

Attracting The Young Generation and Utilizing Digital Innovation

Bill McKinney, Thrivent Financial

INTRODUCTION

My name is Bill McKinney, and I am the Vice-President for Strategy and Long Term Development at Thrivent Financial for Lutherans. Our company is over 100 years old, and operates in the life insurance, health insurance, and retirement markets. We are a fraternal benefit society, so similar to Japanese kyosai, we serve a specific group of people. For the first 90 years of our life as a company we served on Lutherans, a Christian denomination originating primarily from Germany and Scandinavia. 3 Years ago our membership voted to expand our membership to include all Christians. In the United States fraternal benefit societies are regulated like other insurance companies, but we are not required to pay premium or income taxes like most insurance companies. Instead, we are required to return money we would have paid in taxes to the communities that we serve. We do this through 25 local “chapters” across the United States.

I have worked at Thrivent for 13 years in a variety of roles including marketing, sales, and consumer research and insights. Prior to my time at Thrivent I spent 4 years at McKinsey & Company where I served a variety of financial services clients in banking, property and casualty, brokerage, and life insurance. I live in Minnesota which is in the middle of the United States bordering Canada. In my current role, one of my responsibilities is to identify, research, and track long term trends that could significantly impact Thrivent’s future. Today I will talk about two of those research topics, big data/advanced computing, and the rise of the Millennial generation. Before we begin, though, I thought it might be helpful to share a little bit about the history of Thrivent.



SITUATION IN US LIFE INSURANCE INDUSTRY


Almost 100 years later, Thrivent, like many of you, is facing two significant external challenges: challenging changes from regulators and low interest rates. While these external factors have certainly created hurdles for us to overcome, I also believe we have failed as an industry to adapt our products and our distribution approach to the changing needs of the market. As Generation Y becomes the majority of our employees and potentially our customers, it will be essential that we adapt to the new needs they have and the new ways they want to work with and for our organizations. New technology and new customer expectations are going to force us to innovate and adapt, or we are going to be left behind by competitors or displaced by startups.

I'd like to start by sharing some facts that illustrate the crisis currently facing the life insurance industry in the United States.



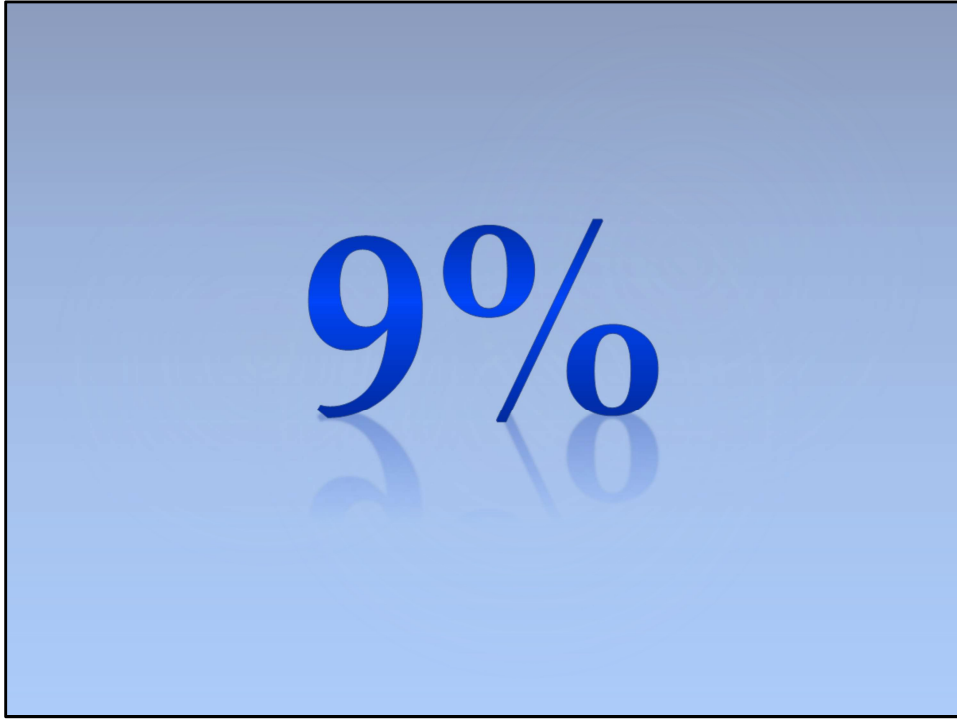
163%

Slow premium growth. According to Swiss Re, total life premium grew 163% from 1984-94,



97%

97% from 1994-2004,



but only 9% from 2004-2014.

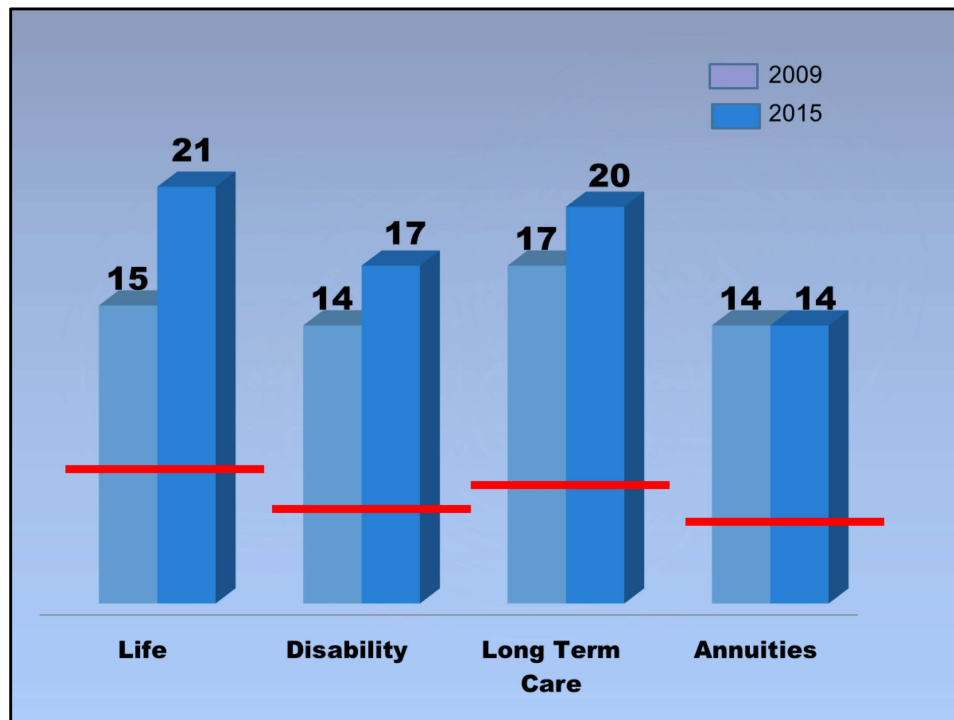


Premium per capita DECLINED 3% from 2004-2014.



