Cerulli Quantitative Update

# Annuities and Insurance 2012:

## Evaluating Growth Capacity, Flows, and Product Trends

CERULLI ASSOCIATES
*Global Analytics*

## Overview

This report, the sixth iteration in an annual series, focuses on the three key areas—distribution, product development, and asset management. The product focus is on variable annuities (VAs), fixed annuities, and equity-indexed annuities. A central theme throughout this analysis is the overall industry's capacity, measured by its ability to meet high consumer demand, and the impact for insurance firms, asset managers, and distributors given different scenarios and outcomes. Data for this report comes from several proprietary surveys of asset managers, sales personnel, advisors, and investors. Cerulli also surveyed insurance firms that represent more than 80% of industry assets.

## Key Reasons to Buy This Report:

- Unique analysis of the VA industry's capacity to meet consumer demand now and in the near future
- Forecasts for VA sales, net sales, and assets
- Product and distribution initiatives of the largest annuity and life insurance carriers
- How asset managers and insurance firms are addressing the trend towards fee-based services
- Advice for asset managers on becoming stronger partners to insurance firms given capacity concerns and product development trends
- Ability to compare capacity to other insurance firms

## Answer These and Other Critical Questions:

1. What is the reality for fee-based VAs?
2. How is VA industry capacity affecting asset manager opportunities?
3. How large and addressable is the fixed-index-annuity marketplace?
4. Which VA carrier is poised for the greatest growth?
5. Are VA carriers actively pursuing investor buyout strategies to hedge risk?
6. What opportunities exist for asset managers to capture new VA subadvisory assets?

## Research Included with Subscription

A subscription to this report remains active through 8/30/2013 and includes online access to the following related Cerulli research:

- 5 years of ***Cerulli Quantitative Update: Insurance and Annuities***
- Cerulli Special Report: Evaluating Your Variable Annuity Product Line 2010
- Variable Annuity Asset Management: Growing Assets in a New Environment 2009
- Wealth Transfer: Sizing Trends and Opportunities 2008
- State of the Variable Insurance Industry: Strategic Implications for Asset Managers and Insurers 2007
- Insurance Product Distribution Opportunities 2006
- Retirement Income: Positioning for Success 2005
- Wealth Transfer: Product and Advice Solutions 2004

*281 pages, 189 exhibits*

## TO PURCHASE

**Contact your account management team**

+1 617-437-0084
CAmarketing@cerulli.com

**Or have us contact you:**
http://clients.cerulli.com/tiny/npbq

## Subscription Information

**Price: $15,000**

- Hardcopy
- Softcopy in color
- Unlimited online firm wide access
- Exhibits in Excel
- Analyst access

**LOOK INSIDE**
*15 pages of report content*

## Table of Contents - *Overview*

**Methodology** ..... **14**

**Executive Summary** ..... **15**

**Key Questions Answered** ..... **17**

**Section I: Product** ..... **22**

Chapter 1: Industry Capacity ..... 23

*Forecasting the Capacity of the Variable Annuity Industry* ..... *23*

*Dynamic Forces of Capacity* ..... *25*

*Supply: Four Outcomes* ..... *26*

*The Greatest Hazard to Capacity* ..... *27*

*Projecting Sales* ..... *27*

*Fixed Annuities May Ease the Burden* ..... *27*

Chapter 2: Evolution of the Variable Annuity Product and Subadvisory Landscape ..... 31

