Allianz Life’s New FIA Aims for Accumulation

By Kerry Pechter *Thu, Mar 8, 2018*

'By using volatility controlled indices, we can offer higher caps,' said Matt Gray, vp of product innovation at Allianz Life. 'In such a low-rate environment, those higher caps have been well-received.' (Image from Allianz Life's facebook page.)

Allianz SE has dominated the fixed indexed annuity (FIA) category ever since it bought Robert W. MacDonald’s LifeUSA FIA sales juggernaut for $540 million back in 1999. So the folks at Allianz Life of North America, the German company’s US arm, keep a close eye on subtle changes in the FIA market.

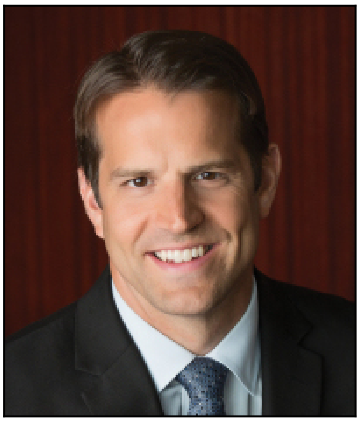
Last year, the Minneapolis-based insurer noticed a subtle inflection in demand away from income-oriented contracts toward accumulation-oriented contracts. In response, the company introduced its first accumulation-only FIA contract in some time.

The new contract, called the Allianz Accumulation Advantage Annuity, was announced this week. It has neither an embedded nor even an optional guaranteed lifetime income benefit (GLIB). Instead, it introduces a new volatility-controlled, balanced index option from BlackRock. The option, exclusive to Allianz Life and available on the new product as well as the Allianz 222 and 360 FIAs, is called the **BlackRock iBLD Claria** Index.

“We’ve see a shift in the sales and in the use of FIAs over the last year to 18 months,” Matt Gray (below right), vice president of Product Innovation, Marketing, at Allianz Life, told *RIJ* this week. “There’s been more interest in pure accumulation products.

“That’s a function of the run-up in the stock market, despite recent volatility. There’s a desire among investors to lock in the gains they have while continuing to accumulate. There are also people who want to come off the sidelines [and get out of cash]. It’s both.

“Our focus has been on income, on helping people generate more income from FIAs [through living benefit riders]. This contract is focused on accumulation,” Gray said.



"As a result, it offers the most competitive rates of any of our products. All of our other FIA contracts have living benefits. The living benefit is optional on only one product, the 365i. On all of the others, the rider is embedded," he said.

Counter-intuitively, the addition of the BlackRock Index, which contains stocks, bonds and cash, provides a choice that can *dampen* a client's index-linked returns, relative to the returns from buying options on a pure equity benchmark like the S&P500 Index. When an index is less volatile, Allianz Life can afford to set the caps on its crediting rates higher for clients using that index. It's simply a different allocation of the product's risk budget.

(Fixed indexed annuities are structured products where typically up to 95% of the premium goes toward the purchase of long-duration bonds, zero-coupon bonds or into the insurer's general fund. This part of the product supports its no-loss guarantee. The remaining 5% of premium goes toward the purchase of options on an equity index. If the index goes up, the options grow in value. The client gets a portion of any gain in the index.)

"The BlackRock index is the first index inside an FIA where the asset manager, on an annual basis, can adjust the weighting of the equity and bond components," Gray said. "On other indices, the index is set for the term of the contract. [There's a certain appeal to set-it-and-forget-it, but with a partner like BlackRock, which has so much asset management experience, it's worth letting their managers exercise some discretion once per year.]

To the frequent frustration of advisors, finding an FIA contract with both a generous crediting rate and a generous income rider has been difficult if not impossible ever since the financial crisis. (The same is true for finding a variable annuity with a rich equity allocation and a generous income rider.)

When issuers want to beef up a living benefit, and accept more risk exposure in that area, they are likely to reduce risk exposure on the asset side. In the case of FIAs, that means reducing the caps, spreads, or participation rates.

"By using the volatility controlled indices, we're able to offer a higher cap. So there's more upside potential. In such a low-rate environment, those higher caps, or spreads with no caps in some cases, have been well-received." The cap on the S&P500 Index is 5%, but the cap on the new BlackRock Index is 6%, and it's 6.25% on the Bloomberg index.

If you prefer to have no cap, the participation rate is 75% for all three indices."

In addition to adding the Claria Index, Allianz Life is using two other ways to boost the crediting rate limits. It has limited free annual withdrawals from the contract to 5% per year during the surrender period; FIAs typically allow 10% annual withdrawals without a surrender charge. It has also added a market-value adjustment (MVA), which penalizes contract owners for taking excess withdrawals when interest rates rise.

The Accumulation Advantage contract, which pays a 6% upfront commission, will be distributed through insurance marketing organizations (IMOs) or field marketing organizations (FMOs) to broker-dealers (b/ds).

"This is being offered to our FMO-IMO channel and they work with the broker-dealers," Gray told *RIJ*. We really tried to build this product to leverage those relationships. FIAs are still newer in the direct b/d space, but the b/d space makes up a huge percentage of our sales. A registered rep is now involved in 70% of our sales.

"In other words, the producer or agent is securities-licensed in 70% of the transactions. We've seen a big shift over the last five or ten years [from the days when independent insurance agents sold 90% of FIAs]. Allianz Life's FMO-IMO channel is called the Allianz Distribution Group. In 30% to 40% of our FMO-IMO business, we have an ownership stake in the distribution."

Gray offered his own interpretation of the drop in overall annuity sales in 2017 that came amid a run-up in equities and in the wake of the fiduciary rule, which is now on hold but made selling indexed annuities more cumbersome.

"There was definitely a dip in sales in 2017, and it snapped a long growth streak," he said. "I think that's temporary. With the significant ramp-up in the equity markets, people seemed to forget that you could lose money. But the recent volatility might actually help this category."

As for the impact of uncertainty over the DOL fiduciary rule on sales, he said: "To the extent that companies have been focusing on preparing for that instead of launching new products, there was a definite impact from the DOL. That took the distributors' attention away for awhile."

Gray said it's too soon to say whether demand for the new Accumulation Advantage product will come mainly from people who want to lock in gains or those who want to come off the sidelines.

"We'll find out soon where the money is coming from," he told *RIJ*. "But the hypothesis from the field force is that, as people get closer to retirement, and have less ability to stomach another big drop in the market, the idea of having no downside but the potential for growth becomes very attractive."