Voya: From Orange to Origami

By Kerry Pechter *Wed, Dec 14, 2016*

Almost four years after its IPO, Voya (formerly ING-US) has rebranded, retooled itself as a fixed indexed annuity shop and launched an ad campaign featuring origami rodents that talk. But it is still searching for the right mix of products, personnel and organizational structure.

So, what's up at Voya Financial? Like its fellow life insurers, Voya enjoyed two sharp increases in its stock price in 2016—once at mid-year when Treasury yields rose and again after Donald Trump's surprise election as U.S. president last month. Investors expect Trump to bring new spending programs, higher interest rates, deregulation and a lower corporate tax rate.

Voya was already getting the benefit of the doubt from the top insurance rating agency. Even though the $466 billion firm reported a $248 million net loss in 3Q2106, and despite lingering anxiety over the risks lurking in its closed block of variable annuities, A.M. Best upgraded Voya's long-term issuer credit rating to A+ last month, citing its "favorable market position in selected life insurance, employee benefits and [institutional and individual] retirement markets."

"In transition" may still be the best way to describe this former U.S. unit of Dutch financial giant ING. Almost four years after its IPO and rebranding as Voya (the name is meant to suggest "voyage"), the firm has retooled itself as a fixed indexed annuity manufacturer and launched an ad campaign featuring origami rodents that talk. But it is still searching for the right mix of products, personnel and organizational structure.

"From the IPO on, we've been trying to find synergies, break down silos and focus on becoming 'One Voya,'" Chad Tope (below right), Voya's president of Annuities and Individual Life Distribution, told *RIJ* recently. "We want to be 'America's retirement company’ and make sure we make it as easy as possible for people to do b

Over the past several months, Voya has announced a flurry of new products, managerial changes and a reorganization that moves annuities to the life insurance division. In a minor but discordant note, Voya also finds itself the defendant in a federal wrongful termination suit filed last July by veteran annuity executive Mary Fay, now at AIG. Voya has denied Fay’s allegations.

Coming in 2017: ‘The Journey’

Voya Financial’s two largest businesses are institutional retirement and annuities. It is the sixth largest recordkeeper in the U.S. ($288.7bn in defined contribution assets, according to PlanSponsor). It also ranked 19th in total sales of fixed annuities ($1.42bn) according to LIMRA, 13th in FIA sales, according to Wink, and 15th in sales of variable annuities ($1.15bn, investment-only VA), according to Morningstar, in the first nine months of 2016.

Voya is “a safe, yet steady competitor,” said an analyst at **Wink**, the annuity and insurance data shop. “They aren’t the first to venture into innovation yet are quick to follow suit with the top competitors.”

In terms of annuity assets under management, Voya’s latest SEC filings show $27.5bn in annuity AUM, including $14.2bn in FIAs, $5.0bn in other fixed annuities and $5.0bn in “investment-only” products. According to Morningstar, Voya still has the tenth-most variable annuity assets, ($65.6bn), now in a closed block.

Voya’s newest annuity, scheduled for release in mid-January, is an FIA called The Journey. “It’s a new design in the marketplace,” Tope told *RIJ*. It’s an FIA product with a seven-year term. It will compete with, or act like, an indexed certificate of deposit, but tax-deferred. Performance will be linked to “dynamic index strategies” provided by Citi and JP Morgan.

“We’ve had term point-to-point products, with seven- and nine-year terms, but there was no value during the term," Tope said. "With this design, we're offering credits." There are two ways to gain value, Voya said. In each of the first six contract years, if the index registers a gain, the account gets a one-percent credit. At the end of seven years, 100% of the index gain is credited to the contract.

"We talked to banks and broker-dealers about this, and we could have come out with 'just another product' that represented an evolution of our current product set," Tope added. But we asked, 'What is the need?' We want to help partners gain new business instead of moving existing assets around."

Last June, Voya announced a new Quest series of three indexed annuities, including a 6% premium bonus product, a five-year product and a seven-year product. It continues to sell its Wealth Builder and Secure Index FIAs.

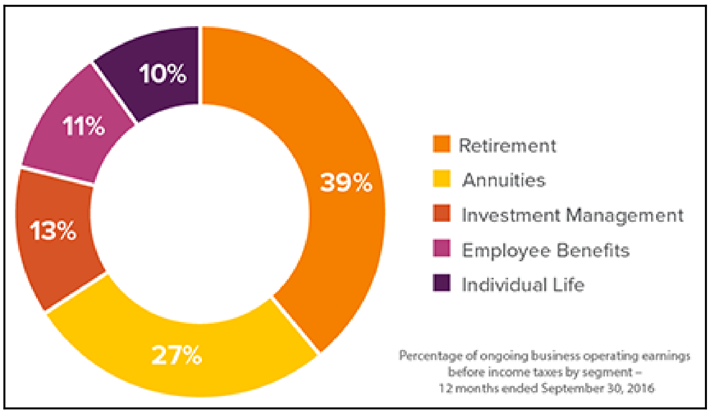
Voya has come up with some interesting income-generating concepts. In March 2013, it introduced **Lifetime Income Annuity**, an indexed product with a non-optional guaranteed lifetime withdrawal benefit with a nine-year surrender period. The benefit base is marked up to 150% of premium after a five-year deferral and to 225% of premium after 10 years, plus potential index gains up to 6% per year. Neither the roll-up nor the index gains are credited to the account value. In the brochure, 4.4% to 4.9% are cited as payout-rate examples.

