

BEST'S REVIEW

Management

January 2005

Life



Gregory Smith for Best's Review

Team Primera

WORKING TOGETHER: Co-Chief Executive Officers John Addison, left, and Rick Williams use their complementary talents—Addison is the marketing guy and Williams handles the financial side—to keep Primera's business booming.

Primera Life Insurance Co.'s vibrant business with middle-income Americans defies the norm in today's life industry. An extra surprise is that co-CEOs head up its management.

by Ron Panko

There is hardly anything conventional about Primerica Life Insurance Co. So it should be no surprise that when it comes to top leadership, the Duluth, Ga.-based company is one of the few to successfully divide power between two chief executive officers.

Splitting the duties since 1999 are John Addison, 47, and Rick Williams, 48. Both hold master's degrees in business administration and have been employed by the company for a long time, but that's where the similarities end. In fact, the two are polar opposites in personality and skills.

"I am clearly the marketing side of the brain," said Addison. "I'm intuitive and use my gut feel. Sometimes I'm too quick to make a decision. Rick's background was in mergers and acquisitions. He's very methodical; he goes through the facts and digs through the numbers. So I do the marketing, and Rick does the financial half, but we collaborate. I won't make decisions in marketing without consulting him, and Rick won't make decisions on the financial side until we collaborate."

"John is the leader of the sales force and the motivational speaker," said Mark Supic, Primerica's head of corporate relations. "He is the out-front guy. Rick has a Wharton MBA and was the chief financial officer who worked with Sandy Weill before Commercial Credit bought Primerica. They're very different personality-wise, but that's one reason it works."

Power sharing rarely lasts in a corporate world influenced by egos, office politics, back-stabbing or just bad luck. Even Weill and John Reed could not long hold together a co-CEO arrangement at Primerica's parent company, Citigroup, the company that emerged from a 1998 merger of Travelers and Citicorp.

For Addison and Williams, however, sharing the CEO position comes naturally. Part of the reason is that the two forged a relationship of trust and appreciation over many years. "The way we operate now is the way we operated when I was chief marketing officer and he was the CFO," said

Addison. "Ours is not a forced relationship. The other thing that makes it work is that our career goals are to run Primerica. He and I aren't jockeying for the next big promotion. This is what we want to do. There's a comfort level, a trust level and a competency level; we're both very good at what we do."

What they do is often fun, the pair admit. That may be because what Primerica does is unusual in the life industry, and probably unique. Primerica is the renegade, the black sheep, the company that dares to be different and succeeds. At a time when the number of agents in the life industry is shrinking, for example, Primerica's has grown the past five years to 107,000 from 79,000. While most companies forsake the career agency system as being too expensive and instead build distribution relationships with banks, independent general agents, stock brokers and financial planners, Primerica sticks with its career system. While other big life insurers depend on creating a constant flow of sophisticated new products, Primerica sticks with term insurance. And, oh yes, Primerica guides clients to "invest the difference" between the low cost of term coverage and the higher costs of cash-value policies, a strategy that harkens back to

Key Points

- Primerica's co-CEOs worked together for more than 15 years before assuming top leadership.
- The company's system that reaches middle-income families is hard to duplicate.
- Most agents work part time.
- Agents use a comprehensive financial needs analysis to sell products of other members of parent corporation Citigroup.

Primerica's early ties with the A.L. Williams Corp. Over the years, the strategy has evoked the wrath of disciples of permanent insurance.

Over the Kitchen Table

Perhaps the most significant of Primerica's peculiarities is that it sells the old-fashioned way: over the kitchen table to middle-income America, the part of the public that most life insurers can't or no longer know how to reach. This market has become a huge Primerica niche and a fertile ground for future sales. In 2003, the company reports it issued 264,440 life policies in face amounts totaling \$82 billion. As of early December, it was on track to top \$90 billion in 2004. The in-force amount has grown to \$534.2 billion through the third quarter of 2004, up from \$395 billion in 1999.

