

Insurers slow production of fixed-index annuities

Aviva, Midland, North American, EquiTrust, Fort Dearborn make moves to dampen sales

By: **Darla Mercado**

Insurers, concerned about conserving capital, have put the brakes on their fixed-index-annuity production, a move that advisers say could put a crimp in their business.

Carriers, including Des Moines-based Aviva USA — the largest seller of index annuities — have been turning down the volume on such sales, raising fees for riders, reducing sales commissions and putting a temporary stop to the licensing of new annuity producers. Aviva also ended relationships with some of its distributors and producers.

And the carrier isn't alone.

Midland National Life Insurance Co. of Sioux Falls, S.D., and North American Company for Life and Health Insurance of Chicago have also pulled back. Both stopped accepting new agents as of mid-March. North American also suspended sales on March 3 of its multiyear guaranteed annuities, according to Beacon Research in Evanston, Ill. Those products pay out a guaranteed interest rate to the annuity holder for a specific period of time.

Similar sales reductions have also taken place at EquiTrust Life Insurance Co. in West Des Moines, Iowa, and Fort Dearborn Life Insurance Co. of Downers Grove, Ill.

The moves have raised some concerns for independent marketing organizations and advisers, who say that their options for preferred-index-annuity carriers are dwindling during a time when demand for fixed products is rising. IMOs are distributors that have contacts with an array of insurers and that can also license agents.

"Say one of the companies shuts down production because they have the best product," said Brian N. Drake, president of Drake Saunders & Diwinsky Ltd. in South Orleans, Mass. "Well, I have to go to a different company that's not as good, which impacts the client because they can't get the best one out there," said Mr. Drake, who is a registered representative of Fort Lauderdale, Fla.-based Kovack Securities Inc. and does about \$40 million in annual sales of annuities and securities.

RECORD SALES

The limitations on production come on the heels of record sales for fixed annuities, while their variable cousins become less popular in the face of the market's meltdown.

Total sales for all variable annuities fell 15%, to \$155.6 billion at the end of last year while total fixed annuities sold \$109 billion, up 50% from 2007, according to data from LIMRA International Inc. of

Windsor, Conn. Of that total, fixed-index annuities made up \$26.5 billion in sales, a modest 6% gain from the previous year. Capital concerns are a major factor behind the reduction of sales at major fixed-index annuity sellers, according to industry observers.

In Aviva's case, the company released a list of commission and fee changes on March 20, effective for business received on and after March 21.

The carrier had been contemplating the sales cutbacks since late last year, as it looked at the growth rate for its FIA business.

"The equity markets aren't issuing much capital, and the banks aren't lending much, so the access to capital is scarce," said Mark V. Heitz, president of sales and distribution at Aviva. "There's a strain on capital when you write new business. The higher your growth rate, the more capital it takes to fund that growth."

Some carriers have changed their interest crediting methods, lowering crediting rates by adjusting spreads and participation rates, which determine the amount of index gain credited to the annuity, as well as the interest rate caps, which limit the maximum amount that the annuity can earn.

"You have two sides going against each other. One says we need to batten down the hatches, preserve reserves and make sure we're viable, and the other is that if we don't put the revenue numbers down on our books, it becomes self-fulfilling," said Jeremy Alexander, chief executive of Beacon Research.

REVENUE PROVES VIABILITY

"More sales hurt the balance sheets because FIAs are reserve-intensive, but you need the revenue to show you're viable," he said. "If you don't, the implicit message is that you're in trouble."

Still, agents and advisers are displeased with adjustments that the insurers have made.

For instance, wayward brokers could try to flip clients out of a reasonable FIA with an unattractive spread and put them into a less favorable product loaded with costly riders, said Kathy Colby, president of Financial Independents Inc. of Lansing, Mich.

"Reps will put an old product next to a new one, show the benefits of changing, use the bonus to set off the surrender, and you see clients moving from product to product. That's something to watch out for," Ms. Colby said.

Some advisers and IMOs also worry that business written prior to a carrier's effective date for product changes, but processed and issued weeks afterward, would require them to revisit clients' applications with new disclosures.

"Aviva wants to raise the costs on policies that are written and should be issued by now, but they're backlogged," said one California adviser who continues to do business with Aviva and asked not to be identified. "We have to tell the clients that the riders they signed up for are incorrect and, in fact, cost more."

About 75 of the firm's clients would be affected, the adviser said.

Mr. Drake, who said his primary concern was getting the best product for the client, noted that if he can't choose an ideal carrier, there are plenty of other options for his clients.

"Perhaps I can buy some bonds," he said. "I have lots of clients who are sitting in cash, waiting for volatility to drop until it's a good time to nibble and buy stocks."

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