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Private Wealth

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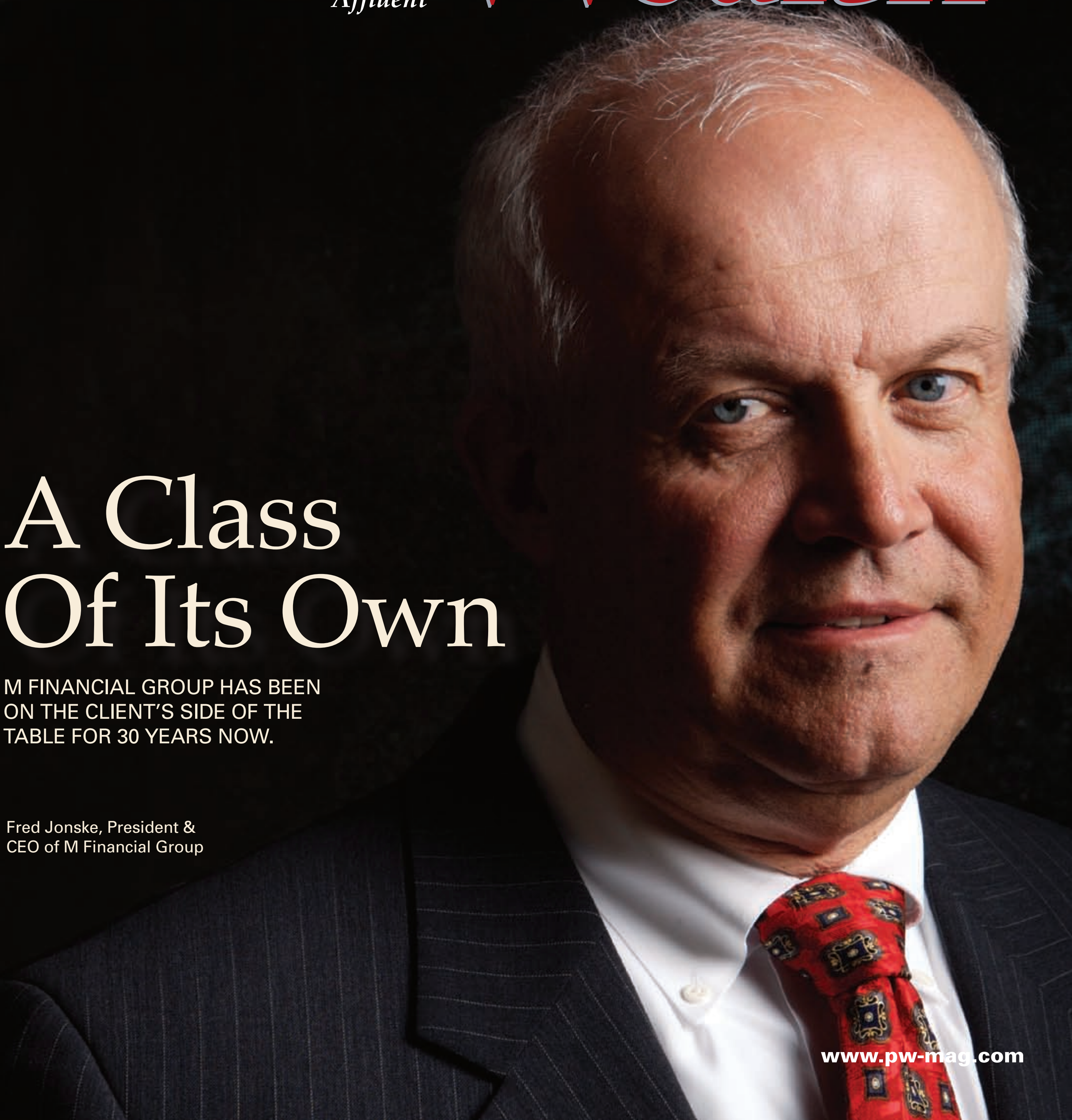

A Class Of Its Own

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Fred Jonske, President & CEO of M Financial Group

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By Eric L. Reiner

High-end insurance specialist David Byers vividly remembers his first encounter with M Financial Group, a Portland, Ore.-based producer group. It wasn't pretty. "Some of our long-standing wealthy clients left us to do business with an M Financial member firm that was coming into our state. Their product was so much better than what we could offer, it just blew us out of the water. Up to that point, we had thought we were pretty good at what we did," Byers says.

Around the same time, the enactment of Sarbanes-Oxley raised questions about the permissibility of split-dollar insurance transactions by public companies, a type of business Byers wrote. When he discovered that M Financial principals were in high-level talks with Internal Revenue Service officials regarding the legislation, "it indicated to me that the real action was occurring at M," Byers says. "Between them having the best product and doing the most advanced business, it hit me that we needed to seek out becoming an M firm."

