financial Re has thus been met.

But that's hardly the whole story.

M's reinsurance role also nets clients favorable pricing on its proprietary products. You see, as reinsurer, M has access to its wealthy policyholders' mortality and expense experience, and has for decades. This is unique actuarial data.

"We have the largest proprietary life-information database about our target market in the world. We protected it in Europe" under intellectual-property laws there, says O'Connor.

The statistics show that life policies sold to the wealthy typically remain in force longer than other buyers' policies. Reasons include the lengthier life spans the affluent enjoy, their wherewithal to continue paying premiums and their propensity for placing policies in trusts, where lapsing occurs less frequently.

On the expense side, these customers offer efficiencies. The large-face-amount policies they purchase are not much more costly for a carrier to administer than small ones.

Now here's the payoff. When a new proprietary M product is introduced, the expected savings due to the affluent's superior mortality, policy persistency and expense experience are handed to clients in the form of a lower premium.

And get this. If the experience of the policyholders turns out to be better than projected at product launch, M will ask the insurer to reduce its clients' premiums going forward. Over the years, premium reductions on in-force policies have saved M clients north of $150 million—all made possible because M ventured into reinsurance.

Reinsuring involves investing in policies, and this aspect has also worked out well for M. "We share equally in the profits and losses on the business we place," O'Connor says. "So if losses were to be incurred, M Financial Re would have to pay half to the insurance company. But we're taking risks we understand—we're selling products we know to clients we know. When the financial crisis hit, quite frankly, M Financial Re was still making a profit and a lot of carriers weren't."

should be doing to keep us ahead of the crowd, whether it's a new alliance, product or business line," Jonske says.

MARKET ANTENNAS

"The tactics are many," Jonske says in describing M's market-intelligence effort.

"We have a broad approach to gather as much market feedback as we can on a constant basis," adds Senior Vice President Dan Byrne. "You never know what the source is going to be or what will come up."

Perhaps the richest data comes from M's field force—the 700 or so frontline advisors at M member firms who market to clients and hear their needs and wants firsthand. The manageable size of the advisor army allows M to rely more on personal interactions with them and less on things such as surveys and data mining, according to Byrne.

When member firms come to the Portland headquarters, which they frequently do, "it's everybody's responsibility here to talk with them about what's happening in their marketplace," Byrne says. "But when you really learn what's going on is when you're in somebody's shop."

So a quartet of Chartered Life

Underwriters from the home office, dubbed "sales support," makes carefully planned visits to the member firms, arriving with a busy agenda and a laundry list of pointed questions. What trends are emerging in your marketplace? What are people buying? What resistance points are you seeing?

There's also pre-visit homework. Before heading out, sales support checks with M's various business units to see if the member firm has reported any issues that demand attention. Perhaps there's an issue with product development. Or branding. Or underwriting. Or technology. If so, an expert in that particular area may join the visiting team.

All the data collected from members is poured into a central contact management database, which Byrne calls "a bit of the fabric that knits our community. A member firm can come to us with an issue and our people can look in the database to see how another firm with that problem solved it."

Different information is procured from outside the M family in exchange for its knowledge of the ultra-high-net-worth arena. Weekly calls and twice-yearly conclaves with the carrier partners focus on industry developments, market demographics, product issues and more. "Carriers have a different view of the market than we do and different resources," Byrne notes.

Meetings with the credit-rating agencies provide still another perspective. "The agencies certainly influence carrier behavior and they influence buyers with their ratings. So our actuarial and finance staff meets regularly with analysts at the major rating agencies to get their observations and thoughts on the industry," Byrne says.

Relationships such as these can pay off in myriad ways. For instance, some months ago *The New York Times*, read by many a wealthy M client, wrote a disparaging article about captive reinsurers. M didn't agree with the piece and got on the horn to Moody's for their take.

"We learned directly from the rating agency that captives are considered as part of the rating process. Regulators understand that captives are being used and generally do not view them as a problem," Byrne says. M advisors were then able to share this comforting news with their clients, who had found the *Times* article concerning.

To complete its wide-angle view of the insurance market, M culls industry details from trade publications and conference proceedings and speaks with stock analysts.

The cornucopia of data then flows to more than a dozen M committees, such as the product development group.

WEATHERING THE STORM

It was this very process in the financial crisis's aftermath that led to the formation of M's most recent carrier alliance, with TIAA-CREF Life Insurance Company, in 2011. In the wake of the crisis, affluent clients placed increased emphasis on the financial strength of financial institutions, M learned.

Over the last couple of years, according to CEO Jonske, "we've spent quite a bit of time trying to understand where the next generation of buyers in the high-net-worth space will come from and how we can make contact with them earlier."

So far, M has concluded that future clients will seek out information on the Web. "Even though they will want a trusted advisor to help them, they're going to go to the Internet for verification. So to some extent, we want to position ourselves to be a content provider," Jonske says.

In line with that objective, M has jointly published with the American Bar Association two guides for practitioners, one six months ago on long-term-care products and the other on life insurance in 2011.

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> Fred Jonske

"We got a lot of data from our firms and coalesced it for the product development group, which consists entirely of key membership—large producers and M board members," Byrne says. "The committee prepared a broad outline of what the marketplace needed. Then management went out, sought opportunities and came back with TC Life, a triple-A-rated company that only wants to do business in the high-net-worth marketplace with M and which will design and price exclusive products for us based on the experience database we have from reinsuring what we sell," Byrne says.

What's M crystal-balling now? The client of the future.

Furthermore, says Jonske, "Since the financial crisis, we have really revved up the internal due diligence on individual insurance companies and emerging products that we provide our member firms, with the idea that the knowledge is getting down to the client."

Another trend he cites is the growing evolution of "the global citizen"—someone with residences and/or businesses in multiple countries. "Increasingly, we see non-U.S. citizens with some connectivity to this country interested in having U.S.-denominated policies," Jonske says. "This is just in the embryonic stages, but we think there's a market here that could be quite rewarding." PW

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