
Advisor Survey Provides Mixed News for Annuity Providers

By Editor Test *Wed, Sep 14, 2011*

Cogent Research's 2011 Advisor Brandscape survey shows that many advisors sell annuities and are highly loyal to certain variable annuity providers. But on average they don't devote much of their clients' assets to annuities--and don't plan to in the future. At left, Cogent principal John Meunier.

Have an increased number of advisors and investors migrated toward annuities and other protective financial products in the aftermath of the Great Recession, as anecdotal evidence (and hopeful thinking within the annuity industry) might suggest?

Perhaps. The newly released *2011 Advisor Brandscape* survey from Cogent Research contains no data that supports such claims, however.

The report, based on Cogent's perennial survey of a representative sample of the nation's 300,000 or so advisors from all channels, does provide cheer for certain variable annuity providers—those who score highest on advisor-loyalty measures. But it offers no sign that advisors are growing fonder of annuities.

But first the positive news. Advisors are enthusiastic about certain insurers. In terms of commitment to variable annuity providers, advisors are more loyal to Jackson National than any other insurance company, according to the *Advisors Brandscape*. Jackson National regained the top spot after yielding it to Prudential Financial a year ago.

"Jackson National was especially strong on 'internal wholesaler support', and that has a very positive effect on brand differentiation," said Cogent principal John Meunier, an author of the report. "Advisors depend on internal wholesalers for support in this product category in particular. Prudential tends to outshine the competition in the area of 'range of product features.'"

Both Prudential and Jackson National achieved significant improvement since 2010 in their respective "Net Promoter" scores, a proprietary index based on the difference between the number of advisors who do and don't recommend a company's products.

The list of variable annuity providers with the highest loyalty rankings (see today's Data Connection on the RIJ homepage) roughly corresponds to the list of top sellers, as reported in Morningstar's 2Q 2011 Variable Annuity Sales and Asset Survey. Sun Life Financial and Allianz Life broke into the top 10 this year. Sun Life rose to eighth this year from eleventh place in 2010 and Allianz Life rose to ninth, from fourteenth a year ago.

Cogent also tracks Advisor Investment Momentum (AIM), a measure of how much advisors expect to increase or decrease investments with their current providers. Jackson National is first on this scale, followed by MetLife, Lincoln National (Choice Plus), Nationwide Financial, and Prudential. All five of these firms received above-average AIM scores among a total of fifteen leading providers.

"In terms of momentum, these four competitors are in a league of their own," said Tony Ferreira, managing director of Cogent's Wealth Management practice. "However, given the importance that advisors place on VA product innovation and client support, loyalties can, and often do, change quickly."

Now for the less positive news. Although the Cogent survey showed that a majority of the nation's advisors sell variable annuities, it also showed that they don't allocate much of their clients' money to the products—and don't plan to in the near future.

Specifically, 81% of advisors say they sell variable annuities, a percentage that hasn't changed significantly in the past four years. RIAs continued their resistance to variable annuities; only about 26% said they sold variable annuities in 2010 and 2011, down from about 32% in 2009.

RIAs are an attractive market, because they manage more money per capita, on average, than any other group of advisors, according to Cogent. Since 2009, average AUM for RIAs has risen to \$275.5 million from \$212.4 million. (This figure is far higher than the median amount, however, Meunier pointed out.) The average advisor's AUM has risen to \$104 million from \$80 million over that time.

Consistently over the past three years, advisors who manage assets between \$25 million and \$50 million (the average among independent advisors is \$48 million) have been the most likely to sell variable annuities, with about 85% using the products. By comparison, about three-quarters of advisors who manage \$100 million or more said they sold variable annuities.

Yet the nation's 300,000 or so advisors, as a group, have committed, and plan to commit, only a very modest amount of their clients' money to variable annuities. In 2010, only 8% of advisor-managed assets were invested in variable annuities. That figure dropped to 7% in 2011.

About one-third of variable annuities are sold by independent advisors and about 30% are sold by captive agents, according to Morningstar's 2Q 2011 Variable Annuity Sales and Asset Survey.

As for fixed annuities, the banking channel was the only annuity distribution channel in which more than 50% of advisors said they sold that product. As a percentage of total AUM, advisors said they devoted only 2% to fixed annuities and expect to allocate only one percent in 2013.

"Advisors are very interested in managing risk and thinking about portfolio diversification, yet there's a constant resistance to giving up of control of assets in exchange for income guarantees," Meunier said.

"It's a conundrum. The industry hasn't figured out the perfect retirement income solution, one that will be useful to investors and embraced by advisors. When we collected our data, the Dow was near its high for the year. After the volatility of the last two or three months, it wouldn't surprise me if we saw an uptick in annuity usage."