*Overview of Risk Levers* ..... *31*

*Shift in Living Benefits Designs* ..... *32*

*Observing the Leaders* ..... *34*

*Three VA Provider Risk Strategies* ..... *36*

*The Conventional Strategy* ..... *37*

*The Economic-Based Strategy* ..... *37*

*The Product-Based Method* ..... *38*

*Necessity of Transparency* ..... *39*

*Contingent Deferred Annuities* ..... *39*

Chapter 3: Integrated Distribution ..... 41

*Transparent Expectations* ..... *41*

*Modifying Distribution Efforts* ..... *42*

*Evolution of Fee-Based Advice* ..... *44*

*Addressing Fee-Based Advisors with I-Shares* ..... *45*

*O-Share Innovation* ..... *46*

Chapter 4: Annuity Distribution Overview ..... 47
Chapter 5: Annuity Product Strategies ..... 64
Chapter 6: Variable Annuity Products ..... 81
Chapter 7: Fixed and Fixed-Indexed Annuities ..... 92
Chapter 8: Life Insurance Products ..... 101
**Section II: Distribution ..... 113**
Chapter 9: Distribution Channel Overview ..... 114
Chapter 10: Advisor Practices and Retirement Planning ..... 131
Chapter 11: Advisor Annuity Use ..... 142
Chapter 12: Investors and Annuities ..... 157
Chapter 13: Annuity Wholesaling ..... 176
Chapter 14: Alternative Insurance Distribution Opportunities ..... 208
**Section III: Asset Management ..... 221**
Chapter 15: Variable Insurance Asset Management Strategies ..... 222
Chapter 16: Variable Insurance Asset Management Overview ..... 233
Chapter 17: Risk Management in Variable Insurance Asset Management ..... 267
**Company Index ..... 280**

# Table of Contents - *Expanded*

**Key Questions Answered** ..... **17**
*1. Which traditional variable annuity carrier, beyond the top five, is poised to ease the industry's capacity concerns?* ..... *17*
*2. Are any variable annuity carriers achieving success among fee-based advisors* ..... *18*
*3. What is the largest opportunity for asset managers as variable annuities evolve?* ..... *19*
*4. Can fixed-indexed annuities truly overcome the skepticism?* ..... *20*
*5. How practical is offering an annuity owner a potential lump-sum "buyout" proposition?* ..... *21*

**Section I: Product**
**Chapter 1: Industry Capacity** ..... **23**
*Forecasting the Capacity of the Variable Annuity Industry* ..... *23*
Projected Capacity of the Variable Annuity Industry–Cerulli View, 2011-2012E ..... 24
*Dynamic Forces of Capacity* ..... *25*
Top-25 Variable Annuity Issuers by Sales, 2010-2011 ..... 26
*Supply: Four Outcomes* ..... *26*
*The Greatest Hazard to Capacity* ..... *27*
*Projecting Sales* ..... *27*
*Fixed Annuities May Ease the Burden* ..... *27*
Projected Variable Annuity Industry Gross and Net Sales, 2012E-2017E ..... 28
Total Annuity Industry Sales Mix by Product Type, 2003-2011 ..... 29
Fixed-Indexed Annuity Sales as Percentage of Total Fixed Annuity Sales, 2001-2011 ..... 30

**Chapter 2: Evolution of the Variable Annuity Product and Subadvisory Landscape** ..... **31**
*Overview of Risk Levers* ..... *31*
Insurer Perspective: Most Attractive Future Product and Distribution Opportunities, 2012 ..... 32
*Shift in Living Benefits Designs* ..... *32*
Methods Used by Insurers to Manage Risks Associated with Guarantees, 2012 ..... 33
Insurer Anticipated Two-Year Change in VA Platform, 2012 ..... 34
*Observing the Leaders* ..... *34*
Asset Managers: Greatest Obstacle in Growing VA Subadvisory Business, 2012 ..... 36
*Three VA Provider Risk Strategies* ..... *36*
Variable Annuity Manufacturers' Product Development Philosophy, 2012 ..... 37
*The Conventional Strategy* ..... *37*
*The Economic-Based Strategy* ..... *37*
*The Product-Based Method* ..... *38*
*Necessity of Transparency* ..... *39*

*Contingent Deferred Annuities* ..... *39*
Challenges of Contingent Deferred Annuities, 2012 ..... 40

**Chapter 3: Integrated Distribution** ..... **41**
*Transparent Expectations* ..... *41*
National Sales Managers: Comparison of Current and Ideal Wholesaler Compensation, 2012 ..... 42
*Modifying Distribution Efforts* ..... *42*
Advisors: Unsolicited Client Product Requests, 2Q 2012 ..... 43
*Evolution of Fee-Based Advice* ..... *44*
RIA Variable Annuity Scorecard, 2011 ..... 44
*Addressing Fee-Based Advisors with I-Shares* ..... *45*
*O-Share Innovation* ..... *46*