Measures of Growth

Primerica has thrived since John Addison and Rick Williams became co-CEOs in 1999.

	1999 Year End	2003 Year End	3rd Quarter 2004
Sales Force Licensing			
Life	79,809	107,312	108,117
Securities	24,566	31,489	31,040
Variable Annuities	16,424	23,270	23,719
Life Insurance - Year to Date			
Issued Policies	209,849	264,440	216,229
Face Issued (\$000)	\$56,228,745	\$79,254,290	\$68,314,881
Policies In Force	2,135,506	2,272,188	2,327,783
Face In Force (\$000)	\$394,947,216	\$503,561,481	\$534,160,045
Sales (\$ Millions)			
Consolidation Loans	\$2,145.0	\$6,360.1	\$3,323.6
Mutual Funds	\$2,908.4	\$2,377.0	\$2,199.6
Variable Annuities	\$990.1	\$761.0	\$818.0
Net Income (\$ Millions)			
Including Realized Gain/Loss	\$454.4	\$566.6*	\$454.0

* Net income before adjustments with Citigroup
Source: Primerica Life Insurance Co.

Reaching Middle-Income Investors

Most insurers cannot handle small and frequent transactions costs effectively, but Primerica is set up to handle them:

- Average initial lump trade is \$3,300.
- Average automatic monthly bank draft is \$71.
- 70% of all investments are in tax-qualified plans, which emphasize long-term investing rather than trading.
- Investors can open an account through Primerica for as little as a \$250 lump sum or a minimum of \$25 a month as a monthly bank draft.

Source: Primerica Life Insurance Co.

Primerica pulls off these feats through a grass-roots effort, what Addison refers to as the "PeopleNet." Most of its agents work only part time while keeping their full-time jobs. Agents reach prospects through personal contact; Primerica does not advertise in the media. And agents often help grow the work force by recruiting their own clients.

The key to making the system work is the Financial Needs Analysis, a personalized report prepared for clients by company agents based on input from each client. The analysis helps customers identify their financial goals and assesses how well they are reaching them. The agent is then able to recommend term-life insurance and products from other Citigroup subsidiaries, including the mutual funds of Smith Barney, the variable annuities of Travelers Life & Annuity Co., and debt-consolidation products through Citicorp Trust Bank.

A major challenge for Addison and Williams is to supervise the system, manage it and provide the right incentives. Primerica's distribution arm, Primerica Financial Services, has eight office-of-supervisory-jurisdiction administrators, 460 office jurisdictions that supervise more than 4,000 regional vice presidents and 11,000 regional leaders, most of whom are full time in the business. This system is set up so that commissions are shared among the selling agent and supervisors at

higher levels. It therefore provides economic incentives for productivity and advancement.

Despite its size, the system is not unwieldy, the two CEOs say. "The whole system is designed for managing large numbers," said Addison. "We wish we had 217,000 agents. We have a good structure that supports them, a compliance system that manages them, and simple products and concepts that a client can understand and an agent won't misrepresent."

High-tech tools help management run the system. One is a sophisticated Intranet, Primerica Online, for training agents and promoting initiatives. Another is the company's own channel on a satellite TV network to which agent offices subscribe. Weekly broadcasts at noon on Mondays provide training, motivation and company news. Other segments focus on providing information on specific products. "Third, we have meetings constantly," said Addison. "I'm on the road a lot; I'm a frequent flier's frequent flier. And every two years, we have a convention." A June 2001 convention attracted 53,000 to the Georgia Dome, the largest single-company convention in the history of Atlanta.

Both Addison and Williams have been with the company for more than 20 years. Williams started his career with American Can Co. in 1979 in Greenwich, Conn., and got to know what became Primerica when American Can acquired Primerica's predecessor company, A.L. Williams, a financial-services provider that originated the "buy-term-and-invest-the-difference" strategy. Williams said he was involved in the strategic study that helped American Can to decide which of the 104 businesses it owned to retain and which to jettison. It chose to keep its services industries, primarily financial services, and changed its name to Primerica. In 1988, Commercial Credit acquired Primerica, and Williams moved to Atlanta in 1989 as the CFO. Primerica merged with Travelers Corp. in 1993.