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Declining product ownership. The number of newly issued individual life policies fell below 10M in 2013 which is the lowest level since the industry began tracking in 1940. Over this same period, the population in the United States has increased by almost 200 million people.









We have seen very limited digital purchases. In 2015, on-line sales of life insurance, by policies, were 21%, Disability insurance was 17%, long term nursing home care was 20%, Individual annuities was 14%. seems like a lot, but 2 things worth noting:

- In 2009, the numbers were, 15%, 14%, 17%, and 14%...so since 2009, we've seen only ZERO percent increase in the % of annuities bought on-line. 2009 was a LOOOOOONG time ago in internet world. As a reference point, in 2009 Snapchat didn't exist. It launched in 2012 and has over 100 million active daily users today...to see this little progress in 7 years is frankly pathetic.
- Of the people in this survey who "bought" on-line, only 25% of them actually completed the transaction completely on-line. The other 75% either had to print out a form to sign and mail, call someone on the phone to complete it, or go to an agent's office to complete it.

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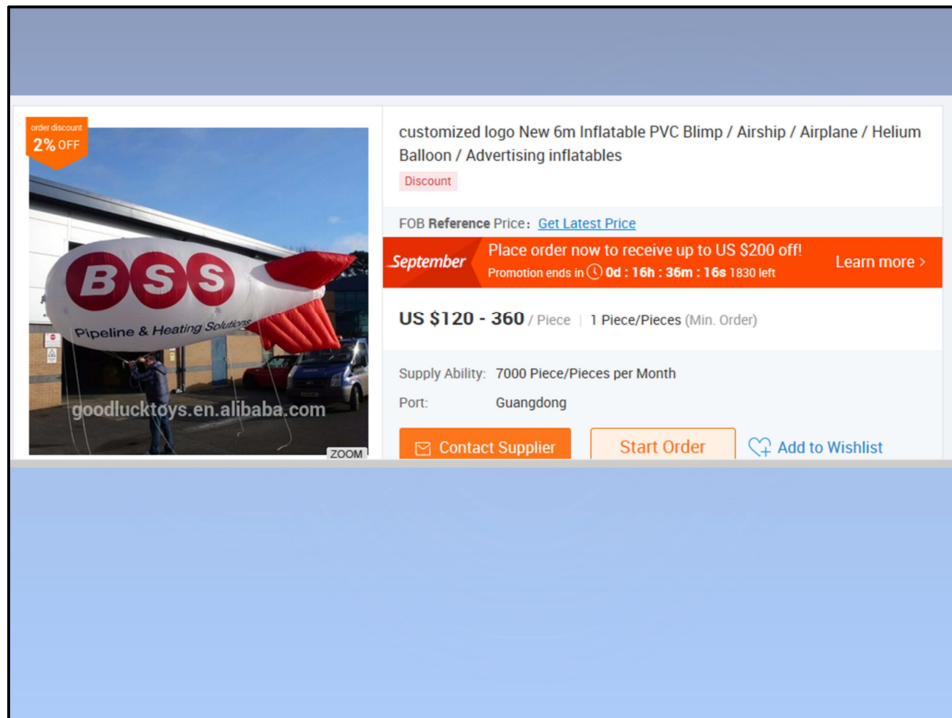
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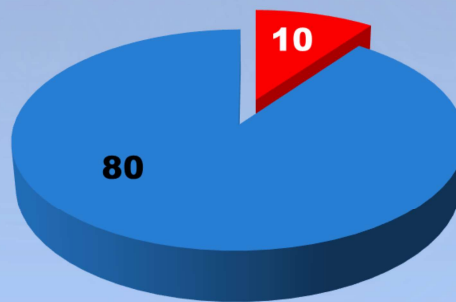
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Compare this to Alibaba...at Alibaba I can buy a \$90K counterweighted fork lift



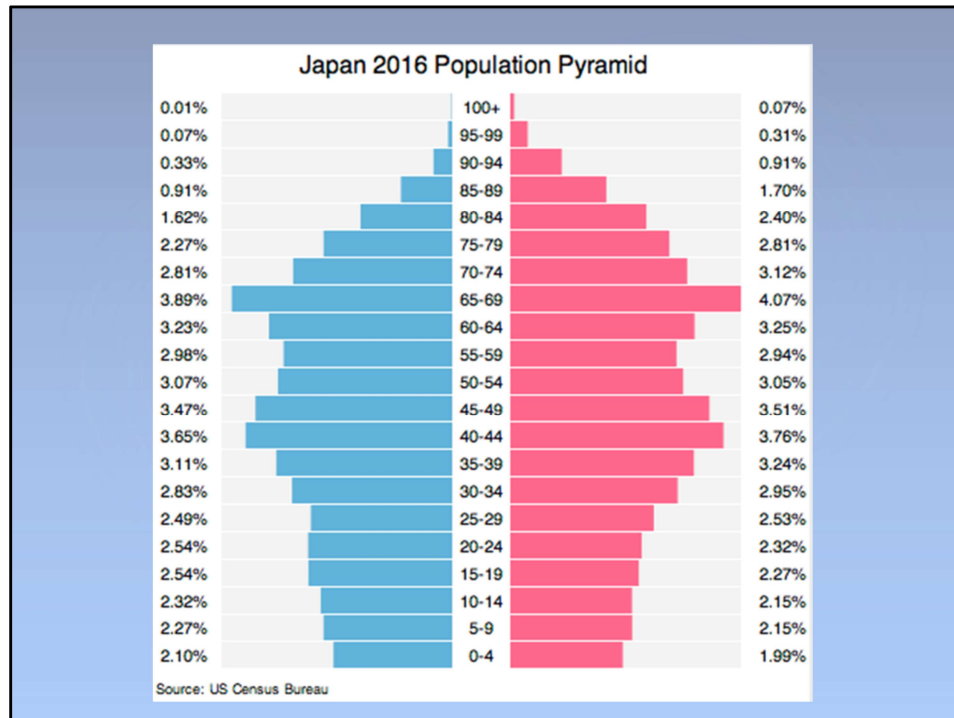
or a 6M long personalized inflatable blimp, but if I go to most of the life company websites in the US I can't even buy a simple life policy. And Alibaba isn't even 20 years old...our company has mainframes older than their company!