**Chapter 4: Annuity Distribution Overview** ..... **47**
Exhibit 4.01. Total Annuity Industry Sales Mix by Product Type, 2003-2011 ..... 49
Exhibit 4.02. Variable Annuity Total Flows, 2001-2011 ..... 50
Exhibit 4.03. Variable Annuity Net Sales, 2001-2011 ..... 51
Exhibit 4.04. Variable Annuity Net Sales as Percentage of Gross Sales, 2001-2011 ..... 52
Exhibit 4.05. Projected Variable Annuity Industry Gross and Net Sales, 2012E-2017E ..... 53
Exhibit 4.06. Top-25 Variable Annuity Issuers by Sales, 2010-2011 ..... 54
Exhibit 4.07. Top-5 VA Sellers Share of Sales (Excluding TIAA-CREF), 2001-2011 ..... 55
Exhibit 4.08. Total Annuity Industry Sales by Distribution Channel, 2003-2011 ..... 56
Exhibit 4.09. Variable Annuity Total Flows by Distribution Channel, 2001-2011 ..... 57
Exhibit 4.10. Variable Annuity Total Flows by Distribution Channel, 2001-2011 ..... 58
Exhibit 4.11. Variable Annuity Total Sales by Distribution Channel–Cerulli View, 2007-2011 ..... 59
Exhibit 4.12. Insurance Company Projected Change in Variable Annuity Sales by Channel, 2011 vs. 2014E ..... 60
Exhibit 4.13. Insurance Company Projected Change in Variable Annuity Sales by Channel, 2011 vs. 2014E ..... 61
Exhibit 4.14. Top-Selling Variable Annuity Issuers by New Sales and Affiliated Broker/Dealers and Advisors, 2011 ..... 62
Exhibit 4.15. Projected Capacity of the Variable Annuity Industry–Cerulli View, 2011-2012E ..... 63

**Chapter 5: Annuity Product Strategies** ..... **64**
Exhibit 5.01. Insurer Perspective: Greatest Obstacle in Variable Annuity Business, 2012 ..... 66
Exhibit 5.02. Variable Annuity Manufacturers' Product Development Philosophy, 2012 ..... 67
Exhibit 5.03. Insurer Perspective: Most Attractive Future Product and Distribution Opportunities, 2012 ..... 68
Exhibit 5.04. Insurer Perspective: Most Promising Strategy for Broadening the Number of Advisors Who Sell VAs, 2012 ..... 69
Exhibit 5.05. Key Metrics for Leading Single-Life GLWBs and GMIBs, 2Q 2012 ..... 70
Exhibit 5.06. Key Metrics for Leading Joint-Life GLWBs and GMIBs, 2Q 2012 ..... 71
Exhibit 5.07. Key Outliers for Leading Single-Life GLWBs and GMIBs, 2Q 2012 ..... 72
Exhibit 5.08. Key Outliers for Leading Joint-Life GLWBs and GMIBs, 2Q 2012 ..... 73
Exhibit 5.09. Distribution of VA Contracts with Guaranteed Lifetime Withdrawal Benefit by Benefit Percentage, 2Q 2012 ..... 74
Exhibit 5.10. Distribution of VA Contracts with Standard Guaranteed Minimum Withdrawal Benefit by Benefit Percentage, 2Q 2012 ..... 75
Exhibit 5.11. Percentage of VA Contracts Offering Living Benefits by Living Benefit Type, November 2009-May 2012 ..... 76
Exhibit 5.12. Percentage of VA Contracts That Impose Investment Restrictions by Rider, 2Q 2012 ..... 77
Exhibit 5.13. Percentage of VA Contracts Offering Optional Death Benefits by Death Benefit Type, May 2012 ..... 78
Exhibit 5.14. Methods Used by Insurers to Manage Risks Associated with Guarantees, 2012 ..... 79
Exhibit 5.15. Correlation of Living Benefit Guarantees and Quarterly Sales, MetLife Investors, 1Q 2010-1Q 2012 ..... 80

**Chapter 6: Variable Annuity Products ..... 81**
Exhibit 6.01. Variable Annuity Industry Assets and Growth, 2001-2011 ..... 83
Exhibit 6.02. Projected Variable Annuity Industry Asset Growth (including TIAA-CREF), 2012E-2017E ..... 84
Exhibit 6.03. Top-25 Variable Annuity Issuers by Assets, 2010-2011 ..... 85
Exhibit 6.04. Top-25 Variable Annuity Contracts by Sales, 2010-2011 ..... 86
Exhibit 6.05. Variable Annuity Sales by Share Class, 2005-2011 ..... 87
Exhibit 6.06-Part 1. Historic Channel Sales by Share Class Databank, 2005-2011 ..... 88
Exhibit 6.06-Part 2. Historic Channel Sales by Share Class Databank, 2005-2011 ..... 89
Exhibit 6.07. Variable Annuity Assets by Share Class, 2005-2011 ..... 90
Exhibit 6.08. Variable Annuity Fixed Account Assets, 2001-2011 ..... 91

