

The Impact of Third-Party Distribution Channels

Lee Covington

**Senior Vice President and General Counsel
Insured Retirement Institute**

*National Association of Insurance Commissioners and the
Center for Insurance Policy and Research*

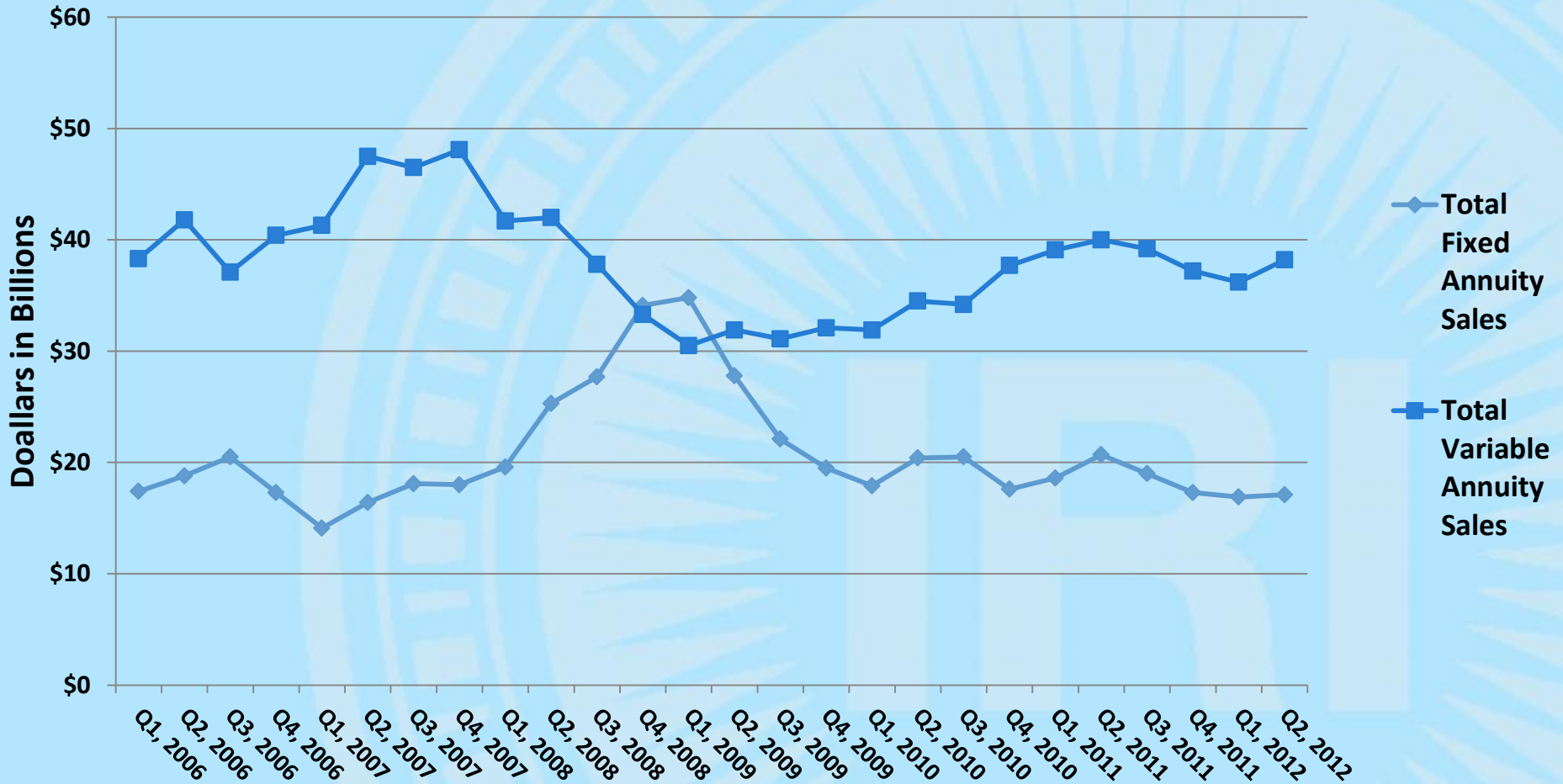
State of the Life Insurance Industry Symposium

