



Fixed Indexed Annuity Market Update

Actuaries' Club of Hartford & Springfield (ACHS) Annual Meeting

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Agenda

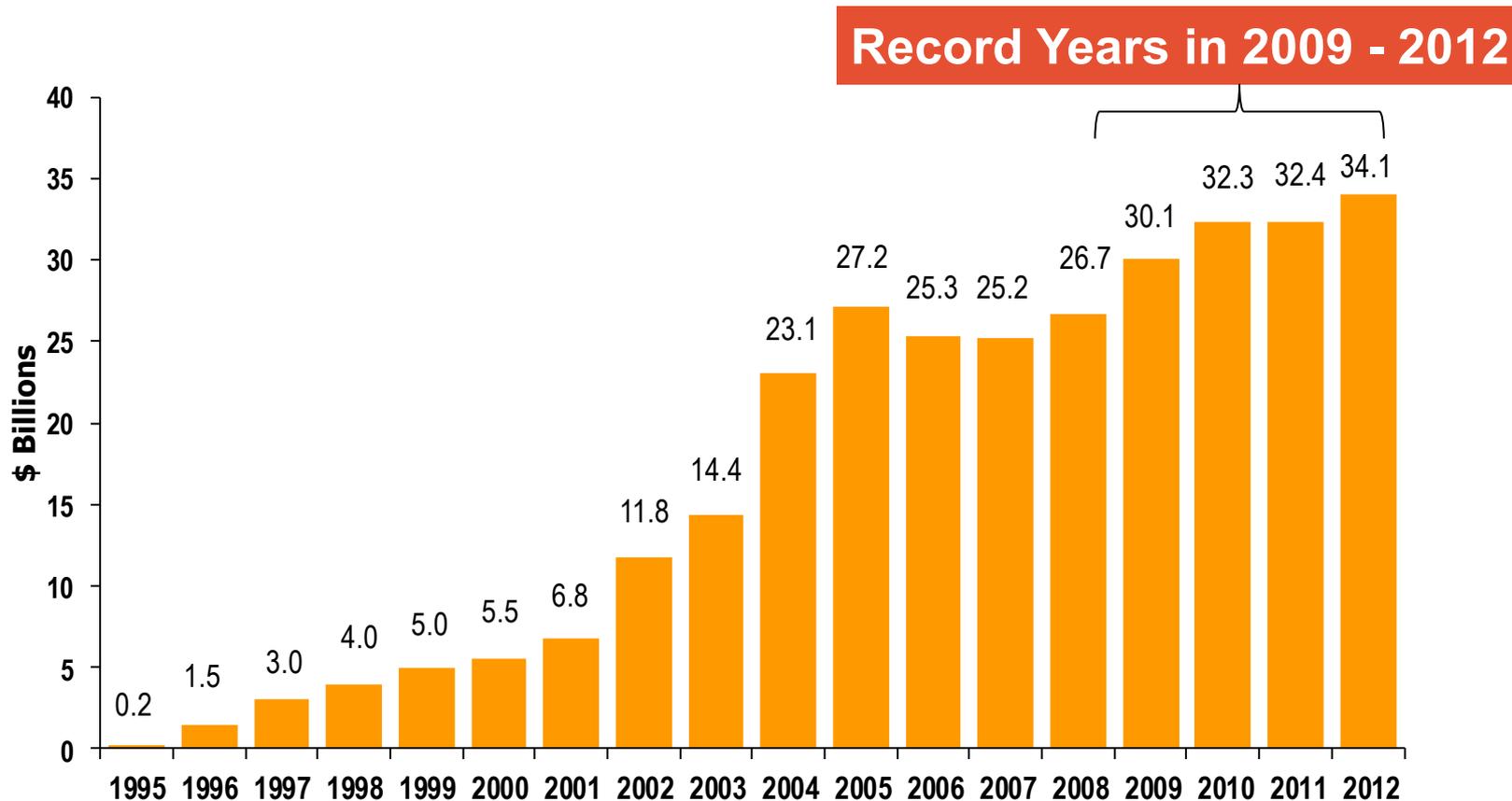
- Market dynamics
- Product trends
- Pricing and risk management issues
- Summary