**Chapter 7: Fixed and Fixed-Indexed Annuities ..... 92**
Exhibit 7.01. Fixed Annuity Sales, 2001-2011 ..... 94
Exhibit 7.02. Fixed Annuity Sales by Product Type, 2005-2011 ..... 95
Exhibit 7.03. Fixed Annuity Sales by Distribution Channel, 2003-2011 ..... 96
Exhibit 7.04. Fixed-Indexed Annuity Sales, 2001-2011 ..... 97
Exhibit 7.05. Fixed-Indexed Annuity Sales as Percentage of Total Fixed Annuity Sales, 2001-2011 ..... 98
Exhibit 7.06. Fixed Annuity Industry Assets and Growth, 2001-2011 ..... 99
Exhibit 7.07. Top-10 Fixed Annuity Issuers by Sales, 2011 ..... 100

**Chapter 8: Life Insurance Products ..... 101**
Exhibit 8.01. Life Insurance Sales Growth Rates, 2007-2011 ..... 103
Exhibit 8.02. Voluntary Life Insurance Product Growth Rates, 2008-2011 ..... 104
Exhibit 8.03. Variable Universal Life and Variable Life Insurance Net Sales, Variable Subaccounts Only, 2001-2011 ..... 105
Exhibit 8.04. Variable Universal Life and Variable Life Insurance Net Flows Attributable to Top-10 Sellers, Variable Subaccounts Only, 2001-2011 ..... 106
Exhibit 8.05. Largest and Top-Selling Variable Universal Life and Variable Life Insurance Providers, Variable Subaccounts Only, 2011 ..... 107
Exhibit 8.06. Ownership of Insurance Products by Investable Asset Range, 2011 ..... 108
Exhibit 8.07. Advisors' Top Obstacles in Selling Life Insurance, 2012 ..... 109
Exhibit 8.08. Top Advisor Requests to Insurers to Increase Life Insurance Sales, 2012 ..... 110
Exhibit 8.09. Consumer Confidence in Ability to Pay for Long-Term Care Expenses, 2002-2012 ..... 111
Exhibit 8.10. Insurers Currently Offering Long-Term Care Options, 2Q 2012 ..... 112

**Section II: Distribution**
**Chapter 9: Distribution Channel Overview ..... 114**
Exhibit 9.01. Intermediary Matrix, 2011 ..... 116
Exhibit 9.02. Historical Change in Total Advisors by Channel, 2004-2011 ..... 117
Exhibit 9.03. Marketshare of Employee and Independent Advisors, 2007-2014E ..... 118
Exhibit 9.04. Assets by Channel, 2007-2011 ..... 119
Exhibit 9.05. Asset Marketshare by Channel, 2007-2011 ..... 120
Exhibit 9.06. Top-25 Broker/Dealers by Advisor Headcount, 2004-2011 ..... 121
Exhibit 9.07. Top-25 Broker/Dealers by Assets Under Management, 2011 ..... 122
Exhibit 9.08. Top-25 Broker/Dealers as a Percentage of Industry Headcount and Assets, 2004-2011 ..... 123
Exhibit 9.09. Retail-Focused RIA Firms, Assets, and Advisors by Affiliation Model, 2007-2011 ..... 124
Exhibit 9.10. Bank Broker/Dealer Variable Annuity Scorecard, 2011 ..... 125
Exhibit 9.11. Independent Broker/Dealer Variable Annuity Scorecard, 2011 ..... 126
Exhibit 9.12. Insurance Broker/Dealer Variable Annuity Scorecard, 2011 ..... 127
Exhibit 9.13. Regional Broker/Dealer Variable Annuity Scorecard, 2011 ..... 128

Exhibit 9.14. Wirehouse Variable Annuity Scorecard, 2011 ....129
Exhibit 9.15. RIA Variable Annuity Scorecard, 2011 ....130

