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A Hybrid Insurer No More, SBLI Expands National Footprint

By Warren S. Hersch September 1, 2017

Among the industry's 870-plus life-annuity companies, **The Savings Bank Mutual Life Insurance Company of Massachusetts** (SBLI) held until last month a unique position: part mutual insurer responsible to policyholders; part stock-owned company answerable to banks.

An odd hybrid SBLI is no more. In July, the Woburn, Mass.-based carrier parted company with the banks by converting to a mutual-only insurance company and adding "Mutual" to the company name. These changes — 30-plus years in the making — have freed the insurer to press ahead with a long-term growth strategy of expanding beyond its Massachusetts base.

The carrier's national orientation, and an unwavering focus on term and whole products that comprise the lion's share of sales, are delivering rising premium revenue. In 2012, the company had $65 billion of life insurance in-force in the Bay State and $55 billion outside the state. By year-end 2016, the out-of-state figure had risen to $104 billion, as compared to $66 billion in Massachusetts.

"Up through the mid-2000s, national brokerages didn't want to talk to us because we were so regionally focused," says SBLI President and CEO **Jim Morgan**. "Now they will because we're writing business across the country, being licensed in 49 states and the District of Columbia. We're garnering much more attention on the distribution front."

SBLI President and CEO Jim Morgan

Teaming up with distributors

Indeed. SBLI is now building out a national footprint by pursuing "several distribution partnerships," including pacts with large brokerages the carrier isn't at liberty to name. SBLI also is pursuing alliances with financial planners, independent agents and entities with big marketing and advertising budgets.

Among them: **Health I.Q. Insurance Services.** A policy-quoting web portal launched in 2013 and targeted to health-conscious life insurance prospects — runners, weight-lifters, swimmers, among others — the site offers coverage from a dozen carriers. SBLI is one of three "special rate partners" (the other two including **Ameritas** and **Assurity**). Life insurance products also are available from **Brighthouse**, **John Hancock**, **Legal & General**, **Lincoln**, **Mutual of Omaha**, **Principal**, **Prudential**, **Securian** and **Transamerica**.

SBLI's captive/career channel (including 18 internal agents) and independent brokerage channels account for a growing proportion of the company's sales of individual life insurance and annuities products. The two distribution networks garner about 20% and 80%, respectively, of premium revenue. In contrast, banks, which produced 100% of individual sales until 1989, currently generate no premium dollars.

The dramatic shift reflects a change, finalized last month, in the company's legal structure. On July 26, SBLI disclosed the completion of its conversion to a 100% mutual insurance company. To free itself of its 30 shareholder bank owners, SBLI issued $57.3 million in surplus notes to purchase all outstanding shares of the company stock.

The buy-backs restored to SBLI its original status as a mutual insurer dating to 1907, when future U.S. Supreme Justice **Louis Brandeis** founded the company.

Then a Boston-based attorney, Brandeis spearheaded reform legislation that year permitting mutual savings banks incorporated in Massachusetts to establish departments for issuing life insurance and annuities. Brandeis then secured the approval of **Whitman Savings Bank** to set up the first department (Savings Bank Life Insurance) and SBLI was off and running.

The bank-linked business model proved successful until 1982, when the state legislature allowed mutual savings banks to become stock companies — but on the condition that they close their insurance departments within six months of converting. Many did just that.

Bank conversions, and the subsequent savings and loan crisis, which forced the closure of more than 1,000 S&Ls beginning in 1986, prompted SBLI to rethink its legal structure. Its board ultimately decided to convert from a confederation of mutual life insurance departments to a single mutual life insurance company. The banks, demanded, however, that they be compensated for capitalizing and covering expenses of the various departments through the issuing of $39.5 million in stock, a total representing 39.5% of SBLI's capital surplus.

Thus began a three-decade-long journey, including state legislation in 1990 creating a restricted class of stock for the banks; SBLI's launch as hybrid organization in 1992; and the carrier's decision in 2015 to buy the banks' shares to avoid quadrupling dividend payments to the institutions to help them meet new **Basel III** reserve requirements.

Free at last!

