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Financial Crisis? Not at New York Life

Retirement chief Chris Blunt discusses the big mutual's reorganization.

By Paul Menchaca

When **Chris Blunt** was given the reins of **The New York Life Insurance Company**'s new Retirement Income Security group in November, he took over a division that for the first time combined the firm's annuity, long-term care insurance and mutual fund distribution businesses.

In 2009, the 164-year-old mutual insurer plans a significant expansion in staff and an equally ambitious strategy to broaden its business. In a recent interview with *Retirement Income Reporter*, Blunt talked about the events that led to this point.

New York Life's plans include a possible foray into variable annuities, an expansion into the defined contribution market and the potential for mutual fund acquisitions in the future. The projected growth comes as many of its publicly held peers are contracting or faltering beneath the weight of the global economic crisis.

New York Life's strategy, however, comes on the heels of another successful year for the insurer. The company announced this month that total immediate annuity sales in 2008 exceeded $1 billion for the first time.

The market crisis has been "an accelerator" for us. —*Chris Blunt*

A new CEO, a new structure

After New York Life CEO **Ted Mathas** was named president in June 2007, he held a series of strategy meetings called "New York Life 2020" to map out the company's goals, opportunities, strategies and markets.

The meetings identified four big opportunities: life insurance in the U.S., asset management, international ventures and retirement income. Mathas then decided to place an executive in charge of each business, creating a new corporate structure.

For the first time, the firm would separate annuities from life insurance and pair it with mutual funds within a new organization called Retirement Income Security (RIS), headed by the 46-year-old Blunt, who had been senior vice president and chief operating officer for the company's life and annuity operations.

The reorganization represented a break with the way that most insurers have approached retirement income. Most companies either put someone in charge of the overall retirement business, or decide that because they sell variable annuities, retirement income will be solely about variable annuities with living benefits, Blunt said.

New York Life tried the first approach in 2005, but it went nowhere. "[**Paul Pasteris**, the head of Retirement Income] increased the level of attention, increased the level of resources, got the annuity and fund marketing departments to work well," said Blunt. "It was great, but at some point it either becomes a business or it doesn't, and it outruns its effectiveness."

RIS differs in that it will avoid pushing a single retirement solution on its clients. "Instead of being product-centric where every boutique is a fully-integrated business, we're pulling every product that is a potential solution or part of the solution together into one organizational structure," he added.

"We're building a business around the client's need of retirement income security. Part of the frustration that I've had is that if you are a consumer and you have a need for retirement income security, the solution that's put forth to you is often a function of the orientation of the provider."

Eyeing the VA market

This single-solution approach manifested itself in the popularity of variable annuities with living benefits. New York Life didn't join that parade, but it believes the time may be right to do so.

"Our assessment was that the risk wasn't appropriately reflected in the prices," Blunt said about VAs. "We weren't morally opposed or outraged by the idea of a living benefit, we just didn't think they were being priced appropriately."

New York Life is now asking "whether that game has sufficiently changed" enough for it to get into the VA market. Rider prices are becoming more reasonable and Blunt now sees an opportunity to think more creatively about how living benefits are constructed.

He has challenged his product development team with two questions as it works on a variable annuity: Could you explain it to your mom or dad? And if you sold it to her or him would you feel good about it?

A self-professed "product junkie," Blunt admits that there are a lot of products on the market that he just doesn't understand. "I just think there are too many products today that are probably not bad products or bad solutions, but they are just so ridiculously complicated," he said. "

Blunt indicated during the interview that within 90 days he and his product development team expect to decide whether to create a living benefit product. They are talking to advisers and broker/dealers, many of whose relationships with VA issuers are in flux as a result of the market turmoil and the product changes that have come with it.

Besides VAs with living benefits, Blunt's team has evaluated structured products, which use derivatives to provide limited guarantees on risky investments, such as mutual fund portfolios. They are also looking to expand into the defined contribution market through annuity sales. The company has thus far been in the space only through its retirement plan services, a division of **New York Life Investment Management LLC**.

"If you look at the top issuers of structured products over the last five years it's a 'Who's Who' of companies that are struggling, or no longer in business, or who were acquired, or who are out of capital," said Blunt. "So that's kind of an interesting field from our perspective for product development.

