MetLife's VA Sales are Missed

By Kerry Pechter *Wed, Nov 21, 2012*

Total annuity sales are down for the quarter and the first nine months of the year, according to LIMRA. If not for MetLife's pull-back, variable annuity sales would be close to last year's pace.

Annuity Industry Estimates
(Dollars in billions)

	Q3 2012	Q3 2011	Pct Chg Q3/Q3	YTD 2012	YTD 2011	Pct Chg 2012/2011
Variable						
Separate accounts	29.5	30.4	-3	89.5	94.6	-5
Fixed accounts	7.1	9.4	-24	22.5	25.3	-11
Total Variable	36.6	39.8	-8	112.0	119.9	-7
Fixed						
Fixed-rate deferred	6.0	8.1	-26	19.8	27.7	-29
Book value	5.0	6.9	-28	16.3	23.7	-31
Market value adjusted	1.0	1.2	-17	3.5	4.0	-13
Indexed	8.7	8.7	0	25.4	23.9	6
Fixed deferred	14.7	16.8	-13	45.2	51.6	-12
Fixed immediate	2.0	2.2	-9	5.7	6.2	-8
Structured settlements	1.0	1.3	-23	3.2	3.8	-16
Total Fixed	17.7	20.3	-13	54.1	61.6	-12
Total	$54.3	$60.1	-10	$166.1	$181.5	-8

Industry estimates reported for the third quarter 2012 based upon data from 57 companies, representing 95 percent of total sales.

At $54.3 billion, sales of all types of annuities were down 10% in the 3Q 2012 from the same period in 2011. As of September 30, annuity sales totaled $166.1 billion, down 8% year over year, according to LIMRA's third quarter *2012 U.S. Individual Annuities Sales* survey.

LIMRA research director Joe Montminy attributed the decline to the Fed's low-interest policy. "Protracted low-interest rates have impacted all lines of the annuity business, causing manufacturers to reassess their exposure among various product lines," he said.

"The sustained uncertain economic environment has many companies implementing conservative risk management strategies in an effort to prudently manage their business," he added.

Variable annuity sales in the third quarter totaled $36.6 billion, down 8% from the same period in 2011. Year-to-date, VA sales were $112 billion, a decline of 7% from the prior year. The top 20 issuers accounted for 93% of sales. LIMRA's report represents data from 95% of annuities issuers. (See LIMRA chart below.)

The decline in VA sales doesn't so much reflect lack of demand as lack of capacity on the part of issuers. Having been torched for an estimated $3 billion in losses on broken hedges during the financial crisis, according to Deutsche Bank, VA issuers are searching for ways to accommodate more Boomer retirement risk without capsizing themselves.

Some companies are keeping hedge costs down on new products by using volatility-controlled funds as mandatory investment choices for contract owners who buy guaranteed lifetime withdrawal benefit riders. Other firms have their hands full hedging the risks on the billions of dollars worth of VA products they've already sold.

The impact of their latest strategies may not be felt until next year. "While leading VA writers have announced they are making adjustments to their book of business, LIMRA believes the total impact of these decisions has not fully reached the market," the LIMRA release said.

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The difference is MetLife

About 80% of the $9 billion difference in 3Q YTD VA sales between 2011 and 2012 can be accounted for by the drop in MetLife sales alone. The company had announced its intention to moderate sales this year after leading all VA issuers in 2011 with $28.4 billion.

MetLife has sold $14.1 billion for the year, as of September 30. That was a large number, of course, and represented more than 10% of all sales this year. But in the first nine months of 2011, MetLife sold $21.2 billion.

In 2011, MetLife's VA sales soared on the increased generosity of its GMIB Max product. Then the company reduced the benefits in the face of Fed low-interest policy, and this year MetLife CEO Steven Kandarian said the insurer would limit its 2012 VA sales to $18 billion to reduce risk.

At the time, some observers wondered if the pursuit of high sales and the subsequent pullback were parts of a deliberate long-range strategy by MetLife. But it may not have been. As one MetLife manager told RIJ privately, "People lost their jobs over [GMIB Max]."

On the other hand, all of the other top-five variable annuity issuers from 2011—Prudential, Jackson National, TIAA-CREF and Lincoln Financial—appear on track to equal or surpass their 2011 VA sales in 2012.

Through nine months of 2012, Prudential had sold $16.2 billion, Jackson National $15.3 billion, TIAA-CREF $10.7 billion and Lincoln Financial $7.3 billion. A year ago, they had sold $15.8 billion, $13.7 billion, $10.1 billion and $7.2 billion, respectively.

The makeup and order of the 20 leading VA issuers has changed slightly this year. At this time in 2011, Sun Life was the 13th largest issuer; it exited the business and doesn't appear on LIMRA's latest Top 20 list. John Hancock, which sold $1.46 billion in the first nine months of 2011, sold only $660 million in the first nine months of 2012.

While some are fading, others are rising. Guardian Life, which was 20th a year ago with $793.8 million in sales through the first nine months of 2011, is now 17th with $1.15 billion. Principal Financial, absent from the YTD 3Q 2011 list, was 20th on the YTD 3Q 2012 list, with $622.8 million in sales.

