

---

## 'SIMON' Makes Indexed Annuities Simpler

By Kerry Pechter    Thu, Dec 5, 2019

---

*Originally a platform for distributing structured notes to broker-dealers, SIMON is adding index-linked annuities to its product suite. Prudential is both an investor and, as of today, a product provider.*

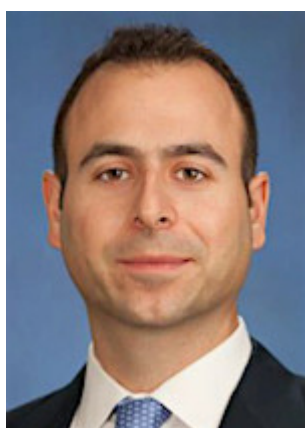
---



Structured notes and indexed annuities don't ordinarily mingle. Structured notes are after-tax securities built by investment banks for high net worth clients of wealth managers at wirehouses and private banks. FIAs are tax-deferred products built by life insurers for clients of insurance agents and advisers at independent broker dealers.

But on the [SIMON](#) platform, they do mingle. Backed by major financial institutions who issue structured notes—including Barclays, Credit Suisse, Goldman Sachs, HSBC, J.P. Morgan, and Wells Fargo—SIMON recently branched out to include indexed annuities, adding products from Prudential, its only insurance carrier investor.

There's a certain logic to offering both types of products in the same place. Indexed annuities and structured notes are both "structured." That is, both use derivatives to make guarded, time-limited bets on specific segments of the equity markets. Both are complex, opaque and both, at times, have drawn regulatory scrutiny. Both respond to the public's demand for investments that are safer than stocks but yield more than bonds.



Jason Broder

"When we asked ourselves how SIMON could become a more holistic provider, the natural

extension was to annuities—specifically indexed annuities,” SIMON CEO Jason Broder told *RIJ*. “SIMON will be a single place where an adviser can come for risk-managed solutions.” (SIMON’s structured notes business is called SIMON Markets LLC; the annuity business is called SIMON Annuities and Insurance Services LLC.)

SIMON’s head of distribution, Scott Beshany, calls it a “digital annuities marketplace,” that supports a bank’s structured note desk and a life insurer’s team of annuity wholesalers.

The first broker-dealer to integrate with SIMON has been Raymond James, which already used SIMON for structured notes. Prudential’s [PruSecure](#) is the platform’s first indexed annuity offering, and its first structured variable annuity (aka registered index-linked annuity, or RILA) offering is Great American’s [Index Summit 6](#). More are expected to follow.

### **Democratizing structured products**

In classic tech-startup fashion, SIMON is headquartered in a WeWork co-working space in Chelsea, a fast-changing, gentrified neighborhood on Manhattan’s lower west side. (The loft-style offices of Betterment, the \$16 billion robo-advisor, are only a block away from SIMON.)

On an afternoon last September, several members of SIMON’s leadership team squeezed around a table in one of WeWork’s tiny conference rooms: Broder; chief operating officer Timur Kocaoglu; chief business development officer Joseph Giordano—all formerly of Goldman Sachs; and Beshany, a veteran of InCapital and BBVA Compass.

Broder, who previously led the Goldman Sachs Private Investor Products group, said that the idea for SIMON began in October 2012, when the financial services giant decided to spin its structured notes desk off as an independent web-based business, offering a virtual structured notes desk to broker-dealers, potentially expanding the market (about \$48 billion in the U.S. in 2018).

“We saw an opportunity to take a model that required 30 or 35 professionals and scale that by using a technology platform. That’s how we set out to build SIMON,” Broder said.

But broker-dealers, not surprisingly, wanted a choice of notes from competing issuers. So Goldman Sachs invited other top-tier structured notes manufacturers to join the SIMON platform. Barclays, Credit Suisse HSBC, J.P. Morgan and Wells Fargo all invested and put their products on SIMON’s shelf in late 2018. Today, SIMON makes structured products

from 15 financial institutions accessible to 30,000 advisers with more than \$3 trillion in assets under management.

#### **Enter indexed annuities**

The idea for putting indexed annuities on the SIMON platform came up after Raymond James, a major distributor of annuities, started using SIMON for structured notes.



Scott Beshany

“SIMON had been going down the annuity path for some time,” Beshany told *RIJ*. “But Raymond James was the first among the firms in our existing distribution network for structured investments who wanted to see a mandate for annuities on our platform. Raymond James was the broker-dealer most integrated with the SIMON structured notes platform. Scott Stolz, the president of Raymond James Insurance Group, saw that it would be a big win for advisers in the annuity space if we could replicate our services for annuities.”

Annuities create a number of sales hurdles for wealth managers and investment advisers at broker-dealers. Advisers learn about products haphazardly, from one wholesaler at a time, and need specific training and certification to sell annuities. Different annuity providers use idiosyncratic vocabulary.

When their clients own an annuity, the adviser typically has to “hold it away” on a separate platform from investments. Over the three- to 10-year life of an FIA contract, an adviser may neglect to ensure that the contract still suits the owners. These time-consuming bottlenecks discourage many advisers from recommending annuities at all.

