Annuities, RIAs and 'Cargo Cult' Thinking

By Kerry Pechter *Thu, Jan 17, 2019*

Brighthouse Financial's Shield structured annuity joins products from Allianz Life, Jackson National and Global Atlantic on the Envestnet Insurance Exchange, where annuity issuers hope to engage registered investment advisors. An interview with Envestnet president Bill Crager is included. (Photo: A cargo-cult space ship.)

Brighthouse Financial announced this week that it will offer the no-commission version of its Shield Level Select structured annuity through the Envestnet Insurance Exchange (iX). Advisors who use Envestnet's turnkey asset management platform (TAMP) can use iX to add annuities to their clients' financial plans.

In joining iX, Brighthouse follows Jackson National, the top variable annuity issuer, Allianz Life, the top indexed annuity issuer, and Global Atlantic, who put products on the platform last year. Envestnet, whose TAMP is widely used in the RIA [registered investment advisor] market, launched iX in mid-May 2018.

Envestnet claims that iX (powered by **Fiduciary Exchange** software) represents a technical leap forward in annuity sales processing. Advisors whose enterprises use the Envestnet TAMP will be able to access iX and its shelf of annuities through their desktops. iX is said to give insurance-licensed advisors the tools they need to integrate annuities into wealth management plans with unprecedented ease.

"We believe that [the RIA advisor] audience is ready for annuities. Our research shows that if we make the [transaction] process easier, then they'll use the product," Alan Assner, head of annuity product development at Brighthouse Financial, told *RIJ* this week.

The Shield product is a structured indexed annuity that offers exposure to equities through investments in options on equity indexes, rather than direct investment in equities. This type of product offers more upside potential (but less downside protection) than a conventional indexed annuity and more downside protection (but less upside potential) than a variable annuity. It is designed to protect a portion of a client's savings from the full impact of a steep loss over a one, three or six-year term.

Anyone with an interest in the future of the annuity market should pay attention to what's happening on all of the new platforms that strive to expand annuity sales among RIAs. Besides iX, these include the no-commission annuity platforms created in 2018 by DPL Financial and RetireOne.

Such platforms aim to eliminate a couple of perceived advisor objections to annuities: difficulty executing sales and integrating products into their workflow. Annuity issuers have long believed that if annuities look like "just another asset" to advisors, then more advisors will begin to use them routinely.

Or this could be a case of "cargo cult" mentality among annuity issuers. This term refers to a mode of wishful thinking that, by definition, involves a misunderstanding of the cause of a phenomenon and a fervent belief in the wrong solution. In this case, the annuity industry wants to believe that inconvenience alone—rather than the illiquidity, cost, and complexity of the products—prevents more fee-based or fee-only advisors from using annuities.

Time will tell. Either way, as more savings flows from the broker-dealer to the RIA channel, annuity issuers can't risk being left out of that space. And Envestnet represents a pipeline to RIAs. At the end of 2017, Envestnet's total platform assets reached about $1.4 trillion in nearly seven million accounts overseen by nearly 60,000 advisors, according to a report last year by benzinga.com.

Talking to Envestnet

Last fall, *RIJ* conducted a brief email interview with Bill Crager, president of Envestnet and leader of the Envestnet Insurance Exchange. Here are his written responses to our questions:

RIJ: What specific technological issues have had to be overcome on the path to integrating investment/insurance planning, and what hurdles are left on the path to full integration or so-called "straight-through processing" for annuities?

Bill Crager

Crager: There were numerous technological challenges that we've worked with FIDx to overcome across the managed account continuum from risk scoring through performance reporting. This industry-changing technology fully integrates annuities into our ecosystem creating a seamless process for our enterprise clients and their advisors to incorporate guaranteed income solutions into their practices. Post our year-end release, our 2019 roadmap features numerous enhancements, such as in-force transaction processing, as we continue to work with FIDx to modernize annuity distribution.

RIJ: I've heard that there may be some state-regulatory ambiguity about a non-insurance-licensed RIA's ability to recommend insurance products and be compensated for it; what is your knowledge of this legal issue?

Crager: We are actively listening to our RIA clients as to how they want to grow their practices and working with legal and compliance experts to best accomplish this objective. In the end, each firm will need to determine how best to manage various regulatory obligations related to sales and compensation.

