

Equity-Based Insurance Guarantees Conference

Nov. 11-12, 2019

Chicago, IL

Indexed Annuities - Market Update

Michael Sparrow, FSA, MAAA, CERA

[SOA Antitrust Compliance Guidelines](#)

[SOA Presentation Disclaimer](#)

Sponsored by



Indexed Annuities – Market Update

MICHAEL SPARROW, FSA, MAAA, CERA

VP – Hedging & Risk Management, Nationwide Insurance

2019 EBIG Conference (Chicago)

Session 1B: 10:45am-12:15pm

November 11, 2019



SOA Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- -**Do not** discuss prices for services or products or anything else that might affect prices
- -**Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- -**Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- -**Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- -**Do** alert SOA staff and/or legal counsel to any concerning discussions
- -**Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

Presentation Disclaimer

Presentations are intended for educational purposes only and do not replace independent professional judgment. Statements of fact and opinions expressed are those of the participants individually and, unless expressly stated to the contrary, are not the opinion or position of the Society of Actuaries, its cosponsors or its committees. The Society of Actuaries does not endorse or approve, and assumes no responsibility for, the content, accuracy or completeness of the information presented. Attendees should note that the sessions are audio-recorded and may be published in various media, including print, audio and video formats without further notice.

Introduction/Agenda

Overview of today's session and speakers

Trends in the Indexed Annuity Market

- Annuity sales trends
- Trends in product structure

Impact of interest rates, today and tomorrow

- Implications of yield curve shape
- What if yields are lower for longer?
 - Customer view
 - Product management

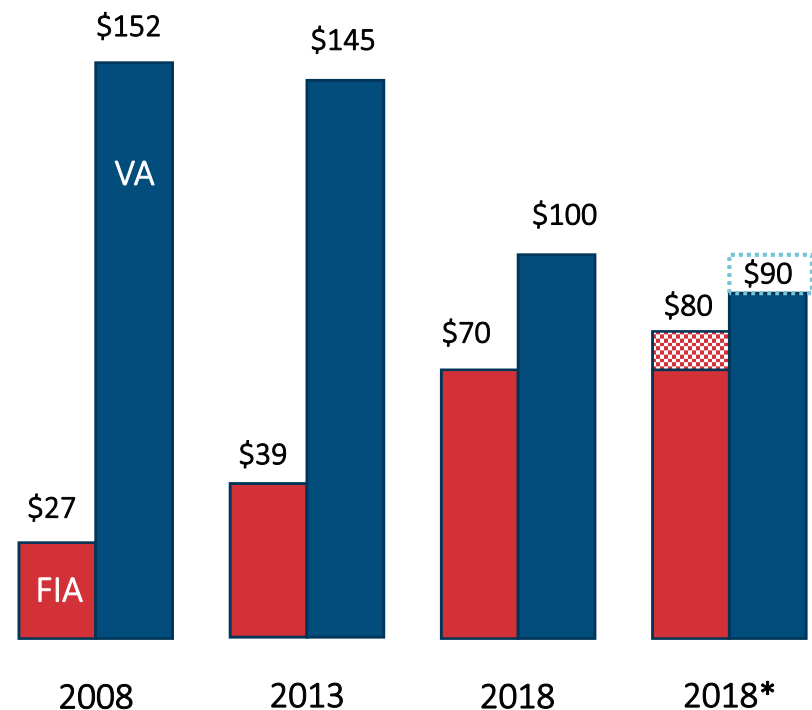
Indexed Sales are Booming

FIA sales continue to break records each year...

- Growth in 8 of past 10 years
- 10% annual CAGR
- Even greater growth if include RILAs

... at the expense of variable annuity sales which ended a long contraction


- Contraction in 7 of past 11 years
- -5% annual CAGR
- Appearance of VA stabilization masked by RILA inclusion