If you can't beat 'em, join 'em—if you can. Admission to this exclusive consortium is by invitation only and that's not easy to come by, as the sidebar, "What It Takes To Make The M Team," explains. Byers' Birmingham, Ala., firm, Capital Strategies Group, did successfully run the gauntlet and today counts itself among the 118 independent shops that are members of, and own, M Financial Group.

Breaking New Ground

Producer groups were novel in 1978 when a quartet of extremely successful, widely respected, M-named insurance professionals—Carl Mammel, Eli Morgan, Peter Mullin and Mark Solomon—founded M Financial Group. They had two purposes in banding together.

One was the desire to create community. The foursome foresaw an egalitarian collective bonded by a culture of idea-sharing. Today members connect through governance committees, conferences, study groups, Webinars and sabbaticals. Yet even though the founders anticipated being joined by other professionals who shared similar challenges and objectives, growing membership for growth's sake was never in the plan.

The other founding cause was to get carriers to make better products for very wealthy clients. Candidly now, an individual captive agent has almost no power to effect change at the carrier. Nor is a single independent firm likely to arm-twist an insurer into taking steps that benefit policyholders. But could there be strength in numbers?

Yes. Last year, members placed $2 billion of business, about 80% of it life insurance, through M. "You take notice when M provides opinion and advice," confirms Jim Morris, chairman, president and CEO of Pacific Life Insurance Co. "That's true both today and throughout the 25 years we've done business with them," Morris says, noting that M currently accounts for close to 10% of his company's total client account value.

When M Talks, Carriers Listen

An important step in the march toward clout occurred in 1981 with the launch of M Financial Re, a subsidiary that would reinsure half of all business placed through M Financial Group. As M vice president Jacob Boston recounts, "We realized that to get carriers to do something different in terms of product"—such as more attractive pricing—"we needed to put our money where our mouth was. We had to put up risk capital."

Although M claims to be the first, if not the only, producer group to form a reinsurance operation, it was not done on whim. M's leaders believed their affluent policyholders exhibited better-than-average actuarial experience. If that was true, couldn't an insurer lower the premiums and still make its usual profit?

Security Life of Denver was the first to say yes to this wild scheme. A second carrier partner, Pacific Life's forerunner, Pacific Mutual, which was seeking an entrée to the independent-agent channel and where M co-founder Peter Mullin had been a career agent, signed on in the spring of 1983. "In some respects, it took a leap of faith by our early carrier partners," says Boston. "They knew the M founders, believed they ran quality businesses, and were willing to invest in them."

A Wealth Of Experience

Faith is one thing. Facts are another. By participating in the risk as reinsurer, M had access to its ultra-affluent policyholders' actual experience. By the early 1990s, sufficient data had been accumulated so that when clients' experience across carriers was combined, a statistically reliable profile of the high-net-worth insurance buyer emerged.

Superior mortality experience was one finding, says Dan Byrne, M's chief product and technology officer and a senior vice president. Moreover, the large-dollar policies that the affluent tend to purchase, besides being very profitable for carriers, lapse less frequently than contracts sold to the general consumer, Byrne says.

Flush with data demonstrating its policyholders were cheaper to insure, the next step was logical: create products priced specifically and exclusively for M's wealthy clientele. You see, in all the years M had been working with carriers, "we shared our experience data with them, from which they then built products they made available not only to us but to others as well," says Fred H. Jonske, M's president and CEO. Now, no more Mr. Nice Guy.

Suddenly—incredibly—M had something no one else had: the poop on the high-end insurance purchaser. "Carriers were blending the experience of their high-net-worth buyers with that of other buyers," Jonske says. From that point forward, keeping the database private, as well as purely affluent in order to be able to reflect M clients' superior experience in premiums, became organizational imperatives.

"So that our firms could take advantage of this intellectual capital and provide a truly differentiated value to their clients, we introduced proprietary products in 1996, which only our firms may sell," Jonske says. Today there are 23 proprietary offerings from seven carrier partners.

'Proprietary' Is Not A Dirty Word

To the wirehouse stockbroker, a proprietary product often is one you have to sell. At M Financial, it's one you get to sell. In point of fact, members may sell whatever they like but

"Our last customer is as important as our next customer."

Photographs by Joni Kabana

From left:

Richard Mack, President & CEO, Mack Financial Group, Inc., an M Member Firm in Indianapolis, IN

Fred Jonske, President & CEO, M Financial Group

JoNell Hermanson, President, M Financial Wealth Management

“I have never been part of an organization that under-promised and over-delivered the way M has.”

most of their business is ultimately placed through M.

