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Wirehouses warming to indexed annuities

By Darla Mercado
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In what seems to be an about-face, wirehouses are embracing fixed indexed annuities, which offer investors a guaranteed-minimum return and the opportunity to partake in stock market gains.

Shunned in the past because of their high commissions and long surrender periods, which encouraged the scrutiny of regulators and the attention of plaintiff's attorneys, fixed indexed annuities — some of which have been retrofitted with shorter surrender periods and lower commissions — seem to be enjoying a boomlet.

Sales of the products through wirehouses totaled $53 million during the first six months of the year, up 400% from $10.6 million during the same period in 2010, according to data from Beacon Research Publications Inc.

To be sure, the vast majority of fixed indexed annuities, also known as equity-indexed annuities, continue to be sold by independent insurance agents. Sales through such agents totaled $11.5 billion during the first six months of this year, down from $11.7 billion in the same period last year, Beacon said..

But wirehouses are scrambling to grab a bigger piece of the pie.

Morgan Stanley Smith Barney LLC, for example, expects to add to its menu of fixed indexed annuities soon.

Meanwhile, Bank of America Merrill Lynch is talking with Allianz Life Insurance Co. of North America about selling the insurer's indexed annuities. Merrill Lynch first began selling fixed indexed annuities in May, when it added offerings from Jackson National Life Insurance Co. and Lincoln National Corp.

“In the old days, indexed annuities weren't a product you could be proud of selling: you had 15% commissions and abusive producers who wanted to sell away from the broker-dealer,” said John Mulhall, managing director at Merrill Lynch Global Wealth Management. “Five years ago, nobody hated that product more than me, but now I've seen the light.”

Other firms in talks with Allianz are UBS Financial Services Inc. and Wells Fargo Advisors.

Nevertheless, some observers are skeptical of wirehouses' eagerness to venture into sales of the products. The firms, they contend, are motivated by hunger for revenue at a time when margins have shrunk due to low interest rates.

“These ideas the wirehouses are coming up with clearly are on the fringes and suggest they're stressed one way or another,” said Stephen Winks, an industry consultant. “It tells me that there's some desperation.”

Phil Aidikoff, a partner at Aidikoff Uhl & Bakhtiari, which represents investors against securities firms, agrees.

“One of the reasons they're moving so aggressively is because there's a potential for a profit center there,” he said.

Of course, getting brokers to understand how fixed indexed annuities work and for whom they are best suited poses a challenge.

Scott Stolz, president of Raymond James Insurance Group, said that while his firm has been marketing indexed annuities for nearly five years, it took about three years before representatives felt comfortable selling them.

Similarly, getting to know the wirehouse channel has also been a challenge for insurers.

Allianz, Jackson and Lincoln have a benefit in that they already have a foot in wirehouses' door; they already market variable annuities through the big firms.

“The hardest part was getting firms to understand that not all indexed annuities are created equal,” said Kris Kattmann, vice president and leader of the fixed-annuity line at Lincoln.

SIMPLICITY A FOCUS

Wirehouses that sell Lincoln's indexed annuity can offer customers a six- or eight-year surrender period while the rep is paid a commission ranging from 3.5% to 5%. Lincoln's longer duration products for insurance agents can have a surrender period of as long as 10 years and can pay commissions ranging from 6% to 10%.

Simplicity also has been a focus for insurers wishing to reach into the wirehouse market. An indexed annuity can have different crediting methods and can be based on different indexes.

“One thing broker-dealers and wirehouses demanded was a simplification of the index-crediting methodology and a more limited menu of index options,” said Robert DeChellis, president and chief executive of Allianz Life Financial Services LLC.

Finally, some insurers have stepped up to perform suitability reviews if distributors aren't up to the task. For example, the Lincoln unit that manufactures fixed and variable annuities conducts such reviews.

State regulation from the National Association of Insurance Commissioners requires a suitability review on annuity sales, and places responsibility on the insurer for ensuring it takes place.

Despite the added emphasis, sales of indexed annuities at wirehouses still are modest.

“We've had some slow growth,” said Todd Shriber, managing director and head of insurance and annuities at Morgan Stanley Smith Barney. “We're waiting to see the adoption among advisers.”