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New York Life Building

Past as Prologue

New York Life CEO Ted Mathas finds even amid the COVID-19 pandemic that the company's 175-year history can be a guide to the future.

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Life Insurance



Photo courtesy of NY Life



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■ Key Points

Timing: Storied New York Life had a lot to celebrate coming into 2020 as it prepared for its 175th anniversary year. Nature, and macroeconomics, had other plans.

Leadership: Chief Executive Ted Mathas now finds himself in the second crisis of his tenure. He came on board just in time for the 2008 financial crisis.

Ethos: Mathas likes to point to the institutional culture of New York Life, which he said focuses on preparation and long-term planning, as perhaps its greatest strength.

Past as Prologue

New York Life CEO Ted Mathas finds even amid the COVID-19 pandemic that the company's 175-year history can be a guide to the future.

by Terrence Dopp

One domestic civil war. Two world wars. The 1918 Spanish flu. The Great Depression. Even the Great Recession.

The New York Life Insurance Company has seen a lot happen in its 175 years, all of which Chief Executive Ted Mathas said has helped the company prepare for the current COVID-19 pandemic that's brought large swaths of the global economy to a near standstill. In fact, he said the company

has spent years running stress tests of what it would face using the 1918 epidemic as a basis.

"Having [run stress tests] doesn't mean you can predict when a pandemic would occur or that you can actually think through all of the issues. When we look back at things like World War II and the 1918 pandemic, they're in our history but they're also in New York Life's DNA and they help us navigate events like today."

Ted Mathas
New York Life

"Having done that doesn't mean you can predict when a pandemic would occur or that you can actually think through all of the issues," Mathas, 53, said from his family's vacation home in New York state. "When we look back at things like World War II and the 1918 pandemic, they're

in our history but they're also in New York Life's DNA and they help us navigate events like today."

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Like nearly all of corporate America, New York Life finds itself working remotely these days. Particularly challenging for a storied insurance carrier: Prior to the novel coronavirus appearing, 97% of the company workforce was based in its New York City headquarters and its additional 100-plus offices around the country. Today that's flipped with 98% of employees putting in hours at home.

This is the biggest challenge for the company right now, he said.

"We built out a technology infrastructure. We spent a significant amount of time and money in the last five years to allow the company's systems to be more nimble and flexible—and we did it—we have been able to pivot to 98% work from home from 97% work in the office," Mathas said.

"If you're a 175-year-old company, there are a lot of strengths that come with that, but generally your technology is not one of them. We've been around 175 years so it's sort of like renovating a house versus building a new house. It's actually much easier to build a new house. But you don't get the character of the old house. This is an ongoing experiment in how to do business," Mathas said.

Best Laid Plans

New York Life and Mathas had a lot to celebrate coming into 2020. It notched \$2.39 billion in operating earnings for the year, had more than \$1.06 trillion worth of in-force individual life insurance in place and \$628 billion in assets under management. It paid out \$1.9 billion in total dividends to policyholders, making it the sole major U.S. mutual life insurance company to declare a record level of such payments in each of the last six years, according to the company.

In 2019, NY Life reported total revenues of \$34.5 billion compared to \$28.8 billion in the prior year and a surplus of \$26.97 billion, according to financial reports available on its website.

In fact, AM Best in July affirmed the Financial Strength Rating of A++ (Superior) assigned to New York Life and subsidiaries, as well as its aaa Long-Term Issuer Credit grade. That rating cited a strong balance sheet, as well as its operating performance, business profile and risk management strengths.

"The group has a history of very strong operating performance from a diverse revenue base, which provides the company with material amounts of room to absorb shocks to income in a potential adverse economic scenario," AM Best said. "The business profile mix of life and annuity products provides risk diversification to the group's business profile, as it holds market-leading positions in the segments it operates in."

Of course, that was mostly prior to the discovery in December of a novel coronavirus in Wuhan, China. In March, the World Health Organization declared it a global pandemic and governments began to issue lockdown orders that had the effect of putting economies in a rapid state of contraction for the time being.

The plans for a year of 175th celebrations? Off. Time to think of a backup to say the least. "We're not celebrating but we are very much embracing the history, the values and how we live them."

Eric Feldstein, New York Life's chief financial officer, pointed to the company's surplus of \$27 billion at the end of 2019 and record life insurance sales for the 23rd consecutive year as examples of just how strong the company entered 2020. He called that position "rock solid."

Still, when asked about the challenges in this current COVID world, Feldstein points to a risk trifecta confronting the company in this environment: a severe recession; operations risk from the abrupt displacement of its workforce; and mortality risk.

"New York Life ended 2019 and went into 2020 in what arguably is the strongest financial position it's enjoyed in about 175 years," Feldstein said. "We went into this environment with about as strong of a position as we could have imagined."

A Life Insurance Story

The roots of the insurer lie in the city's financial district, where in 1841 the seed of the company grew as Nautilus Mutual Life, which also sold fire and maritime coverage. In 1845, the company renamed itself New York Life to focus on its core business line.

