

Annuity Market *News*

Published by SourceMedia, Inc.

annuitymarketnews.com

December 2007, Vol. XIII, No. 12

News and Analysis of the Annuity and Variable Life Industries

Wealth2k® Focuses on Retirement Income

By Kerry Pechter

Within the retirement income subculture, David Macchia seems to show up almost everywhere these days.

Macchia's financial services multi-media content company, Wealth2k, just announced that it's giving away web-based marketing tools to equity-indexed annuity producers. He helped start the fledgling Retirement Income Industry Association. And in his lively blog, he publishes one-of-a-kind interviews with some of the industry's sharpest thinkers.

Macchia's pursuit of the spotlight helps promote his business, to be sure. But the 55-year-old Macchia, a college dropout who started out as a producer for E.F. Hutton Life, also goes out of his way to address the annuity industry's deepest problems, often chiding his peers for what he considers their self-defeating habits.

Macchia, who has been called one of the leading strategic marketing consultants in the financial services industry, has developed sales strategies for the websites and new media outlets of AIG, Aviva, Fixed Income Securities, ING, Jackson National Life, MassMutual, NFP Securities, Phoenix Cos., Securities America Investments and Sun Life Financial.

In an interview with *Annuity Market News*, Macchia, president and chief executive officer of Wealth2k, talked about the rationale for the Internet-based annuity marketing solutions that his Boston-area firm produces, the state of the equity-indexed and variable annuity industries, and the long-term threat that structured products pose to insurance companies, among other topics.

AMN: In addition to running a multi-media marketing firm, you've become a fairly outspoken critic of certain aspects of the annuity industry. Why is that?

Macchia: I'm very concerned about the annuity business reaching its true potential. It would be a travesty and a sin if it doesn't. I feel that the worst thing that can happen to people is for them to fail to reach their potential. It holds true for me and for my business and for how I think about the

annuity business, and it's one of the reasons I'm so intent on honing in on what I believe needs to be improved in the industry.



David Macchia

AMN: What aspects of the industry do you think need improvement?

Macchia: In financial services, we're building a coin with only one side. We spend hundreds of millions of dollars on technology connecting back-office systems to the adviser, but we've neglected the part from the adviser forward.

We've neglected the messages that we send to the customer in ways that create value, messages that other large industries employ.

Look at automobiles. I recently bought a Chevy Suburban. I went to the Chevy website, and I built my car virtually using flash motion graphics, with my preferred paint job, my interior. When I went into the dealer, it was a matter not of me being "sold" but of him filling my order. Lots of industries now do this routinely; they create engaging experiences to help

intermediaries. We in financial services don't do this well at all.

AMN: Isn't that what you've been trying to do with the flash motion graphics products that your company, Wealth2K, produces?

Macchia: I call them electronic brochures. They are small strategic websites that are personalized to the adviser. They carry all the compliant broker/dealer disclosures, and they're focused on conveying to consumers the value of a particular product or solution. We envision a future where an adviser might have 20, 30 or 50 of these electronics brochures on 50 different microsites, in the same way that advisers have 50 brochures in their closet right now.

In the future, they'll just pass out URLs. They will convey an experience that's richer and more full-bodied and less expensive than any insurer can provide.

We build a movie that describes a particular product or concept. That movie is reviewed and approved by regulators,

and then our system dynamically generates microsites that stream the movie to consumers. It transforms the way products are launched.

In a traditional launch, vast sums are spent on printed materials. They're stuffed in envelopes, mailed to advisers, and then a two-pound envelope may sit on a producer's desk for months. Now an insurance company can launch a new product and enable 10,000 or 15,000 producers to convey it on the first day.

Right now, we're offering at no cost, an application called FIA Today, that can give every agent a compliant multimedia presentation as well as a microsite that will stream that presentation to the clients' web browsers and a print brochure that can be mailed to clients. We think this is not only ambitious but also very much needed.

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AMN: Does that mean you're a strong believer in equity-indexed annuities?

Macchia: I'm a believer in the [EIA] value proposition, but I'm not a believer in many of the most popular products that have emerged in recent years.

At its core the product has a value proposition—guaranteed principal with upside growth potential—that's needed by tens of millions of Boomers as they transition to retirement. But the product is also radioactive in many people's perceptions. So how do we improve the product and improve the public's perception of it? The first phase in righting the sinking ship is to transform education. This is what Wealth2k is aiming at. Absent corrective action in EIAs, the industry does

not have a bright future in my judgment.

