

COMPANY PROFILE

# The Northwestern Mutual Life Insurance Company

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## COMPANY OVERVIEW

The Northwestern Mutual Life Insurance Company (Northwestern Mutual) is a provider of life insurance and investment products. Its offerings include term life insurance, whole life insurance, universal life insurance, long-term care insurance, disability insurance and annuities. Its investment products include stocks, mutual funds, exchange-traded funds, bonds, 529 college saving plans and annuities. It also offers trust services, brokerage and advisory services, wealth management services, and discretionary portfolio management solutions. The company operates through its subsidiaries including Northwestern Mutual Wealth Management Company, Northwestern Mutual Investment Services, LLC, Northwestern Long Term Care Insurance Company, Mason Street Advisors, LLC and LearnVest, Inc. The company operates in the US. Northwestern Mutual is headquartered in Milwaukee, Wisconsin, the US.

The company reported revenue of US\$28,087 million for the fiscal year ended December 2017 (FY2017). The company's revenue decreased with an annual decline of 0.23% over FY2016. During FY2017, operating margin of the company was 2.94% in comparison with operating margin of 3.02% in FY2016. In FY2017, the company recorded net margin of 3.62% compared to net margin of 2.88% in FY2016.

## KEY FACTS

<b>Head Office</b>	The Northwestern Mutual Life Insurance Company 720 East Wisconsin Avenue Milwaukee Wisconsin Milwaukee Wisconsin USA
<b>Phone</b>	1 414 2711444
<b>Fax</b>	
<b>Web Address</b>	<a href="http://www.northwesternmutual.com">www.northwesternmutual.com</a>
<b>Revenue / turnover (USD Mn)</b>	28,158.0
<b>Financial Year End</b>	December
<b>Employees</b>	6,400
<b>Ticker</b>	

## SWOT ANALYSIS

The Northwestern Mutual Life Insurance Company (Northwestern Mutual) is one of the leading insurance providers in the state of Wisconsin, the US. The company's market position, surplus and asset value reserve and product offerings and customer loyalty are its major strengths, even as its high exposure to risky assets remains a cause for concern. Growing US economy and the recent launch of products could provide ample growth opportunities to the company. However, interest rates, information and cyber-security breach, and changing regulations could affect the company's business performance.

<p><b>Strength</b></p> <p>Surplus and Asset Value Reserve Market Position Product Offerings and Customer Loyalty</p>	<p><b>Weakness</b></p> <p>Decline in Revenues</p>
<p><b>Opportunity</b></p> <p>US Economy Growing Life Insurance Segment in US Digitalization</p>	<p><b>Threat</b></p> <p>Competition Changing Regulations Fluctuations in Interest Rates</p>

### Strength

#### Surplus and Asset Value Reserve

The company reported increase in surplus and asset value reserve (AVR) in FY2017, which indicates strong financial performance. Its surplus and AVR increased 6.4% from US\$23,677 million in FY2016 to US\$25,185 million in FY2017. The company's surplus ratio (total surplus over insurance reserve liabilities) stood at 13%, which helps raise its financial strength ratings. The growth in surplus and ADR was due to a lower corporate federal income tax rate and the recent enactment of tax reform.

#### Market Position

A strong market position helps the company to enhance its client base and profitability. Northwestern Mutual is one of the largest direct providers of individual life insurance in the US. It was ranked 97 among the top Fortune 500 companies. It was also ranked in the list of Fortune's 2018 World's most admired Life insurance companies. In FY2017, it served 4.5 million clients with more than 9,000 financial professionals and had total assets of US\$265 billion. The company was recognized as the top 52 independent broker-dealer with client assets under management of US\$125 billion in FY2017. Northwestern Mutual was the second largest disability income service provider in the US and served 564,000 individuals and 181,000 business owners and employees in FY2017. The company was also the third largest long term care insurer with 233,000 clients.