Internal re-org

A lot of life insurers have struggled with the questions: Where do annuities belong in its corporate structure? With individual products or retirement plans? With investment products or life insurance? Where variable annuities were in vogue, it made sense to put annuities with investments. But does that make sense when FIAs are the main product?

Voya's answer to the last two questions is No. Having put its VA-with-living-benefit block of business into run-off mode, hedged the risks in that block, and made cash surrender offers to owners of risky contracts, it decided to move its individual annuity out of Retirement Investments and over to the Life Insurance division.

(Voya is effectively out of the VA-with-living-benefit business; it soaks up too much capital. "When ING was selling VAs, they had some of the most generous guaranteed living benefits," an insurance industry analyst told *RIJ*. "The lapse rate on those contracts was lower than they had assumed. Even before the IPO, they took a charge for [that]. The VA block has been the biggest drag on the stock price.")



Hence the reorganization. “We’re strong on both indexed annuities and on universal life,” Tope told *RIJ*. “They were separate for a long time and were headed up by different CEOs. Now they report to one CEO. The rationale in the past was that variable annuities drove a lot of the sales. On the life side we were focused on term life and guaranteed death benefits. But we were exiting the VA business and didn’t want to sell the guaranteed death benefit on life products any more. We kind of morphed both of these businesses so that they look similar to each other.” (At left, Voya’s businesses.)

Voya has budgeted tens of millions of dollars for its latest reorganization, but expects high returns from the investment. According to its most recent 10-Q filing, Voya will incur restructuring expenses of at least $30 million in the fourth quarter of 2016 but expects to “achieve annual run rate costs savings of at least $100 million in 2018 and subsequent years.”

Outside observers are waiting to see how that works before passing judgment. “A life insurance policy can be more complex than a MYGA [multi-year guaranteed-rate annuity],” said David Paul, a principal at ALIRT Insurance Research. “Traditionally, those two products were supported by different wholesaling arms. It’s obviously a cost-saving decision to have one set of wholesalers support both products, but you have to wonder if wholesaling will suffer. Wholesaling is important to distribution, especially if you sell through the BGAs [brokerage general agencies] and financial institutions.

“My understanding is that Voya used to write more business through IMOs [independent marketing organizations, whose agents are independent], but opted to transition to a more direct-to-producer approach a number of years ago. I’m not sure it worked out as well. It will be interesting to see if the current reorganization is a positive or a negative,” he told *RIJ*.

The DOL fiduciary rule is also driving the reorganization. “The regulatory environment is pushing us toward the ‘best interest’ of the customer,” Tope said. “That implies the development of a holistic plan, and that’s what we’re good at. People will always have two insurable problems: Dying too soon and living too long. Therefore life insurance and annuities will take on much more importance in the planning process. So bringing the two together makes a lot of sense when you're trying to achieve the best interest of the client."

Executives in motion

Since 2013, Voya has experienced a fair amount of high level movement and turnover. In September, as part of the reorganization mentioned above, Carolyn Johnson, who had been president of Annuities at Voya, saw her role expand to include Individual Life. Chad Tope reports directly to her.

In other moves, Kevin Stych will join Voya Financial's Annuities and Individual Life organization as vice president, national sales manager for brokerage sales, reporting to Tope. Stych had been national sales manager with Voya Financial Advisors (VFA) — the company's 2,100-advisor retail broker-dealer. In another addition to the Annuities and Individual Life division distribution team, Jim Ryan, who has held senior relationship management positions elsewhere, will serve as vice president, Relationship Management.

Recently, Michael De Feo joined the firm as head of Retirement and Investment Only, arriving from the position of managing director, DCIO, Strategic Alliances and Sub-Advised at Nuveen Investments. He reports to Jake Tuzza, head of Intermediary Distribution for Voya Investment Management.

In November, Ewout Steenbergen, who had been Voya's chief financial officer since January 2010, left the company. He now has a similar role at S&P Global. Michael Smith, who had been Voya's CEO of Insurance Solutions, was named by CEO Rodney Martin to replace him.

There's been a fair amount of turnover. Before Steenbergen left, Voya had also seen the departure of three other top executives from the retirement and annuity business—David Bedard, president of the Annuities Business, in October 2013, Maliz Beams, CEO of Voya Financial Retirement Solutions, in October 2014, and Jamie Ohl, president, Tax-Exempt Markets and Retirement, in September 2014.

'Whistleblower' lawsuit

Those departures may be coincidental or the result of aggressive headhunting by other firms. But in an October **blogpost**, analyst Justin Hibbard at Forward Forensics linked them to a **lawsuit**—which he called a "whistleblower suit"—filed against Voya in U.S. District Court in Connecticut last July by Mary Fay, who had been Voya's senior vice president, head of products U.S. from 2012 until November 2013.

The complaint describes a managerial dispute over an estimate of the first-year return-on-equity of Voya's about-to-be-launched Lifetime Income Annuity product (mentioned above). The suit claims that Voya's superiors wanted a higher number than Fay and her actuaries felt they could justify; they balked at providing the higher number. The alleged conversation took place seven weeks before Voya's May 1, 2013 IPO.

Fay's relationship with senior management subsequently deteriorated to the point where she was told that her position had been eliminated, which the suit claims was an act of retaliation. She left Voya on November 1, 2013 and filed a complaint with the Department of Labor, but later decided to pursue a remedy in federal court. Fay and her attorneys weren't available for comment. A Voya spokesman said that the company rejects the accusations and stands by the integrity of its actuarial process. Voya's attorneys filed an **answer** to Fay's complaint, denying her charges, on September 30.