**Chapter 10: Advisor Practices and Retirement Planning ....131**
Exhibit 10.01. Advisor Compensation by Channel, 2011 ....133
Exhibit 10.02. Percent of Advisors Using Various Investment Products by Channel, 2Q 2012 ....134
Exhibit 10.03. Advisor Product Mix by Channel, 2Q 2012 ....135
Exhibit 10.04. Obstacles to Providing Retirement Income Advice by Channel, 2Q 2012 ....136
Exhibit 10.05. Practice Change from Providing Retirement Income Advice by Channel, 2Q 2012 ....137
Exhibit 10.06. Advisor Use of Retirement Income Products and Strategies by Channel, 2Q 2012 ....138
Exhibit 10.07. Advisor Use of Retirement Income Products and Strategies by Revenue Source, 2Q 2012 ....139
Exhibit 10.08. Elements Addressed in Retirement Income Plans by Channel, 2Q 2012 ....140
Exhibit 10.09. Advisors: Unsolicited Client Product Requests, 2Q 2012 ....141

**Chapter 11: Advisor Annuity Use ....142**
Exhibit 11.01. Advisor Market Sizing Funnel, 2011 ....144
Exhibit 11.02. Advisors Licensed to Sell Variable Annuity Products by Channel, 2011 ....145
Exhibit 11.03. Advisors Currently Holding Annuities by Channel, 2011 ....146
Exhibit 11.04. Active Annuity Sellers by Tier, 2011 ....147
Exhibit 11.05. Asset-Weighted VA Sales, 2011 ....148
Exhibit 11.06. VA Contracts by Channel, 2011 ....149
Exhibit 11.07. Marginal VA Sales, 2011 ....150
Exhibit 11.08. Reasons for Placing Client Assets into an Annuity by Channel, 2Q 2012 ....151
Exhibit 11.09. Reasons for Placing Client Assets into an Annuity by Core Market, 2Q 2012 ....152
Exhibit 11.10. Reason for Choosing VA Provider by Channel, 2Q 2012 ....153
Exhibit 11.11. Advisor View of Annuities a Rollover Vehicle by Channel, 2Q 2012 ....154
Exhibit 11.12. Methods for Using a VA for Retirement Income by Channel, 2Q 2012 ....155
Exhibit 11.13. Factors in Selecting Underlying Funds for a Variable Life or Variable Annuity Contract by Channel, 2Q 2012 ....156

**Chapter 12: Investors and Annuities ....157**
Exhibit 12.01. Distribution of Households and Investable Assets by Investable Assets Range and Age Range, 2010E ....159
Exhibit 12.02. Percent of Households with Formal Retirement Income Plan by Head of Household Age, 2011 ....160
Exhibit 12.03. Percent of Households with Formal Retirement Income Plan Databank, 2011 ....161
Exhibit 12.04. Activities Completed to Prepare for Retirement by Investable Assets, 2011 ....162
Exhibit 12.05. Activities Completed to Prepare for Retirement Databank, 2011 ....163
Exhibit 12.06. Confidence in Retirement Savings by Investable Assets, 2011 ....164
Exhibit 12.07-Part 1. Confidence in Retirement Savings Databank, 2011 ....165
Exhibit 12.07-Part 2. Confidence in Retirement Savings Databank, 2011 ....166
Exhibit 12.08. Households' Top Concerns by Investable Asset Range, 2011 ....167
Exhibit 12.09. Greatest Economic Concern by Investable Asset Range, 2011 ....168
Exhibit 12.10. Household Opinion of Annuities, 2011 ....169
Exhibit 12.11. Household Opinion of Annuities Databank, 2011 ....170
Exhibit 12.12. Ownership of Annuity Products by Investable Asset Range, 2011 ....171
Exhibit 12.13. Ownership of Annuity Products Databank, 2011 ....172
Exhibit 12.14. Reason Household Purchased a Variable Annuity by Investable Asset Range, 2011 ....173
Exhibit 12.15. Reason Household Purchased a Variable Annuity Databank, 2011 ....174
Exhibit 12.16. Annuity Balance by Type of Annuity and Investable Asset Range, 2011 ....175