RIJ: Could RIAs be more interested in using the platform for 1035 exchanges out of annuities, a la Ken Fisher, than in becoming net buyers of annuities?

Crager: We expect to see some 1035 activity on the platform for annuities where it's in the client's best interest. We recognize that there is a dichotomy between RIAs recommending annuities and consumer demand for guaranteed income solutions. Our new Insurance Exchange as well as carrier product development with a focus on simpler, fee-based

products will help those RIAs who want to provide guaranteed income solutions to their clients.

RIJ: Has the defeat of the Obama DOL fiduciary rule removed some of the impetus/need for a platform for no-commission annuities for RIAs?

Crager: We are still seeing significant growth trends in the advisory business including fee-based annuities with Aite Group predicting that at least half of all client assets will be in fee-based programs by 2025. Supporting this trend, recent LIMRA data has shown that fee-based annuity sales and market share have almost tripled over the past two years.

RIJ: What trend does the emergence of the Envestnet Insurance Exchange, the DPL Financial RIA platform and the RetireOne RIA platform most represent?

Crager: The Envestnet Insurance Exchange represents all of the above but is the first platform to fully integrate annuities into the advisory ecosystem to respond to these trends.

- Increasing centrality of (and dependency on) technology platforms like Envestnet for advisors, giving them a kind of Amazon or Google leverage in the market.
- Boomer need for holistic retirement planning;
- Gravitation of investor assets to the RIA channel;
- Annuity-issuers' imperative not to be left out of the RIA channel;
- Growing interest among RIAs (either hybrid, dually-licensed or not insurance-licensed) to incorporate insurance products into their planning, perhaps as a path to asset consolidation.

RIJ: Thank you, Mr. Crager.

Talking to an analyst

The RIA market, and its investment advisor representatives (IARs), is not easy to understand. They may be "hybrid RIAs" who do or don't maintain former broker-dealer affiliations and who may or may not be licensed to sell insurance. "Many successful RIAs are experienced 'breakaways' from larger traditional firms," said Donnie Ethier, director of wealth management research and consulting at Cerulli Associates, in an interview this week with *RIJ*.

Donnie Ethier

"In the past, many RIAs likely used annuities before they transitioned to fee-based or fee-only business. If so, they likely understand annuities and still have clients that own them. While the independent RIA market must be address, hybrid RIAs may prove more successful. Many of them keep their broker-dealer affiliation because they see value in annuities," he told *RIJ*.

"The lack of annuity sales among RIAs is definitely not due to a lack of insurers trying," Ethier noted, but RIAs produced only about $2.7 billion of variable annuity sales in 2017 according to Cerulli's modeling, he said. That's slightly less than three percent of the $95.6 billion worth of VAs sold in 2017, according to LIMRA.

"One of the most important initiatives insurers must take is to better design and position annuities with how RIAs run their practices. The platforms [iX, DPL Financial and RetireOne] are important steps in accomplishing that. While I don't expect RIA sales to immediately explode because of it, I do think its one of many important steps to grow their adoption rates."

Talking to Brighthouse

The Shield Level Select Advisory Annuity is the no-commission version of Brighthouse's Shield Level Select structured indexed annuity product. The Shield category of annuities is Brighthouse's top-selling insurance product, with sales of $2.32 billion through the first nine months of 2018, up about 38% from $1.68 billion for the same period of 2017. Brighthouse (the spin-off of MetLife's domestic retail businesses) launched the product category in 2017.

Brighthouse's Assner said that the Shield product's ability to protect retirees from market volatility would be "complimentary" to the income guarantees that other annuities on the platform will provide.

"We see it as a good fit for the advisors who choose Envestnet," he told *RIJ*. Technologically, there's a world of difference, he said, between merely having his product available on a bank or broker-dealer product shelf and having a presence on an advisor's Envestnet desktop, where the advisor "can transact an annuity as easily as any other transaction on the platform."

Brighthouse's presence on the iX platform would lead to "audience expansion in the hybrid-advisor and true RIA" channels, he added. "We hope to reach both. Today they don't use annuities." Brighthouse expects to use the platform to expand sales to dual-licensed (licensed for insurance and security sales) advisors in the short term, but "over the long-term the bigger opportunity will be among the non-insurance-licensed advisor."

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