
Future of VAs a 'Wildcard,' Conning Says

By Editor Test *Wed, Jul 8, 2009*

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In a new report entitled "Life-Annuity Forecast and Analysis 2009-2011," [Conning Research and Consulting](#) cast doubt on the future of variable annuity sales, saying that "it is a wildcard whether they will ever regain [the] dominance" they enjoyed in the middle part of the decade.

The report from the Hartford, Conn.-based firm attributed the cloudy outlook to a "combination of changes in consumer product preference, increased concern about the financial risk associated with variable annuities, clarification of indexed annuities, and the lack of any new types of guaranteed benefits."

"The weakened financial condition of some insurers could lead them to exit the individual annuity line, seek additional capital, or merge with other insurers," the report cautioned.

"We'll have to see how this market plays out," said Terence Martin, vice president of insurance research at Conning and the report's author. "The GLWB [guaranteed lifetime withdrawal benefit] seemed to be what [carriers] were going to capture the retirement market with, because there was a long-standing reluctance by consumers to exercise the annuity option, and this was a way to have your cake and eat it too."

"I wouldn't say that the product will disappear," he added, "but it has certainly hit a bump in the road. It all depends on how the product will adapt to this new environment. We don't know how consumers will react to the changes that insurers are putting out there. Some are re-pricing, were looking at restructuring this benefit. Will consumers find that product as attractive as they did before?"

The report noted that the life insurance industry as a whole posted a statutory net operating loss of \$1 billion in 2008, compared to a gain of \$34 billion in 2007. Realized capital losses were \$50 billion, bringing the statutory net loss to \$51 billion.

The current recession has been unprecedented in some ways, the report said. In prior recessions, the impact was largely limited to stock price declines to which the life insurance companies, with over 80% of its assets in bonds and 10% in mortgages, were largely immune. "In contrast, this recession is having a significant effect on credit markets, and has hit insurance companies hard," the report said.

In addition, variable annuity issuers have had to make huge contributions to general account reserves to cover the many "in the money" guarantees that followed the equity market decline. In 2007, companies added only \$17 billion of general account reserves. In contrast, companies—primarily variable annuity specialists—added \$129 billion during 2008.