



Selling Indexed Annuities Post-NTM

By **David A. Macchia**

Wealth2K, Inc. • Hingham, Mass.



With \$24 billion in sales, indexed annuities (IAs) have proven easy to sell. The complexities inherent in IA contract designs, however, have long made them difficult to explain accurately.

Successful producers know that it is good business practice to set realistic expectations over the potential performance of any financial product. But because of the nature of the target market for these products and buyers' high potential need for liquidity, a heightened level of responsibilities applies to advisers selling IAs.

The NASD's Notice to Members 05-50, issued in August 2005, laid down guidelines for broker/dealers (BDs) to follow in supervising IA sales. The result is a colossal impact on the IA industry, one that will affect you whether or not you are a registered representative.

For Registered Representatives

If you are a registered representative, you may already have been apprised of new practices regarding your sales and marketing of IAs. These changes are a direct result of NTM 05-50. In essence, the NASD has told BDs that they are now responsible for supervising their reps' sales and marketing of IAs. As a result, BDs are taking sides in their recruiting strategies based on how each will treat a rep's fixed IA business. Some firms are demanding all of

their reps' fixed business. But many of these BDs are not ready to process and administer the business at a level of quality to which reps are accustomed.

Some firms are continuing to allow IAs to remain an outside business activity, but by doing so they may not be managing the compliance/liability risk to the firms or their reps. Still others have established approved product guidelines, the effect of which is to eliminate some of the more "popular" products. Reps who are now being forced to comply with a BD's sanctioned product list may sustain a loss of income that could be significant. Unfortunately, none of these "solutions" BDs are embarking on offer a competitive advantage to the rep. The result may be that many producers will begin to look elsewhere for the products, support, and marketing they need to stay at their present income level, let alone increase it.

In addition, reps who maintained valued relationships with independent marketing organizations (IMOs) for access to IAs and other fixed products are feeling the effect of 05-50 on those relationships. Many reps have come to depend on the special expertise of the IMO as well as the many marketing, lead generation, and training support services offered by these groups. Will reps have to abandon these relationships and lose out on these valuable services? Not necessarily. Many IMOs have recognized that they are in jeopardy of losing many of their producers. To meet this challenge, they are putting strategies in place to keep their top producers and attract new reps. They are doing this

by either forming or purchasing a BD or by developing strategic partnerships with one or more BDs. Some IMOs have much to offer a BD, including a fixed business infrastructure and knowledge base, and quality marketing and sales programs that help reps grow their practices.

For Non-Registered Reps

How dramatically registered reps will be affected by NTM 05-50 may seem obvious, including fewer product choices, a possible loss of income, a change in their IMO relationships, and stricter compliance. What is less obvious is how the non-registered agent will be affected in the post 05-50 environment.

As insurance carriers configure their IA product designs for their increasingly important broker/dealer constituency, an unstoppable trend in improving IA contract designs has already begun. As insurers update their products to be more “consumer friendly,” money that was previously paid out in commissions will now be used to create more competitive caps, lower fees, shorter surrender charge periods, and overall better consumer value. In this compliance-sensitive environment, will an insurer maintain both high commission/lower value products along side improved, higher-value products? It is not likely. And non-registered agents had better prepare to sell products with lower commissions than they are historically accustomed to.

In addition, there is a real possibil-

ity that insurers will align themselves more closely to BDs by creating registered IA contracts. The greatest potential innovations in IA contract design may take place in “securities” versions of IAs rather than in fixed products. As a result, many non-registered producers are now considering becoming registered reps.

Opportunities for Growth

While change and instability do cause a disruption in business in the near term, there are always opportunities for growth and increased competitive advantage. Reps who are proficient in marketing, communicating effectively, and closing IA sales will be in demand in the coming years. There will be a battle among BDs, insurers, and IMOs to recruit talented financial professionals, whether they are registered or not. This environment opens a host of benefits for representatives. Because of the industry’s recruiting focus, reps will be able to demand more of the value-added services that help drive sales success.

As reps consider where to place their business, they should keep their focus on setting realistic expectations for their IA clients and marketing IAs as only one component in a long-term savings strategy. NTM 05-50 was the result of the NASD’s concern about the IA marketing and sales pitches made to consumers. At the same time, there has been an increase in customer complaints and lawsuits related to IA sales that have caught the attention of the

SEC. Reps need to protect their clients and themselves by keeping up-to-date on various IA product designs, and they must learn how to communicate these features and benefits to clients in a clear and compliant manner.

Now is the time for reps to demand the highest quality marketing programs, compliant multimedia client presentations, and comprehensive training from their BDs, IMOs, or insurers. In this post-05-50 environment, reps also should look for wide access to various IA products as well as the infrastructure, knowledge, and expertise to support the sales, service, and administration of the products. From disruption and uncertainty, reps have an unprecedented opportunity to create a competitive advantage and even greater success.



As president and CEO of Wealth2k, Inc., David A. Macchia carries on a two-decade tradition of innovation in financial services marketing by identifying emerging business opportunities and creating new ways to simplify the sales process for complicated life insurance and annuity products. Today, David’s greatest interest is in helping insurance carriers, broker/dealers, and banks strengthen their value propositions by instituting leading-edge marketing communications strategies. To accomplish this, he packages Wealth2k’s technology, multimedia presentations, marketing tools, and industry-specific intellectual capital to create first-ever programs designed to convey competitive advantage in a crowded market.