$$300M \times 30\% = 90M$$



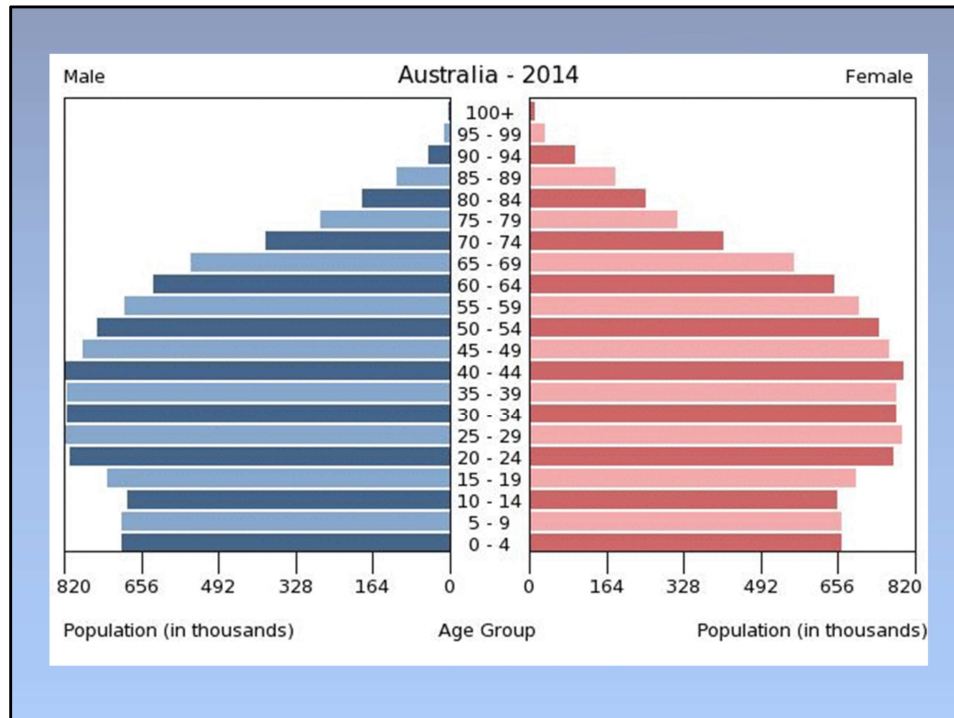
Off-line sales in retail in the US is actually SHRINKING, and this trend is not going to reverse. One of our problems in the United States is that life insurance companies are not selling WHERE people are shopping, and yet there is clearly unmet demand. About a year ago, LIMRA, a life insurance industry group surveyed Americans, and 30% of them said they needed more life insurance! So if there are 300M people, and 30% of them say they NEED more life insurance, but only 10M of them bought it. We're not doing a very good job helping them buy something that they say they need and want it!

To be fair, the property and casualty industry in the United States is doing much better at reaching consumers through digital channels, but as young consumers rely less on personal automobiles, the traditional "first insurance product" purchased by young people is changing, and the P&C players are being quickly replaced by companies that sell health insurance, travel insurance, or even pet insurance. As an industry we have been very, very slow to adapt to changing needs of young consumers and if we are going to remain relevant in the minds of these new consumers, we have to start embracing technology even more and moving much more quickly to innovate!