Indexed Annuity Market Dynamics

Market Dynamics

- Sales trends
- Economic environment
- M&A activity

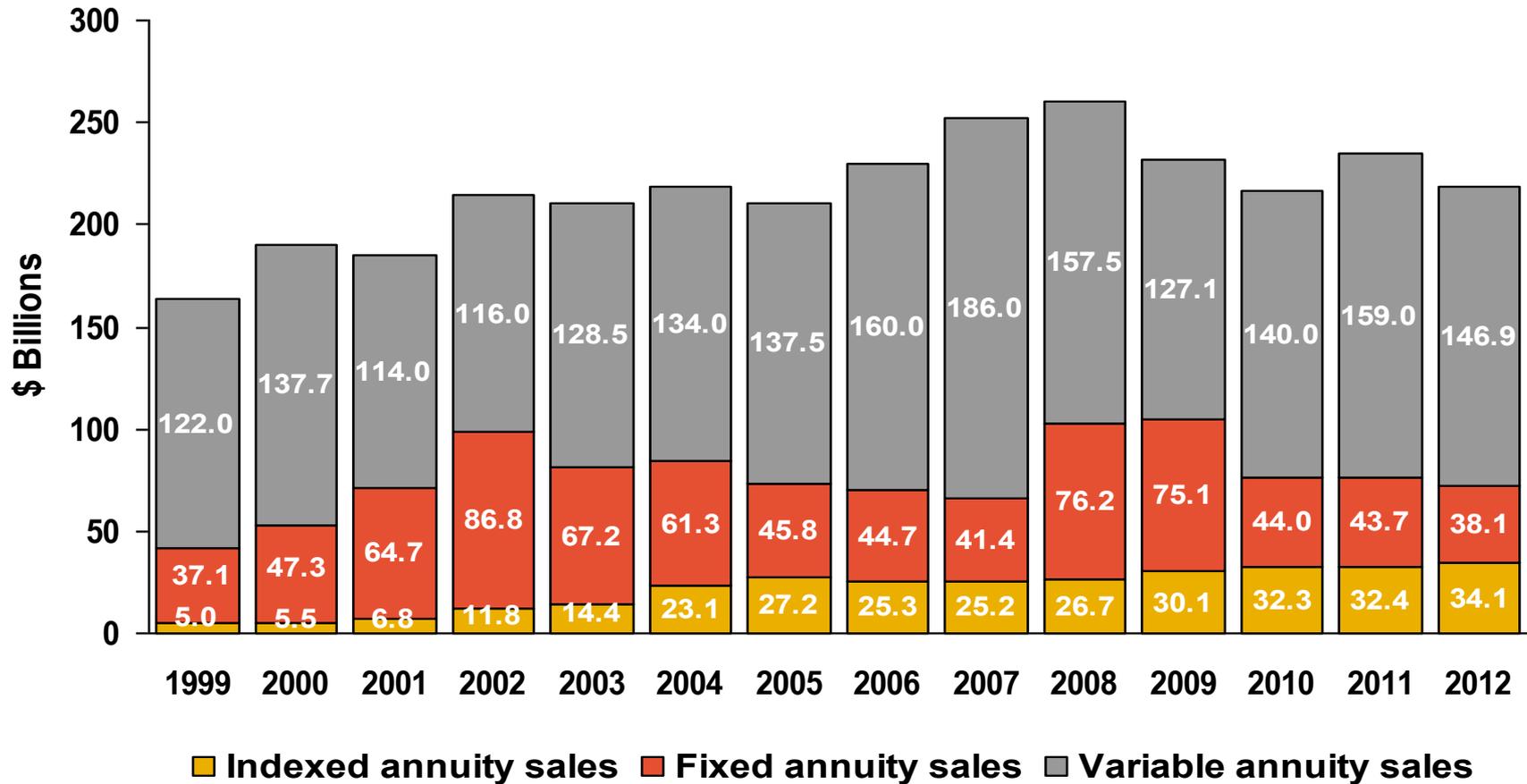
Indexed Annuity Sales Trends (1995-2012)