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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

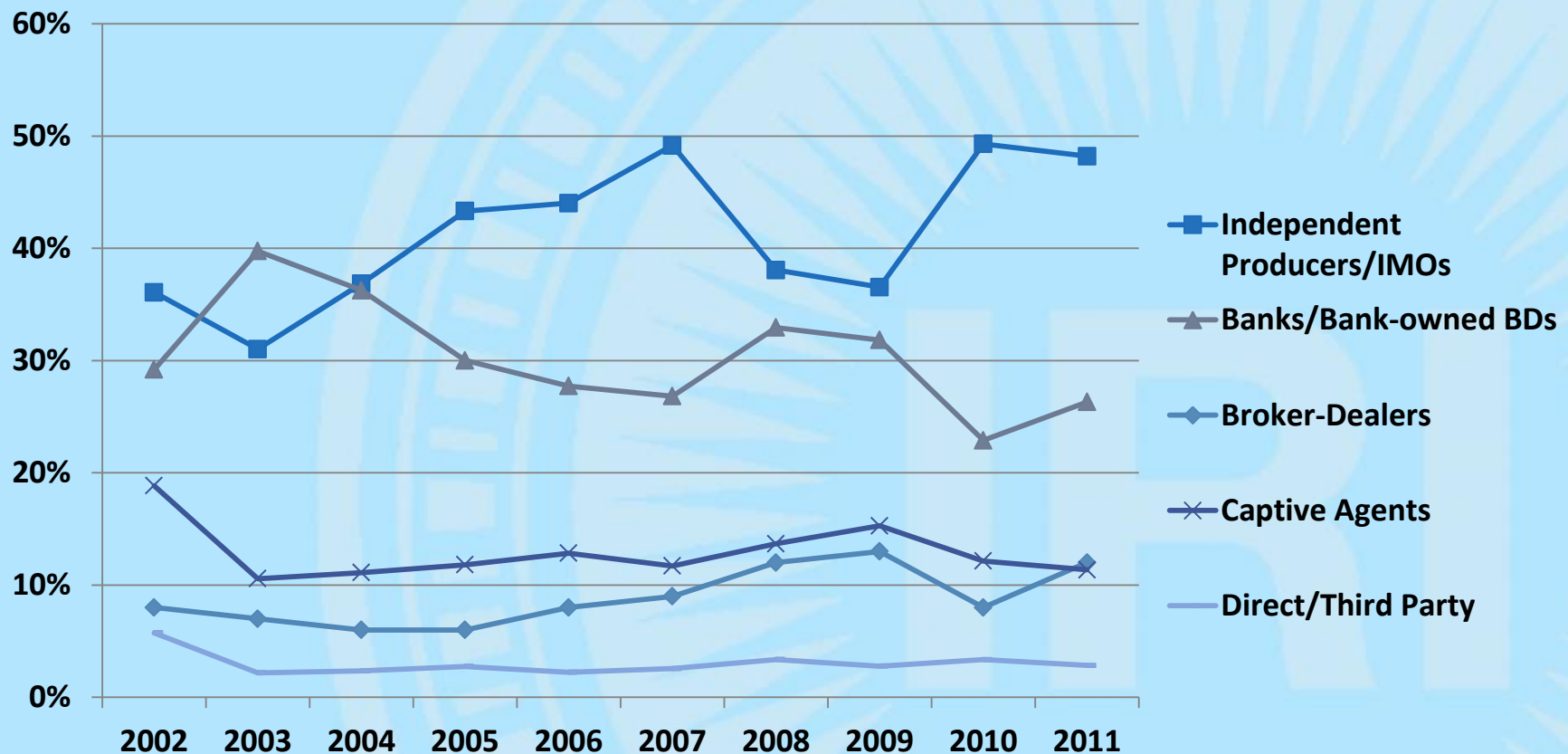
- Financial institutions primarily identified as accepting demand deposits and making commercial and/or consumer loans, including home mortgages
- Includes:
 - Savings and loans
 - Credit unions
 - Bank-owned broker dealers
 - Third-party marketers serving bank platforms

