

Equity-Based Insurance Guarantees Conference

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Chicago, IL

Dynamic Index Market Overview

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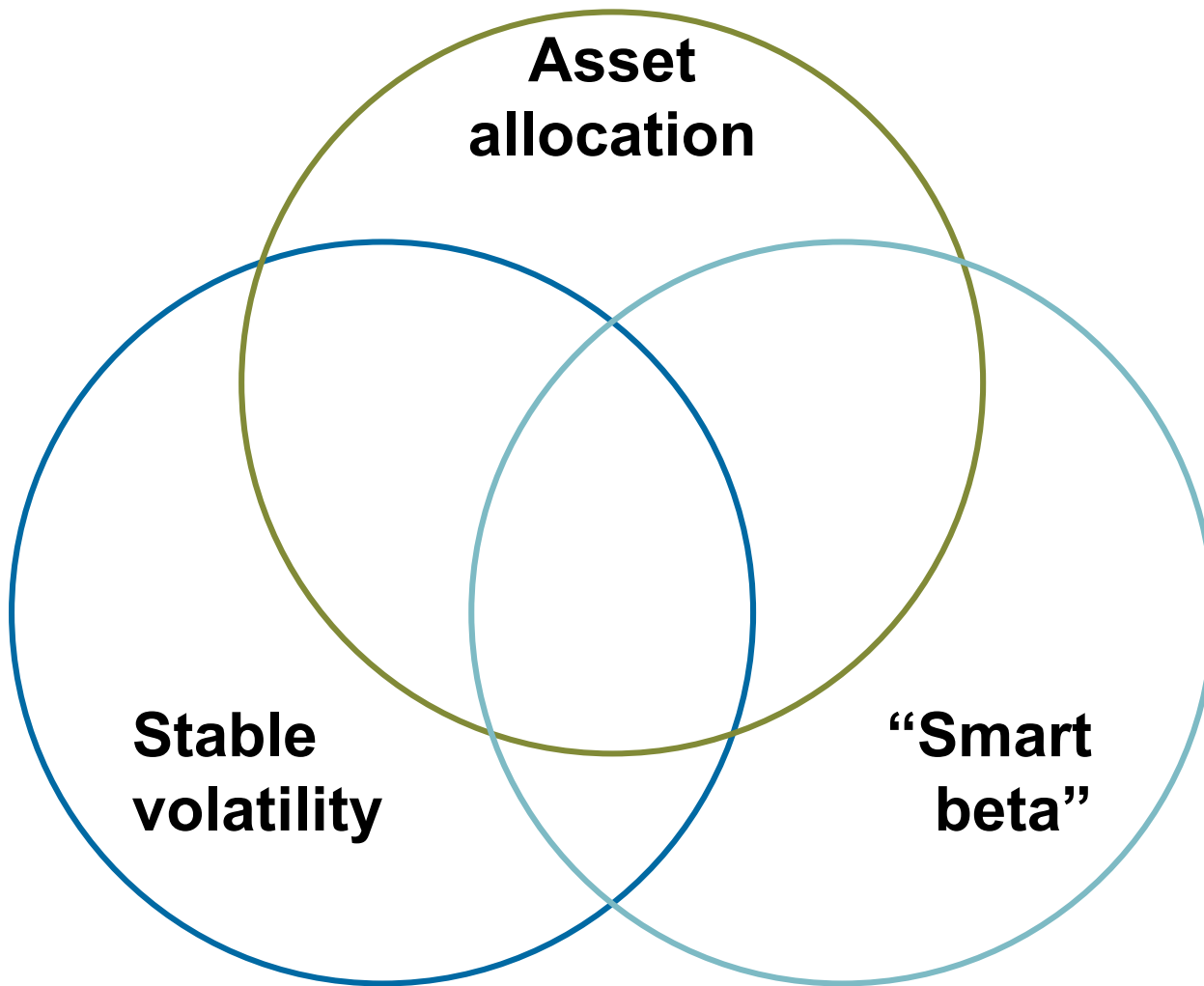
Dynamic Index Market Overview

