Sales of fee-based VAs and FIAs on rise in US: Cerulli

By Editorial Staff *Thu, Dec 14, 2017*

Much of the surge in FIA sales is a result of an inadequate supply of attractive VA guarantees. 'Advisors are looking at new retirement income solutions,' said Cerulli director Donnie Ethier.

New research from Cerulli Associates, a global research and consulting firm, discusses how the Department of Labor (DOL) Conflict of Interest Rule has slowed development along the variable annuity (VA) product pipeline. However, many insurers were being proactive in 2016 as approximately 25 of the new product filings were I-share VAs (i.e., fee-based VAs).

“A clear priority for most VA carriers is to manage the risk of their guaranteed benefits,” explained Donnie Ethier, director at Cerulli. “Insurers we surveyed listed the cost of risk management and hedging as being an obstacle; 40% named it as their greatest obstacle in the space. This is followed by designing and distributing fee-based solutions as well as competing annuity designs such as fixed-indexed annuities (FIAs).

“While sales of fee-based VAs, or I-shares, were growing even before the DOL Rule was announced, they declined in 2016,” he added. “Sales surpassed $2.8 billion as of 2Q 2017 putting them on pace to post slight year-over-year annual growth. The share class is important as the insurance industry looks to address the DOL. However, the wealth management industry had already been transitioning toward the fee-based compensation model and the DOL Rule will have the effect of accelerating this process.”

Cerulli believes that regardless of what fiduciary standard is used, it will cause change in how advisors do business. And the steady migration to the fee-based compensation model will continue. Most industry observers expect annuity sales to be under pressure for the next few years, but hold out hope for the future. One bright spot for the industry has been FIAs.

“FIAs sold a record $60.1 billion in 2016, but sales faltered in 4Q 2016, when it was revealed that FIAs would be subject to the same standards as VAs under the DOL Rule,” Ethier said. “Sales seemed to rebound a bit when full implementation of the rule was delayed. More broker/dealers and advisors are beginning to warm up to the FIA concept. The products have come a long way in terms of transparency and acceptance; however, like the majority of surveyed insurers, Cerulli believes much of the surge in FIA sales is a result of an inadequate supply of attractive VA guarantees. Therefore, advisors are looking at new retirement income solutions.”

Cerulli’s latest report, U.S. Annuity Markets 2017: Guaranteed Retirement Income in a Fiduciary World, provides analysis of the U.S. annuities market, examines the impact of the DOL Rule, and projects annuity sales.

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