A Best's Ranking of the 200 largest U.S. life/health insurers based on 2019 admitted assets released in July found New York Life retained its No. 3 ranking right behind the publicly traded

behemoths of Prudential and MetLife. The next-nearest competitor mutual was Northwestern Mutual at sixth place.

Today, along with solid financials and strong sales, the company has a largest-in-class force of 12,000 agents and brokers it sees as the backbone of how it reaches the market. To make his point about the wisdom of proper planning and the need to maintain a heart in business, Mathas said during the pandemic the company assumed health insurance costs, paid rent and instituted a salary floor for commission-based workers amid the pandemic.

For customers, the company also committed to not allowing policies to lapse during the first 90 days of the pandemic. For those customers still feeling pinched at the end of that period, New York Life instituted a second round of relief aimed at helping customers keep policies in place, along with a repayment schedule that allows them to affordably stretch the costs over a period of years.

As Mathas sees it, the move by predecessor Sy Sternberg to resist a wave of demutualizations across the industry was smart and preserved a corporate structure that's inherent to where the company will be going in the coming 175 years. He doesn't knock publicly traded companies. Still, there's an inherent conflict between satiating the quarterly push for earnings to appease shareholders while the needs of creditors and the customers can get lost in the middle, he said. The mutual structure has business advantages and allows the company to be run with heart, Mathas said.

"If I was at a publicly traded life insurance company, and we had a successful asset management or retirement business, I've got to take all the profits from that and dividend them to my shareholders. The core life and income annuity policyholders don't benefit from that but at New York Life they do. That's a cool thing."

Mutuality

Key to his vision is holding onto that structure and remaining focused on New York Life as serving its current base of policyowners that is mixed both ethnically and in terms of income, he said. In the third quarter of this year, the company is expected to close on its \$6.3 billion acquisition



Mutual companies "can manage for the longer term. They can be more patient, they can accept some fluctuation in earnings and performance over the short term to meet longer term objectives."

Thomas Rosendale
AM Best

of Cigna's group life and disability insurance business, its largest acquisition to date.

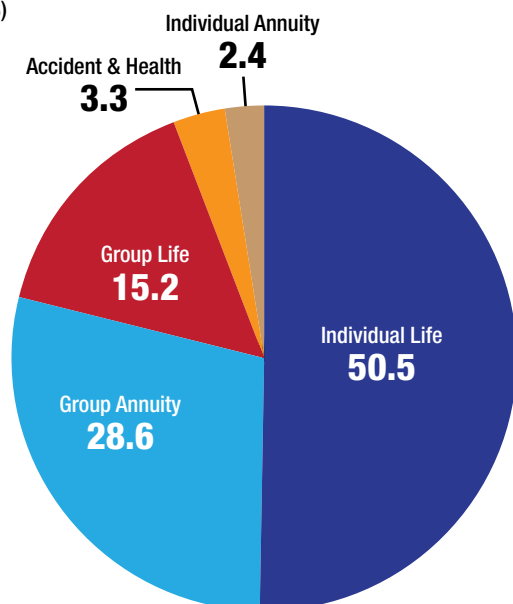
Being a mutual and a growing business feed into each other as Mathas sees it: As a mutual, earnings from the new businesses go into one kitty and for the most part the earnings flow to the policyowners, who in essence are both the shareholders and life blood of the company.

"Our typical policyowners can't always get access to a diversified business portfolio like this. They don't own private equity in their own accounts. They do, however, get access to a diverse range of investments by being policyowners with New York Life—they get access to the investments we make as a company. So going forward as we run the business, we are staying focused on the core mission—

New York Life Insurance Company

Top Lines of Business

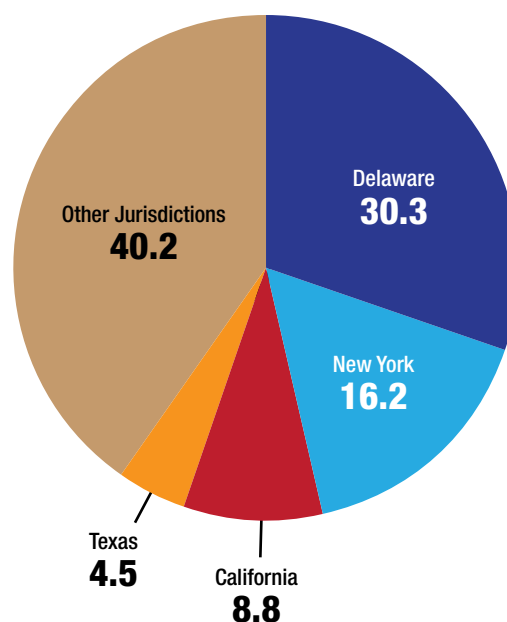
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Source: [BESTLINK](#) – Best's Credit Report (AMB# 006820)
Data as of August 7, 2020

Top States of Business

(%)



leveraging our agents who are providing advice. We are working with our policyowners to put in place protection-first financial plans so we can continue to provide peace of mind to our clients in the years to come.”

This ethos, in part, fueled the decision early in Mathas’ tenure to shed much of the company’s international life insurance operations, which due to regulatory and structural differences didn’t create the mutually beneficial relationship that exists with its U.S. customer base. The company retained one international business in a Mexico life operation.