2019 EBIG Conference (Chicago)

11 November 2019, Session 1B: 1045 – 1215 Hours

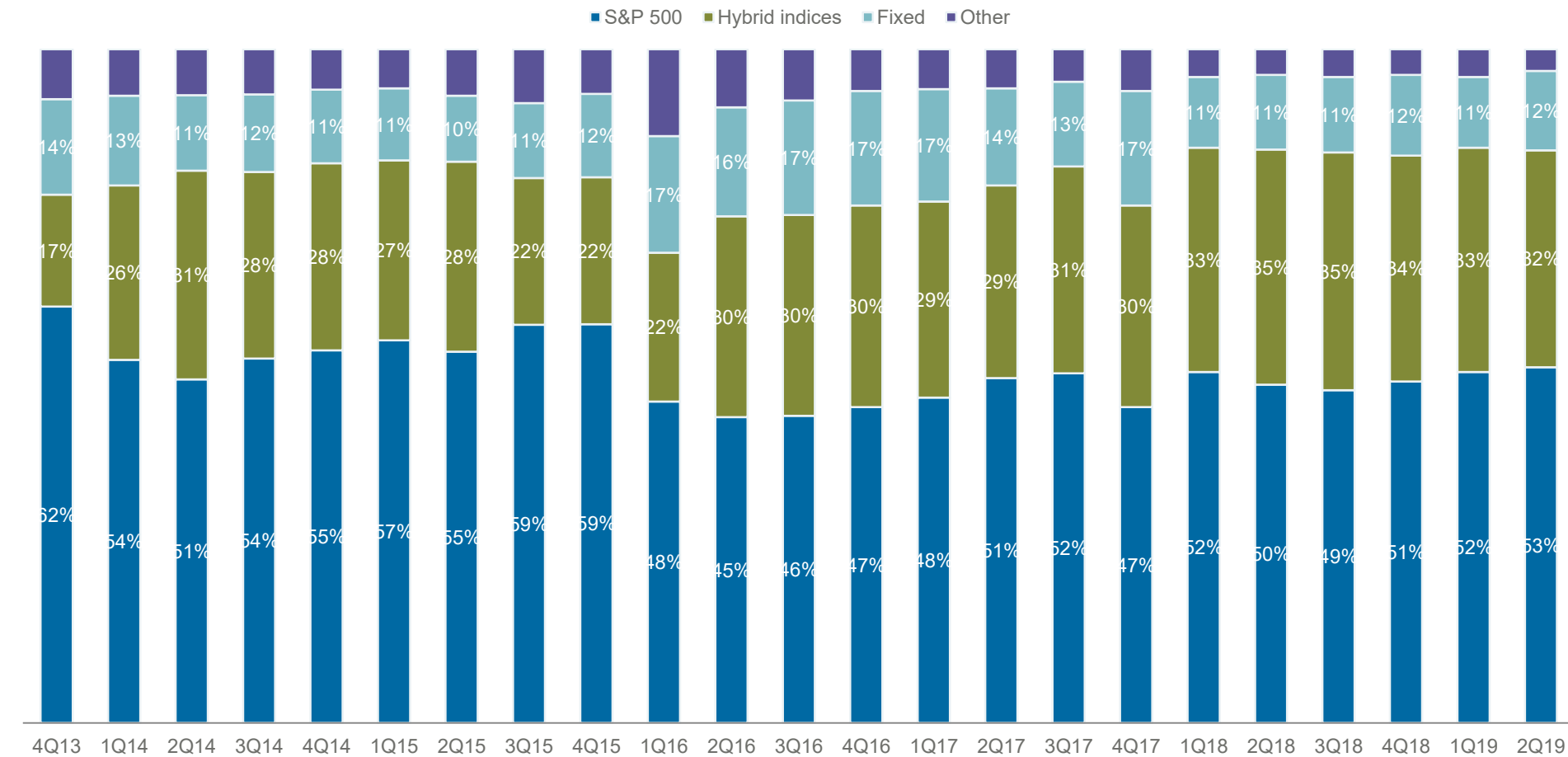
Brandon Igyarto, Managing Director, J.P. Morgan

Over the past 10 years, the market has discovered a new kind of index



From <5% in 2010, new index designs have grown to a third of the FIA market

Fixed indexed annuity sales by index type (2013 – 2019)



Source: Wink's Sales & Market Report.