## Product Offerings and Customer Loyalty

Northwestern Mutual has a diversified portfolio of products and services. Through its subsidiaries and affiliates, the company offers life insurance, accident insurance, long-term care products, employee benefits, mutual funds, annuities and other related set of services such as financial planning and advisory. As a result, Northwestern Mutual's individual life insurance policies in force increased 5% to US\$1.7 trillion in FY2017. Owing to its diversified portfolio of products and services, the company has been able to retain 96% of its clients, which reflects higher customer satisfaction and loyalty towards the company.

## Weakness

### Decline in Revenues

The company reported marginal decline in its revenue in FY2017. Its revenue declined from US\$28,152 million in FY2016, to US\$28,087 million in FY2017. The decline in revenue was due to decline in premiums from US\$17,915 million in FY2016, to US\$17,897 million in FY2017. The fall in revenue also led to decrease in net investment income from US\$9,605 million in FY2016, to US\$9,541 million in FY2017.

## Opportunity

### US Economy

The company stands to benefit from the growing economy in the US. According to the International Monetary Fund (IMF), GDP growth rate is expected to grow 2.7% in 2018 and 2.5% in 2019. The growth will result from higher projected external demand and macroeconomic impact of the tax reform, especially the reduction in corporate tax rates and temporary allowance for full expensing of investment. Such economic growth is likely to create favorable market conditions and encourage spending on financial products and services in the country.

### Growing Life Insurance Segment in US

The growing life insurance segment in the US will provide ample growth opportunities to the company. According to in-house research, the US life insurance segment's gross written premiums are expected to reach US\$865.5 billion in 2020. The general annuity category is expected to be the largest category in the US life insurance segment by 2020. This category's gross written premiums are expected to reach US\$230.3 billion in 2020. This growth was due to increasing aging population and life expectancy to 81.2 years by 2025 from 79.7 years in 2015.

### Digitalization

The company's focus on digitalization enhances its client base and overall profitability. In June 2018, the company entered into partnership with Marquette University and the University of Wisconsin-Milwaukee

(UWM) to create the Northwestern Mutual Data Science Institute. This initiative helps the company to develop Milwaukee as a national hub for research, technology, business, and talent development. In November 2017, the company entered into a partnership with Rockwell Automation, Kohl's, Baird and Milwaukee Institute. This partnership is centered on driving innovation and technology forward in Milwaukee, a city in Wisconsin state in the US.

## **Threat**

### Competition

The life insurance segment in the US is highly competitive. Northwestern Mutual competes with other life insurers on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions. The company also faces competition from other financial institutions such as banks, securities firms and asset management firms, which started cross selling products directly or indirectly competes with various insurance products. Its major competitors include Pacific Life Insurance Co, Allianz Group, American International Group Inc, MetLife, Inc., Mutual of Omaha Insurance Company and New York Life Insurance Company. Such stiff competition in the market could affect the company's business operations and financial position.

### Changing Regulations

The company's businesses are regulated by various governmental and regulatory authorities. Changes in government policy, legislation or regulatory interpretation may affect the company's product range, distribution channels, capital requirements, and reported results and financing requirements. The key changes made in the insurance regulatory framework in March 2017 include reintroduction of the Flood Insurance Market Parity and Modernization Act; the establishment of Innovation and Technology (EX) Task Force to inform insurance regulators about the major developments in the industry; and withdrawal of the American Health Care Act, a proposed legislation to replace and repeal the Affordable Care Act (ACA). The Department of Health and Human Services (HHS) issued new rules to cover transgender-related treatments under the Affordable Care Act (ACA). The Financial Services Committee approved the amended Transparent Insurance Standards Act. The changes in government policies and regulations may have a negative impact on the company's growth and expansion.

### Fluctuations in Interest Rates

Fluctuations in interest rates could affect the company's profitability. The company's investment portfolio contains interest rate-sensitive investments such as municipal and corporate bonds. Interest rates are highly sensitive to monetary policies of government, domestic and international economic and political conditions, and other factors beyond the company's control. Such volatile interest rates may affect the company's operating performance, as its income and investment returns depend on interest rates.

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