VA sales likely to end 2012 down 8%: Morningstar

By Editor Test *Wed, Nov 28, 2012*

But Prudential, Jackson National, TIAA-CREF, Lincoln Financial, SunAmerica/VALIC, and AXA Equitable all sold slightly more VAs in the first three quarters of 2012 than in the same period in 2011.

Third quarter 2012 variable annuity new sales were down 4.9%, dropping to $35.9 billion from $37.7 billion in the second quarter, according to Morningstar's 3Q 2012 Variable Annuity Sales and Asset Survey.

Year to date new sales of $109.4 billion were down 6.3% vs. third quarter year to date sales of $116.8 billion last year. With third quarter year to date sales at 71.1% of 2011 full year sales of $153.7 billion, it seems likely that 2012 will finish with sales in the range of $145 billion, or down about 6% from 2011.

Virtually all of that decline can be accounted for by MetLife's reduction in sales. In the third quarter of 2011, MetLife sold about $8.5 billion. In the third quarter of 2012, it sold about $4.5 billion. Through September 30, MetLife sold about $7 billion more in 2011 than in 2012 ($21.2 billion vs. $14.1 billion).

Morningstar's data, like LIMRA's (reported last week in *RIJ*), showed that the other leading VA sellers, including Prudential, Jackson National, TIAA-CREF, Lincoln Financial, SunAmerica/VALIC, and AXA Equitable all sold slightly more in the first three quarters of 2012 than in the same period in 2011.

AXA's Structured Capital Strategies variable annuity, an accumulation product that offers volatility control instead of lifetime income, jumped from 60th to 19th on the list of top-selling VA contracts. Annual sales through September 30, 2012 were $945.8 million, up from $290 million the previous year. The product was introduced in late 2010.

Sales of "O" Shares, which have reduced costs to the consumer, now account for 4.4% of VA sales, up from 0.9% for the first three-quarters of 2011. The leading sellers are Protective ($469 million in 3Q 2012), Lincoln, and Prudential. Sales of B shares, which are driven by commissions, still dominate the business, accounting for more than 60% of sales. Sales of L shares, which have shorter surrender periods but higher commissions than B shares, account for about one in five VA sales.

Overall VA assets, driven by strong market performance in 2012, have reached a new high of $1.622 trillion, up 3.9% from the second quarter, 7.9% from the end of 2011 and 14% from the end of the third quarter of 2011.

Third quarter net cash flow was up 18% to $5.8 billion from $4.9 billion in the second quarter, however on a year over year basis third quarter year to date net cash flow of $14.6 billion showed a 28.4% decrease from the year ago level of $20.4 billion.

The ratio of net cash flow to new sales has fluctuated between 15% and 30% over the past decade, with total net flow of $305 billion since the beginning of 2001 equal to 20.26% of total new sales of $1,504.8 billion over the same period.

The top five companies in the retail VA market (i.e. excluding 403(b) business) in the third quarter were, in terms of new sales and market share:

- Prudential, $5.9 billion; 16.4%
- Jackson National, $5.7 billion; 15.8%
- MetLife, $4.6 billion; 12.8%
- Lincoln National, $2.3 billion; 6.5%
- AXA Equitable, $1.8 billion; 5.1%

In the distribution channels the leaders (also excluding 403(b) business) were:

- Jackson National with 20.5% of the bank channel and 29.1% of independent broker/dealer sales
- Prudential with 26.2% of the wirehouse channel
- MetLife with 15.8% of captive agency sales and 21.4% of the regional channel
- Fidelity captured 63.8% of the direct sales channel

Companies continue to reconfigure benefits to meet demand for guarantees while minimizing risk. Reductions in roll-ups and payout percentages, elimination of bonus credits, and increased fees in the third quarter all produced more viable living benefit designs.

Product designs that embed hedging in the underlying fund, essentially shifting volatility risk to the investor, have a lot of appeal, because they remove the hedging instrument from the issuer’s balance sheet. One example: the Ohio National GLWB Plus lifetime withdrawal benefit, which requires a minimum 50% allocation to one of the TOPS volatility managed ETF portfolios.