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

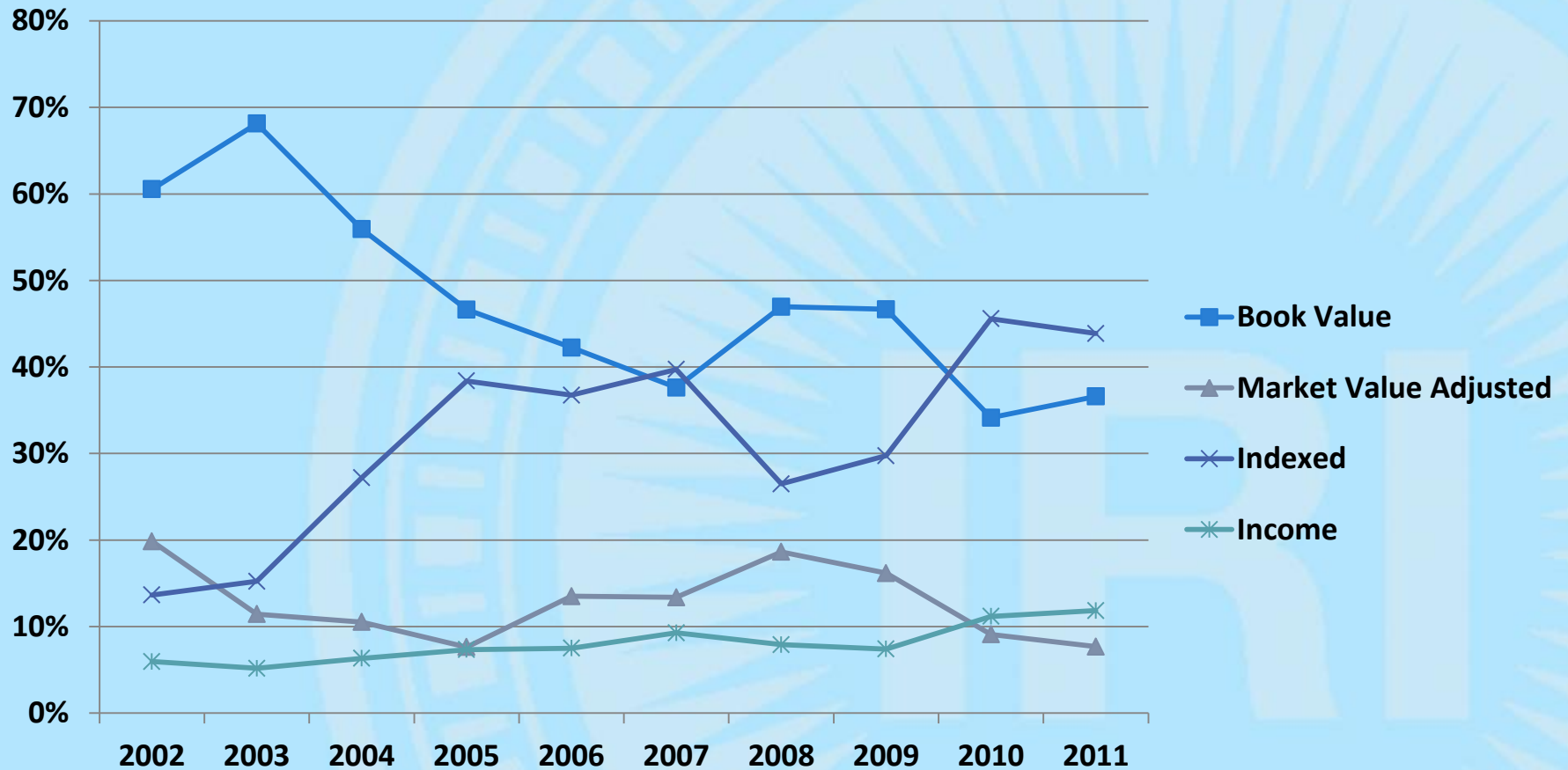
Fixed Annuity Sales by Distribution Channel as a Percentage of Total Fixed Annuity Sales