Addison came to the company in 1982 as systems analyst for an A.L. Williams agency. He moved to the

marketing side when Williams was the CFO. "We developed a very good relationship through the 1990s," Addison said. "We went through an era when there were a lot of CEOs, and we forged a unique bond. So at the end of 1999, Citigroup decided to go with co-CEOs. Our relationship was based on mutual trust and was forged on the battlefield."

"I saw early on that John had the 'X' factor, an ability to move and motivate people," said Williams. "I respected him from day one. The early 1990s was a difficult time for the company, but we forged a relationship where we could rely on each other. When Joe Plumeri left his CEO post at the end of 1999, it was clear to the parent company that John and I were unique individuals and worked well together. We still have a common vision for the company of growing our distribution system."

Financial Needs Analyzed

Addison uses several one-liners to describe Primerica's target market. They typically spend more time planning vacations than retirement. They stuff their important papers into desk drawers. Most have too much money at the end of the month. He also said they have too many credit cards and carry too much debt.

Putting new clients onto the right track usually involves a few fixes that often start with consolidating debt. Williams reported that through the first three quarters of last year, Primerica agents sold \$3.3 billion in debt-consolidation loans. That freed up money to help new clients to buy \$68.3 billion in level-premium term insurance and invest \$2.2 billion in mutual funds and \$818 million in variable annuities. Two thirds of the company's life insurance sales go to people buying for the first time, while the other third replaces whole life policies that charge higher annual premiums and provide lower face amounts, said Addison. When agents are not licensed to sell securities or loans, they bring in a Primerica broker dealer and mortgage broker to handle the transactions. Only

about a third of Primerica agents are securities-licensed.

"Somebody has got to go to these families with a game plan that offers protection and a meaningful savings program," said Addison. "In the next 20 years we're going to have a Social Security crisis...unless the baby boomers commit suicide. You can't pay enough in taxes to support a system that is fundamentally broken."

According to Williams, three of five boomers don't have an insurance program and savings program, and hardly any financial-services representatives talk to them. Addison said Primerica's agents are currently selling the same number of term policies in a calendar quarter as the leading online insurance broker has sold in the past seven years. "I fundamentally believe people have to have somebody sit down with them," he said in assessing the volume of sales on the Internet.

Primerica has little competition for several reasons. One is that term life insurance offers plenty of coverage, but relatively little in premiums compared with cash-value policies. (Primerica's average face amount is \$270,000 compared with the industry

A Good Mix of Talents

John Addison and Rick Williams share the leadership of Primerica Life Insurance Co., even though they are very different personalities.

Expertise:

JA: Marketing and people skills.

RW: Financial matters and compliance.

Desktop management:

JA: Piles of paper, organized clutter.

RW: No paper on desk. Neatly labeled folders in file cabinets.

Attire:

JA: Primerica golf shirt.

RW: Suits, ties and cuff links.

Residence:

JA: 45-acre farm in the country. Tries to avoid downtown Atlanta.

RW: Lives in downtown Atlanta.

Hobbies:

JA: Outdoor work. Golf. Georgia Bulldog football games. Voracious reader.

RW: Avid runner. Reading. Listening to jazz.

Collecting wines.

Public Speaking:

JA: Loves the spotlight.

RW: Prefers a desk lamp.

Wishes:

JA: That he won't ever have to do RW's job.

RW: That he won't ever have to do JA's job.

average of \$119,310, according to the *American Council of Life Insurers' 2003 Fact Book*.) "To service that, you

must have an efficient operating system, and ours was built to handle that," said Williams. Some insurers are product manufacturers with a sales force to serve the company, added Addison. "Our business is sales-force-centric," he said. "Our goal is to build and service a distribution system, and it is the center of our decision-making process."