Thomas Rosendale, a senior director with AM Best, said one of the advantages of mutuality is that when mutual companies accumulate capital through earnings they don’t have to pay a portion out to stockholders separately.

“They also don’t have to manage their financial statements strictly to the quarter,” Rosendale said. Mutual companies “can manage for the longer term. They can be more patient, they can accept some fluctuation in earnings and performance over the short term to meet longer term objectives.”

Early Days

It’s quite a journey for a lawyer by training who never envisioned himself in the insurance industry.

Mathas first gained a new respect for what it does after his freshman year at the University of Richmond in his home state of Virginia. Though Richmond is a good school, he longed for Stanford University. Financial constraints put Stanford out of reach until his father borrowed against a life insurance policy to bankroll his transfer. He never looked back.

Mathas joined New York Life in June 1995 as an officer in the asset management department, and assumed the top position in July of 2008.

Mathas speaks of himself as a steward rather than an issuer of corporate edicts. He said he attempts to foster an environment of collaboration and being prepared for any event or short-term catastrophe, be it societal or economic. He pointed to the Brave of Heart Fund established in just weeks in the earlier part of this year by the company in partnership with Cigna to provide payouts to the families of health care workers who lose their lives to COVID-19—

including orderlies and janitorial staff who may be underinsured or lack any coverage—as an example of where being prepared for a disaster and collaboration freed up New York Life to work on a program that benefited society, not an economic constituency.

Immediately after assuming the CEO role, he was confronted with guiding the organization through the financial crisis that was wreaking havoc on the larger financial services industry and decimating the balance sheets of insurers.

He likes to point to five principles, which he says were long standing New York Life values he simply codified.

1) Greater purpose. Do you feel part of something bigger than yourself? 2) Individual accountability and accompanying collective pride. 3) Grow the pie; only be in businesses that are mutually beneficial to customers, the company and its agent force. 4) Everything you do has to build trust; if it doesn't, then stop doing it. 5) Remain confident but also be humble.

Sheila Davidson, the company's chief legal counsel, remembers the daily meetings to grapple with the issue of the day at the onset of the Great Recession in 2008, just after Mathas became CEO.

What sticks out to her is the deep sense of collaboration Mathas, who so embodies the culture of the company, sought to forge and foster. He set up meetings every day at 5 o'clock in the afternoon with a core group of senior executives and he would invite in those who had expertise in the area being discussed.

"He built his decision-making and leadership model on that experience," she said. "To me that was probably the first and best example—because it was such a sustained example, but that's how we make all the decisions at the company. It's iterative. We test it and then we come back and test it again. We have a longer decision-making horizon because we are not worried about the next quarter; we don't think in quarters, we think in quarter centuries."

Like Mathas, Davidson had her own experience with life insurance at a formative age with the death of her father in her senior year of college as she was pondering continuing to law school. She used part of the \$90,000

death benefit her family received—along with student loans—to finance law school at George Washington University.

Mathas, Davidson and Feldstein all mention a fierce team ethic at New York Life and insist they aren't just using buzzwords. The phrase "confidently humble" is thrown around: as in, plan and evaluate and hope at the end of the process you can rest easily knowing any situation is dealt with.

Part of being humble, Mathas said, is having the ability to recognize when you "just got lucky" and an outcome was not anticipated.

He points to the decision early in his tenure to divest the international businesses around 2010 in favor of America's growth, where the base is immigrant heavy and culturally diverse. Emerging markets was seen as a source of growth for an international life insurance business, he said. But as a mutual, higher-risk emerging markets exposed the mutual owners to the risk with little upside.

"You know what happened? There was a complete rout in international markets. Do you know how many people said 'oh my God, Ted, how did you know the international markets were going to do so badly?'" he said. "It was the right strategy because of who we are. It wasn't because of some unique insight around those markets."

Going forward, New York Life intends to build its future based on a respect for the past coupled with a human interaction and bond between the company and its customers. Mathas said that can prove tricky at a time when trust in institutions is at record low levels and many people have lost the connective tissue with those institutions. Maintaining and growing that connection will be the key, he said.

"When I think about New York Life, that's our company. We do it through 12,000 agents who build individual relationships in our communities. You know New York Life, but you really know Joe or Sally or Paul. That's who you've gotten to know and you've let them know you," Mathas said. **BR**

Learn More

New York Life Insurance Company (AM Best # 006820)

For ratings and other financial strength information visit www.ambest.com.



New York Life Insurance Company is a mutual insurance company, which means it is not publicly traded and has no shareholders. New York Life operates for the benefit of policyholders who purchase participating products. These policyowners share certain membership rights, such as voting in Board of Director's elections and being eligible to share in annual dividends that are declared by the Board. New York Life is also the parent company of two other wholly owned life insurance subsidiaries. Policies issued by these subsidiaries are not participating and do not share in these rights. Guarantees are dependent upon the claims paying ability of the issuing company. Financial figures are as of 12/31/19. For detailed financial information, including the Annual Report to Policyowners, please click here: <https://www.newyorklife.com/about/financial-information/2019-financial-information>.

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