Source: Beacon Research

Fixed Annuity Sales

Fixed Annuity Sales by Product Type



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

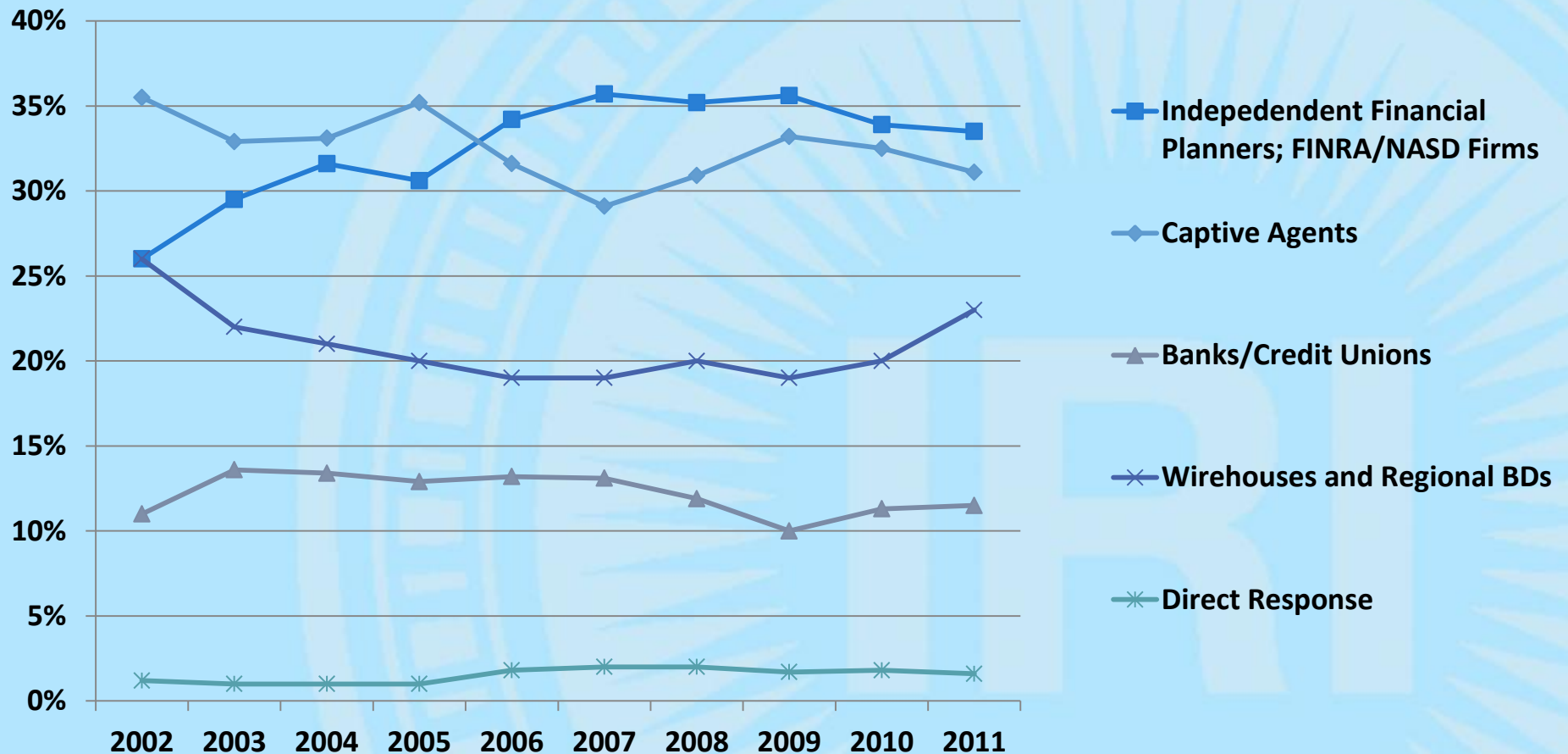
- **Financial institutions primarily identified as accepting demand deposits and making commercial and/or consumer loans, including home mortgages**

Direct Response

- **No third-party**
- **Investor purchases directly**
- **Examples:**
 - **Vanguard, Fidelity**