FIA sales growth outperformed other annuities in recent years

Source: *AnnuitySpecs.com's Indexed Sales & Market Report, 4Q2012* and LIMRA

Annuity Sales Trends (1999-2012)



Sources: *AnnuitySpecs.com's Indexed Sales & Market Report, 4Q2012* , Towers Watson VALUE Survey, LIMRA

New entrants and “renewed competitors” are reducing top 5 FIA market share

	2008		2009		2010		2011		2012	
Rank	Company	Share %	Company	Share %	Company	Share %	Company	Share %	Company	Share %
1	Aviva	27%	Allianz Life	18%	Allianz Life	21%	Allianz Life	20%	Allianz Life	16%
2	Allianz Life	16%	Aviva	18%	Aviva	16%	Aviva	14%	Aviva	12%
3	American Equity	8%	American Equity	12%	American Equity	13%	American Equity	13%	American Equity	11%
4	Midland National Life	6%	Jackson National Life	7%	Lincoln National Life	6%	Great American	6%	Security Benefit Life	9%
5	ING	5%	Lincoln National Life	7%	ING	5%	North American	6%	Great American	6%
Total		62%		62%		61%		59%		54%

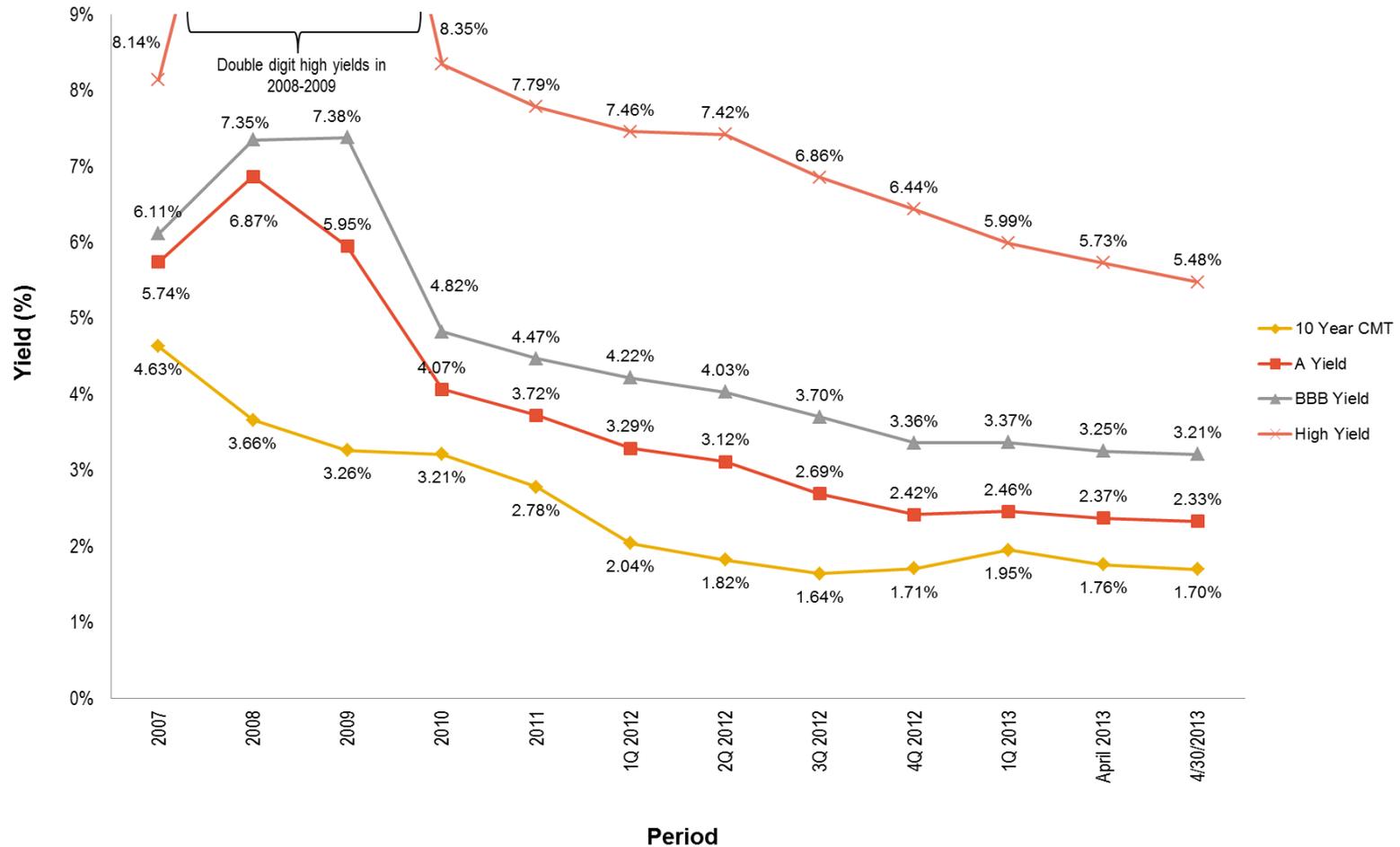
Source: Annuity Specs Sales & Market Report