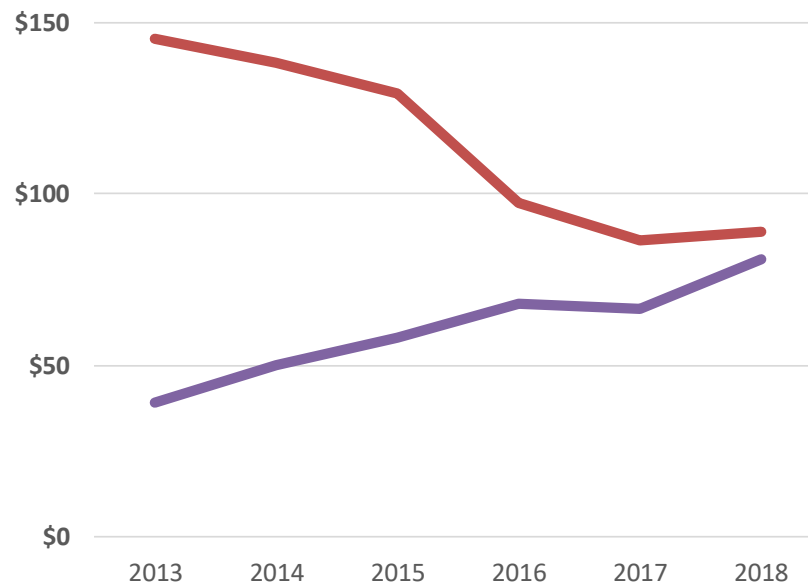
2018* represents sales with RILA counted as FIA instead of VA

Source: LIMRA

What's Driving the Trends

 **INDEXED ANNUITIES**

- Very low yields on CDs, savings
- Safer alternative w/solid performance
- Valuable GLWBs
- No explicit fees*
- Changing demographics
- Greater advisor acceptance



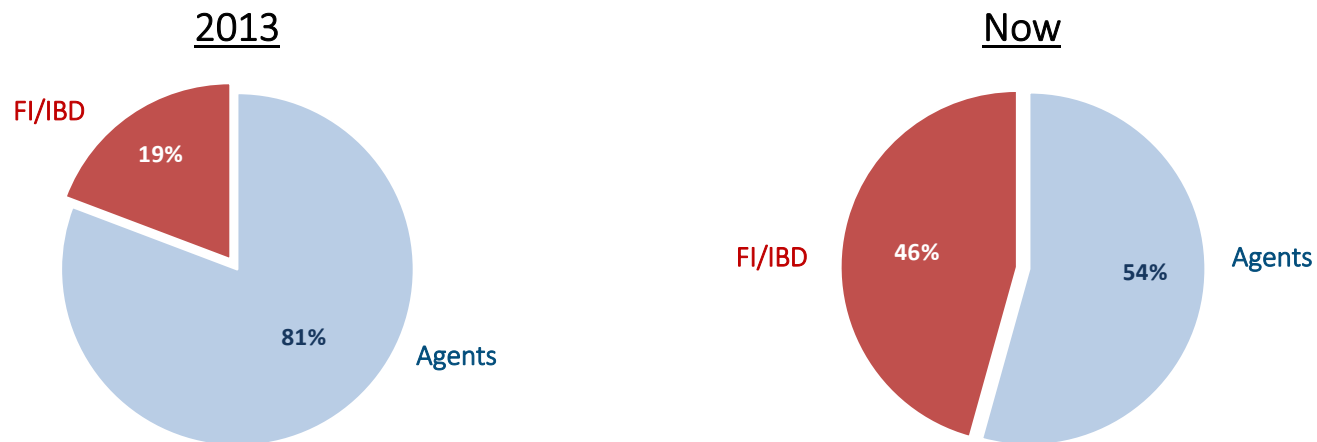
Source: LIMRA

 **VARIABLE ANNUITIES**

- High fees
- Market exposure limits
- LWB benefit reductions
- Regulatory pressures
- High market valuations
- Changing risk tolerance

*Most FIA products do not have a declared fee, except when benefit riders are present

