Part II: Allianz Life’s Marketing and Distribution Strategy

By Kerry Pechter *Thu, Jun 13, 2019*

In this second part of today's cover story, we look at the long-standing distribution and marketing strategies that have kept Allianz Life atop the index annuity sales charts.

Owning the distribution

One challenge for FIAs back in 1997 was that insurance agents knew nothing about them. It would take higher-than-usual commissions and other incentives to motivate agents to start selling them. MacDonald created a lavish incentive plan that, for several years, involved giving agents part of their compensation in shares of LifeUSA stock. According to a LifeUSA’s 1997 SEC **filings**:

“Since its inception, [LifeUSA] has issued its common stock or granted options to purchase its common stock to… agents as production bonuses… These forms of equity participation provided agents in the early years with additional incentives to place profitable business with LifeUSA, to encourage policyholder persistency and to seek good underwriting risks for LifeUSA.”

“That was a key way to recruit,” Brad Barks of RGA told *RIJ*. “We said, ‘Hey, do you want to be an owner in the company?’” It was the same for LifeUSA employees. “Ten percent of my salary was in stock,” he said. Agents who met sales goals also received “Producer Perks Certificates.” These were points that agents could redeem for Rolex watches, automobiles and, according to one report, even airplanes.

MacDonald also invested in the insurance product wholesalers, called field marketing organizations (FMOs) that worked directly with the independent insurance agents on whose loyalty LifeUSA depended. According to its 10-K **filing:**

During 1996, [we] developed a strategy to generate additional premium production from LifeUSA’s existing agents and from new production sources by making loans to or investing in FMOs and by recruiting new FMOs to sell its products.

The loans include incentives for achieving increased production. In addition, in August 1996, LifeUSA Marketing acquired Tax Planning Seminars, a national FMO that had been contracted with LifeUSA for seven years and in November 1996, acquired an equity interest in Creative Marketing International Corporation, another national FMO.” [Creative

Marketing, now known as **CreativeOne**, is no longer part-owned by Allianz Life.]

Owning FMOs is not a common practice in the annuity industry, but Allianz Life continues to do so. It recently brought five of its wholesalers—American Financial, Ann Arbor Annuity Exchange, GamePlan Financial Marketing, INFORCE Solutions, and The Annuity Store—under an umbrella firm called **TruChoice** Financial Group.

According to a pitch to independent agents on the TruChoice website, "In 2018, our founding-member firms helped producers like you close over $2.85 billion in fixed index annuity sales and $25 million of life insurance business."

"Bob Mac created the foundation of a strong distribution," Allianz' Gray said. "There's been consolidation and growth since then, but the principles are still there. LifeUSA had strong distributional relationships and that provided some of the appeal for the acquisition [of LifeUSA by Allianz].

"TruChoice is an independent distribution firm so they can sell any product they want," he added. "Sales of Allianz Life product represent over 50% of its index annuity sales, and it accounts for less than 25% of Allianz Life's index annuity sales." Instead of having captive agents (employees of an insurer), Allianz Life has captive wholesalers.

In addition, the company launched an agent loyalty program called Allianz Preferred in 2011. Agents must be registered with a broker-dealer and a registered investment advisor (RIA) and hold one or more accepted professional designations to be accepted into the program. Members get exclusive access to certain Allianz products and support services. They also agree not to accept any cash compensation on the sale of Preferred products in excess of what Allianz Life pays them.

Another indication of Allianz Life's inclination to control its own fate: It creates and produces its own media, advertising, marketing, and product collateral. In 2015, the company's in-house Brand and Marketing Department won more than 45 awards from industry associations.

"They appear to dedicate more resources to marketing a crediting method than other companies dedicate to an entire product," said Moore. "They may do brochures and PowerPoint presentations on how a new index works. They may create a whole suite of marketing collateral to go with a strategy, where other companies might produce a one-page flier."

Though it does produce TV commercials, Allianz Life doesn't have the $20 million to $25 million budget for television advertising to consumers like a Pacific Life, Nationwide or a Northwestern Mutual evidently does. Instead, it tries to "surround" producers with polished collateral, including explanatory videos that they can show clients, Wayne Hechanova, the distribution marketing senior director, told *RIJ*.

During the finals of the 2019 NCAA basketball tournament, held in Minneapolis this year, Allianz Life saturated local airport kiosks and baggage carousels with print displays. If the company has a prevailing marketing attitude or philosophy, it's that "we don't do 'FUD,'" said creative marketing director Rick Gibson. "You won't see Fear, Uncertainty or Doubt in what we produce. We try to characterize everything in a way that's true to the brand. It's about a brighter, more positive future… about what's possible."

Regulatory headwinds

But annuities are not as innocuous as corn flakes, and the pressure for higher FIA sales was bound to collide with state regulations against "unsuitable" sales of insurance products. By 2007, complaints from old and fragile senior citizens about predatory annuity sales practices were reaching watchdogs in Allianz Life's home state of Minnesota and elsewhere.

In 2007 and 2008, Minnesota's state attorney general, Lori Swanson, sued Allianz Life, Midland National, American Equity Investment Life, Aviva (now Athene) and other FIA issuers on the basis of those complaints. Without admitting guilt, Allianz Life agreed to refund the contract premiums, plus interest, to people who wanted their money back, and to appoint a "chief suitability officer" to police its sales going forward. Swanson **claimed** to have recovered "hundreds of millions of dollars" from the insurers.

FIA issuers came under fire in September 2007, when the U.S. Senate Special Committee on Aging held a hearing entitled **"Advising Seniors About Their Money: Who is Qualified and Who Is Not?"** That was a point that even fans of FIAs had made privately.

In 2008, the SEC tried and failed to reclassify index annuities as securities, a move that could have stopped thousands of insurance agents without securities licenses from selling them. Wink's Sheryl Moore, along with members of the National Association for Fixed Annuities, suspected the brokerage industry of trying to pull the lucrative FIA business into its orbit. The FIA industry's lobbying efforts succeeded in thwarting what they considered a turf grab.

Most recently, the life insurance industry and its allies fought against a 2016 initiative by the Obama Department of Labor to hold advisors and agents to a fiduciary standard of conduct—instead of the weaker “suitability” or caveat emptor standard—when offering deferred index annuities or variable annuities to people who would be paying for their contracts with tax-deferred retirement savings. The rule passed late in the Obama administration, but was suspended by the Trump administration and defeated in the courts.

Any one of these regulatory forays might have decimated the FIA business. But, in each case, the insurance lobby prevailed. Given rising sales of FIAs, many older Americans do respond to the product’s promises of downside protection, upside potential and chance for lifetime income. It is designed, after all, to tell them what they want to hear as well as give them what they need for retirement.

As FIA author and consultant **Jack Marrion** told *RIJ* recently, “There are still some damned opaque contracts out there. That hasn’t changed. But I’ve always liked the index annuity concept. The commissions on the products are getting lower. And it’s hard to kill somebody with an index annuity. The worst-case scenario is that the client will walk away with about 90 cents on the dollar.”