Retirement Income
JOURNAL

Breaking News

By Editorial Staff *Thu, Feb 10, 2022*

American Life & Security receives B++ rating from AM Best; SEC proposes more sunlight on private funds; Fidelity is accused of lax oversight of options and margins traders; Principal requests use of Fidelity ETF methodology; Pacific Life and BNY Mellon-Pershing partner on fee-only annuities.

American Life & Security receives B++ rating from AM Best

American Life & Security Corp., a subsidiary of Midwest Holdings that issues indexed annuities, has received a “Good” rating from AM Best. According to previous announcements, Midwest Holdings also has a reinsurance subsidiary in Vermont, Seneca Re, and relies on alternative asset management expertise from another affiliate,1505 Capital.

But the firm, which appears to be replicating the increasingly popular strategy of using indexed annuities as a source of stable, long-term financing and reinsurance to manage capital, has seen its share price drop by half since last November 11. Its co-CEO resigned that month.

AM Best said it has affirmed the Financial Strength Rating of B++ (Good) and the Long-Term Issuer Credit Rating (Long-Term ICR) of “bbb+” (Good) of American Life & Security Corp. (American Life) (headquartered in Lincoln, NE). The outlook of these Credit Ratings (ratings) is positive. According to a release this week:

The ratings reflect American Life’s balance sheet strength, which AM Best assesses as strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management.

The positive outlooks reflect a continued further improvement in American Life’s balance sheet strength metrics, especially financial flexibility, along with AM Best’s expectation that the company’s risk-adjusted capitalization will remain at the strongest level in the near term, as measured by Best’s Capital Adequacy Ratio (BCAR). AM Best also expects that the company will continue its upward trajectory in operating performance, supported by strong internal capital generation, and further enhance its domestic market position as it executes its strategic business plan.

The balance sheet strength assessment of strong also takes into account American Life’s conservative investment strategy and the high use of reinsurance agreements, even though there is a collateralized trust to support the reinsurance arrangements.

For the most part, the technology–enabled life/annuity carrier has outperformed its financial targets over the past two years, except for 2020 when it fell a bit short; the early trends are still considered fairly modest as the company continues to obtain additional dedicated reinsurance partners as planned.

AM Best believes that American Life will continue to focus on the execution of the company’s previously announced strategy despite the senior management changes, and expects the company to have, as planned, an upward trajectory in operating performance, supported by strong internal capital generation. AM Best will continue to monitor results closely against future growth projections.

SEC proposes more sunlight on private funds

The Securities and Exchange Commission voted this week to propose amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The proposed amendments are designed to enhance the Financial Stability Oversight Council’s (FSOC) ability to assess systemic risk as well as to bolster the Commission’s regulatory oversight of private fund advisers and its investor protection efforts in light of the growth of the private fund industry.

“Since the adoption of Form PF in 2011, a lot has changed,” said SEC Chair Gary Gensler. “The private fund industry has grown in size to $11 trillion and evolved in terms of business practices, complexity of fund structures, and investment strategies and exposures. The Commission and Financial Stability Oversight Council now have almost a decade of experience analyzing the information collected on Form PF. We have identified significant information gaps and situations where we would benefit from additional information. Among other things, today’s proposal would require certain advisers to hedge funds and private equity funds to provide current reporting of events that could be relevant to financial stability and investor protection, such as extraordinary investment losses or significant margin and counterparty default events. I am pleased to support it.”

The proposed amendments would require current reporting for large hedge fund advisers and advisers to private equity funds. These advisers would file reports within one business day of events that indicate significant stress at a fund that could harm investors or signal risk in the broader financial system. The proposed amendments would provide the

Commission and FSOC with more timely information to analyze and assess risks to investors and the markets more broadly.

The proposal also would decrease the reporting threshold for large private equity advisers from $2 billion to $1.5 billion in private equity fund assets under management. Lowering the threshold would result in reporting on Form PF that continues to provide robust data on a sizable portion of the private equity industry. Finally, the proposal would require more information regarding large private equity funds and large liquidity funds to enhance the information used for risk assessment and the Commission's regulatory programs.

The proposal will be published on SEC.gov and in the Federal Register. The public comment period will remain open for 30 days after publication in the Federal Register.

Fidelity is accused of lax oversight of options and margins traders

A Massachusetts regulator claims that Fidelity Brokerage Services (FBS) has not made enough effort to vet investors' applications to engage in options and margin trading, and that investors have lost money as a result.

William Galvin, head of the Massachusetts Securities Division, has filed an administrative complaint against FBS. The complaint accuses the broker-dealer of having a "halfhearted and lackadaisical attitude" toward investor protection and of failing to "reasonably perform due diligence related to approving customers' accounts—a violation of Massachusetts securities laws," according to a press release.

The complaint noted that as of September 30, 2021, Fidelity Brokerage Services had 30.9 million retail brokerage accounts, 22% higher than during the third quarter of 2020.

According to Galvin's complaint, Fidelity's application review system for options and margin trading has allowed customers to complete multiple applications, which enables them to modify information until they were approved. One customer applied 13 times in a month, providing inflated financials (among other changed details) that reviewers at the broker-dealer failed to detect.

Galvin also accused the firm of not adequately reviewing customer information, not reasonably training its agents, and neglecting to monitor and enforce its own policies to ensure compliance with Massachusetts securities regulations.

Because of Fidelity Brokerage Service's allegedly inadequate supervisory compliance policies and lack of safeguarding, the brokerage firm exposed retail customers to the hazards involving options and margin trading, posing a threat not just to these investors' financial health but also to the securities markets.

Often involving highly leveraged investments, options trading provides the chance of high returns. But it also provides the risk of significant losses. Smartphones make it easier to trade in the securities market and many retail investors attempt to get involved in options trading while not fully comprehending the risks.

William Galvin wants Fidelity Brokerage Services to pay a civil fine, retain an independent compliance consultant, and avoid making these same violations in the future. Our broker-dealer negligence lawyers are investigating claims of losses by Fidelity customers who may have been unsuitably approved to participate in options and margin trading.

Principal requests use of Fidelity ETF methodology

Principal Global Investors today announced its plan to add its first semi-transparent ETF to its growing line-up of ETFs, filing for an exemptive order to use Fidelity's active equity ETF methodology. This approach complements the active management capabilities of Principal and will help deliver stronger investment outcomes for clients.

When approved and launched, the first semi-transparent ETF offered by Principal will target real estate assets.

Principal currently offers 14 ETFs – six strategic beta and eight actively managed – that are designed to enhance investor returns, mitigate risk, and improve portfolio diversification. Combined, they represent approximately $5 billion in assets under management1.

Fidelity's active equity ETF model employs an innovative "tracking basket" methodology, which maintains the benefits of the ETF structure, provides information to market participants to promote efficient trading of shares, and preserves the ability to add value through active management.

Pacific Life and BNY Mellon-Pershing partner on fee-only annuities

Pacific Life today announced a new collaboration with BNY Mellon's Pershing to make its fee-only annuities available to registered investment advisors (RIAs) and their fee-only advisors while providing a streamlined portfolio-management experience.

Products included are Pacific Advisory Variable Annuity, Pacific Odyssey, Pacific Index

Advisory, and Pacific Harbor—all designed to help RIAs meet a variety of clients' needs.

Pacific Life's dedicated RIA team, Pacific Life Advisory, is focused on creating competitive, fee-only annuities and helping fee-only advisors incorporate them into their practices. Simplified technology integrations are a priority, and the company continues to team up with new custodians and insurance-licensing firms to make it as easy as possible to include annuities in clients' portfolios.