Competitive Landscape and External Forces

- Top 5 market share is eroding
 - “Traditional” FIA carriers such as Allianz Life, Aviva, American Equity and Midland / North American have lost ground to new and re-emerging players
- Market share gainers in the last few years
 - Security Benefit / Equitrust / Fidelity and Guarantee Life / Phoenix
 - Great American / Pacific Life / Allstate
- Major external forces
 - Low interest rates
 - Statutory reserves for income riders
 - Solvency II (European subsidiaries)
- M&A activity and private equity acquirers

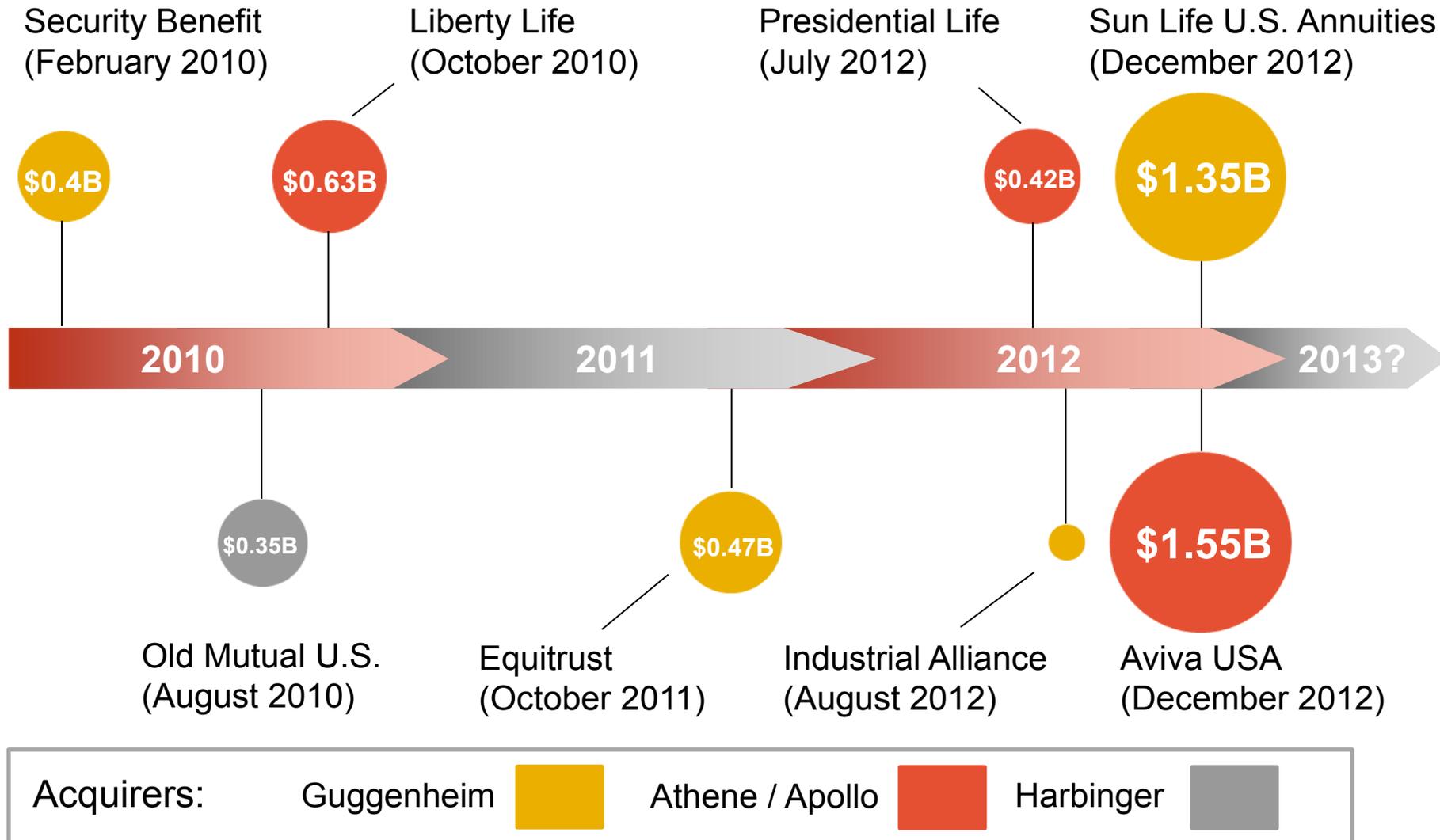
Economic Environment

Average Yield Rates from January 2007 to April 2013



Source: Federal Reserve Bank of St. Louis (BofA Merrill Lynch US Corporate Yields and CMT data)