AMN: Do you think that the industry is well represented by its trade group, the National Association for Fixed Annuities?

Macchia: Everyone I've met at NAFA is very solid and sincere and intent on having a strong fixed-income annuity industry. That said, I question their strategies. They've written some very strong, critical letters to reporters that point out any and every minor or major inaccuracy in their articles—and there are inaccuracies—but fail to address the fundamental problems that the various articles rightfully identified. There's an unwillingness to look in the mirror and admit that some of the stuff that has happened [in the EIA industry] just isn't appropriate.

It's to no one's credit that people will acknowledge things in private conversations that they won't mention publicly. Everybody knows that certain companies have engaged in practices and created products that everyone else dislikes. But nobody has the courage to say it publicly. The failure to isolate and to distance oneself from those companies has, to a large measure, led to the current terrible state we find ourselves in. People should have been more aggressive in saying that [certain practices and products] aren't acceptable, and that won't go there.

AMN: What are your thoughts about the direction of the variable annuity business?

Macchia: Variable annuities have been mispositioned for years. We now have an opportunity with the retirement market to reposition them and transform misperceptions about them. However, taking a VA and calling it a “retirement income solution” just because it has an income rider is yet another dangerous mispositioning of the product.

There's a wonderful opportunity to place a variable annuity with a guaranteed minimum withdrawal benefit rider inside a framework where the variable annuity isn't the solution for delivering retirement income, but it's a vital component of a larger and more strategic solution.

This is the key to expanding the annuity pie and allowing advisers who have shunned it to open their arms to it.

A product that we've delivered with Securities America has 17 profiling questions that a client can answer with a few mouse clicks. The answers result in a “volatility factor score” and a “guaranteed factor score,” that help the adviser and consumer decide how much of the retirement savings should be allocated to a guaranteed solution. If the questionnaire result says that 35% of the money should be guaranteed, the adviser has a perfect opportunity to recommend a variable annuity with a GMWB rider.

This is how an annuity becomes a strategic component of the client's retirement income plan. It represents a sea change in repositioning that will allow more advisers to include annu-

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ities in their planning. Five years after the sale, the adviser will be able to say to a regulator, here's why the variable annuity was sold and here's the process that led to it.

AMN: Which products do you think will do best in the retirement income market?

Macchia: What will be dominant in the long term is something that's not even being sold today in the retail marketplace, which is structured products, which have a value proposition that closely resembles what's in an indexed annuity. Structured products have so far been reserved for institutions and the high-net-worth segment, but there's no doubt that the providers of structured products have their sights on the consumer retail market.

In my blog interview with [Canadian finance professor and author] Moshe Milevsky, he predicted that within 24 months, there will be two dozen or more providers of structured products in the marketplace. You can look for names like JPMorgan, Merrill Lynch, Credit Suisse and Barclays—companies that have lots of credibility and lots of marketing muscle and lots of distribution. Many of them have European arms that are already successfully marketing them to individuals. It's not a big leap to see that happening here in the U.S.

AMN: Speaking of your blog, isn't that a time-consuming venture? What do you hope to accomplish with it?

Macchia: With the blog, I'm hoping to create a repository of insights and vision of our industry's leaders that is unequalled, and I think we're on our way to achieving that. Unlike a typical magazine interview, which is limited to about 800 words, I can create interviews of 8,000 words. This provides the interviewee with the opportunity to fully explore issues that are important to him or her. I think there's great value in that.

AMN: You're also involved in the Retirement Income Industry Association, I understand.

Macchia: I'm a co-founder and a director of RIIA, and I head the

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communication committee. The RIIA was created to bring about a cross-silo conversation about retirement. Many of the leading companies in America are members at this point. As you know,


product associations have a difficult time transcending their mission. It always devolves into a discussion of a particular product. As we know today, the best strategies are combinations of the products of different silos. Doesn't that tell you that we need to have an organization like RIIA?

AMN: Let me ask you two of the questions that you ask the guests on your blog. If you could do anything other than what you do now, what would it be?

Macchia: I would quickly trade my financial services experience in life if I could become a great trumpet player. I'm a musician at heart, but God did not bless me with enough talent to make a career out of it.

AMN: And if you had a magic wand, how would you change the annuity industry?

Macchia: I would give everybody a personal mirror and urge them to look into it genuinely, and see everything about their business and what they do genuinely and have a real willingness to change.

I think change is synonymous with success, and an unwillingness to change will end badly. 



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