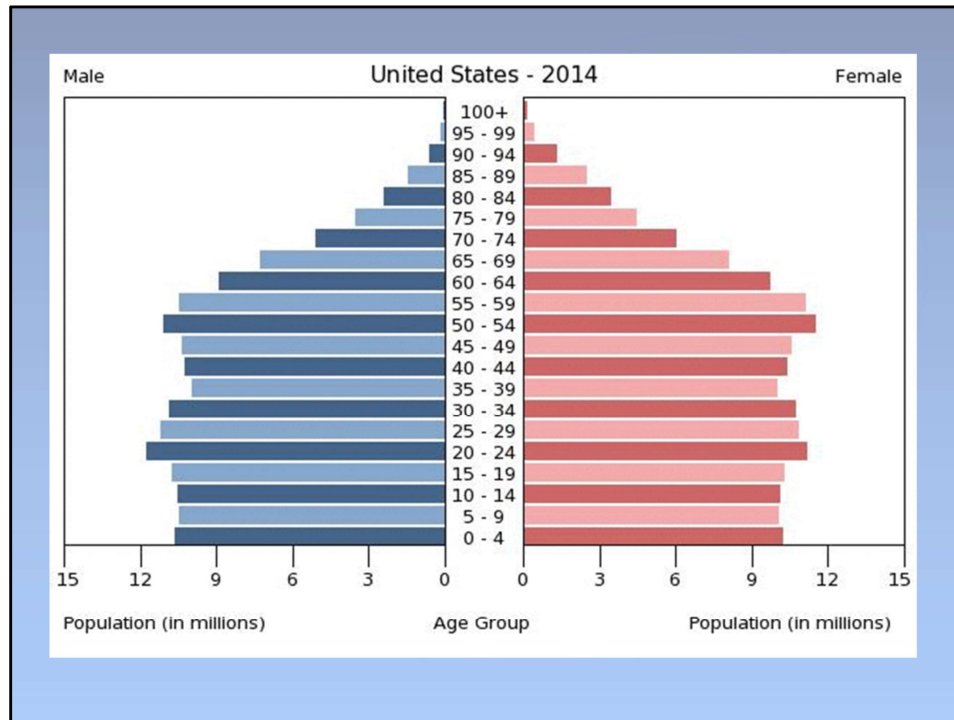


THE MIND OF MILLENIALS

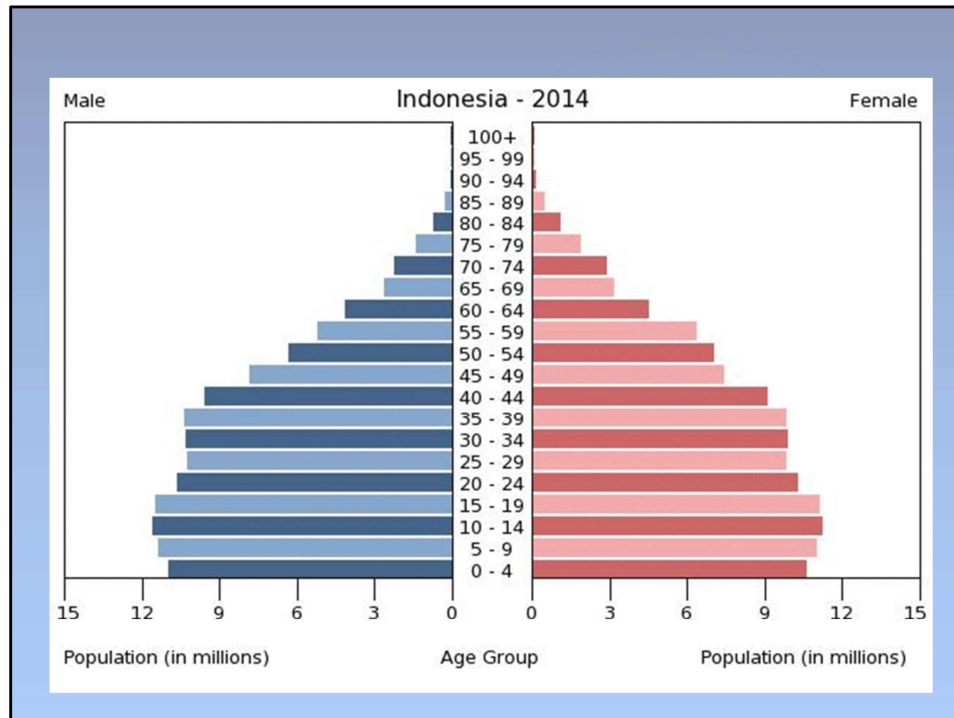
One of the challenges of serving millennials is that they represent different challenges in different parts of the world. The population “pyramids” look dramatically different in Japan,



Australia,



America,

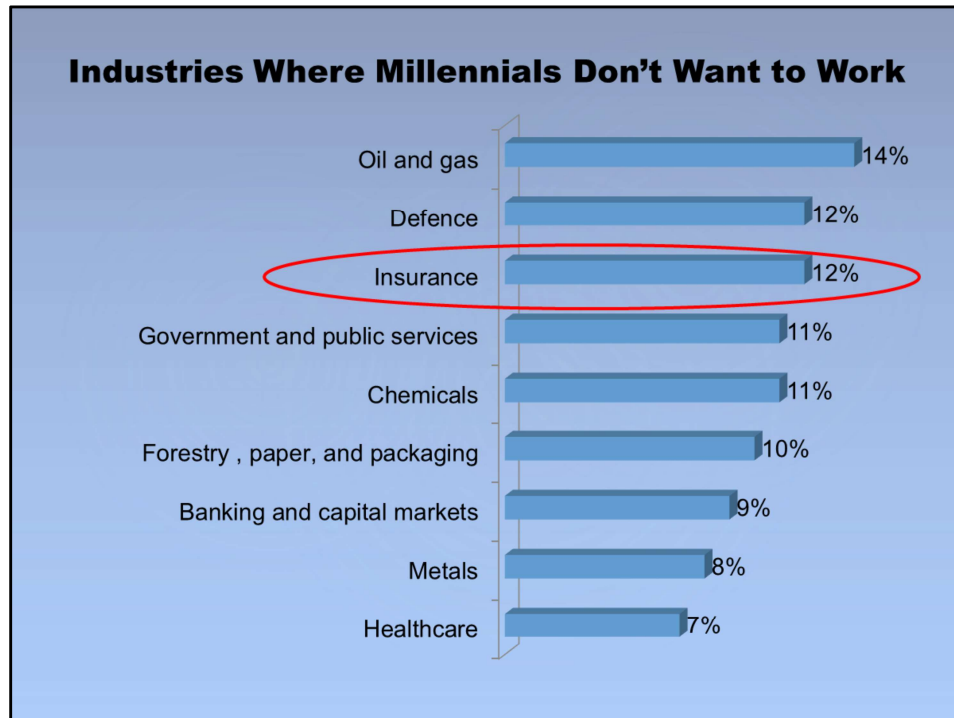


or Indonesia.

Despite these differences, though, there seem to be some consistent trends across geographies. These include:

- Comfort with digital engagement and purchasing
- Trust in friends and other consumers for advice on what product is best for them
- Preference to work for and buy from companies with strong values

If these are the yardsticks by which we should measure our potential success with the next generation of consumers then I think we may be significantly challenged going forward, because I think we have significant work to do in order to catch up.

