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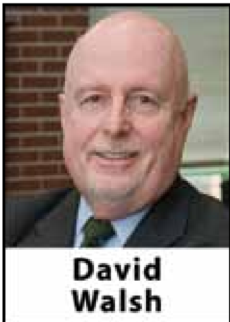
Amalgamated CEO: Company Looking to Diversify Beyond Labor

By Angelo John Lewis

OLDWICK, N.J. - David Walsh, the president and chief executive officer of Amalgamated Life Insurance Co., said the company is on track to diversify its base of business, with a growing share coming from markets outside of organized labor.


David Walsh

View the video version of this interview at: *http://www.ambest.com/v.asp?v=walsh316*

Following is an edited transcript of the interview.

Q: What do you see as the major trends impacting group insurance right now and how is Amalgamated responding to them?

A: We're in the group life and group health market. In group health we sell stop-loss to self-funded plans. Group life is a very soft market at the moment. It's a buyers' market for two reasons.

There are a lot of new players in the market that are going for market share. That depresses prices. Secondly, group life was primarily sold to employers and other like-minded groups. Sometimes fraternals or nonprofits like the American Legion. But on the employer side a lot of employers are no longer offering it as a benefit.

There is a challenge in the group life market. It's a real opportunity in the voluntary and worksite market, which we're also in. There's a yin and a yang there to the development in group life. Group health, when the Affordable Care Act passed, many people assumed, and I was one of them, that group health was going to dissipate as a line.

It didn't work out that way. Part of it was because of the implementation of the Affordable Care Act but most of it was because people saw the economics in self-funded plans being as good or better than the economics in the Affordable Care Act.

So our stop-loss business in the number of self-funded plans that we administer in our third-party administration company has actually grown over the last four or five years very nicely. We're very pleased with that development.

No matter who gets elected in the fall, the Affordable Care Act is here to stay. Fundamentally, I think that the Affordable Care Act and group insurance and the stop-loss that backs it up are both going to flourish over the next couple of years.

Q: Talk about the voluntary business in general. It seems that this is an increasingly important part of people's lives. Workplace voluntary plans have evolved to meet people's needs.

A: For us it's one of the biggest areas for potential growth. Worksite over the last number of years has expanded rapidly. We see that doing nothing but increasing. Probably the slope of the curve is not going to go vertical but it's going to be very close to that.

Amalgamated CEO: Company Looking to Diversify Beyond Labor
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The reason is that a lot of employers are no longer providing the bundle of benefits that used to be assumed, whether it's a retirement program or a health program or a life program. This has placed a lot more responsibility on the individual employee, the individual head of household to figure out how to protect the family.

We've gone into worksite in what for us is a very big way. In the last couple of years we're very pleased with two things. First of all, what our results have been in it. Secondly, how many people we're helping. There are all sorts of people who work, middle-class, middle-income, middle-age people who are suddenly faced with the prospect of needing health insurance, needing disability insurance, needing life insurance.

The best way to get to that market is through worksite. The millennials are a different challenge. The millennials are not buying life insurance. They're not buying health insurance to the same extent that the preceding generations have bought it.

I think that's for two reasons. No. 1, like all young people, in that age group you think you're invincible and that you're going to live forever. But secondly, the economics have changed. It's a lot more difficult now, because as part of your job package you don't get those benefits.

A lot of millennials are faced with massive student loans. A lot of them are faced with all of the economic challenges of starting adult life. The need for health insurance, and certainly the need for life insurance, seems remote when you're that age and you have all of the challenges of becoming an adult ahead of you.

Q: As an insurer, you work through third parties to get people to use your products. How do you go about educating this group as to what their needs are?

A: The lack of financial education in this country is one of the biggest problems. There was an article in the paper just a couple of days ago that even among that cohort of above 55-year old Americans, something like 50% had not saved more than $10,000 for retirement.