In building product, M uses its precious experience database to engineer an insurance product—a universal life policy, say—then approaches a carrier. As Byrne explains, “We give the insurance company sufficient information about our clients’ experience so that they understand the pricing we’re recommending and the projected profitability.”

Yet M’s proprietary offerings feature more than an attractive entry price. As a reinsurer, M can (and does) monitor its policyholders’ actual experience in order to compare it to the assumptions contained in the illustration to the insurer. “Every product has a profit objective,” Byrne says. If the earnings objective is exceeded because mortality turns out to be better than was assumed or expenses are lower, the excess profits are returned to the policyholders (a la a mutual insurer) via lower premiums going forward. Since 1998 nine in-force re-pricings have been implemented, reducing premiums on existing policies by more than $40 million, M officials estimate.

“We devote an enormous amount of resources to in-force management because it is a tangible value that we bring to our clients,” says Lawton “Mac” Nease III, an M board member, chair of the organization’s product development committee, and president of M member firm Nease, Lagana, Eden & Culley Inc., in Atlanta. It also helps members in the field. Picture an M producer dangling an attractive initial illustration in front of a prospect. Then, the coup de grace: “Your premium might improve later with our in-force management.”

“The proprietary product is huge,” says Byers, and not just because that’s what lured away the clients he referred to at the start of our story. When his firm was outside M looking in, “insurance was a commodity and the expertise we surrounded it with was our differentiator. Now to have a product that is not a commodity gives us a whole different value proposition to the advisors we work with,” Byers says.

The proof? A large family office recently approached Byers, as did an accounting firm with a significant asset-

Continued on back page


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What It Takes To Make The M Team

"To find one firm that is the kind we are looking for, an average of 12 to 18 go through our internal membership review process," says the president and CEO of M Financial Group, Fred H. Jonske. Successful candidates tend to be entrepreneurial, open to sharing ideas, and extremely successful working with the ultra-affluent.

The application process typically lasts 18 to 24 months. Prospective members complete extensive questionnaires detailing their production history, the backgrounds of the individuals involved, plans for growth and succession, and more to make sure there is alignment of interests, Jonske says.

"We go to their offices two or three times to examine how they conduct business. They come to our headquarters in Portland to see how we work."

Current members are also queried to make sure they have had no negative experiences with the prospective firm and that it is likely to fit the M culture.

Those invited to join have provisional status for two years during which they enjoy unfettered access to every M product but remain under the microscope. Nearly all accede to full membership.

Provisional members pay the organization $15,000 the first year for training and the right to use the M name. In year two the cost is $11,000. In addition, a capital contribution of $10,000 is required to purchase 1,000 shares of stock in M Financial Group, Inc. After that, the annual membership fee is $6,000. Target production for full members is $600,000 of business placed through M annually.

"If you had a chance to join M, I don't know why you wouldn't," says David Byers, whose firm, Capital Strategies Group in Birmingham, Ala., joined M in early 2005. "I have never been part of an organization that under-promised and over-delivered the way M has—and I had high expectations when we came in."

management practice. According to Byers, "They said, 'We might be interested in outsourcing our entire insurance business to you because we know you have the best product and you do it right.'" His fortunes reversed!

Meanwhile back at the Portland headquarters—where a staff of 150, including attorneys, CFPs, CLUs and a dozen actuaries, supports member firms' activity—Byrne observes that often in commerce, the next customer is more attractive than the one you already have. He boasts, "Through the in-force management of our products for the benefit of existing policyholders, we can say, 'Our last customer is as important as our next customer.'"

Writing The Future

Three decades on, the story of M Financial Group continues to unfold. One anticipated growth area is asset management. In 2006 M formally launched a wealth management platform that is currently utilized by perhaps one-quarter of the member firms. It doesn't feature any proprietary products. But like the insurance side of the house, it relies on M firms' access to the super-affluent to negotiate better prices and terms with investment-product manufacturers.

Regarding the insurance side, M's product development group, which Nease calls "a think-tank for the member firms" and which consists of representatives from five of them along with eight Portland staffers, is currently tackling underwriting initiatives. The goal: to make it easier for the affluent client to purchase life insurance.

Early successes can be reported. Several carrier partners recently began waiving some tests and other underwriting requirements for M buyers under certain circumstances. Eliminating underwriting steps that provide little protective value—which M can clearly demonstrate with its vaunted experience database—not only reduces carrier costs without compromising the quality of the business placed, it can hasten the time it takes clients to purchase insurance. The three to six weeks that are typically required these days is too long, Nease says.

"This is one of the few businesses where you can't buy the product immediately. It's time for some things to change." PW