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OTHER VIEWS

The preventable death of fixed annuities

By David Macchia

"I want you to get up right now and go to the window, open it, and stick your head out and yell, I'm as mad as hell, and I'm not gonna to take this anymore!"

Exasperated news anchor Howard Beale spoke those words in the 1976 film "Network."

As someone involved in the annuity business since the time of that movie's premiere, I share Beale's frustration and anger. Annuities can be a great product, but they are caught in a death spiral.

Not that the product itself will die, but insurance executives and industry associations for so long have been avoiding our root problems that the biggest annuity business opportunity ever — the retirement of the baby boom generation — could march right past us.

What is wrong with annuities?

Very simply, the pricing, promotion and packaging of the product, as well as the people delivering it, are in some cases stuck in the 1970s. Together, these interrelated elements run the risk of making annuities irrelevant.

Let me explain. Back when John Travolta was dancing in a white suit, the insurance business was something of a black box.

Its products were shrouded in mystery. Agents, let alone customers, had little or no ability to compare prices.

In fact, the majority of agents worked for a single life insurance company employer and sold that company's products exclusively. Replacing an existing policy was considered unethical.

Enter the personal computer in the 1980s. As information became readily available, insurers discovered that they could create new products more easily.

Universal life, which made traditional life insurance seem very expensive, was one of these products. It sparked a massive replacement of traditional policies and sparked a range war between old-line mutual insurers and new publicly owned insurers.

As part of this transformation, insurers shed their proprietary sales forces, discarded traditional training and development, and concentrated on manufacturing new products. Sales people became free agents, representing many companies — and concentrating on getting competitive deals for their customers and the best deals for themselves.

In a sense, the carriers lost their souls when they lost their career agents. When carriers adopted the manufacturer model, they effectively set agents adrift to provide their own training, marketing, prospecting, coaching and mentoring.

In my opinion, agents weren't prepared to



take on these responsibilities. Cut off from the marketing muscle and solid reputation provided by major carriers, many independent agents morphed into financial advisers to bolster their public perception and enhance their ability to make a living.

In the process, however, the public image of the annuity salesperson deteriorated from that of a determined professional to what some may describe as an unethical peddler whose concealed agenda is solely to sell high-priced annuities.

As a result, today's agents and annuity-selling advisers are far less productive than the previous generation of salespeople. Instead of taking the long view, they feel pressured to maximize profits on the as few as four or five annuity sales a year they actually close.

Carriers feed into this pressure and create more-complex, opaque and high-priced products. And that further tarnishes annuities' battered reputation and leads to more criticism from regulators, the press and the public.

Simplicity

Is there a way to stop this cycle? I propose three major steps:

First, strive for simplicity.

We must stop the ever-growing complexity of annuities. It severely limits comfort and confidence among buyers, not to mention an accurate understanding of the product's realistic performance capability among agents.

Complexity for complexity's sake often crosses into gimmickry. And with products that are inherently difficult for the customer to understand, who needs gimmicks?

Complex, gimmicky products are unlikely to possess any underlying performance advantage over simpler products. In fact, they often signal poorer results.

To stem the tide of growing complexity, I propose that the industry adopt voluntary standards to keep annuities simple. This would help eliminate the most egregious gimmickry, enhance the odds that advisers and customers truly understand the product, reduce criticism from the press and regulators, and force carriers to compete on the basis of real service and other important criteria, not on spurious benefits.

Create an SRO

Second, I propose that the industry create and support an NASD-like national self-regulatory organization.

Many in the fixed-annuity industry bristle at the mere mention of NASD of Washington. Yet whatever its shortcomings, look at what having

a visible self-regulator has accomplished for the securities industry in terms of growth.

Thirty years ago, life insurance companies controlled the management of America's pension assets. Over time, they ceded that business to mutual fund companies, which are regulated under an entirely different, but largely uniform, umbrella.

Today's state-based system of insurance regulation no longer works. There simply are too many regulators, which results in duplication, confusion, higher cost and — most important — inadequate customer protection.

A single, strong SRO would create a more consistent, efficient regulatory environment that would bolster public confidence in the insurance industry.

Communicate clearly

Finally, I call for a revamping and simplification of the industry's communications with its customers and the public.

Even when simplified, our products are complex. That places a special burden on providers to provide communications tools and training that convey balanced explanations and create customer confidence.

As boomers enter retirement and switch from accumulation to distribution, confidence will be a provider's key deliverable.

There are several forward-thinking carriers who get the communications message. For some time, they have packaged annuity products around understandable, compliant communications with rich motion graphics burned onto CD-ROMs.

Nothing but good has come from this approach.

Today, other carriers are taking the next logical step and delivering compliant educational presentations on the web.

Clearly, no one should be allowed to purchase an annuity unless they have viewed an objective educational presentation designed to explain the product's advantages and disadvantages.

Better communication not only will increase customer acceptance of annuities, it will enhance the adviser-client relationship and reduce hostility from regulators and the press.

With the opportunities presented by millions of baby boomers who are set to retire, the prospects for the annuity business could be extraordinary. Will we take some bold steps to seize those opportunities or will be continue on our march to irrelevance?

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