

FOCUS ANNUITIES

NASD NTM 05-50 Has Some Positive Potential

BY DAVID A. MACCHIA SR.

Instability, uncertainty, disruption and opportunity describe the post-NTM environment. NTM refers to the National Association of Securities Dealers Notice to Members 05-50, issued in August 2005.

Many in the financial industry have responded negatively to the NTM, which conveys guidelines for broker-dealer member firms to follow in supervising equity-indexed annuity sales. However, some positive implications exist, too, including a potentially unprecedented growth opportunity.

Clearly, NTM 05-50 challenged all industry players from individual registered reps to the largest insurance companies in unexpected ways. For example:

► **Independent marketing organizations** quickly have become galvanized to the importance of strengthening their long-standing rep relationships.

► **EIA manufacturers** now must serve and satisfy broker-dealers, a vital new constituency. Their future success will depend on breadth/quality of product line, wholesaling capabilities and marketing services.

► **Insurers offering consumer-oriented products** and competent wholesaling will be in a stronger position for success. However, those relying on existing variable annuity wholesalers may face real challenges in terms of additional product education needs and marketing support. Those at risk of losing the most EIA business are specialty fixed annuity manufacturers that have no distribution agreements with broker-dealers.

► **Many registered reps** are reeling over the potential loss of lucrative, long-term relationships with IMOs, many of which provide critically important value-based services such as lead generation programs, seminar systems and sales/marketing presentation tools (not just ac-

OPPORTUNITIES

Fixed Insurance Solutions Inside Broker-Dealers

- **GROWTH.** Since many reps earn more than half their income from fixed product sales, B-Ds offering products, processes and marketing programs to support their business could experience a 50%+ increase in gross dealer concessions (GDC).
- **BETTER COMPLIANCE.** By creating a credible internal fixed products center, B-Ds will improve suitability and minimize compliance liability as reps fully embrace B-D oversight of fixed business.
- **VALUED SUPPORT.** B-Ds that create a culture of quality, concept-driven, compliant marketing along with proper training will build an incredibly strong bond with their reps while securing a competitive advantage.
- **RECRUITING.** B-Ds have a great opportunity to recruit top reps because uncertainty often impels advisors to seek a new home that offers the value in marketing, training and back office that they demand.

Source: David A Macchia Sr., Wealth2K Inc.

cess to annuity products). Some reps are probably anxious, and maybe angry, about destabilization of the existing practice model. Some also may worry about compensation changes and having fewer EIA products available.

► B-Ds may be in the most precarious situation. It's arguably not possible to segment liability arising out of a complaint from a client who has purchased both registered investment products and non-registered fixed products from an advisor. Most clients don't know which entity supervises which product. They only know the rep sold them the product(s) to meet a need and that they now have a problem. So, a B-D's potential liability doesn't stop with the securities and investment business the rep transacts. For this reason, it makes sense for the B-D to supervise EIAs.

To turn these changes to their advantage, B-Ds should never forget that reps are selfishly attracted to value. They migrate to the products, services and support they feel will enhance productivity and help them grow business relationships.

Most B-Ds seem to have underestimated the

amount of income that many reps earn from fixed annuity and life insurance sales conducted outside the firm. Also, large-scale defections may occur as reps move to other firms that offer the business-building "value" they seek.

Many reps, wanting to maintain business relationships with fixed product IMOs, now are awaiting the IMOs' ability to recruit registered reps. B-Ds would be well advised to understand this threat and to find a viable way to deal with it. In the post-NTM world, the distribution chain will be only as strong as the value chain.

As a result of reps' desire for expert back-office capability, it will be critically important for B-Ds to put in place a credible, competitive fixed insurance department that reps acknowledge as competent. The greatest unanticipated business challenge will be for B-Ds to provide the marketing-driven, value-added tools and services that reps prize.

Additionally, B-Ds are factoring fixed business into recruiting strategy. For instance, some are demanding their reps' fixed business, even though the B-D is not ready to process and administer this business at the quality level to which reps are accustomed. Others continue to allow fixed business to remain as an "outside business activity," while still others have established approved product guidelines.

None of these "solutions" offers long-term competitive advantage in recruiting, revenue growth or profitability for either the B-D or the rep. Whether fair analysis or not, some reps will view the B-D's directive to place fixed business through the firm as insensitive and money motivated. That puts some B-Ds at obvious risk.

But opportunities do exist for successfully implementing "fixed insurance solutions" inside a B-D. The box shows four examples.

Remember, reps are universally attracted to value. While commoditization and competition will force similarity in contracts, products and compensation, in the end, it will be value-based marketing tools and a competent fixed product infrastructure that combine to differentiate successful B-Ds from marginalized B-Ds. ■

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