**Chapter 13: Annuity Wholesaling....176**
Exhibit 13.01. Variable Annuity Manufacturers: Salesforce Headcount by Functional Role, 2012....178
Exhibit 13.02. Variable Life Insurance Manufacturers: Salesforce Headcount by Functional Role, 2012....179
Exhibit 13.03. Actual and Expected Changes in Salesforce Headcount by Functional Role, 2009-2013....180
Exhibit 13.04. Salesforce Channelization, 2012....181
Exhibit 13.05. Wholesaler Activity Metrics Tracked by National Sales Managers, 2012....182
Exhibit 13.06. National Sales Managers: Comparison of Current and Ideal Wholesaler Compensation, 2012....183
Exhibit 13.07. Average Basis Point Commission Rate on Gross Sales, 2012....184
Exhibit 13.08. Wholesalers' Annual Expense Budget, 2008-2012....185
Exhibit 13.09. Greatest Challenges as a Divisional Sales Manager, 2012....186
Exhibit 13.10. Ratio of Variable Annuity Wholesalers to Divisional Sales Managers, 2012....187
Exhibit 13.11. Wholesaler Time Allocation, 2012....188
Exhibit 13.12. Greatest Challenges as a Wholesaler by Distribution Channel Focus, 2012....189
Exhibit 13.13. Criteria Used for Segmenting Advisors, 2012....190
Exhibit 13.14. Number of Advisors in Territory by Production Levels, 2012....191
Exhibit 13.15. Number of Wholesaler Contacts by Advisor Type, 2012....192
Exhibit 13.16. Number of Products Used by Advisor by Production Level, 2012....193
Exhibit 13.17. Primary Value Wholesalers Provided to Advisors by Product Sold, 2012....194
Exhibit 13.18. Wholesalers vs. Advisors: Reasons Advisors Choose Variable Annuity Providers, 2012....195
Exhibit 13.19. Wholesalers: Key Elements of an Effective Marketing Piece, 2012....196
Exhibit 13.20. Variable Annuity Wholesaler Level of Satisfaction with Functions of Firm's CRM System, 2012....197
Exhibit 13.21. Variable Annuity Wholesalers' Rating of Key Factors to Their Future Success, 2012....198
Exhibit 13.22. National Sales Managers vs. Wholesalers: Ranking of Training Method Effectiveness, 2012....199
Exhibit 13.23. Integrating Hybrid Wholesalers into the Salesforce, 2012....200
Exhibit 13.24. Hybrid Wholesalers Focus Segments, 2012....201
Exhibit 13.25. Ratio of Variable Annuity External to Internal Wholesalers, 2012....202
Exhibit 13.26. Relationship of External and Internal Wholesalers, 2012....203
Exhibit 13.27. Variable Annuity Wholesalers' Most Desired Information from Key Accounts Team, 2012....204
Exhibit 13.28. Key Account Assistance to Field Wholesalers, 2012....205
Exhibit 13.29. Greatest Challenges as a Key Account Manager, 2012....206
Exhibit 13.30. Key Accounts' Channel Coverage and Focused Concentration, 2012....207

**Chapter 14: Alternative Insurance Distribution Opportunities....208**
Exhibit 14.01. Evaluation of Contingent Deferred Annuities, 2012....210
Exhibit 14.02. Challenges of Contingent Deferred Annuities, 2012....211
Exhibit 14.03. Managed Account Assets and Growth, 2001-2011....212
Exhibit 14.04. Insurer Perspective: Most Important Features in a Simplified VA, 2012....213
Exhibit 14.05. Advisor Opinion of Optional Insurance Wrappers on Managed Accounts, 2010 vs. 2011....214
Exhibit 14.06. Historical I-Share Class Variable Annuity Sales, 2001-2011....215
Exhibit 14.07. Average 401(k) Balance per Participant, 2000-2010....216
Exhibit 14.08. Distribution of Retirement Income Products by Channel, 2011....217
Exhibit 14.09. Importance of Factors in a Successful Retirement Income Product, 2011....218
Exhibit 14.10. Expected Two-Year Change to Retirement Income Offering by Plan Sponsors, 2012....219
Exhibit 14.11. Advisor Opinion of Retirement Income Funds, 2011....220

**Section III: Asset Management**

**Chapter 15: Variable Insurance Asset Management Strategies ..... 222**
Exhibit 15.01. Institutional Channel Rankings: Gross Sales, Service Costs, and Profitability, 2011 ..... 224
Exhibit 15.02. Institutional Channel Profitability Rankings, 2011 ..... 225
Exhibit 15.03. Asset Managers: Greatest Obstacle in Growing VA Subadvisory Business, 2012 ..... 226
Exhibit 15.04. Asset Managers: Expected Change in Number of Insurance Sponsor Relationships, 2012 ..... 227
Exhibit 15.05. Asset Managers: VA Subadvisory Salesforce and Marketing Headcount by Functional Role, 2012 ..... 228
Exhibit 15.06. Additional Distribution Channels Covered by VA Subadvisory Wholesalers, 2012 ..... 229
Exhibit 15.07. Communication Strategies to VA Distribution Firms and Advisors, 2012 ..... 230
Exhibit 15.08. Insurer Perspective: Investment Styles with Greatest Potential for Growth, 2012 ..... 231
Exhibit 15.09. Asset Manager Perspective: Investment Styles with Greatest Potential for Growth, 2012 ..... 232