Private equity driven M&A is transforming the FIA market



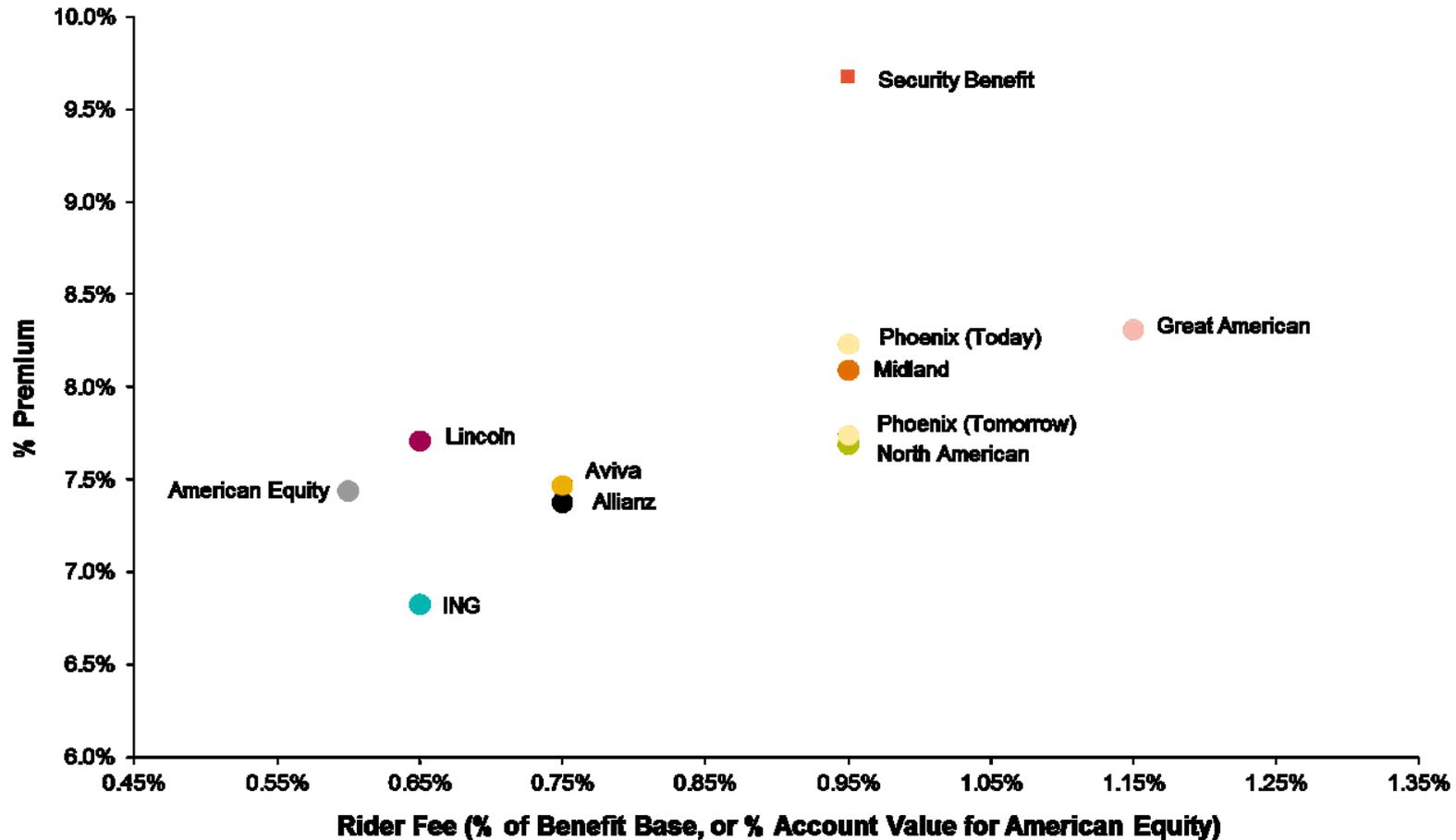
Product Trends

Companies are coping with the low rate environment while attempting to differentiate their rider offerings

- Guaranteed death benefits, often comprising the following features:
 - Wait period
 - 5 year payout or longer
 - Simple interest
 - Maximum issue age
- Nursing home riders
 - Income “doubblers”
 - Maximum period
- Lifetime income rider “de-risking” slowed, but continues (next slides)
 - Some rider charge increases
 - Rollup decreases are very common
 - Limiting the rollup period (helps AG 33 reserves)
 - Making the rollup simple interest
 - Decreasing income rates