VA Sales by Distribution Channels

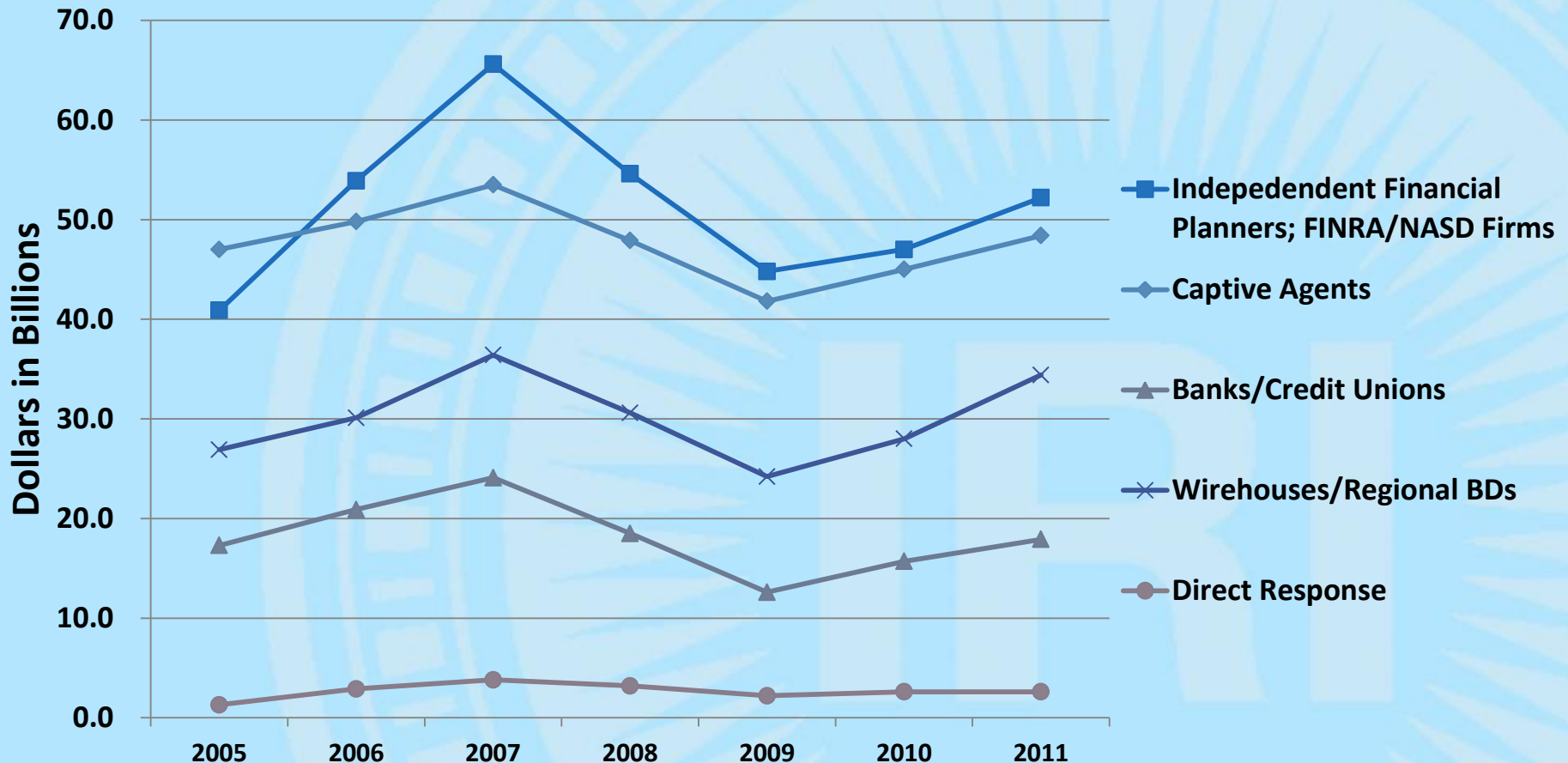
Variable Annuity Total Sales by Distribution Channel



Source: Morningstar

VA Sales by Distribution Channels

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



Broker-Dealer Consolidation

- **Regulatory burdens/compliance costs**
- **Low interest rates affecting margin businesses**
- **Small and mid-sized broker-dealers most affected**

Regulatory Burdens Study

- **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**

Research

- **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**

Research

- **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**