There was this assumption that grew in our parents' generation in the '50s, right after the war, that employment was secure, that there would be a retirement in addition to Social Security provided through employment. That not all people, but most people would stay with the same job for an extended number of years in order to vest in that system and therefore have something to rely on.

It didn't work out that way. People changed jobs a lot, defined benefit plans are few and far between in this market. People find themselves needing to pay attention to their own financial future but they're finding that out too late.

Q: Your company has a long history as a life insurer serving the labor movement. Can you give me your sense as to how Amalgamated's role with serving it has evolved?

Amalgamated CEO: Company Looking to Diversify Beyond Labor
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A: Labor density, which is the number of employees in society that are represented by unions, has diminished greatly but it's still 14 million households. That's a big market. Labor unions in the last century, particularly in the early and middle part of the century, brought us the 40-hour week. They brought us overtime.

Our company was started to provide life insurance for the hundreds of thousands of members of the Amalgamated Clothing Workers Union. For a lot of years, really for the first 40, 45 years of the company's existence, the labor movement was large enough that that was pretty much all our company did.

Eight years ago when I started, my charge was not to leave the labor market, we won't do that, but to go beyond it, to develop products and services that would be marketable and profitable in the general market. That's what we've done. Ten years ago, it's fair to say that 95% of our top line revenue was from the labor market directly or indirectly. Now that's down companywide to probably about 60%.

Q: In terms of the labor market in general, do they have special needs that need to be met by insurance?

A: The answer is different now than it would have been a generation ago. A generation ago we had a large manufacturing sector in the country. That manufacturing sector was populated by employees of moderate means and certainly moderate financial education.

They relied on their union and on their employer for all of those kinds of financial planning and financial literacy issues. That's now changed. We're primarily in a service economy, a very mobile service economy where it is more the exception than the rule for somebody to be in the same job for 20 years.

The needs of that marketplace have changed rapidly. We're trying to adapt to that. We're offering more portable products, not only as required by the Affordable Care Act, but that's really the initiative for worksite. You can buy a life insurance policy at this employer that you will have if you move.

Q: When you came aboard you primarily served that New York labor market and that was most of where your bread and butter was. You've expanded your product line.

A: Well, it's been a great ride. It really has. Through very difficult economic times we've been able to earn 11% on average IRR [internal rate of return] every single year. We've never been below 10%. We've done that because we really focused on efficiency as we expanded.

When I came we went into stop-loss. We do not have a lot of dollars to deploy so we really can't afford to make a mistake. We're very conservatively run. We have conservative underwriting standards. But we built stop-loss from zero in 2008 to over a $20 million book of business this year. For the large companies, that's not all that remarkable, but for us it is because we are so small.

Amalgamated CEO: Company Looking to Diversify Beyond Labor
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We went from 26 to 50 states. We went from a dependence on revenue from the tri-state area that was very heavy, I mean, 85%, 90% to about 60%. In a couple more years, we'll be under 50%, not because we're losing either market share or revenue in the northeast but we're picking it up elsewhere.

We're now 15, 16 months into worksite. We're really happy with the results. For the assets we have to deploy, the market we serve, we're doing great. That I think is going to continue.

Q: We've been in this long running low interest rate environment. How have you managed it?

A: Obviously we would prefer it if the interest rates were higher. I think every insurer, every financial service company would. We're somewhat insulated from it in that we have no debt. We don't have a big debt service that would be a drain on interest income. We also do mostly group policies and stop-loss as well, which does have a substantial reserve requirement. Because we've been so conservatively managed and we continue that, while we would love to have interest rates go up, we are not damaged at all by the fact that they have been flat and probably continue to be.

What that does is it means that the basic blocking and tackling that we do we have to continue to do better. We have to take costs out. We have to become as efficient as possible. Because unlike in the '80s when there was double digit in returns, we don't have that income stream at the moment to rely on.

View this and other interviews at *http://www.ambest.tv*

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