FIA GLWB Landscape as of January 2012

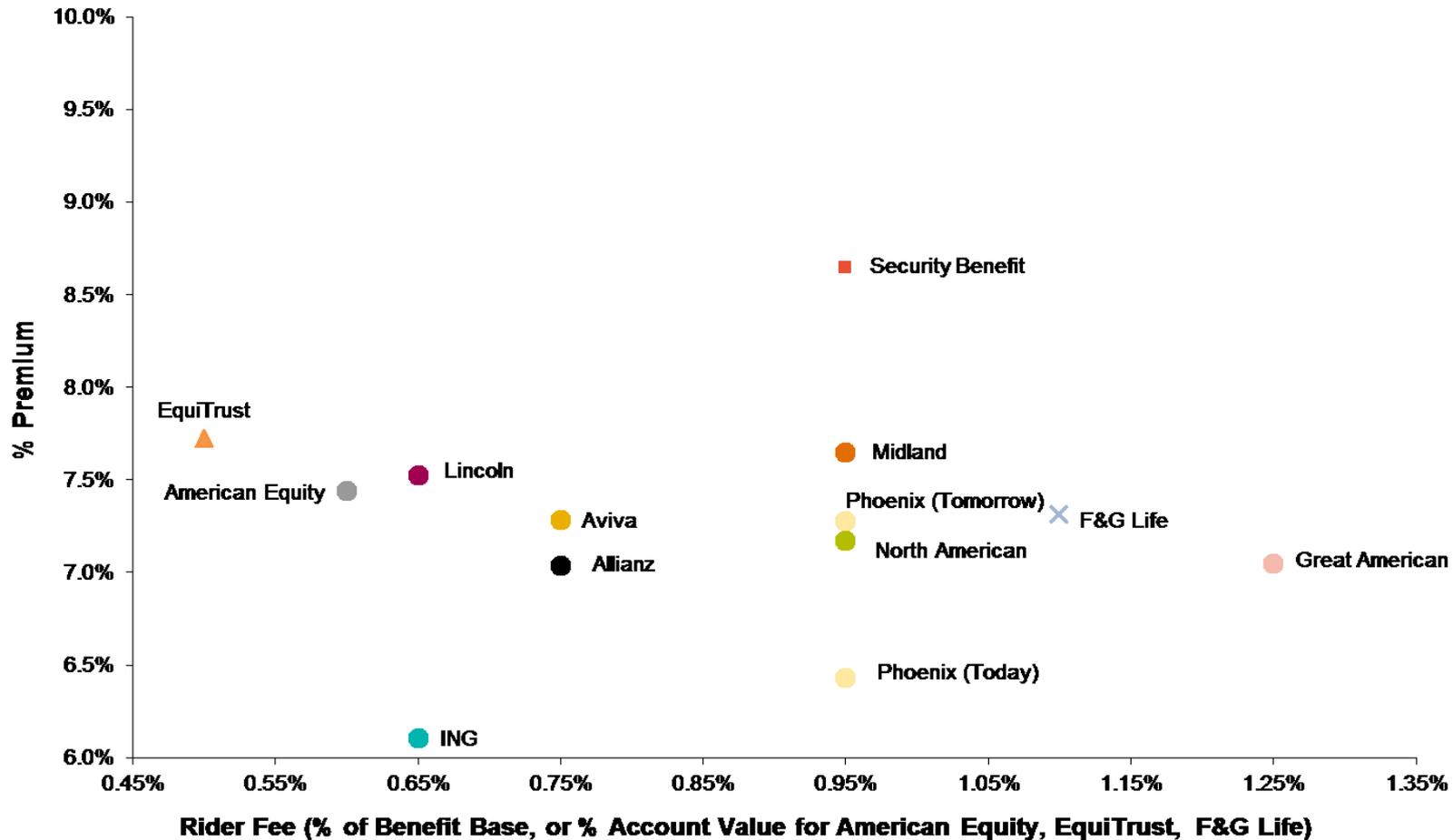
Average Guaranteed Withdrawal Rates in January 2012



Average of effective withdrawal rates (includes impact of bonuses and rollups) for 1) issue age 55, wait 5 years, 2) issue age 65, immediate 3) Issue age 60, wait 5 years and 4) Issue age 60, wait 10 years

