
Brighthouse, Athene announce FIA innovations

By Editorial Staff Thu, Feb 6, 2020

Brighthouse Financial will be issuing its first fixed indexed annuity (FIA), which has a six-year term. Athene announced the availability of two new custom indices on its existing FIAs.

Competition and the low interest rate environment continues to drive innovation in the fixed indexed annuity market as companies try to dress up their products and avoid a trend toward commoditization.

A principal driver of FIA sales is the issuer's ability to tempt clients with the potential for higher returns by offering the highest possible participation rates or caps, which determine how much of the index gain will be credited to the contract owner.

The average cap rate on an FIA account that's linked to the S&P500 today is only 3.94%, according to Sheryl Moore at Wink Inc., which collects and analyzes data on the annuity markets. FIA issuers are therefore under pressure to modify their crediting methods to make the potential upside look bigger than that.

Index-linked annuity manufacturers all work under similar financial parameters, but there's room for creativity. In recent years, banks have created exciting-sounding hybrid or custom indices. Some of these indices contain mechanisms or asset allocations that reduce their volatility.

Because these volatility-controlled indices pose less risk of big returns or big losses, the cost of buying options on their performance is less than the cost of buying options on the S&P500 or Russell 2000 indexes. The issuers can thus afford to buy richer options, a tactic that allows them to advertise higher caps or participation rates.

This week there were two new developments on the FIA product front. Brighthouse Financial (formerly MetLife's retail business) announced the issue of its first FIA. In the past, Brighthouse has issued registered index-linked annuities (its Shield series) but not an FIA. Also this week, Athene added two new custom indices as crediting options on its existing FIAs.

Brighthouse Financial's first FIA

Brighthouse Financial, Inc. is entering the independent marketing organization (IMO)

distribution channel with Brighthouse SecureAdvantage 6-Year Fixed Index Annuity (FIA). The exclusive distributors of the product will be the Market Synergy Group, a large IMO.

The contract allows investors to link to the performance of two widely used indexes, the S&P500 Index or the Russell 2000 Index. They can choose a “point-to-point” crediting method that gives them the net gain, if any, of the index at the end of six years.

Alternately, they can choose an “annual sum” crediting method where the gains or losses of each contract year are added up to produce the total interest credit. Investors who choose this crediting method are guaranteed that they won’t be hit with a record loss greater than 10% in any contract year.

Two new indices for Athene FIAs

Athene USA has added the Nasdaq FC Index, sponsored by Bank of America, and the [AI Powered US Equity Index](#), sponsored by HSBC, to fixed indexed annuities issued by Athene Annuity and Life Company, a subsidiary of Athene.

The Nasdaq FC Index “employs intra-day rebalancing,” an Athene release said. The AI Powered US Equity Index uses IBM Watson and EquBot artificial intelligence to attempt to identify large-cap stocks that are poised for growth.

The Nasdaq Fast Convergence Index is powered by Fast Convergence technology (patent-pending), which allows it to adapt faster to changing market conditions. It applies this high-speed technology to the stocks in the Nasdaq-100, including Apple, Amazon, Google and Netflix. Like the AI Powered US Equity Index, the Nasdaq FC Index uses an internal volatility-control mechanism that allows the issuer to offer higher participation rates.

“By systematically monitoring market moves and rebalancing throughout the trading day, FC technology more efficiently controls the realized volatility of an index with the goal of higher participation rates in fixed indexed annuities,” the Athene release said

The AI Powered US Equity Index, sponsored by HSBC, is “the first and only rules-based equity strategy to use IBM Watson to turn data into investment insight,” the Athene release said. Developed by EquBot, AiPEX continuously monitors the direct and indirect market data that’s created every day to evaluate and score each of the 1,000 largest U.S. publicly traded companies on a monthly basis.

After identifying stocks whose prices are poised for growth, it then uses a three-step equity

selection process to rebalance its portfolio monthly. It tries to reduce the impact of short-term volatility in the equity markets through daily re-allocations between the chosen equities and a cash component.

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