

REI's Co-op Business Model Challenges Life Companies to Stop Keeping Some of Our Most Valuable Benefits a Secret

One of the nice parts about my job is that I get to work in Hartford, CT but still live in Syracuse, NY. Syracuse is a great place to live and raise a family (of Eskimos!) but I am always surprised by how many more retail options are available in other cities – even a city like Hartford which is comparable to Syracuse in terms of population.

One example is the REI (Recreational Equipment, Inc) chain. I would probably not have wandered into the REI store on my own if not for a visit by one of my sons who used to live in Seattle where the chain was founded.

For the uninitiated, REI sells all sorts of high end hiking, camping, running and outdoor equipment -- everything from mountain bikes and canoes to hiking booties to protect your dog's paws. Although I prefer to do my camping in a hotel room with a hot tub, I must confess that I still find REI's inventory to be pretty cool and don't mind wandering around gawking at all of the innovative gear I never heard of. However, at Christmas time, I also indulged in a number of very well made outdoor clothing that was a huge gift hit with my family. In a moment of weakness at the register, I also succumbed to paying \$20 for a lifetime membership to join the REI Co-op.

That's right – REI has a unique business model in that they are organized as a co-op and are technically owned by their members – much like a mutual life insurance company. The REI sales person assured me that in addition to immediate discounts on my purchases, membership in REI would also result in dividends being paid to me every year. Since I wasn't planning on extensive shopping at REI any time soon, I promptly dismissed the dividend disclosure as some pie-in-the-sky promise similar to airline rewards – they look great on paper but are hopelessly impractical to actually use.

Imagine my surprise when I took our youngest daughter to the REI store last month and the topic of dividends came up again. She had just completed her freshman orientation to attend the University of CT and I was determined to buy her something to cover up all of the UConn swag she was proudly wearing to show off her new school – Syracuse University and UConn are fierce rivals so I worried for her safety if her brothers saw her! At the cash register, the REI associate reminded me that I had a dividend credit based upon the company's prior year's financial results and instead of me having to pay for my daughter's new jacket, REI picked up the cost AND gave me money back. Now *that's* a dividend!

I was immediately struck by how differently life insurance dividends are received by our policyholders. I remember during my days of selling high cash value whole life policies, we often emphasized the future benefits of those paid up additions and how they might become available to cover future premium payments. Unfortunately, this dividend "projection" was often viewed in the consumer's mind as a dividend "expectation", sometimes resulting in potential conflict when dividend scales were adjusted in the future.

Part of the problem may lie in the definition of a life insurance dividend itself. Many people, after understanding that a dividend is a refund of excess premiums, quite logically wonder why the company was knowingly overcharging them for their insurance. They'd rather keep the money themselves than have to wait years for the insurance company to pay it back to them. Thus, rather than being perceived as a valuable benefit of an insurance policy, the dividend became just another one of those mysterious

things that insurance companies do in the name of risk management that requires more pages of fine print and disclosure.

It's no wonder I was so skeptical of the possibility of the REI dividend actually being useful.

This contrasts greatly with REI where they boldly entice new members with the question "how will you spend your 2010 dividend?" Cash back is something that everyone understands and REI's dividend is a critical component of their membership benefits.

Perhaps that's a good place to start when examining just why life insurance dividends are so unappreciated. Paid-up additions may be the best use of a life insurance policy dividend, but "paid in cash" certainly sends a clear message that everyone appreciates. In addition, while REI emphasizes the benefits of dividends as a perk of membership, life insurance companies apologetically bury them under disclosure language, spreadsheet projections, and confusing jargon.

According to the National Cooperative Business Association website <http://www.ncba.coop/> true co-ops are democratically controlled by their members, return surplus revenues to members in proportion to their use of the cooperative, and are motivated by service to their members rather than by profits. Although this sounds more like a fraternal organization to me, the NCBA lists a number of mutual life insurance companies as their members.

Many consumers are rabid fans of their local co-ops yet few even know the difference between a stock mutual or fraternal insurance company. It's interesting that the largest property and casualty cooperative association in terms of membership is the National Association of Mutual Insurance Companies <http://www.namic.org/about/default.asp>. Perhaps mutual life insurance companies could use some similar representation?