Here come the DIAs

The fastest-growing product in the annuity industry this year has been the deferred income annuity (DIA). Sales have grown steadily in 2012, from $160 million in the first quarter to $210 million in the second quarter and $270 million in the third quarter of 2012, LIMRA said.

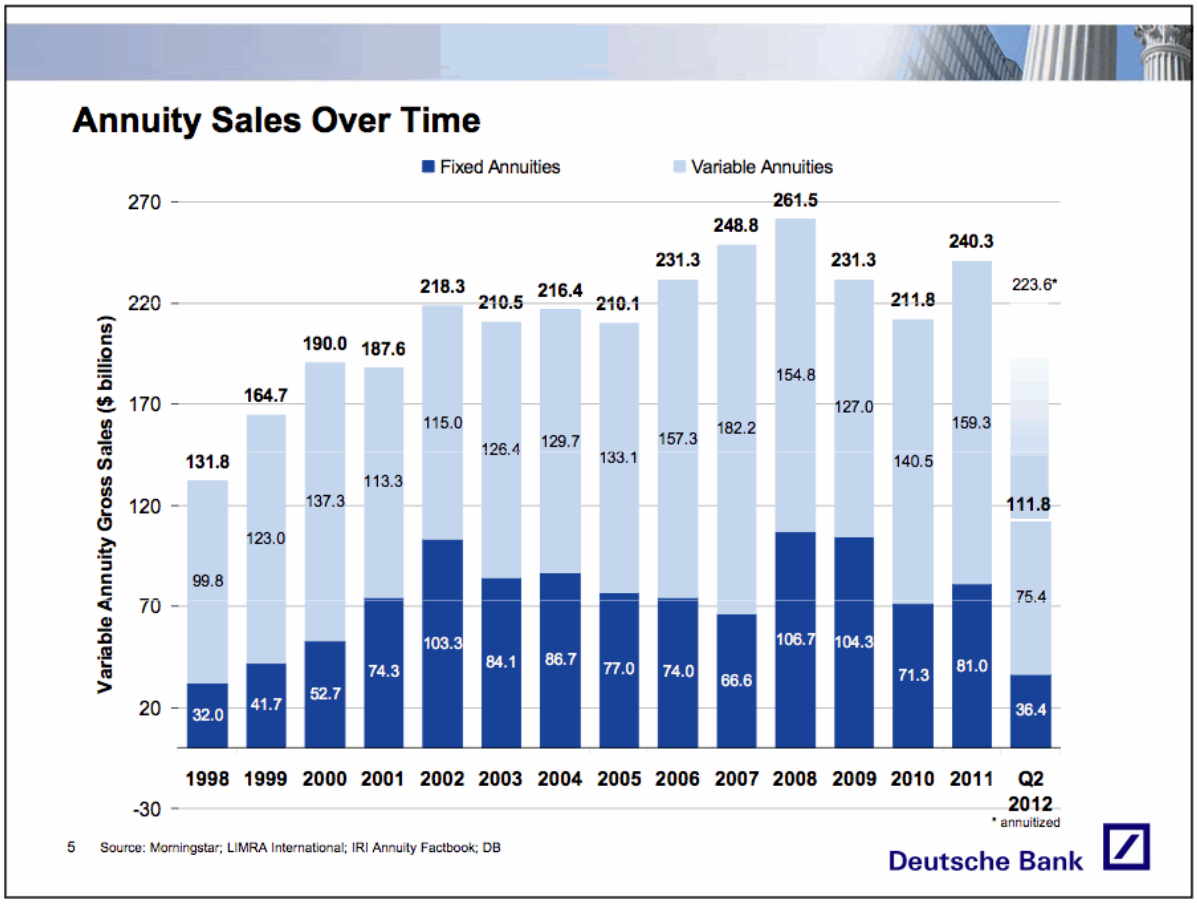
Sales of single premium immediate annuities (SPIAs), at $2.0 billion, were down 9% compared to one year ago, but were up slightly from the second quarter of 2012. In the first nine months of 2012, SPIA sales declined 8% compared with the prior year period.

Fixed indexed annuities (FIA) have continued to boom, relatively speaking, thanks largely to their guaranteed lifetime withdrawal riders (GLWB). LIMRA estimates that 88% of indexed annuities sold offer a GLWB option.

FIA sales were strong in the third quarter at $8.7 billion, primarily due to new companies like Security Benefit ($2.13 billion in total fixed annuity sales in first nine months of 2012) performing well in the market, LIMRA As of September 30, indexed annuity sales were up 6% year over year, at $25.4 billion. LIMRA expects another record sales year for FIAs in 2012.

Because of low yields, however, total fixed annuity sales remained bleak, falling 13% in the third quarter to levels not seen since early 2007. Fixed-rate deferred annuities (book value and market value adjusted) fell precipitously in the third quarter, down 26% from the third quarter of 2011.

Book value sales sank 28% in the third quarter to $5.0 billion. Market-value adjusted (MVA) sales were $1.0 billion, down 17%. For the year, book value and MVA declined 31% and 13% respectively. Fixed-rate deferred product sales are at the lowest level since the late 1990s.



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