The Impact of Third-Party Distribution Channels

Lee Covington
Senior Vice President and General Counsel
Insured Retirement Institute

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Annuity Industry Sales

Industry-Wide Annuity Sales, 2006 to Present

Source: Morningstar and Beacon Research
Fixed Annuity Distribution Channels

- Captive Agents
- Independent Producers
- Broker-Dealers
  - Wirehouses
  - Large/regional broker-dealers
  - Independent broker-dealers
- Banks
- Other/Direct Third-Party
Captive Agents

- Career or general agents
- Typically are only able to sell products issued by affiliated company
Independent Producers

- Producers selling products of several carriers often through one or more wholesalers

- Includes:
  - Sales through non-BD distributors primarily serving independent agents and brokers
    - IMOs
Broker-Dealers

- Any firm licensed to sell securities and other registered products

- Includes:
  - Wirehouses
  - Large regional broker-dealers
  - Independent broker-dealers
Banks

- Financial institutions primarily identified as accepting demand deposits and making commercial and/or consumer loans, including home mortgages

- Includes:
  - Savings and loans
  - Credit unions
  - Bank-owned broker dealers
  - Third-party marketers serving bank platforms
Direct Third-Party

- Sales through direct marketing including sales by mail, e-mail, phone or websites

- Includes:
  - Sales by salaried employees
  - Arrangements with other organizations
Fixed Sales by Distribution Channels

Fixed Annuity Sales by Distribution Channel as a Percentage of Total Fixed Annuity Sales

- Independent Producers/IMOs
- Banks/Bank-owned BDs
- Broker-Dealers
- Captive Agents
- Direct/Third Party

Source: Beacon Research
VA Distribution Channels

- Captive Agents
- Independent financial planners; FINRA/NASD firms
- Regional broker-dealers/investment firms and wirehouses
- Banks
- Director response
Captive Agents

- Career or general agents
- Typically are only able to sell products issued by affiliated company
Independent Financial Planners

- Independent firms non-affiliated with major national, regional, bank or captive firm
- May be wholly owned/majority-owned by insurance company if advisors clearing through the firm are not incentivized to distribute products of parent company over another competitor’s
- Examples: LPL Financial, M Financial Group, NYLife Securities
Wirehouses/Regional Broker-Dealers

- Large, national, full-service firms
- Examples:
  - Wirehouses: Wells Fargo Advisors, Morgan Stanley
  - Regional BDs: Edward Jones, Raymond James & Associates
Banks/Credit Unions

- Financial institutions primarily identified as accepting demand deposits and making commercial and/or consumer loans, including home mortgages
Direct Response

- No third-party
- Investor purchases directly
- Examples:
  - Vanguard, Fidelity
VA Sales by Distribution Channels

Variable Annuity Total Sales by Distribution Channel

- Independent Financial Planners; FINRA/NASD Firms
- Captive Agents
- Banks/Credit Unions
- Wirehouses and Regional BDs
- Direct Response

Source: Morningstar
Variable Annuity Sales by Distribution Channel

Source: Morningstar
Third-Party Channels

- Demand for independent sales reps led to third-party distribution channels
- Created new opportunities for carriers to reach new customers for annuity products
- Increased competition for shelf space
- Increased costs from regulatory and compliance costs
Broker-Dealer Consolidation

FINRA/NASD Licensed Broker-Dealers

- 2005
- 5/2010
- 11/2011
- 9/2012

FINRA/NASD Licensed Broker-Dealers
Broker-Dealer Consolidation

- Regulatory burdens/compliance costs
- Low interest rates affecting margin businesses
- Small and mid-sized broker-dealers most affected
IRI announced new initiative in June at the IRI 2012 GLRC

Research will identify regulatory burdens facing broker-dealers that impede their ability, and financial advisors’ willingness, to sell lifetime income products.
IRI/Cogent Study

- 83% of annuity producers agree that the purchase process for annuities is more burdensome than other investments
- 39% of annuity producers agree that state licensing regulations can be ambiguous and poorly defined
IRI/Cogent Research

- 84% of advisors say that they are having more client discussions on retirement income planning
- 71% of advisors say that they had a client request to purchase an annuity during the last year