

The AIG Effect: Success of AIG's Individual Annuities Business Hinges on Distribution

By Fran Matso Lysiak

With dismal sales, the future of American International Group's huge individual annuities business in the United States may very well hinge on rekindling relationships with much-needed distribution channels and the successful rebranding of major subsidiaries that once carried the AIG prefix in their names.

AIG Life Group was the third-biggest U.S. life insurer in 2008 based on admitted assets of \$309.6 billion, according to A.M. Best Co. Individual annuities represented about 55% of AIG's \$24.5 billion U.S. life and retirement savings direct written premium last year, according to Best.

Concerns over negative AIG publicity were a primary factor that led some bank and broker-dealer distributors to place restrictions on new sales of AIG products, the insurer said in its second-quarter earnings report.

AIG's annuities business was "hemorrhaging" for a while when the publicity was really bad, but over the past three months, the bleeding has stopped, according to Adam Sherman, founder of Firsttrust Financial Resources, a firm that advises high-net worth individuals on insurance and estate planning. It doesn't need to write new annuities business now because it has such an enormous book, Sherman said. As it rebrands itself, it will generate new business over the next six months as it rebuilds consumer trust, he predicts.

Huge Seller of Fixed Annuities

In the United States, AIG's main fixed annuity companies are **Western National Life Insurance Co.** -- formerly known as AIG Annuity; **First SunAmerica**, which does business in New York; and **American General Life Insurance Co.**, said Judith Alexander, director of sales and marketing for Beacon Research. Western National/First SunAmerica report consolidated sales for the firm's sales reports. In 2008, they were the second-largest issuer, with sales of \$7.8 billion, she said.

American General ranked 25th, with sales of \$1.3 billion, Alexander said, noting combined results made AIG number one issuer in 2008.

AIG's problems, which already were known in early 2008, hurt the fixed annuity sales of **Western National/First SunAmerica**, as **banks are its main distribution** channel, Alexander said.

"Banks are extremely risk averse," she said. "We have heard that banks increasingly did not want to be associated with Western National, then AIG Annuity, as concerns mounted about its corporate parent. After the bail-out, we're told there were a flood of surrenders of this company's products. Many banks suspended sales."

Starting **June 1, AIG Annuity rebranded as Western National**, Alexander said. "Together with competitive rates, it has helped get the company's products back into banks."

However, Western National may need to regain distribution in the broker-dealer channel, Alexander said. Comments by AIG's new Chief Executive Officer Robert H. Benmosche and its new head of domestic life and retirement services "have suggested that this is the case," she said. Alexander said her firm heard anecdotally that several broker-dealers have suspended sales of Western National's annuities.

As for **equity-indexed annuities**, a type of fixed annuity, AIG companies "have had their share of heartache since the socialization of the insurance giant," said Sheryl Moore, president and CEO of AnnuitySpecs.com, a firm that tracks industry sales.

The former AIG Annuity exited the market shortly before the close of 2008, she said. This left only **American General Life**, and the New York subsidiary, **United States Life Insurance**, in the market, Moore said. Since this time, sales of indexed annuities "have taken a hit" while overall market sales have increased, she said.

American General and United States Life use primarily career agents and independent agents, said Moore. Any distribution issues only affect agents who also are registered representatives, Moore said.

They have some registered representatives that go through broker-dealers, and many of them still will not allow them to be on their approved lists, Moore said. "Most of the state insurance divisions have put out notices, warning agents about systematically replacing AIG business, because their insurance subsidiaries are sound."

Although sales for American General/United States Life are down more than 67% over last year's second quarter, sales are up nearly 45% from first-quarter 2009 levels, Moore said.

Variable Annuities: 'Off the Shelf'

SunAmerica Life Insurance Co., AIG SunAmerica -- now known as **SunAmerica Annuity & Life Assurance Co.**; and **First SunAmerica Life Insurance Co.**, are the AIG companies that sell variable annuities to individuals, said Frank O'Connor, product manager, VA Database, for Morningstar. A subsidiary, **VALIC, or Variable Annuity Life Insurance Co., is primarily group annuities**, he said.

An interesting factoid about VALIC: It "invented the variable annuity," said Steven Schwartz, an equity analyst with Raymond James in Chicago.

When everything went south for AIG last September, variable annuity sales declined because many broker-dealers, such as Merrill Lynch, for example, immediately removed AIG from their approved product lists, said Craig Hemke, president of BuyaPension.com, a company that sells single-premium immediate annuities to individual investors.

Unless there are "excessive commissions," Hemke said he can't imagine a financial adviser selling AIG variable annuities now. "They've gotta continue to still be struggling."

When SunAmerica is combined with VALIC, AIG was the eighth-biggest seller of variable annuities in the United States in 2008, with sales of \$8.1 billion, according to Morningstar.

For the SunAmerica companies, sales "dropped precipitously" in the fourth quarter of 2008, O'Connor said. Sales declined to \$264.9 million from \$1.05 billion in the third quarter, according to data he supplied. The descent continued in this year's first, as sales dropped to \$261.9 million, according to the Morningstar data.