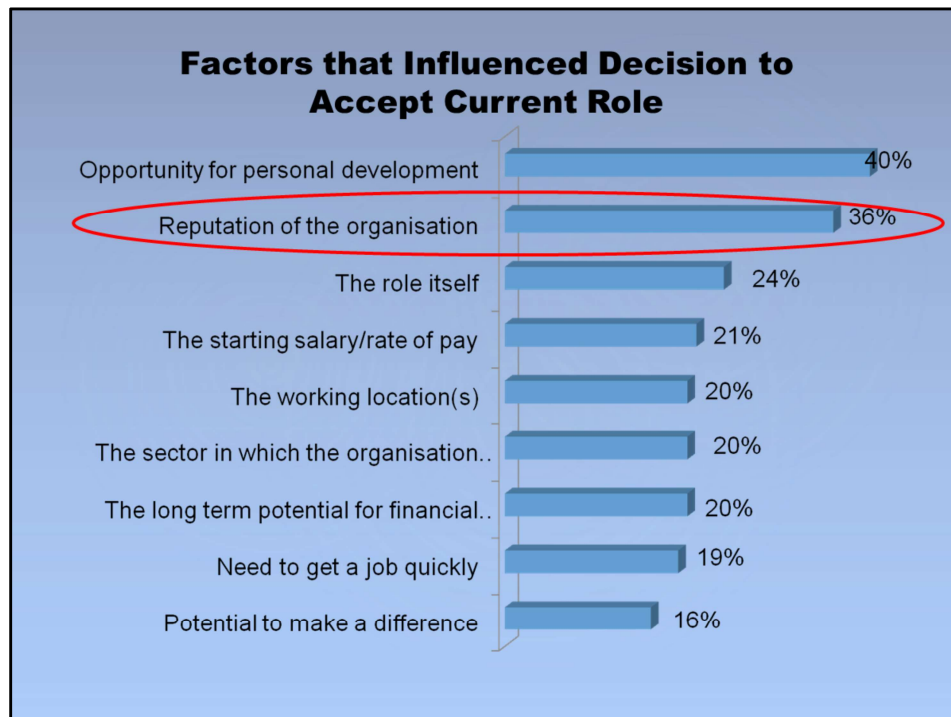


One of our challenges start with the fundamental perception that young people have of our industry. In a recent global survey conducted by Price Waterhouse Coopers, young people across the world were asked “Are there any sectors in which you would not wish to work solely because of their image”. As you can see, the good news is that we weren’t the LEAST attractive industry, we’re ahead of defence and oil and gas!



4%!

In fact an even more recent survey in the US found that only 4% of millennials were interested in a career in insurance!



The good news, though, is that Millennials DO want to work with values-based companies, and as cooperatives and mutuals, we have an incredible opportunity to demonstrate our difference to young people as both employees and consumers. In the same PWC survey I mentioned, they also found that “Reputation of the Organisation” was one of the most important factors in where Millennials chose to work. Our companies have GREAT reputations, but we have to demonstrate to Millennials that we are different in terms of who we are AND what we do.



THRIVENT'S SITUATION

Thrivent recently conducted a broad survey of Christians in the United States, and one of our key findings was that Millennials were one of the groups that MOST resonated with the idea of working with a member-owned, Christian financial services company. Unfortunately most of them didn't believe that such a company actually existed. To give a sense for the magnitude of Thrivent's challenge, our unaided brand awareness is currently less than 2% among American Christians.



I do want to share some things, though, that we are doing to try and improve both how we are perceived and how we connect with young Christians. The first is Thrivent Action Teams. Thrivent does not pay federal income or premium taxes. Instead we are required to invest the money we would pay in taxes back into the communities that we serve. Thrivent Action Teams is one of the programs by which we do it. The program allows every member to conduct 2 Action Teams per year that benefit their community. Thrivent provides T-shirts, ideas for events, tips for making an event a success, and small amount of “seed money”, \$250, to help propel the event. It’s up to the member to rally their friends and family and come up with a need to address in their community. As you can see from these pictures there we’ve engaged many young people to get out and do things that not only help their communities, but that also provide incredible branding and marketing for Thrivent.



[Thrivent Action Teams]



[Thrivent Action Teams]



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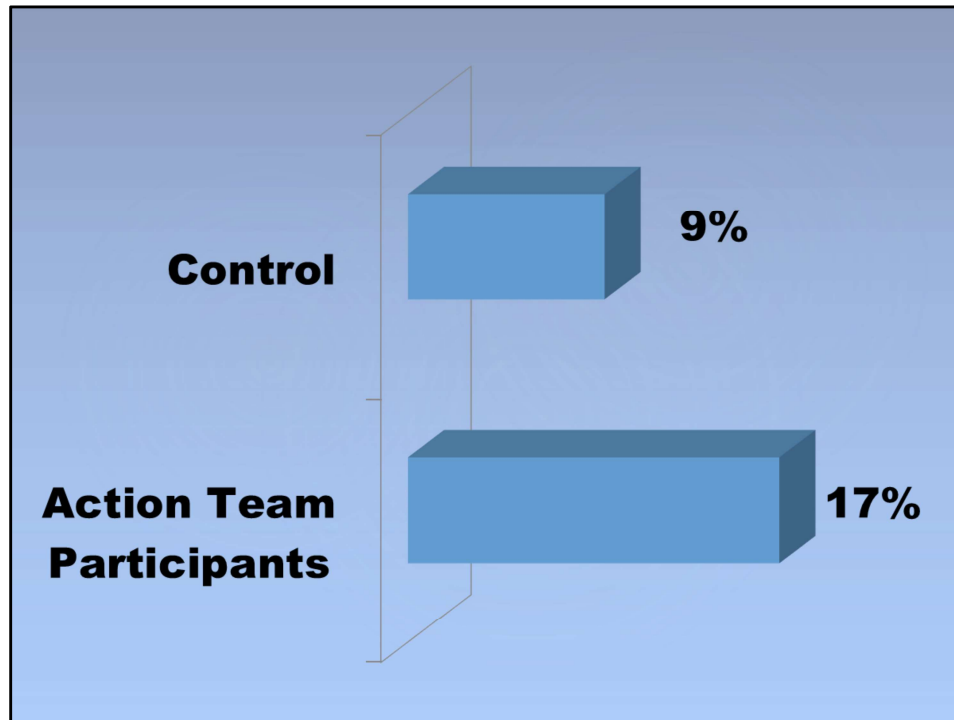
The most amazing thing about Action Teams, though, is that we are doing so many of them. This program has grown faster than we could have possibly imagined.