Brokerage Channels have Embraced Indexed Annuities



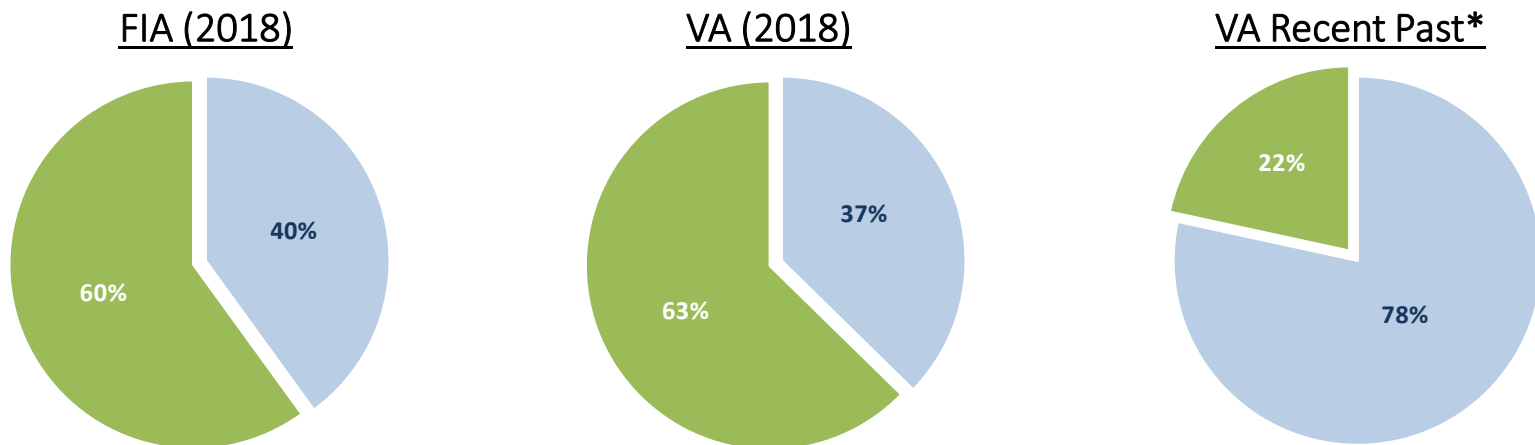
Source: LIMRA

- Sales still dominated by agent channels
- FI/IBD sold < \$10B
- Competition from “name brand” insurers still nascent

- Sales are nearly balanced by channel
- FI/IBD has grown +37% annually to \$37B
- IA/IMO also growing, but at a more subdued +7% yearly rate

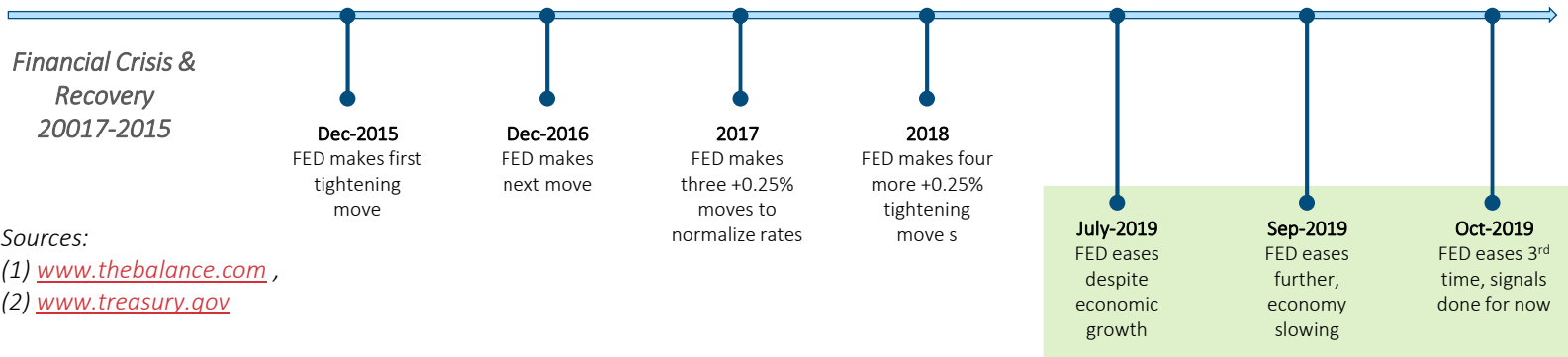
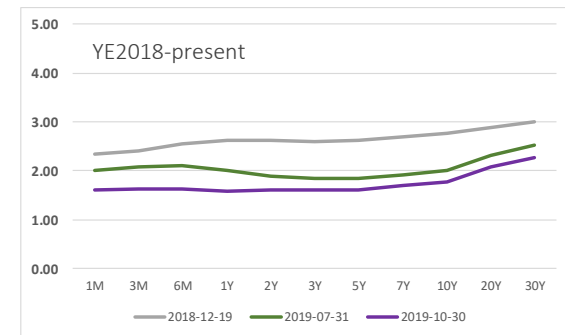
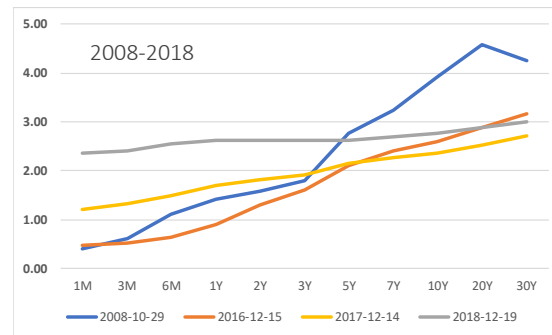
Sales are Balanced between Accumulation and GLWB

