

Interview

Financial Strength

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



John E. Schlifske

EDITORS' NOTE John Schlifske became CEO in July 2010 and Chairman in August 2010. He is also a member of the Board of Trustees. Schlifske served as President of the Company from March 2009 through July 2010. Before this, he was interim President and Chief Executive Officer of Russell Investment Company, a Northwestern Mutual subsidiary, from June 2008 to March 2009. He was Northwestern Mutual's Executive Vice President—Investment Products and Services (IPS) from January 2004 through June 2008. Schlifske joined Northwestern Mutual in 1987 as an investment specialist and held positions of increasing authority in the Securities and Real Estate departments. He is a director of the Russell Investment Company. Schlifske received a Bachelor of Arts 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 Based in Milwaukee, Wisconsin, and with \$1.2 trillion of life insurance protection in force, the Northwestern Mutual Life Insurance Company (Northwestern Mutual; www.northwesternmutual.com) has helped clients achieve financial security for more than 150 years. Northwestern Mutual and its subsidiaries offer financial security solutions including: life insurance, long-term care insurance, disability insurance, annuities, investment products, and advisory products and services. Subsidiaries include Northwestern Mutual Investment Services, LLC;

the Northwestern Mutual Wealth Management Company; Northwestern Long Term Care Insurance Company; and Russell Investments.

How does the Northwestern business model operate to ensure consistent success?

Our business model has five key attributes that differentiates it from other companies in the industry.

The first is financial strength. We are AAA rated and we are the only financial services company that remained AAA rated with a stable outlook throughout 2008, 2009, and 2010. We are making promises to people that are up to 40 to 50 years away from being paid off, and we think it's important to say to our policy owners that we're going to be around when the promises come due. The best way to make that commitment is through financial strength.

Second, we have a product philosophy that is different from most companies: Our products have the highest and best value over a medium- to long-term time frame – seven years to 50 years.

We're not competing on product features and, sometimes, our products potentially look like they're stodgy or mispriced versus our competitors. But we're good at pricing risk and understanding the fundamentals of pricing and, in the long run, our products outperform everybody else.

The third part is our exclusive career field force. We're one of the last insurance companies to sell exclusively – in our case only through Northwestern Mutual financial representatives. That's a symbiotic relationship because they're dependent on us and us on them. It creates discipline on both sides – the field and the home office – on how we deal with our field force, how we price products, and how we manage the company because we know we can never lose their trust in what we do.

Because our field force is typically dealing with long-term relationships over a life cycle of an individual, they need to believe in our long-term product philosophy and financial strength, because that is ultimately part of the relationship they establish with their clients.

Fourth, what we're looking for is high quality organic growth, year after year, which means we'll rarely, if ever, have a 20 percent up year in sales or net income, but we'll also rarely have a negative year. For instance, throughout the recent crisis we had positive net income. We've

been doing it for 153 years and that is the best way to create long-term enterprise value.

The last thing is what we call our mutual values, which go beyond the legal form of the company. We don't subsidize one product line with another product line – every product line has to stand on its own. If you're an owner of that product line on the insurance side and there's profit, that profit goes back to you in the form of dividends as a policy owner of that particular insurance product.

So all of these are interrelated and they feed off one another.

Given Northwestern Mutual's consistent financial strength, how difficult have these past 24 months been?

We always leap ahead of our competitors when things get tough because of our foundation.

Our policy counts in terms of sales were up in 2009 and 2010, and our field force compensation is already back to its pre-crisis level, so we know that the field is engaged and making money. So from a company perspective, we did well.

What we're seeing from a client perspective is now more than ever, they're looking at the value we offer – stability of principal and compounding values regardless of what the market is doing. They want trusted advisors in the form of our financial representatives to help them navigate this period and we are advising our clients to “stick with it” – don't let your emotions fluctuate like the market. They appreciate that Northwestern Mutual is a company for all economic seasons and we're having one of our best years ever because of that.

How critical is it for your agents to be engaged in the community?

Whether you're talking about home office or field people, we're engaged in the community.

For example, our 2010 United Way campaign at our home office once again set another record in terms of the dollar amount and the participation rate, which was just over 80 percent. It's an employee-led campaign spearheaded by a subset of management employees from all parts of the company.

We have field offices in different cities and the amount of community involvement by our financial representatives is unbelievable. We have community service awards in which we recognize our field people every year with donations that the company makes to their local charities. It's a key part of our company in that our mutual values include this idea of giving back. ●