**Chapter 16: Variable Insurance Asset Management Overview ..... 233**
Exhibit 16.01. Definitions of Variable Insurance Assets and Structure, 2012 ..... 235
Exhibit 16.02. Implications of Variable Insurance Fund Structures, 2012 ..... 236
Exhibit 16.03. Key Variable Annuity Fund Management Metrics, 2001-2011 ..... 237
Exhibit 16.04. Insurer Anticipated Two-Year Change in VA Platform, 2012 ..... 238
Exhibit 16.05. Variable Annuity Assets by Structure and Distribution, 2001-2011 ..... 239
Exhibit 16.06. Top-25 Variable Insurance Asset Managers, 2011 ..... 240
Exhibit 16.07. Top-25 Selling Variable Insurance Funds, 2011 ..... 241
Exhibit 16.08. Total Subadvised Variable Insurance Assets and Growth, 2001-2011 ..... 242
Exhibit 16.09. Subadvised Variable Insurance Assets: Affiliated and Unaffiliated Arrangements, 2001-2011 ..... 243
Exhibit 16.10. Subadvised Variable Insurance Net Flows: Affiliated and Unaffiliated Arrangements, 2001-2011 ..... 244
Exhibit 16.11. Estimated Turnover of Subadvised Variable Insurance Funds and Assets, 2012 ..... 245
Exhibit 16.12. Top-10 Subadvisory Variable Insurance Asset Managers, 2008-2011 ..... 246
Exhibit 16.13. Top-10 Unaffiliated Subadvisory Variable Insurance Asset Managers, 2008-2011 ..... 247
Exhibit 16.14. Top-10 Subadvised Variable Insurance AUM by Insurer, 2008-2011 ..... 248
Exhibit 16.15. Top-10 Subadvised Variable Insurance AUM with Unaffiliated Subadvisors by Insurer, 2008-2011 ..... 249
Exhibit 16.16. Variable Insurance Trust Assets and Net Flows, 2001-2011 ..... 250
Exhibit 16.17. Top-25 Variable Insurance Trusts, 2011 ..... 251
Exhibit 16.18. Percentage of Variable Annuity Fund Managers in Net Redemptions, 2001-2011 ..... 252
Exhibit 16.19. Fastest-Growing Variable Insurance Fund Managers by Assets, 2008-2011 ..... 253
Exhibit 16.20-Part 1. Top-10 and Bottom-10 VA Asset Managers in Net Flows, 2001-2011 ..... 254
Exhibit 16.20-Part 2. Top-10 and Bottom-10 VA Asset Managers in Net Flows, 2001-2011 ..... 255
Exhibit 16.21. Percentage of Variable Annuity Assets by Manager Type, 2001-2011 ..... 256
Exhibit 16.22. Percentage Change in Variable Annuity Net Flows by Manager Type, 2001-2011 ..... 257
Exhibit 16.23. Variable Annuity Assets by Structure, Distribution, and Manager Type, 2001-2011 ..... 258
Exhibit 16.24. Percentage of Variable Annuity Assets by Asset Class, 2001-2011 ..... 259
Exhibit 16.25. Percentage Share in Variable Annuity Net Flows by Asset Class, 2001-2011 ..... 260
Exhibit 16.26. Percentage of Variable Annuity Assets by Asset Class, Distribution, and Structure, 2011 ..... 261
Exhibit 16.27. Percentage of Variable Annuity Assets by Asset Class and Manager Type, 2011 ..... 262
Exhibit 16.28. Passively Managed Variable Annuity Fund Assets and Net Flows, 2001-2011 ..... 263
Exhibit 16.29. Top-10 Managers of Passively Managed Variable Annuity Funds by Assets, 2011 ..... 264
Exhibit 16.30. Alternative Mutual Fund Assets and Flows, 2001-2011 ..... 265
Exhibit 16.31. Top-10 Alternative Funds by Assets, 2011 ..... 266