- GLWBs are an important part of the FIA sales story as they are for VA
- However, *accumulation* sales provide the majority of today's volume
- Compare this to only 3 years ago, when GLWBs dominated VA sales



Source: LIMRA GLB election survey. 2018 results as a % of total sales. Recent past is 2015 VA sales as a % of sales where GLWB was offered.

What's Happening with Interest Rates...

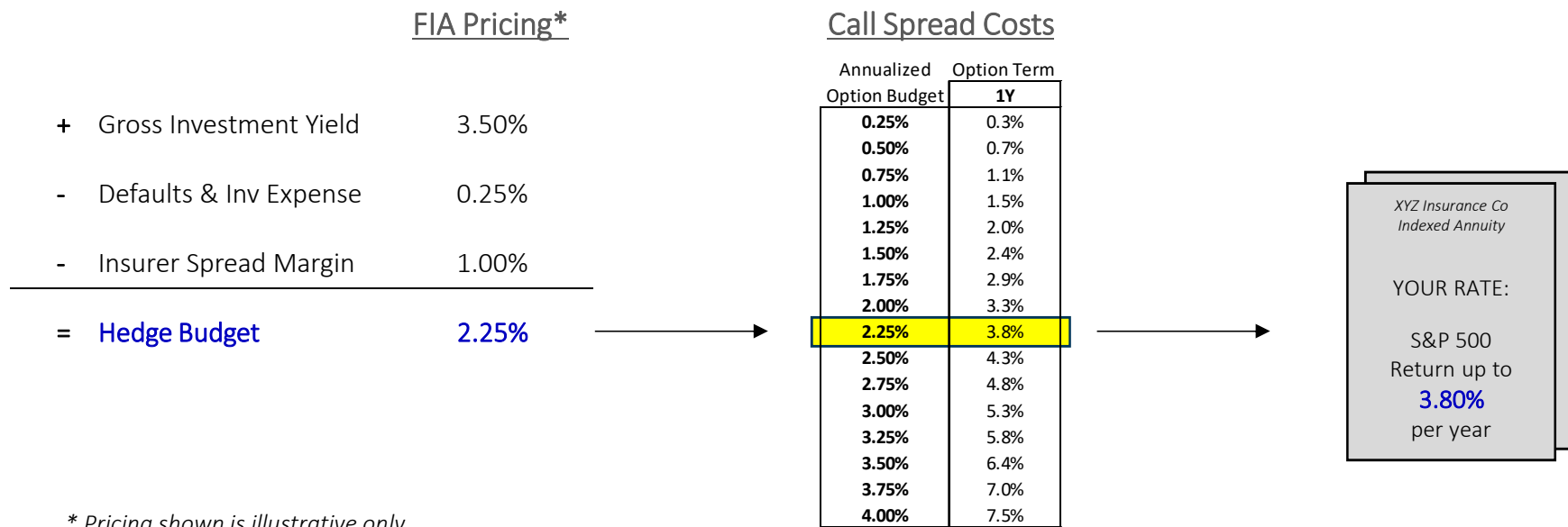


Sources:
 (1) www.thebalance.com,
 (2) www.treasury.gov

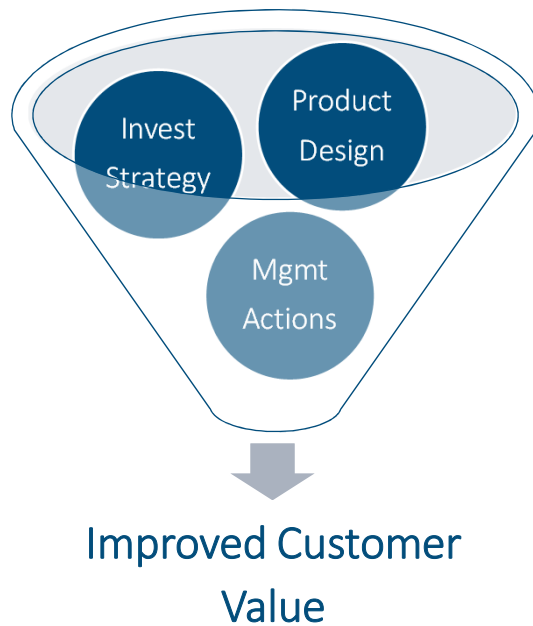
Changes in yields in the past two years are reshaping the indexed annuity market

... and what happens to FIAs if rates continue to fall?

- The industry faces a risk to its value proposition if yields revert downward
- The value proposition of FIA is only as good as the affordable option budget



Insurers have choices available if rates continue to fall



Product Design

- ✓ Index choice
- ✓ Increase term length
- ✓ Reduce index floor (RILA/ ILVA)



