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Selling the EIA

The Hidden Distribution Story:

Why demographics and the web-browser will drive indexed-annuity sales to $100 billion within the next five years

by David Macchia

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PART II of a two part series

In part I, we established that while the EIA market may have exceeded earlier sales expectations, its full potential remains unfulfilled. It is the selling landscape that needs to be more sharply defined.

THE CRITICAL EIGHTEEN YEARS

The greatest sales opportunity for fixed and indexed annuities in history is wrapped-up in the issue of Boomer retirement security and the trillions of dollars transitioning from accumulation to income generation. Retirement savings must be managed with great care if the Boomers are to have a chance of realizing long-term retirement security.

All Boomers, and every agent hoping to advise them, should focus their attention on a critical 18-year period which spans the last eight years of work and continues through the first 10 years of retirement. Due to interest compounding and high relative salaries workers achieve in the years immediately preceding retirement, an individual's retirement assets grow by approximately 50 percent on average during the last eight years of work. Over this same period a psychological shift occurs as the individual transitions from being risk averse to loss averse.

The strategy of placing a downside guarantee under part or all of the accumulated retirement assets during this 18-year period takes on special importance. A significant investment loss in the years just prior to retirement will have a potentially devastating and life-long effect on the level of retirement income which can be generated over the course of the retirement years.

The first 10 years post-retirement is equally important in terms of protecting the accumulated value of retirement assets. Why? Because investment losses during the first 10 years after retirement may create a probability as high as 80 percent that the retiree will run out of money entirely. The earlier the investment loss occurs the greater the chance to deplete retirement savings.

Think about people who retired in 2000 and 2001 only to suffer significant investment losses in their retirement accounts. These people have been left with an uncertain ability to ever achieve the level of retirement income they might otherwise have received. Placing downside guarantees under accumulated retirement assets helps retirees avoid the risk of choosing the wrong time to retire.

FORGET THE NAME: CONCENTRATE ON VALUE PROPOSITION

The inherent value proposition of an indexed annuity, upside potential combined with downside guarantees, is ideally suited to protect accumulated retirement assets during the critical 18-year phase described above. Distributors from non-agency channels of production will increasingly find interest in aligning customer needs with indexed annuity benefits. As contract designs improve and the indexed annuity begins to join the mainstream product universe, producers from all channels will gravitate to its inherent benefits and advantages. Concentrating on what the product does rather than on what it's called is good advice to producers looking to protect their customers' retirement assets.

FINDING THE MISSING BROWSER EXPERIENCE: THE KEY TO PRODUCER SUCCESS

The next factor which will lead to dramatic growth in annuity sales has less to do with the annuity product and more to do with the annuity message. To date, the insurance industry has done a poor job of using the web browser to help its intermediaries reach more prospects and close more sales. This stands in stark contrast to other large industries which deliver rich, web-based content, engaging multimedia and interactive experiences on behalf it their intermediaries.

Insurance executives are beginning to understand that their future sales success is imperiled by, and perhaps contingent upon, closing a gap between what insurers provide in terms of web-based experiences and what customers expect of web-based experiences. At a time when YouTube is streaming 100 million videos a day, when broadband connections are available for as little as $14/month, when virtually every home has a DVD player, when other large industries are delivering engaging multimedia content to help their intermediaries, the insurance industry has been stuck in a 1995-era, web time-warp. Finding it hard to sleep? Visit a typical financial advisor's website. It makes for a good sedative.

The customer has become "digital media-ized", yet the industry offers its customers online reading. I believe that even large companies run the risk of marginalization unless they move their product "stories" online in rich multimedia experiences. The good news is that the insurance carriers' content delivery will improve, and just in time.

As indexed annuity product commissions are driven down to levels in parity with other safe money products, meaning that agents will need to sell twice as many just to stay even, leading-edge web-based marketing strategies will mitigate the potential loss of income to agents. Already, life insurance companies are beginning to create "electronic brochures" personalized to individual agents and registered reps. Essentially micro sites capable of streaming compliant, engaging and motivational multimedia sales presentations to ever greater numbers of prospects, this is the type of web-based technology that carriers can't pass up if they are to prosper in the future. I define prosper in this context as providing their agents the tools they need to meet customer expectations and grow sales in a low-cost yet compliant fashion.

Isn't it ironic that technology which is capable of delivering, say, a 10 minute, high impact, compliant needs-based sales presentation costs a tiny fraction of what it costs to print, handle, and distribute paper brochures. For the insurance industry, this is a classic case of being able to deliver more for less. And it's the solution to help traditional agents and non-traditional distributors close indexed annuity sales, or sales of other products, in numbers that eclipse any we've yet seen.

Technology nearing introduction will allow insurance companies to superimpose a virtual distribution channel on top of a traditional channel. The intent of this is not to disintermediate the producer, but rather to strengthen the producer's ability to compliantly reach more prospects, realize up-selling potential, and expand the breadth of products able to be sold.

A BRIGHT, BUSY FUTURE

Since the issuance of NTM 05-50 I've maintained that the future for fixed annuity sales is brighter than ever. This is particularly true for indexed annuities for all of the reasons mentioned above. If you are an indexed annuity producer I'd ask you to believe that your future is bright. Expect to operate differently and to be very busy as you acquire many more Boomer clients who need the downside protection and upside potential which indexed annuities provide.▲