We started testing in 2012, and went live in one region in 2013. We rolled out nationally in the 3rd quarter of 2014 we were stunned by how quickly the program took off. By 2015 we were battling just to keep up with the volume of requests,



and this year we will spend ~\$40 million USD and send out well over 1M T-shirts!

The most amazing thing is that we have NOT marketed the program at all. 100% of the growth has been through word of mouth. And every day we have hundreds of opportunities to SHOW young people how we are different.



We are also beginning to see clearly that Action Teams are helping us attract new members and deepen relationships with existing members. When we looked closely at additional purchases, in 2015, we saw Action Team participants had almost 2X the additional purchase rate as similar members who had not participated in an Action Team.



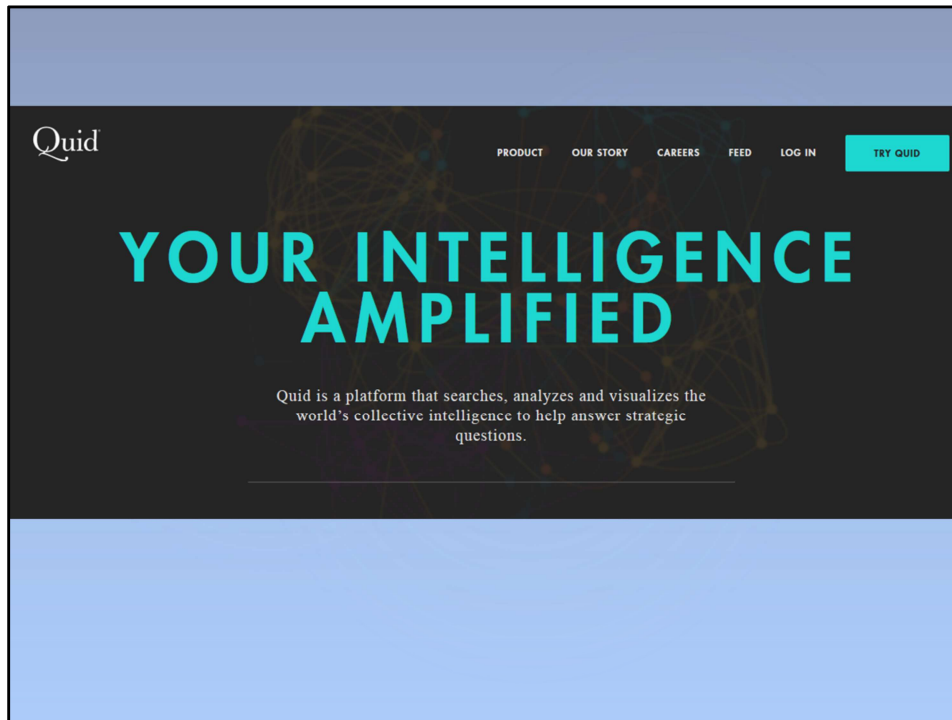
EMERGING TECHNOLOGY

Thrivent is also pushing forward in other areas of technology. The rapid growth of computing capacity and the accompanying availability of massive amounts of data has combined to open up amazing new opportunities for insurers. We have 3 specific initiatives underway that will illustrate our approach to this rapidly evolving area:

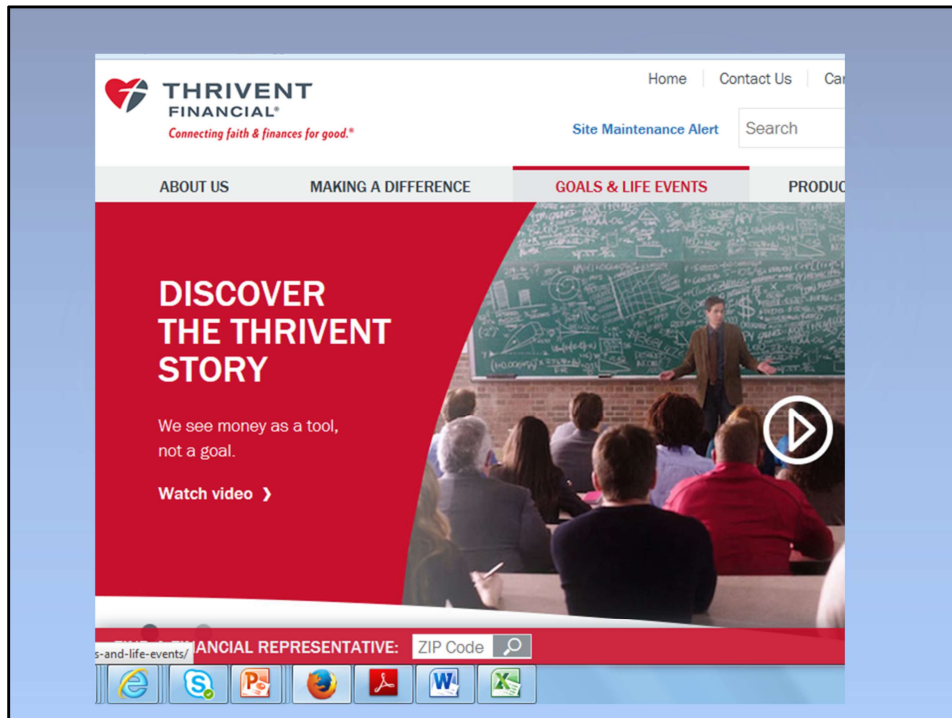
1. Marketing database – historically Thrivent had a marketing database that consisted primarily of internal data with a small amount of external data that we purchased from a vendor. In total this database was ~5 gigabytes and had information on ~5 million people. Over the last 2 years, we have been transitioning to a database that will ultimately be 30 terabytes and contain data on >200 million people. That's over 6,000 times larger, and remarkably it will actually be less expensive than our smaller, older database. We will be using this database to support both cross-sell to existing members as well as for identifying high potential new members.



