

Investnet's Big Annuities Play

By Kerry Pechter Thu, Jul 11, 2019

Investnet, with the help of six major annuity issuers, has built a platform where advisors from broker-dealers, banks and RIAs can blend insurance products and investments in the same financial plan. It's a service life insurers can't live without. But will RIAs embrace annuities?



The new Investnet Insurance Exchange (Investnet Ix) now lets advisors analyze, illustrate, compare, select, purchase and integrate almost any type of annuity into a client's financial plan without leaving the digital comfort zone of Investnet's wealth management platform.

That might not impress 20-somethings who grew up playing with “[widgets](#)” and Application Program Interfaces, or [APIs](#). But it's a milestone for retail annuity issuers who have struggled for years to eliminate the technical impediments to blending annuities and investments in the same plans.

Ultimately, it took Investnet, the cloud-based turnkey asset management platform that now serves more than 3,500 companies, including 16 of the 20 largest U.S. banks, 43 of the 50 largest wealth management and brokerage firms, and over 500 of the largest Registered Investment Advisors (RIAs), to get this done. Back in 2006, when members of a variable annuity trade group tried to tackle it, the whole idea was premature.



Bruckenstein

"This development did need to wait for all the technologies to align properly," said Joel Bruckenstein, organizer of the annual "T3" fintech conferences for advisors. "There are still some impediments to RIAs embracing annuities. But I think Envestnet Insurance Exchange has great potential."

Nobody has higher hopes for the ability of the Envestnet Ix platform to encourage advisors, both fee-based and fee-only, to embrace annuities than the major annuity issuers. Six of them—Allianz Life, Brighthouse Financial, Global Atlantic Financial, Jackson National, Nationwide, and Prudential—helped Envestnet pilot the Exchange and now offer their products on it. More are expected to follow. Insurers will be supporting the service with ongoing fees.

But the question, "If you build it, will they come?" still hangs over the project. Annuity issuers certainly want more attention from RIA advisors, but it remains to be seen if those advisors will make room in their clients' portfolios for annuities. Technology like the Envestnet Ix is *necessary* for that to happen, but no one knows yet if it will be *sufficient*.

The seamless ideal

To appreciate the significance of Envestnet Ix, you have to go back 10 or 15 years. Amazon, eBay and PayPal had begun using APIs to tie together unrelated blocks of software into seamless user experiences. Life insurers were still isolated in "legacy" IT systems, unable to communicate easily with the outside world or even among their own product silos.

In the mid-2000s, the National Association for Variable Annuities trade group (now the Insured Retirement Institute advocacy group) created an initiative to achieve "straight through processing" for variable annuities. NAVA hoped to make processing a variable annuity (VA) application "as easy as dropping a mutual fund ticket" for a broker-dealer rep.

The challenge was daunting, the effort heroic. Software startups came forward with product illustration tools, order-entry systems, and secure electronic signature gizmos. Common languages and protocols (XML, PPfA) were invented. The Depositary Trust & Clearing Corporation, based in New York, had to be involved so that money could move from brokerage accounts to VA subaccounts.

That project made headway with broker-dealers but didn't reach completion. The Great Financial Crisis didn't help. Later, the controversy over the Department of Labor fiduciary rule slowed things down. Then, in November 2017, Envestnet, having snowballed since 1999 into a giant technology hub for advisors, created a company called Fiduciary Exchange

(FIDx) to begin building out a series of “exchanges” that would add insurance products and credit products to Envestnet’s investment products platform. The first in the series is Envestnet Ix, which launched last month.

Consultants regard Envestnet Ix, or something like it, as a must-have for annuities. “This service pulls annuities into the asset allocation process. Annuities are no longer an afterthought for the advisor who has already built an asset allocation,” said Dennis Gallant of Aite Group, a Boston-based financial services consulting firm.



Romano

“For instance, a client might have a million dollar investment portfolio,” Rich Romano, the FIDx chief technology officer, told *RIJ*. “Today, if they have a \$250,000 annuity, it is off-platform. In the Exchange, you can see those things side by side. They appear in one document. Now the annuity is inside of the account as its own investment. That’s revolutionary.”

A big part of the project involved the incorporation of FireLight into the Envestnet asset management platform. FireLight is a creation of Insurance Technologies, the veteran annuity software designer based in Colorado Springs, CO. The annuity issuers load their product data into FireLight, which then facilitates the entire electronic annuity purchase process, from data collection to application to pricing to illustration to compliance review to e-signature.



Massey

"FireLight is a very powerful e-App solution, used by nearly 50 carriers, but it's always been a separate platform from investments," said Doug Massey, executive vice president at Insurance Technologies. "So we created FireLight Embedded, a sophisticated set of APIs that allows FireLight to run seamlessly inside of third-party systems like Envestnet Ix." Broker-dealers who currently use FireLight competitors, like iPipeline and Ebix-AnnuityNet, will be able to use them with Envestnet Ix, but not as seamlessly.

RIJ asked Romano what he considered the most difficult part of the project. "The lion's share of work was around positioning annuities to a client's needs," he said after a pause. "We said, 'Let's get away from that transactional view, and look at it from the customer's point of view. Where does the annuity work in a retirement saving strategy, or an estate planning strategy, or an income planning strategy.'"

Envestnet Ix aims to be a big tent. It is designed to accommodate all types of insurance products, all types of compensation models, and advisors from the bank, broker-dealer and RIA channels. For advisors who want to buy annuities but don't have insurance licenses, Envestnet Ix will offer a Guidance Desk where an insurance-licensed intermediary can bridge the gap.

If you build it, will they come?

But even if RIAs have the ability to use annuities through Envestnet Ix and other platforms like those operated by RetireOne and DPL Financial, will they actually start recommending them to their clients? And will annuity manufacturers begin tailoring products more toward RIAs? The jury is still out.

"There are still some impediments to RIAs embracing annuities," Joel Bruckenstein told *RIJ*.

It is not just the processing. Product design is also important, and I think the insurance firms are at work designing products that will resonate better with RIA's. Furthermore, I do not think the Exchange is just about annuities. I see other types of insurance being distributed through the exchange as well."



Gallant

"It would be great if this can bring in advisors who don't use annuities, but it will still take time," said Gallant of Aite. "Just because the process is more convenient, it doesn't make the products less complex. One thing that might change the tide: As broker-dealers and RIAs take discretion away from individual advisors and move toward model portfolios, you might see them installing annuities in asset allocation plans at the broker-dealer level."

In his recent report, "What Advisors Want from Annuity and Insurance Providers-2019," researcher Howard Schneider of Practical Perspectives, found that of the 24% of advisors who are annuity "enthusiasts," only 12% are RIAs and only 7% are under age 40.

"RIAs have particularly distinct attitudes and behaviors towards annuities and insurance," Schneider wrote. "Many RIAs do not fully integrate these solutions into their practices, lacking the licensing, experience, orientation, and comfort in using annuities and insurance with clients, especially as an investment substitute or supplement."

"The advisors may not be using annuities yet, but these new tools will allow them to start looking and comparing," said Massey, who has been working on this problem for more than a decade.

"With so many Boomers retiring, we'll see more advisors looking at these products," he added. "Advisors will start to say, 'Oh, that's how it works,' or 'Now it makes sense.'"

Integration was so expensive to do in past, and the risk of coming up short was so high, that nobody was willing to try. Now they can try it.”

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