Four out of five advisors continue to use VAs: Cogent Research

By Editor Test *Mon, Aug 27, 2012*

Sales of variable annuities by registered reps and RIAs is broad but not deep: 80% use them but put only 11% of their clients' assets into them.

Advisor interest in variable annuities (VAs) remains stable despite several headwinds, including the retreat of several major annuity issuers from the market, a reduction in product benefits and an increase in fees, according to the Cogent Research *Advisor Brandscape 2012* report, which was issued last week to subscribing companies.

While the latest LIMRA data shows that gross sales of variable annuities in the first half of 2012 are down about 6% from the first half of 2011 (to $75.4 billion from $80.1 billion), Cogent's 2012 survey of 1,741 Registered Investment Advisors and registered reps showed that virtually the same number of advisors sells VAs (81%) and that virtually the same proportion of client assets are allocated to VAs (11%) as did Cogent's 2011 survey.

But there are some signs of softening enthusiasm for VAs. More than three-quarters (77%) of advisors who currently use VAs told Cogent they expect to continue using them in the future, with 53% saying they intend to use them at the current level (up from 47% in 2011). But about a quarter (23%) expect to reduce their VA usage and the percentage who said they will rely more on VAs dropped to 24% in 2012 from 31% in 2011.

Of those who intend to reduce their investments in VAs, 40% say they will increase their use of SMAs (separately managed accounts), 34% will add more exchanged-traded funds (ETFs), and 29% will increase their use of mutual funds.

Only 11% expected to use more fixed annuities. Among those expecting to increase their use of VAs, 58% will do so at the expense of mutual funds, followed by individual securities (35%) and cash (29%).

Favorite VA issuers

In terms of showing advisor preference among VA issuers, Cogent's *Advisor Brandscape 2012* mirrors the sales figures published last week by LIMRA. As they were in 2011, Prudential, Jackson National, and MetLife are among advisors' favorite issuers, and their first-half sales were $10.4 billion, $9.6 billion and $9.5 billion, respectively, to lead all VA issuers. According to the Cogent Research report:

Prudential and Jackson National are "pulling away from the pack." As other providers have retreated from the VA business out of risk management and cash reserve concerns, Prudential and Jackson National stand out for their continued commitment to the business. Both firms earn "Star" distinctions in terms of brand equity, commitment, and ownership, trailing only RiverSource in terms of average revenue earned per advisor. MetLife bests Jackson National in terms of penetration among VA users, but MetLife's recent announcement that it is reducing its VA focus is likely to reduce its consideration and market share in the future.

Retreat from VAs by The Hartford and John Hancock have put them in Cogent's "Drifters" category in 2012. Both firms have experienced declines in "unaided consideration," "brand favorability" and "investment momentum." John Hancock is less likely to be associated with "leader" and "financial stability" imagery this year. Both firms struggle in terms of Commitment score rankings in the VA category.

VA providers can burnish their brands by expanding product features and beefing up their wholesaling efforts. Thought leadership efforts tend to improve perceptions of integrity and honesty, while high fees and expenses hurt brand loyalty among advisors.