2. Cognitive computing – Thrivent has also begun exploring how to use cognitive computing to help us do business more effectively and efficiently. Cognitive Computing is bringing incredible computing power to business. We have recently begun experimenting with IBM’s Watson division. Our first experiment was to upload 1,000,000 customer feedback comments and use Watson’s text analysis capability to “read” and “synthesize” these comments, giving us new insights that we couldn’t possibly do any other way. Our friends in Switzerland, Swiss Mobiliar, are actively testing Watson’s capability to accelerate and improve underwriting of commercial insurance. Thrivent is also exploring Watson as a tool to engage directly with consumers using Watson’s ability to understand and respond to natural language. Ultimately we believe cognitive computing will not necessarily replace our human knowledge workers, but rather provide critical support to help them make better decisions much more quickly than they can before and free them up to focus on higher order tasks.



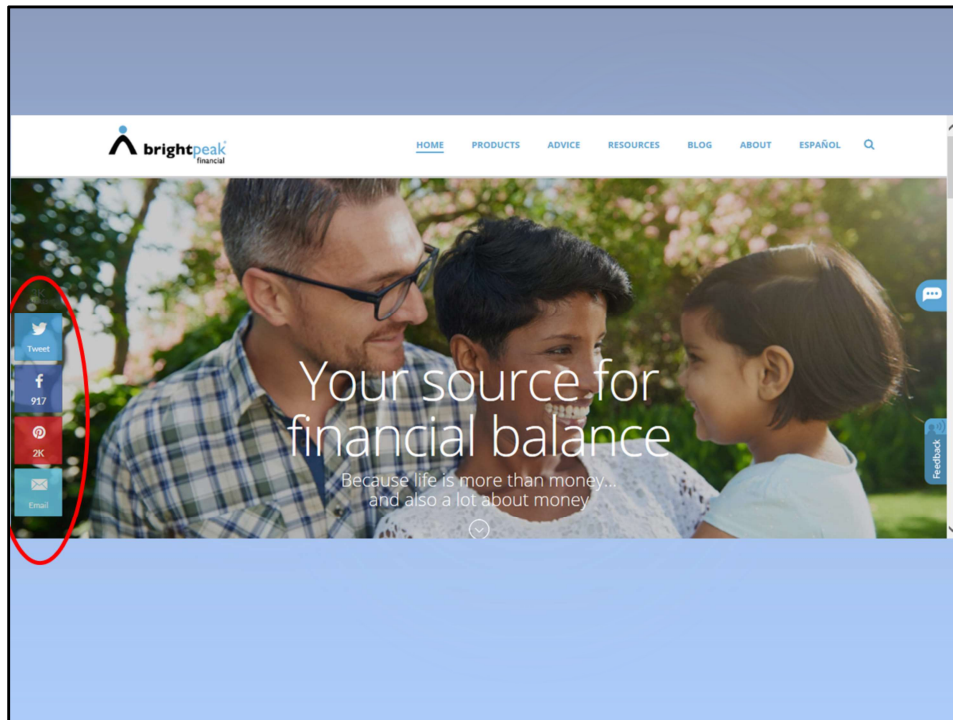
3. Quid – Thrivent is also exploring other tools such as Quid to do complex tasks. In our test with Quid we are using the tool to analyze open ended text comments gathered through a survey of our financial advisors. Tools like these are emerging quickly, and provide incredible insights that would be hidden without these new technologies.



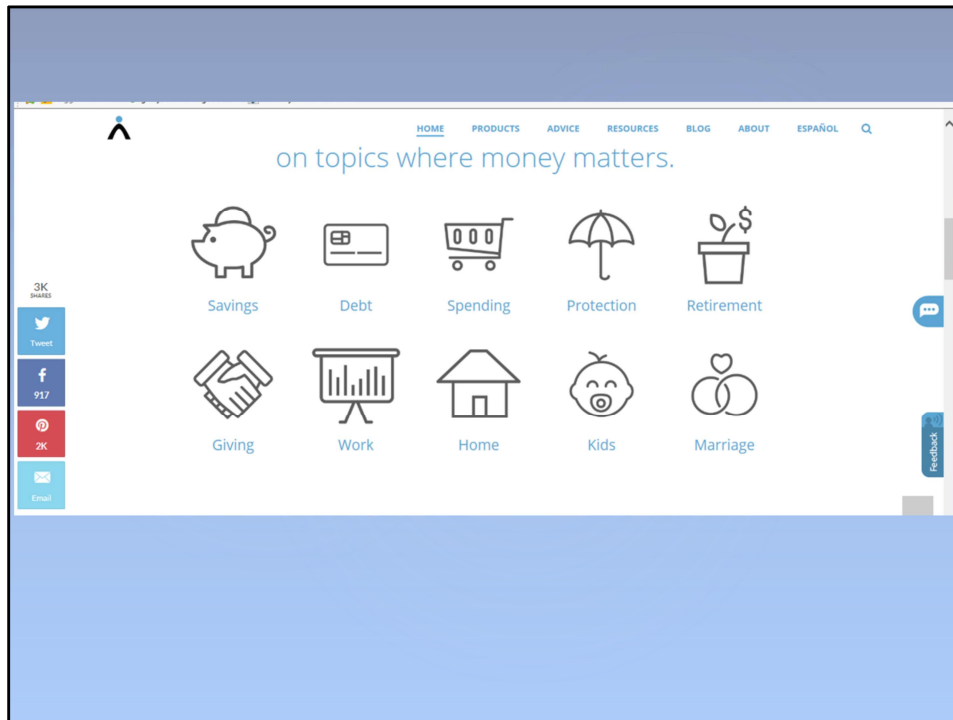
BRIGHT PEAK CASE STUDY

The last thing I'd like to share with all of you is a case study about Thrivent's other major initiative to serve young, modest income families. In the US, the wealthy have many, many companies ready to help them make wise decisions with their money.