FIA GLWB Landscape as of June 2012

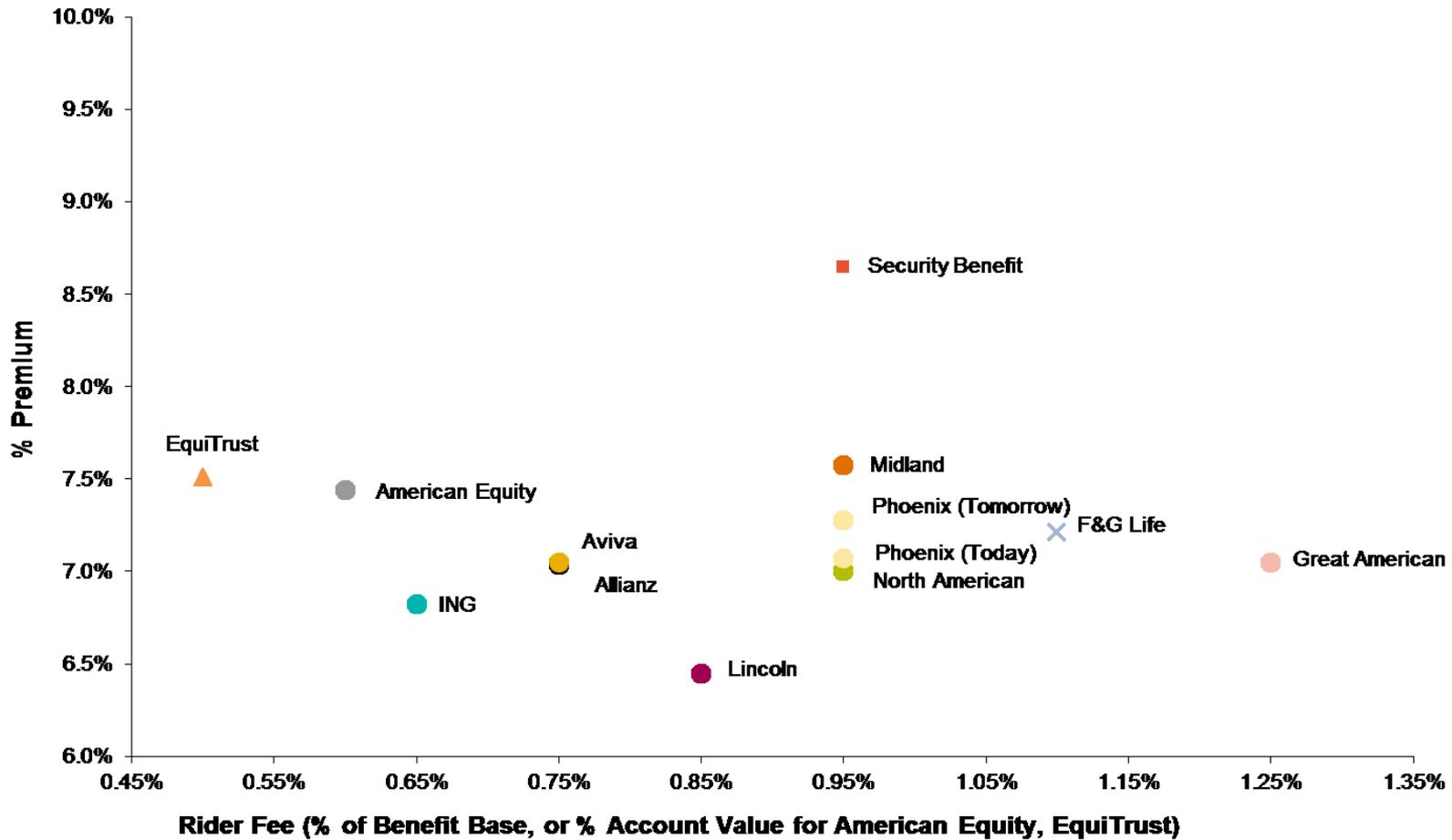
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Developments on Base Contracts

- Premium bonuses have been cut considerably
- Commissions decreases
 - Great American: 10% temporary cut (announced in May 2012)
 - Allianz Life: 5% temporary cut (announced in June 2012)
 - More recent changes by Lincoln, Equitrust, Genworth
 - Levelized commissions (Athene)
- Some carriers feature a return of premium on surrender
 - Very attractive
 - Onerous reserve requirements
- Indexed annuities with floor less than 0% / VA hybrid
 - AXA Structured Capital StrategiesSM
 - Allstate RightFitSM
 - Allianz Life Index AdvantageSM
 - MetLife Flex Market ShieldSM

Pricing and Risk Management Issues

Key issues related to FIA

Base Contract

- Cap management
- ALM
- Hedging

Riders

- ALM
- Hedging?



U.S. GAAP

- FAS 133 / 157
- SOP 03-1

U.S. Statutory

- AG 33 / 35
- AG 43

Economics?

The low rate environment is the primary challenge

- Low new money yields are pressuring pricing
- Concern about disintermediation
 - Dynamic lapses on base contract
- Concern about sustained low yields
 - Persistency on GLWBs
- Most FIA carriers' blocks still are primarily in the surrender charge period and have older assets on their books
 - This should help managing interest rate risk
 - Integrated ALM financial modeling is key

Other issues

- U.S. statutory reserving
- GLWB assumptions
- Hedging
- U.S. GAAP

Summary

Summary

- Low rates and declining credit spreads
 - Product actions
 - M&A
 - ALM
- GLWB reserves
- Continued broadening of market