Stellar 2008 Makes for Dismal 2009 in Bank Annuity Sales

By Editor Test *Wed, Feb 17, 2010*

"There have been only two times in the last five years where we have seen bank channel total annuity sales this low," said Kehrer-LIMRA's research director.

In November, total annuity sales at banks dropped below the $3 billion mark for the first time since February 2007 and remained there through December, according to the *Kehrer-LIMRA Monthly Bank Annuity Sales Survey.*

"There have been only two times in the last five years where we have seen bank channel total annuity sales this low," said Janet Cappelletti, associate research director at Kehrer-LIMRA.

Financial institutions sold $2.7 billion of fixed and variable annuities in November, a reduction of 23% month-to-month, and 37% year-over-year. In December, banks sold just slightly more—$2.8 billion—or about half of the $5.4 billion in sales recorded in December of 2008.

Total annuity sales were pulled lower by faltering fixed annuity sales, which trended downward nearly every month of 2009.

The Kehrer-LIMRA survey is based on a national sample of banks that have a minimum of $4 billion in assets. The participating institutions account for about one-third of all bank annuity sales.

Fixed Annuity Sales

Sales of fixed annuities through financial institutions fell below $2 billion in November 2009 for the first time since January of 2008. Banks sold $1.7 billion of fixed annuities in November, a 32% erosion from October and a 47% collapse from the previous November.

Fixed annuity sales through banks in November 2009 were 51% below where they started the year at $3.5 billion. In December, fixed annuity sales slipped an additional 6%, ending the year at $1.6 billion, 63% below the record high of $4.3 billion set in December of the previous year.

"Since the all-time high in December 2008, fixed annuity sales have declined consistently through 2009, and variable annuity sales have not stepped up to take their place as they normally would" said Scott Stathis, managing director of Kehrer-LIMRA. "Instead mutual funds sales, which are less profitable to banks, have ramped up."

"Fixed annuities have been rate-challenged, and variable annuities have increased in cost while the value of their benefits has decreased. This makes for a very challenging annuity sales environment," he added.

Fixed annuities continue to lose their appeal as providers pull back on interest rates. The average effective rate on five-year fixed annuities eroded by 45% since December of 2008, but five-year CD rates slipped comparatively less-34% in the same period.

According to the *Kehrer-LIMRA Bank Fixed Annuity RateWatch*, the spread between the yield on five-year CDs and the average effective yield offered by fixed annuities guaranteed for five years dropped from 111 basis points in December 2008 to 24 basis points in December 2009.

"Fixed annuity sales accounted for only about a quarter of packaged product sales at financial institutions in November 2009 compared to more than half the sales mix a year ago," Cappelletti said. "The vanishing spread on the five year products between the effective yield on fixed annuities and CD rates represents diminished opportunities for bank investment programs."

Variable Annuity Sales

Bank-sold variable annuities continued to tread water at $1.0 billion in November, just short of the $1.1 billion level they were flat for most of the year. After bottoming out in the beginning of the year at $0.7 billion, variable annuity sales had been running at $1.1 billion a month from March through September.

In December, however, variable annuity production shot up 20% to $1.2 billion, back to the levels last seen in October of 2008. Compared to January 2009's record low sales, December was up 71% for the year, but improved only 9% from December of the previous year.

Banks sold $1.70 in fixed annuities for every dollar of variable annuities in November, and the ratio sunk to $1.33 to one in December. These ratios are considerably lower than the January 2009 high of $5.00 to one, and much closer to figures from March of 2008 when the ratio was at $1.55 to one, after which fixed annuity sales began to pick up steam.

Mutual Fund Sales

Since August of 2009 mutual funds have consistently accounted for more than half of the bank sales mix. This had not been the case since June of 2008. Sales of mutual funds have more than doubled since January of 2009.

Bank mutual fund sales in November cooled after several increases in 2009, backing down 14% from a robust October. In November, banks sold $4.4 billion in mutual funds, making a significant recovery from the prior November when mutual fund sales hit their low point at $2 billion.

In December, bank mutual fund sales rallied 15% to $5.1 billion to match October's banner productivity. Mutual fund sales at financial institutions closed the year 143% higher than the $2.1 billion they began at in January.

Mutual fund recovery outpaced variable annuities and accounted for 62% and 64% of packaged product sales at banks in November and December, respectively. Mutual fund sales mix had not been that high since June of 2007.