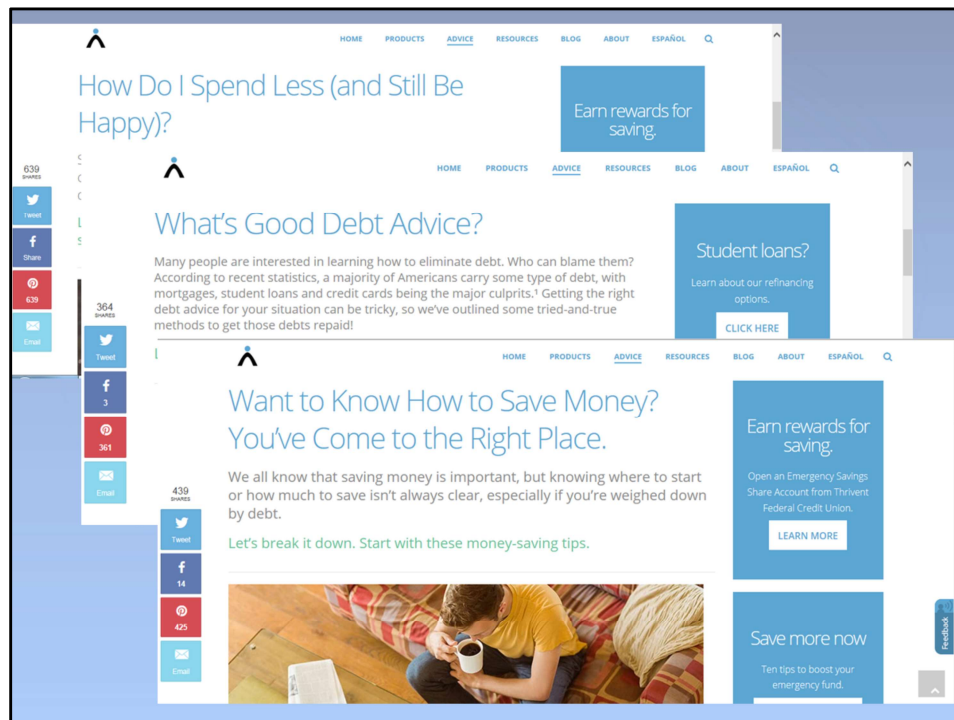
Almost no company is trying to help young families with average incomes. Thrivent's goal is to serve all Christians, so we've invested heavily in a standalone, separately branded company, Brightpeak Financial, that has simple products, digital only marketing, and fully on-line sales. This has been one of the most challenging initiatives we have ever launched, but we are finally starting to see hopeful signs of success.



Brightpeak has very different look and feel from Thrivent as you can see from these screenshots,



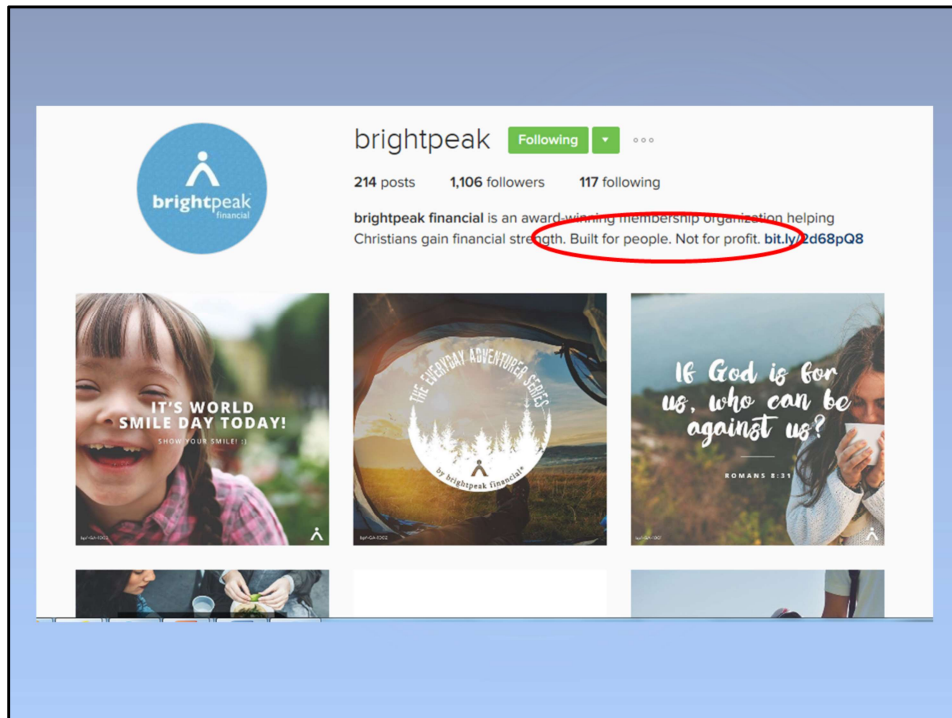
and you will see that social media is central to Brightpeak's digital presence. It also has a much less formal look and feel.



They are also very focused on providing simple advice on financial topics that are most relevant to young people, things like spending, debt, and saving, not just our traditional products like life insurance.



By combining simple advice with aggressive social media presence, Brightpeak has assembled 500K people who receive their weekly e-newsletter and over 150K followers on social media.



And they make a point of highlighting Thrivent's not-for-profit status because we know that it appeals to the young people we seek to serve. While we have so far added only a few hundred new members through this channel, now that we have the potential to complete sales of life insurance and disability, we have seen applications begin to grow more quickly.



Thank You!

CONCLUSION

Clearly our industry is extremely challenged in many ways, not the least the demands and expectations of the Millennial Generation. They have different expectations as both customers and employees. While this may be an extremely challenging time in many ways, it's also an extremely exciting one. As mutual and cooperatives, we have a unique opportunity to appeal to young people. We can also use technology to better serve them. Social media gives us unique opportunity to provide education and information. Big data allows us to know more about our customers than ever before, and cognitive computing can improve our efficiency in many, many ways. Thrivent is pursuing a number of new ways of serving our members and attracting new ones. If I can answer any questions or share any additional thoughts, I would be happy to do so. Thank you very much...arigato gozaimasu!