Speculation About Jackson National

By Editor Test *Wed, May 18, 2011*

If Jackson National de-risks its variable annuity offerings, it would merely be following the example of competitors like Prudential and MetLife. Jackson's parent also has to consider Solvency II.

Headlines about a suggestion by Tidjane Thiam, the CEO of Prudential Plc, during a May 11 analysts call that Jackson National might soon start de-risking its popular Perspective variable annuity have momentarily distracted many in the annuity industry from truly serious matters, like the Bulls-Heat matchup.

That’s significant, but I’m not sure what all the fuss is about. Jackson National hasn’t changed any of its option-rich riders or taken any products off the market yet. If it does de-risk its offerings a bit, Jackson National would merely be following the lead of close-competitors MetLife and Prudential Financial in moderating the promises embedded in its lifetime withdrawal riders.

Given the Fed’s protracted low interest rate policy (which raises VA hedging costs even as it props up the U.S. economy) many insurance wonks have been expecting as much from Jackson. “Jackson for a long time was too rich,” one insurance insider told RIJ this week. “A lot of us couldn’t understand it, especially with Solvency II coming. They offered no restrictions on funds and they had really grown fast in the variable marketplace. So finally it looks like the parent said, ‘I’m out, guys.’”

“If your competitors step back, you’ve got to step back,” said Tamiko Toland, who covers variable annuities at Strategic Insight.

The people most likely to be upset by a Jackson National dial-down, if and when it occurs, would be the advisors who loved Jackson’s advisor-friendly philosophy. Their reaction might be comparable to Ferrari aficionados fretting over a report that next year’s model might have only 400 horsepower instead of 500.

Contract owners and Prudential Plc shareholders either won’t care or they’ll be cheered by the news. Advisors are only one of a variable annuity issuer’s constituencies, as Stephen Pelletier, president of Prudential Annuities, said in an interview on Monday. “We are always seeking to drive sustainable profitable growth,” he told RIJ. “It’s always about that. We think that’s the right approach. That’s a win-win-win combination—for our shareholders, distribution partners, and our clients. That approach works for everybody. It’s what keeps us in the marketplace.” Since the financial crisis, Prudential has twice reduced the richness of its Highest Daily step-up feature and survived.

For those who don’t recall the details of Jackson National’s popular Perspective contract: The last time I looked, it offered about 99 investment options, few if any asset allocation restrictions, and a living benefit featuring annual deferral bonuses of 5%, 6%, 7% or 8%, with rider fees ranging from 95 basis points to 130 basis points per year. Advisors can wind up the benefits, the fees and the risks right to the red line.

“We’ve always focused on the cafeteria-style VA product, with various withdrawal and bonus options, and we decided to extend that to the GMWB option. It’s an extension of our ‘give the rep a choice’ philosophy,” Jackson National vice president Alison Reed told RIJ last fall.

That, along with its high ratings and the retreat of several erstwhile competitors after the GFC, helped Jackson National post $14.7 billion in variable annuity sales in 2010 (a 10.4% market share), third only to Prudential ($21.7 bn) and MetLife ($18.3 bn). And Jackson National’s value proposition may feel more liberal to some advisors than either Prudential’s CPPI-based risk model or MetLife’s GMIB. In the first quarter of 2011, Jackson’s sales jumped 45%, to $4.6 billion.

Some observers think Prudential Plc’s CEO was hearing the approaching footsteps of regulatory change when he made his comments. As a unit of London-based Prudential Plc (no relation to Newark, NJ-based Prudential Financial), Jackson National (U.S. headquarters in Lansing, MI) will be subject to Solvency II, Europe’s risk-based rules for insurance, starting on January 1, 2013. The three “pillars” of Solvency II include the tightening of standards for capital, internal supervision and reporting.

In any case, Jackson National isn’t likely to tamper too heavy-handedly with its successful VA formula. But if it did, would advisors switch brands? At the margins, maybe. “Sure, they’ll lose some advisors. But your core is going to stay with you because you’ll take care of them,” our insurance insider said.

“Those guys will get extra special attention,” he added. “The wholesalers are talking to them, and home office staff will travel with the wholesalers. You can do things for them that don’t cost anything. There are value-added services. You can help someone analyze his book of business. With the wholesaling staff that Jackson has, they can soften the blow with communication. They’ll have a plan figured out that will make them look OK. They have a reputation of being advisor-friendly and that will carry them through.”

In the short run, rumors of future scarcity should boost sales of Jackson’s rich contract.

During the mid-decade VA boom, insurance companies waited until after a crash forced them to de-risk their contracts (or, in some cases, to stop selling VAs entirely). Having enjoyed the 2010 boomlet, the leading issuers are apparently listening more closely to their actuaries than before. The fact that they’re trimming sails now rather than later is good for advisors, clients and shareholders.