Credit unions are another common form of co-op and play a special role in the banking industry by serving many niche markets (either demographically or regionally) that traditional banks won't. Of possible interest to small face life insurance companies are credit unions who specialize in serving the needs of lower income folks. One such institution is the TULIP Cooperative Credit Union in Olympia, Washington <http://www.tulipcu.coop>. Their website does an outstanding job of spelling out the benefits of a cooperative as well as their value proposition:

"Our credit union is a cooperative financial institution. Unlike a bank, a credit union is owned by the people who use it on a day-to-day basis. Opening a savings account at a credit union is the same as investing in the credit union.

In many poor communities there is an extreme shortage of formal sector financial institutions. This makes it difficult for families to maintain financial savings, build assets, and obtain fair credit. As a result, many local families do not save.

TULIP Cooperative CU strives to improve upon this undesirable situation – in a sense, to correct local market failures. But aside from correcting market failures, TULIP Cooperative CU also deepens democracy in the community. The concept of being a stakeholder in a neighborhood institution – of having a voice in its growth and development — is not widely experienced in Thurston County. The credit union is an institution that is open to all members of the community and directly accountable to them. Members are not simply clients and they are not

just beneficiaries of a small loan fund. They are shareholders with a political voice in the institution that holds their savings.”

Final expense and home service companies provide a similar service to their policyholders but I have yet to see as succinct and inspiring a mission statement as TULIP’s.

Another interesting component of the TULIP Cooperative Credit Union business model is their reliance upon business partners. In fact, they specifically acknowledge the Washington State Employees Credit Union and the Boeing Employees Credit Union with helping the organization get started. Their website addresses this unusual alliance in this way:

“Why are these “competitors” helping us? It may seem strange, but credit unions are cooperatives. The credit union movement is directed by a set of general principles, including a commitment to “cooperation among cooperatives” This means that members of the “credit union family” are committed to helping other credit unions. The TULIP project is of particular interest to many others in our community, because it is so apparent that there is a critical need for credit union services that is not currently being met.”

This cooperation among competitors also prevails among members of the Life Insurers Council where specialized committees share marketing, operations, technology, and legal resources with their fellow committee members. This is especially valuable for smaller companies who often lack the resources to effectively evaluate these issues for themselves. And although there is little differentiation between stock, mutual, or fraternal companies within the LIC, the mandate of “cooperation among cooperatives” is still alive and well.

This leads to the final point of this article: why are other industries so much better at leveraging some of the very distinctions that make the life insurance industry so unique? Our customers receive dividends but perceive them with a sense of suspicion, indifference, or entitlement while other consumers relish and celebrate them. Mutual and fraternal companies are owned by their policyholders/members yet most consumers think that all insurance companies are alike. And small face life companies embody the very best aspects of cooperatives in terms of serving the needs of an underserved constituency and in the process provide dignity and unified representation for their customers, yet very few brand themselves this way.

When I first started researching this article, I assumed that many of these problems could be resolved with a more focused and effective marketing message on the part of our industry – but now I am not so sure. The recent fervor over retained asset accounts makes me wonder if the problem is much broader. Anyone in the insurance industry knows that retained asset accounts make infinite sense and provide a valuable benefit to beneficiaries by giving them time to make important financial decisions. The fact that politics and the press would demonize our industry with this seems to be indicative of a larger problem than can be rectified by a few succinct paragraphs on a website or a regional branding campaign.

Challenges aside, mutual and fraternal companies *are* owned by their members/customers. Our policies *do* pay dividends. There is considerable cooperation within our industry where competing companies help each other out. And many of our companies provide valuable resources for folks in need. The fact that other industries can leverage these attributes as attractive benefits while our industry is forced to

link them to suspiciously confusing legal disclosures makes an even stronger case for the importance of improved communication and focused marketing.

Everyone who shops at REI knows it's a co-op and every member of REI knows and looks forward to their dividend – and even the staunchest regulator or strictest lawyer can't stop the customers of a mutual or fraternal life company from being that way, too. But they will never know that if we don't tell them.