Although most carriers have one or several hybrid indices, share of sales varies widely

Fixed indexed annuity sales and index offerings

Rank	Company	2018 sales	Share of sales by channel					Hybrid indices	
			Indep. agent	Bank	IBD	Wirehouses	Career agent	# of indices	Share of sales
1	Allianz Life	\$9,229m	63%	4%	28%	5%	0%	3	66-73%
2	Athene	\$6,703m	97%	3%	0%	0%	0%	9	Not available
3	Nationwide	\$5,156m	65%	8%	12%	11%	3%	3	91%
4	AIG	\$4,872m	19%	33%	23%	13%	13%	2	47%
5	Great American Group	\$4,549m	33%	38%	29%	0%	0%	2	14%
6	American Equity	\$4,343m	85%	8%	5%	3%	0%	1	20% ²
7	Sammons	\$4,050m	75%	3%	23%	0%	0%	6	Not available
8	Pacific Life	\$3,554m	26%	38%	23%	13%	0%	1	2%
9	Lincoln National Life	\$3,056m	43%	33%	10%	9%	5%	4	Not available
10	Global Atlantic	\$2,845m	11%	39%	22%	28%	0%	3	9%
11	Fidelity & Guaranty Life	\$2,283m	100%	0%	0%	0%	0%	2	21%
12	Symetra Financial	\$1,992m	2%	71%	13%	14%	0%	1	37%
13	Delaware Life	\$1,386m	57%	33%	10%	0%	0%	3	33%
14	National Life Group	\$1,346m	97%	0%	0%	0%	3%	2	6%
15	EquiTrust	\$1,303m	100%	0%	0%	0%	0%	1	5%
16	Massachusetts Mutual	\$1,236m	0%	0%	0%	0%	100%	1	Not available
17	Security Benefit Life	\$1,227m	91%	2%	6%	0%	0%	7	29-39%
18	Reliance Standard	\$1,176m	37%	63%	0%	0%	0%	0	0%
19	Bankers Life & Casualty	\$1,100m	0%	0%	0%	0%	100%	0	0%
20	American National	\$868m	68%	16%	11%	0%	5%	0	0%
21	Protective Life	\$829m	0%	25%	68%	7%	0%	1	14%
22	Ohio National	\$783m	60%	27%	7%	0%	6%	1	3%
23	Western & Southern	\$490m	35%	0%	21%	0%	44%	2	70%
24	Ameritas	\$363m	100%	0%	0%	0%	0%	2	30%
25	National Western	\$335m	69%	2%	28%	1%	0%	1	35%
	Others	\$3,313m							
	Total	\$68,387m	55%	17%	17%	6%	6%		34%

Source: Wink Sales & Market Report, Wink's Index Intelligence Report.

¹ Calculated by subtracting each carrier's independent agent sales from their hybrid index sales, and dividing by the sum of their bank, broker/dealer and career agent sales.

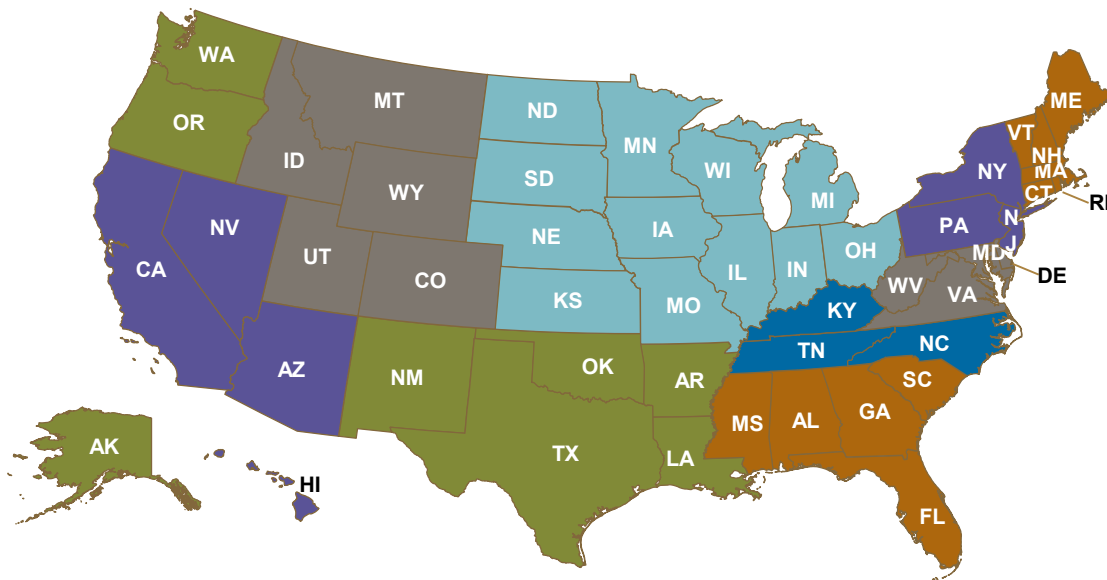
² American Equity shares doesn't include most of H1 hybrid index sales.

