Once scorned, FIAs are now embraced: Cerulli

By Editorial Staff *Thu, Feb 20, 2020*

'FIAs should not be harmed greatly by Fed rate cuts, and if markets become volatile and or bearish, fixed annuities will once again serve as safe havens for risk-averse investors,' a Cerulli report says.

Fixed-indexed annuities (FIAs) made up nearly 57% of total annuity sales in 2019, climbing to a new all-time high of nearly $74 billion, according to Cerulli's latest report, *U.S. Annuity Markets 2019: Adapting to Financial Advisory Trends*.

Favorable market conditions, growing acceptance from the broker/dealer (B/D) channels, and innovative product design features are factors that will contribute to further growth. By 2023, Cerulli predicts FIA sales will outpace those of the total retail variable annuity (VA) marketplace.

In sharp contrast to the steady outflows VAs have experienced since 2012 due to de-risking, FIAs are generating positive net flows. Bolstered by the overall performance of index strategies, as well as designs offering greater transparency (e.g., surrender charges, participation rates), FIAs allow insurers to both accumulate assets and keep assets in place to sustain profits. According to the report, FIAs should not be harmed greatly by Fed rate cuts, and if markets become volatile and or bearish, fixed annuities will once again serve as safe havens for risk-averse investors.

The repeal of the Department of Labor (DOL) Conflict of Interest Rule and passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act also contribute to Cerulli's optimistic outlook.

"The threat of the DOL rule had been a key reason for reduced sales especially into VAs and FIAs. The passage of the SECURE Act may open the door for further growth," said Donnie Ethier, director at Cerulli Associates, in a release this week.

The largest catalyst of growth comes from changing distribution dynamics. FIAs are accumulating assets at a solid pace for many B/Ds. The independent broker/dealer (IBD) channel experienced the largest 10-year gain in fixed annuity marketshare at nearly 8 percentage points; regional B/D marketshare has grown too, by almost 7 percentage points, according to the report.

"Broker/dealers have embraced the solution as products become more transparent and consumer-friendly," said Ethier. "Investors value the product's protection of principal coupled with tax-deferred growth of assets."

The report finds that insurers are optimistic about the prospect of increased FIA sales within the independent agent and IBD channel—59% of insurers surveyed expect sales increases of 10% or more.

Insurers are innovating and appealing to B/Ds with tailored products. Cerulli expects this process will continue, if not accelerate.

"Insurers should continue to devise FIA features that will resonate with the B/D community and be open to developing fee-based models," Ethier said, adding, "There will be a need for the solutions due to advisor migration to fee-based models and new regulations that should encourage—if not require—industry movement away from traditional upfront commissions."