And the economics of running a Primerica-like system can be daunting. Williams said Primerica's three top competitors today are all different from the top three in 1999. "What invariably happens to companies that try to duplicate our model is that they do well for a while, but then they don't do well because they don't know how to balance the components," he said. "You have to balance sales and marketing excitement with compliance and supervisory responsibilities in selling a regulated product. Then there's the economic component—you have to make money—and the administrative component—can you process and support the growth? The companies we see spring up have the promotional flash, but not the support. Or they are product-focused, and the whole

Co-CEOs Share Vision, Respect and Skills

Marge Wagner, who designed the debt-consolidation loan program that helps fuel much of the business of Primerica Life Insurance Co., recognizes that John Addison and Rick Williams, co-chief executive officers of Primerica, are a unique success story.

"Primerica has a very large sales force, one that truly needs to be led and inspired," said Wagner, CEO of Citigroup's Global Consumer Group, which earned \$5.64 billion in the first half of last year on \$23.6 billion of revenues, a business larger than many national economies. "John is the leader of that and does a fabulous job. But that's just part of what Primerica is. You need someone like Rick to understand how to run the business and to maintain the scale and efficiency to make it work. It's a very serious business that has to be run in a very serious manner, and the combination of Rick and John is just perfect."

Addison is generally acknowledged to be the extrovert of the two, but Wagner recalled one night at a big meeting when Williams was on the stage and delivered a powerful and motivational speech. "I was thinking John had rubbed off on Rick," she said. A short time later, she listened during

a financial review to an Addison discourse on the numbers. "Then I was thinking that those two guys had morphed into each other. I think the reason is they have so much respect for one another that they have really learned from each other. And there's no ego to get into the way."

Wagner launched the debt-consolidation program in 1989. Primerica sold \$6.36 billion in loans in 2003. "It's important to Primerica's business because it's primarily part of what middle-income American families need to do," she said. "When you sit down with them, most families tell you they can't talk about issues of insurance, investments and retirement because of debt and servicing their debt." The reality is that if an agent can help relieve the costs of debt, then families are more ready to talk about developing a financial plan and sticking with it, she added.

The loan program also flourished as its products better addressed the credit ratings of customers and as Citigroup created regional processing centers that better serviced the business appropriate for Primerica, Wagner said. Loan applications were down in 2004 as higher interest rates cooled the market boom in refinancing.

thing collapses into a mass of litigation by harmed consumers." Primerica has three separate product-compliance departments to meet insurance, debt and securities regulations.

That's not to say Primerica doesn't continually face challenges. Its biggest strategic issue today is licensing the part-time agents, said Addison. In California, for example, new agents must take 52 hours of prelicensing instruction and then pass a test with 70% to 80% of the questions on products Primerica doesn't sell, he noted. But Primerica overcomes recruitment challenges by attracting high-quality candidates from middle-income America, such as teachers and police officers, who don't have to quit their current jobs to become agents, said Addison. The system also offers the option to become full time

Quick Facts and Stats

- Primerica reps complete a financial needs analysis for a consumer somewhere every 77 seconds.
- Primerica reps submit a life insurance application every 85 seconds.
- Primerica Life is a charter member of the Insurance Marketplace Standards Association.
- Primerica Life paid \$616 million in death benefits in 2003.
- Average issued face amount (for all Primerica companies) is \$270,000; industry average is \$119,310, according the *ACLI 2003 Fact Book*.

Source: Primerica Life Insurance Co.

and make a career change, or to simply earn some extra money by working part time. Some part-timers have been with the company for 20 years, he said.

"The typical insurance company spends \$140,000 to get an agent up and running, but the industry five-year retention rate is only 11%," he said. But Primerica is not investing six figures on new agents, so it is OK with Addison if an agent writes just one sale a year. "As long as the agent meets the continuing education requirements and in-house training, he or she can stay around forever on our computer," he said. **BR**

Learn More



Primerica Life Insurance Co.
A.M. Best Company # 06693
Distribution: Exclusive agents

For ratings and other financial strength information about these companies, visit www.ambest.com.