Sizing Up the DIA’s Sales Potential

By Editor Test *Thu, Sep 12, 2013*

With y-o-y sales growth of 150%, deferred income annuities have attracted a lot of attention. But so far the DIA phenomenon has been concentrated among mutual insurers and in the captive agent channel.

Does the deferred income annuity, or DIA, have strong enough legs to carry the big life insurance companies to their rightful domination of the retirement income market?

To me, the idea of buying a personal pension in advance of retirement makes sense. It involves planning ahead, which is what grown-ups are supposed to do (and what children don’t). But the devil’s-advocate question still needs to be asked. And people in upper-floor rooms with walnut-paneled walls and wool-carpeted floors are probably asking it.

“Yes” might seem like the obvious answer. Eight or nine major annuity issuers have introduced DIAs in the past two years. Six more are planning to offer them in the near future, according to Donnie Ethier of Cerulli Associates. (One recent entrant is Americo Financial Life and Annuity, which has taken an existing DIA, brushed it off, and reintroduced it as Platinum Provider.)

And for good reason. Sales growth has been spectacular, at least in percentage terms. According to LIMRA, sales of DIAs in the first half of 2013 were 150% higher than in the first half of 2012. DIAs were a $50 million-a-year business before mid-2011, when New York Life announced its Guaranteed Future Income DIA. In 2013, first half sales were almost $1 billion.

On the other hand, what appears to be mass migration might just represent a lot of fast-follower and me-too activity rather than a real sea-change. Sometimes you’ve got to offer a product just to avoid giving customers a reason to go somewhere else. From what I hear, the DIA is simple enough, cheap enough and safe enough for almost anybody to bring to market pretty quickly.

In absolute terms, sales are still modest. DIA sales would have to keep doubling for several years in a row before volume approached the sales of fixed indexed annuities ($36 billion a year), let alone sales of variable annuities ($150 billion a year, about half of which is exchanges and about 10% of which represents net growth, according to Cerulli).

Here’s the rub. Sales of DIAs are, at least so far, concentrated in one type of issuer (mutually-owned) and in one distribution channel (captive/career). According to Beacon Research, 67.1% of DIAs have been sold by captive agents. Another 25.1% by brokers in large/regional broker-dealers, whom the mutuals can rely on not to compete with the captives, Beacon CEO Jeremy Alexander told RIJ.

Just two companies currently account for more than half of DIA sales. New York Life, the largest mutual in the U.S., claims to have 44% of the DIA market in the first half of 2013. Northwestern Mutual Life, which this year introduced a DIA that accrues annual dividends, claims to have another 25%. MetLife and Lincoln Financial, two public companies, are also marketing DIAs, but it remains to be seen how passionate they will be about it.

Mutual companies vs. public companies

In short, the DIA looks like a sure winner for the mutual insurers and the career/captive agent distribution channel. But does a spread product like the DIA offer a big enough profit margin to arouse the publicly held life insurers, who face insatiable demands for higher earnings?

And does it offer enough compensation to beguile the agents and reps in the IMO/independent agent channel or independent broker-dealer channels, who for years have been spoiled by the high commissions of fixed index annuities and variable annuities?

I consulted a couple of smart industry watchers about this. Jeremy Alexander, for one, thinks that DIAs have a big future. He said the trend started in the captive channel mainly because the agents are a captive audience; mutual insurers can teach them the DIA story quickly. "I do think the other carriers will get traction – it just may take some time. Remember captive producers are a lot more "trainable" then other producers," he wrote in an email.

Jay Robinson of Financial Independence Group (FIG), an insurance marketing organization, also believes DIAs have cross-over potential. "That's going to be a huge market, not just among the captives. MetLife has entered that space. You'll see the direction of the industry go away from variable annuity to the FIA with a GLWB and DIA," he said. FIG is promoting the defined income annuity and the Thrive Income method of using it in retirement planning to its agents.

As for profitability, Robinson thinks the deferral period of the DIA gives carriers plenty of opportunity to put the money to work, and he believes that compensation for DIAs will be "comparable with SPIAs, at about 3% or 4%." It could be even higher for long-deferred contracts, he said. Americo's single-premium deferred income annuity, Platinum Provider, which offers single or joint life payouts with an optional death benefit and a 2%-5% annual inflation adjustment, pays a very competitive commission, he told *RIJ*.

On the other hand, DIAs arguably only make sense in the context of a careful, long-range retirement planning framework. So it remains to be seen whether they will catch the imagination of fast-paced intermediaries who want to quickly "drop a ticket," who are commission-driven or AUM-driven and who are strangers to the insurance culture. DIAs are susceptible to the same "annuicide" objection—the loss of fee-generating AUM following an annuity sale—that compels reps to reject immediate annuities.

Perhaps a deferred variable income annuity with an income floor—a DIVA—would be more appealing to publicly owned insurers and independent distributors than a fixed DIA. Sun Life recently introduced such a product in Canada. (See today's story on "Nominees.") Lincoln Financial's i4Life product has DIVA-like characteristics. According to Moshe Milevsky of York University, there's no reason why a DIVA couldn't work, from a manufacturer's point of view.

The frustrating truth, however, is that different types of manufacturers and different types of distributors have tended to align themselves with different products and different compensation regimes. Because of that, the DIA’s ability to make the leap beyond its current sweet spot is still open to question.

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