SIMON’s stated intention from the start has been to educate financial advisers around risk-

managed solutions. To that end, it offers both general and product-specific education materials, it links advisers to the training they need, it allows advisers to back-test the performance of various products, and it alerts advisers to service the products after they're sold.

The system documents all of these activities, helping advisers stay compliant with a regulatory burden that's only expected to get heavier. "SIMON solves the same problems for structured notes that I have with annuities," Stolz told *RIJ*. "For instance, one big NIGO [a "not in good order" application is one with errors that make it boomerang back to the adviser from the carrier] for us is not knowing if an adviser has had the training necessary to sell a certain type of product."

"Sometimes the adviser hasn't completed product-specific training, but there is no system in place to tell the advisor's home office or the life insurer," added Broder. "Now training can be linked and tracked on SIMON, and education is offered where the product is sold."

SIMON's flashiest tool for advisers who sell index annuities is a proprietary algorithm that helps an adviser to identify what has historically been the most optimal allocation among the four or five indices that are available within a given contract.

"We've heard that 50% to 60% of the money that goes into indexed annuities goes into the S&P 500 Index with a one-year point-to-point crediting method," Beshany said. "Why is that the case? Is it the best performing allocation? The advisers are often left to figure that out on their own. Eventually you'll have to explain your decision to the client. SIMON is giving the advisor the tools to help answer those questions"

Prudential's PruSecure FIA, the first FIA on the SIMON platform, has five- and seven-year terms and indices linked to real estate (Dow Jones Real Estate), commodities (Bloomberg Commodities) and global (MSCI-Europe, Australasia-Far East) indices, as well as the S&P500 Index of large-cap U.S. stocks.

#### **Competition and cooperation**

Several companies have appeared this year to provide "technology distribution" services that automate traditional annuity wholesaling. Like SIMON, [Halo Investing](#) is a structured note platform that recently began adding index annuities. Last April, Chicago-based Halo received a chunk of investment capital from [Allianz Life Ventures](#), which is owned by Allianz Life, the top seller of indexed annuities in the U.S. for more than a decade.

Halo claims to be the largest structured notes platform in the U.S. and one of the largest in the world, providing notes from 27 issuers, according to Jason Barsema, its co-founder and president. It expects to begin offering index annuities from Allianz Life and other carriers to independent RIA customers in 2020.



Jason Barsema

“Advisers want some level of protection for their clients, and whether you call it an annuity from a life insurer or a structured note from an investment bank, it’s the same type of product. They both suffer from the same problem: complexity and non-transparency,” Barsema told *RIJ*. “I think of everything as ski slopes. Annuities are good for the ‘blue’ and ‘green’ trails. Structured notes are for the black diamond and double-black diamond trails.”

SIMON and Halo use very different business models. Halo mainly serves RIAs (but plans eventually to pitch to broker-dealers). The firm has no manufacturers on its board, he said—not even Allianz Life—in order to eliminate a potential conflict of interest.

“We’re built for the buy-side,” Barsema said. “My co-founder [Halo CEO Biju Kulathakal], was a co-founder of Redbox, which distributes videos and games through kiosks. The message there was, ‘You have to take control away from the manufacturers. A market dominated by manufacturers isn’t democratic or independent. It’s not as competitive. We said, ‘We’ll be built for the buy-side.’”

“Expanding their offering with FIAs and structured annuities makes sense for both Halo and SIMON. It will help them serve the needs of investors whose appetite for risk might demand a similar, but more conservative risk management solution than structured notes,” said David Stone, CEO of [RetireOne](#), an insurance and annuity back office for more than 900

RIAs.

Another platform that facilitates the sale of annuities is [DPL Financial Partners](#), where RIAs can buy no-commission index annuities and life insurance assisted by insurance-licensed, index annuity-certified intermediaries who try to educate rather than sell, according to DPL founder David Lau, who was the first chief operating officer of Jefferson National Life (now [Nationwide Advisory Solutions](#)), which pioneered the successful marketing of no-load variable annuities to RIAs on the Internet.

“We’re more at the front-end of the annuity sales process,” Lau told *RIJ*. “We can make sure that an annuity is in an RIA’s financial planning software, but that’s not a deep integration. SIMON offers more help with product selection than we do, and they do a backend integration that’s goes deeper into the broker-dealer platforms and integrates products that would otherwise be held away.” Investnet’s [FIDx](#) platform also offers annuities and insurance to RIAs.

#### **Structured annuities are next**

SIMON is in talks with more index annuity issuers. It is reportedly in the process of adding its first structured variable annuity, or RILA. Joe Maringer, national sales vice president of Great American Insurance Group, told *RIJ* this week that his Summit 6 product has joined the SIMON platform.

Structured annuities, or RILAs, which some call registered index-linked annuities, may be a more natural fit for wealth managers who are looking for a tax-deferred version of a structured note. Because RILAs expose investors to a marginal risk of loss—in the form of “buffers” or “floors”—they can offer more upside potential than FIAs, which offer principal guarantees if held to maturity. “SIMON will have more application on the structured annuities side,” Stolz said.

Broder has great expectations for SIMON, which in theory could eventually be available to any financial professional, at any wirehouse or broker-dealer in the U.S. “There are 310,000 financial advisers in the U.S.,” he told *RIJ*. “We’d like to target all of them.”

© 2019 RIJ Publishing LLC. All rights reserved.