A Chat with Jackson's Clifford Jack

By Kerry Pechter *Wed, Aug 19, 2009*

'We talk all the time about not being the team that performs extremely well for eight and two-thirds innings just to screw it up on the final out,' said the Jackson National EVP.

Having survived the financial crisis without an emergency cash transfusion, Jackson National Life posted strong second quarter sales figures last week and solidified its position among the top issuers of both fixed and variable annuities in the U.S.

A unit of Britain's Prudential plc (PUK), Jackson reported $3.4 billion in retail sales and deposits in the second quarter, a record. First-half 2009 annuity sales were $3.8 billion (variable) and $1.9 billion (fixed). In the first quarter, the firm sold $1.51 billion worth of variable annuities and $1.05 billion in fixed.

Jackson's A1 (Good) rating from Moody's was based, Moody's reported in July, on "its good position in the domestic asset accumulation business… broad annuity product offering, use of multiple distribution channels… and an efficient back office infrastructure."

The company finished the first quarter of 2009 ranked eighth among variable annuity providers, up from twelfth at the end of 2008 after vaulting over Hartford Life, Pacific Life, AIG, and RiverSource Life. (LIMRA has not yet reported the top 20 annuity sellers for the first half of 2009.)

Jackson's first-half annuity net flows (total premium minus surrenders, exchanges and annuitizations) totaled $2.7 billion. That was 23% higher than the same period in the prior year-a sign that Jackson has been winning the war for 1035 exchanges.

Clifford Jack, executive vice president at Jackson National, spoke with RIJ on August 17 about the company's recent performance.

RIJ: Why was Jackson so successful in the second quarter?

Jack: Our success is attributable to the market consolidating to the strongest players. All over the market, in the variable annuity as well as the fixed and indexed annuity markets, there's been a flight to quality. The advisors are first and foremost concerned with making sure the insurance providers will be there to meet their obligations to customers. They're consolidating to strong balance sheets and to the stability of the Jackson offering.

The changes we've made to our products have been small compared to the rest of the industry because we were priced appropriately prior to the market meltdown. As a result, we have consistency in our product and our message. That has a lot to do with it. We've also seen a significant influx of new advisors who never considered selling variable annuities in past, but are now considering them in light of what happened to their clients' non-secured investment.

A big part of our success stems from the fact that we've taken no public capital or raised private capital to deal with the crisis. We had enough cash on our balance sheet. If you take public dollars, you have handcuffs.

RIJ: But your parent company's ADR share price took a big hit in March along with other life insurance companies. Weren't you impacted by the collapse in values of mortgage-backed securities?

Jack: We were impacted along with the rest of the market. If you're an insurance company investing in long term obligations, there's a very strong likelihood that you'd have had mortgage backed securities among your fixed income holdings. In the meltdown, nothing in the bond portfolio or the mortgage portfolio was immune to the problems.

Jackson National Life At a Glance

Principal offices:
- Lansing, Michigan
- Purchase, New York (for Jackson National Life Insurance Company of New York)
- Denver, Colorado

Strength ratings:
- A+ (superior) by A.M. Best
- AA (very strong) by Standard & Poor's
- AA (very strong) by Fitch Ratings
- A1 (good) by Moody's Investors Service, Inc.

Asset rankings:
- 16th largest U.S. life insurer ranked by general account assets.
- 19th largest U.S. life insurer ranked by total assets, with $74.9 billion in 2008.
- 20th largest U.S. life insurer ranked by statutory surplus plus asset valuation reserve and interest maintenance reserve.

Distribution affiliates:
- Curian Capital, a separately managed accounts subsidiary.
- National Planning Holdings, Inc. (NPH), a network of four independent broker-dealers.

Source: www.jackson.com

RIJ: How do you think the market for variable annuity products has changed since a year ago?

Jack: We think there’s tremendous opportunity for variable annuities. If you compare the average performance of managed money accounts, mutual funds and variable annuities, there’s no question that the variable annuity customer has done better in terms of performance in light of the flooring provided by living benefits.

RIJ: What kind of specific changes have you seen?

Jack: Look at the number of new appointments that are coming into the [annuities] channel. They’re coming because the old paradigms were blown up. For Jackson alone, we had 12,000 newly appointed advisors in the first half of the year, compared to 16,600 for all of last year. That’s a big driver of sales.

There are two pieces in that number. There are the advisors who are coming to us as part of the flight to quality, and there are the advisors who are just coming into this market. We have the largest wholesaling force in the industry, and they tell us that they’re hearing from advisors who have never sold variable annuities before.

RIJ: Are you doing anything differently this year in terms of marketing?

Jack: With respect to marketing, we allow the producers to make their own determinations. We just tell our story. Advisors and broker-dealers have become more sophisticated in asking questions about capital, and we’ve been very happy to have those conversations.

We’ve had a significant ramp up in the number of home office due diligence meetings for broker-dealers. We spend a couple of days on due diligence of our firm, what we do, how we do it, what shape we’re in. We’re ramped up the number of those meetings significantly.

When we’ve run these meetings in the past, pre-crisis, we spent very little time on the financials of the company, because it was assumed that the ratings agencies did due diligence in that area. So where we used to spend a lot of time positioning the product relative to the competition, we now spend most of our time on financial due diligence.

RIJ: What do you consider Jackson National’s biggest challenge going forward?

Jack: To use a sports analogy, we talk all the time about not being the team that performs extremely well for eight and two-thirds innings just to screw it up on the final out. We’ve been disciplined in our approach to hedging and pricing from Day One, and now, because we’re so well positioned, we don’t want to screw it up by changing our business philosophy.