Advisor Sales team

Proposed forward-looking coverage map

Senior product experts

	States	Phone	Email
Michael D'Auria	NY, NJ, PA	[redacted]	[redacted]
Steve Boyle	AK, DE, ID, KY, MD, MT, NC, OH, OR, TN, TX, VA, WA, WV, WY	[redacted]	[redacted]
Josh Levine	AR, CT, CO, IA, IL, IN, KS, MA, ME, MO, NE, NH, OK, RI, VT	[redacted]	[redacted]
Shane Meyer	AZ, CA, HI, NM, NV, UT	[redacted]	[redacted]
Ezgi Ertan	MI, MN, ND, SD, WI	[redacted]	[redacted]
Andrew Evans	AL, FL, GA, LA, MS, SC	[redacted]	[redacted]



Sales support / origination

- Daniel Roose (Manager)
- Cesar Rodriguez
- Pedro Tenreiro
- Zachary Certner
- Tatiana Gedeon
- Zach Certner
- Christopher Ong

Support Hotline: [redacted]

Index design process overview

Index construction

Step 1: Idea Generation

- J.P. Morgan product development team
- Client-specified investment style or objectives
- J.P. Morgan Research
- Third-party Research

Step 2: Select Components

- Benchmark indices
- ETFs
- Stocks
- Futures
- Futures Trackers
- Listed options

Step 3: Select an allocation methodology

- Simple/exponential vol targeting
- Markowitz efficient frontier
- Mean variance optimization
- Risk parity
- Momentum

Step 4 (Optional): Overlay an additional vol target mechanism

- In the event that the allocation methodology does not efficiently target the desired volatility, an additional volatility targeting methodology can be applied
- Depending on the allocation methodology and the number of underlyings, this can be very simple or very bespoke (for example, when the dynamics of the underlying index varies significantly from day to day)

Parallel analysis

- Client sophistication
- Liquidity
- Transaction cost
- Licensing cost
- Basis risk
- Gap risk

Choosing a level of risk

Index construction

	Volatility	Typical equity weights
Conservative	4 - 5%	20-40%
Moderate	6 - 8%	40-70%
Aggressive	10%+	70%+

Fees and transaction costs

Index construction

Index fees

- ✓ Higher participation rates, lower spreads or higher caps
- ✓ Transparent if disclosed
- ✗ Lower index return

Embedded transaction costs

- ✓ Higher participation rates, lower spreads or higher caps
- ✗ Lower index return
- ✗ Not transparent—even if disclosed, impact on performance is typically hard for purchasers to quantify

Current market practice

- Common for bank-sponsored indices, typically at levels around ~0.5%
- Uncommon for indices sponsored by asset managers or by traditional players (who are more likely to use price return to achieve the same goal)
- Uncommon for indices from traditional sponsors or US banks
- Increasingly common for indices from European banks

The impact of interest rates on different return types

Index construction

- The return type of indices in the market today varies along 2 dimensions:
 - Price vs total return: are dividends reinvested?
 - Excess vs total return: are the returns net of the cost of holding the assets?
- While price vs total return mostly impacts optics, the design of an FIA means that the choice of excess vs total return can be very consequential:
 - Since premiums are invested on a duration-matched basis when the annuity is purchased, hedge budgets for the life of the annuity are fixed at that time
 - Because the hedge budget associated with a given crediting strategy on **an excess return index has very little sensitivity to rates**
 - This means that annuity writers will be able to continue to offer similar options regardless of changes in interest rates in the future
 - For total return indices, on the other hand, hedge costs rise with rates—at a fixed hedge budget, total / price returns renewals will get worse if rates every rise

Rates sensitivity of hedge budgets



Rates sensitivity of spreads



Note: Charts illustrate a 1Y crediting strategy on indices with 6% volatility and no financing costs or index fees. Price return index has a 2% dividend yield. Charts above are purely illustrative and not meant to reflect any individual index or crediting strategy