

Fixed Annuity Sales at Banks Drop \$1.2 B

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Bank sales of fixed annuities reached \$8.7 billion in the second quarter, according to Beacon Research in Chicago, a drop in sales from \$10.9 billion in the first quarter.

The decline in sales would have been even more severe if the spread between corporate bonds and Treasuries had not been so wide, which hurt CD sales.

Fixed annuity rates, which are based on corporate bonds, have been higher than CD rates, which are based on Treasuries, since November last year. At that time, five-year fixed annuities were returning 5.04% compared to 4.48% for five-year CDs.

By December fixed annuity rates were beating CDs by more than 1%.

Judith Alexander, director of sales and marketing at Beacon notes that those widening spreads were a function of an increasingly volatile market. Indeed, by the end of the third quarter investors were buying Treasuries that promised negative returns. "The spread just kept getting higher as the market went to hell," she said. "Everyone was terrified."

As the market starts to show signs of recovery, however, investors are starting to look for higher returns. CD rates overtook fixed annuities in June, returning 3.7% compared to 3.14%. Investors in the bank channel tend to be more conservative than the general population, so sales of fixed instruments remain strong, but it's hard to get fired up about a 3% return, and that could hurt both CDs and fixed annuities going forward. "Fixed instrument buyers are not excited about the current rates," Alexander comments. "We're seeing money flowing into lower-rated bonds as people start chasing rates."

Andrew Singer, managing director of Bank Insurance Market Research Group in Mamaroneck, N.Y., says he's been talking to banks that just don't understand what the insurance companies are up to. "Fixed annuities carried banks through the recession until recently, but the bottom just dropped out of the market," he says. "But credited rates continue to decline. It's almost like they don't want the business right now."

Some of banks' typically conservative clients are likely to continue to buy fixed annuities and CDs, though, and Alexander expects fixed-annuity sales to remain flat in the third quarter. "Rates haven't changed much recently and things are relatively stable," she says.