Growth targets

New York Life is the leading provider of immediate annuities through banks, and was the overall top seller of fixed annuities in the second and third quarters of 2008, with $2.2 billion and $2.5 billion, respectively. The company is adding 32 bank channel wholesalers, and may begin selling its MainStay mutual funds through the bank channel. In addition, the company is eyeing an expansion in the independent financial planner channel.

RIS has seen a 45% increase in fixed immediate annuity sales nationwide through November among its six target Cultural Markets—Asian-Indian, Chinese, Korean, African-American, Hispanic and Vietnamese. The organization will continue to target this market because it sees growth rates among the first- and second-generation immigrant population, and the women's market, as being higher than the 2% that is widely published.

New York Life touts its distribution as the best in the business, and plans to grow its captive agent force. The company hopes to increase its agent force to 10,000 by 2015, from 8,200 agents today.

"We're either the No. 1 or No. 2 player in most years, depending on

New York Life At a Glance

New York Life, the largest mutual life insurance company in the U.S., was incorporated in 1845 as Nautilus Insurance Company and became New York Life in 1849. The company has the highest rating from all four major ratings agencies. Ranked 82nd in the Fortune 100, it employs about 15,000 people worldwide. Recent financial highlights are:

- It's industry-leading immediate annuity sales exceeded $1 billion for the first time in 2008, reaching $1.24 billion, a 55% increase from $797 million in 2007.
- Sales through the company's AARP Lifetime Income Program, which offers lifetime income annuities to AARP members, have exceed $100 million—a new milestone for sales through AARP.
- Fixed annuity sales of $6.33 billion through the first three quarters of 2008, second only to AIG.
- Variable annuity sales of $1.38 billion through the first three quarters of 2008, making it the 19th largest seller.
- $280 billion in assets, as of Dec. 31, 2007, and over $12 billion in operating revenues.
- Surpassed $3 billion in insurance sales for the first time in 2007; a compound annual sales growth rate of 15.1% over the past four years.

The New York Life Building at 51 Madison Ave., NY, NY.

how you keep score. But the No. 1 player has only a 7% market share, so it's still a very, very fragmented market," Blunt said.

To raise its profile and help educate advisors about immediate annuities, New York Life recently spent $2 million to establish the New York Life Center for Retirement Income at **The American College** in Bryn Mawr, Pa. "It's less about selling a bunch of New York Life stuff," he said. "The point is to build the pie. A lot of advisors don't know about immediate annuities."

Kenn Tacchino, director for the center, told *RIR*: "We would be foolish not to rely on their expertise since they're one of the foremost leaders in the country in retirement income planning. It's an American College product with New York Life's valued input and expertise."

A 'billion dollar check'

While New York Life started contemplating its current reorganization and expansion several years ago, the financial market chaos that crippled so many of its competitors last year has actually stimulated the pace of change.

"It's been an accelerator," said Blunt. The chaos has weakened some of New York Life's competitors and loosened the loyalty of many advisors and broker/dealers to certain manufacturers.

Growth that New York Life once hoped to achieve in three years now may take only 12 months, he said. "We've got an unbelievable opportunity because well-established distribution relationships are up for grabs."

One industry observer suspects that New York Life could be in a prime position to pursue new opportunities, noting that it has a reputation as a strong, sound, large company with high ratings.

"To the extent that they have a good balance sheet and they're strong, they may take advantage of some opportunities," said **David Schiff**, editor of *Schiff's Insurance Observer*. "Disruption generally creates opportunities. And mutual ownership is a good way of delivering value because stockholders don't have to make anything. It's very efficient, and it's a benefit."

New York Life is even entertaining the idea of buying a large mutual fund company, if one is available. Blunt said that the product of the day for broker/dealers is still mutual funds, and the easiest way to expand that channel is to sell more of them.

"Now you're at a different level of strategic priority in the company and you say, maybe we would write a billion dollar check [for a mutual fund company]," he said.

Blunt added that as a mutual company New York Life has the necessary capital to pursue opportunities, but perhaps as importantly, doesn't feel the pressure to chase down deals like a public company.

"We don't feel capital constraint to go after the opportunity," said Blunt. "This is a long-term opportunity. Others will disagree, but in my mind if there's an unquestionable advantage to being a mutual, it's that you have more latitude to take a long-term orientation. We don't have Wall Street analysts beating down our door." rir