Investment Strategy

- ✓ Credit risk or Alternative assets
- ✓ Optionality (structure)
- ✓ Duration
- ✓ Floating rate instruments

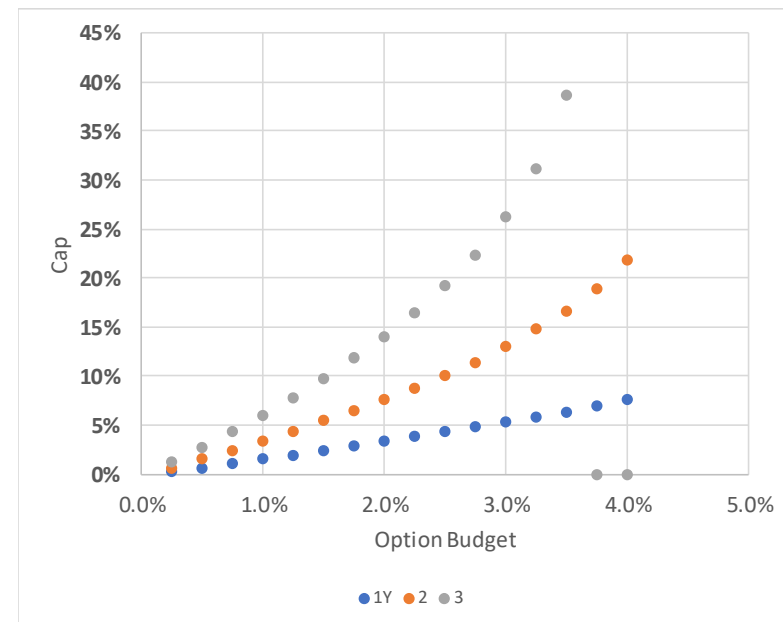


Management Actions

- ✓ Lower operating expenses
- ✓ Reduce commissions
- ✓ Portfolio view of rates
- ✓ Accept lower IRR

FIA product levers case study – lengthen option term

- The upside potential can change significantly by choosing a longer index term
 - Upside = Greater potential value
 - Downside = May give back some gains
- Similar characteristics can be achieved from choice of...
 - Index strategy
 - Index type
 - Index volatility
 - Level of floor protection



Concluding Thoughts

- Indexed products continue to increase in popularity
- Despite past resistance, registered advisors have embraced indexed annuities
- Indexed products are evolving to take advantage of the flatter yield curve
- However, recent declines in interest rates threaten to impair the FIA value proposition absent further product innovation