"SBLI's [stock-to-mutual conversion] removes a major distraction for the company, as the transaction required a significant investment in time from senior management," says **Tim Zawacki**, a senior research analyst at **S&P Global Market Intelligence**. "SBLI can now focus all its energies on growing the business."

He adds that the only financial impact to the company is the addition to the balance sheet of the surplus notes funding the stock buyout.

William Pargeans, a director at **A.M. Best**, says that the conversion did not factor into the rating agency's downgrading of SBLI's financial strength last November. Other "characteristics," including less than superior (though still strong) quality of capital, returns on equity, and diversity of products, remain greater areas of focus for A.M. Best's analysts.

Untethered from the banks, SBLI is now moving aggressively to peddle its portfolio on a nationwide scale. Spearheading the push are its flagship term and whole insurance products.

Results to date have been positive. Term life sales generated $9 million in premium revenue during the first half 2017, up from the $6.5 million recorded during the January-June period in 2016. The upward trend in sales is mirrored in application activity: 200-plus apps per day versus from 120 to 150 at the halfway mark in 2016, says Morgan.

Whole life sales issued through its brokerage network, including final expense insurance and, separately, bank-owned life insurance (BOLI) used to fund the institutions' non-qualified executive compensation plans, have been similarly robust. The company is on track to write $50 million in whole life sales this year, up from the $25 to $30 million in new premiums posted in recent years.

As an all-mutual company, says Morgan, SBLI expects to maintain policyholder dividends competitive with those of other mutual insurers. In respect to BOLI sales, the company is also observing heightened demand for whole/universal life combo packages sold to banks and credit unions — financial institutions that remain significant market opportunities for SBLI despite the change in its legal status.

"What the banks get is the stability of whole life insurance, which is predominantly backed by fixed income assets," says Morgan. "And they get market exposure on the UL side."

SBLI doesn't anticipate incorporating other permanent life insurance offerings, including variable, variable universal and indexed UL products, into its portfolio. For the foreseeable future, says Morgan, the company will remain focused on existing protection products in which the carrier and its distribution partners have proved expert sellers.

"We understand term and whole life products very well," says Morgan. "These are our core competencies."

To enhance the products' appeal, SBLI last year unveiled an accelerated underwriting program that's reduced turn-around times on sales to 2-3 days from 15-17 days, and that secured in May a **Celent** Digital Model Insurer Award. Policies offering up to $500,000 in coverage are available on SBLI's Preferred Plus, Preferred Select and Standard classes.

The automated underwriting is facilitated through **LexisNexis** Risk Classifier, a database composed of public records (including driving history) used to assess a proposed insured risk profile. Applications are processed through SBLI's reinsurer, **Swiss Re**, which is working with SBLI to develop a digital-only e-app.

The accelerated underwriting, insists Morgan, is superior to comparable accelerated underwriting tools of competitors that dispense with medical exams and fluids. (In addition to a raft of insure startups, **MassMutual**, **Legal & General** and **John Hancock** have recently launched accelerated underwriting, chiefly for simplified term insurance.)

"Some of our competitors will only accept accelerated underwriting on one or two of their top rating classes," says Morgan. "That could be a problem for customers who apply for life insurance using accelerated underwriting, then are informed that they have to go through full medical underwriting."

Ramping up annuity sales

SBLI is counting not only on term and whole sales to fuel earnings. The company, says Morgan, has also developed a healthy business structuring multi-million-dollar state lottery winnings in the form of fixed immediate annuities that offer lifetime income payments.

The company also sells fixed deferred annuities. Despite historically low interest rates, this block of business has remained profitable for the carrier, thanks to a "yield curve" formula the company uses to enter and exit the market in tandem with prevailing rates.

What's on the horizon for SBLI? A major focus of the carrier is the still significant number of uninsured and underinsured people in the middle market, a combined coverage gap that Morgan, citing industry estimates, pegs at $15 to $20 trillion. The most promising prospects in this space are millennials who now are buying homes and starting families.

“The millennials represent a huge demographic wave, not just for SBLI, but for the entire industry,” says Morgan. “We think we’re in a good place to serve their needs.”