**Chapter 17: Risk Management in Variable Insurance Asset Management .....267**
Exhibit 17.01. Number of Investment Options Qualified for Primary Living Benefit Options, 2012 .....269
Exhibit 17.02. Expected Change in the Number of Investment Options That Quality for Primary Living Benefit Options, 2012 .....270
Exhibit 17.03. Living Benefit Fund-of-Funds Managers, 2012 .....271
Exhibit 17.04. Asset Managers: VA Subadvisory and VIT AUM Attributable to VA Asset Allocation Models or Fund of Funds, 2012 .....272
Exhibit 17.05. Most Successful Asset Manager Strategy to be Placed in a Fund of Funds, 2012 .....273
Exhibit 17.06. Variable Insurance Embedded-Advice Fund Assets and Net Sales, 2005-2011 .....274
Exhibit 17.07. Variable Insurance Embedded-Advice Fund Assets and Net Sales as Percentage of Variable Insurance Industry Total, 2005-2011 .275
Exhibit 17.08. Insurance General Account Assets and Growth, 2000-2011 .....276
Exhibit 17.09. Insurance General Account Assets by Manager Affiliation, 2007-2011 .....277
Exhibit 17.10. Top-35 Managers of Unaffiliated Insurance General Account Assets, 2010-2011 .....278
Exhibit 17.11. Top-10 Managers of Affiliated Insurance General Account Assets, 2011 .....279

**Company Index .....280**

# Methodology

***Cerulli Annuities and Insurance 2012: Evaluating Growth Capacity, Flows, and Product Trends***, *t*he sixth iteration of an annual series, is the outcome of ongoing research and analysis of the retail insurance marketplaces by Cerulli Associates (CA). The report focuses on three key areas—distribution, product development, and asset management. ***Cerulli Quantitative Update: Annuities and Insurance 2012*** leverages CA's continuous analysis of the variable annuity, insurance, and insurance subadvisory marketplaces.

***Cerulli Annuities and Insurance 2012: Evaluating Growth Capacity, Flows, and Product Trends*** is intended to serve as a standalone—as well as a complement—to our other publications. Each exhibit highlights key data and commentary, including the important tactical ramifications for insurers, asset managers, and broker/dealers servicing the insurance market. In addition, most exhibits contain cross references to other related charts in this publication. The report is designed as a business planning tool, and additional support leveraging this data is also available.

CA analysts' opinions and perspectives are shaped by a robust methodology based on three components:

- **Industry understanding:** All CA analysts come to the firm with a background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge.
- **Quantitative analysis:** CA maintains an online, password-protected survey engine as part of a voluntary, information-sharing relationship whereby participants complete confidential surveys in exchange for an aggregate summary of key findings. All information is presented in aggregate form, and proprietary survey information is not directly attributed to participants.
- **Qualitative research:** CA analysts conduct background research interviews with industry executives in a confidential format allowing for open dialogue about the current state and future outlook for the industry. This provides a means for synthesizing the other components of our methodology into research products that are independent, insightful, and grounded in the industry's current climate.

Proprietary surveys of insurance company executives and variable annuity asset managers, and broker/dealers, conducted in 2Q 2012, serve as the foundation of the report. CA partnered with the Insured Retirement Institute to distribute our annual survey, effective with the 2010 edition. Also included are the results of our ongoing surveys of financial advisors, wholesalers, key account managers, and manufacturer sales managers as they pertain to annuities, variable life insurance, and retirement income, most recently conducted in 2Q 2012. Data is also presented from a partnership between Cerulli Associates and Phoenix Marketing International. The data is primarily drawn from two Phoenix studies. The first, the PMI Global Wealth MonitorTM is the largest affluent study in the United States completing online surveys of 7,800 households throughout the year. Phoenix also fields the Retirement Services Study which aims to address the target market of retirement providers. In addition to proprietary survey data and ongoing executive interviews, CA analysts compiled information available through third parties (including the Insured Retirement Institute, Morningstar, Beacon Research, Sequoia, LIMRA International, Strategic Insight/SIMFUND VA, and the American Association for Long-Term Care Insurance), government entities (such as the Federal Reserve), and financial publications (such as National Underwriter and Agent's Sales Journal).

**SAMPLE SECTION**
**from**

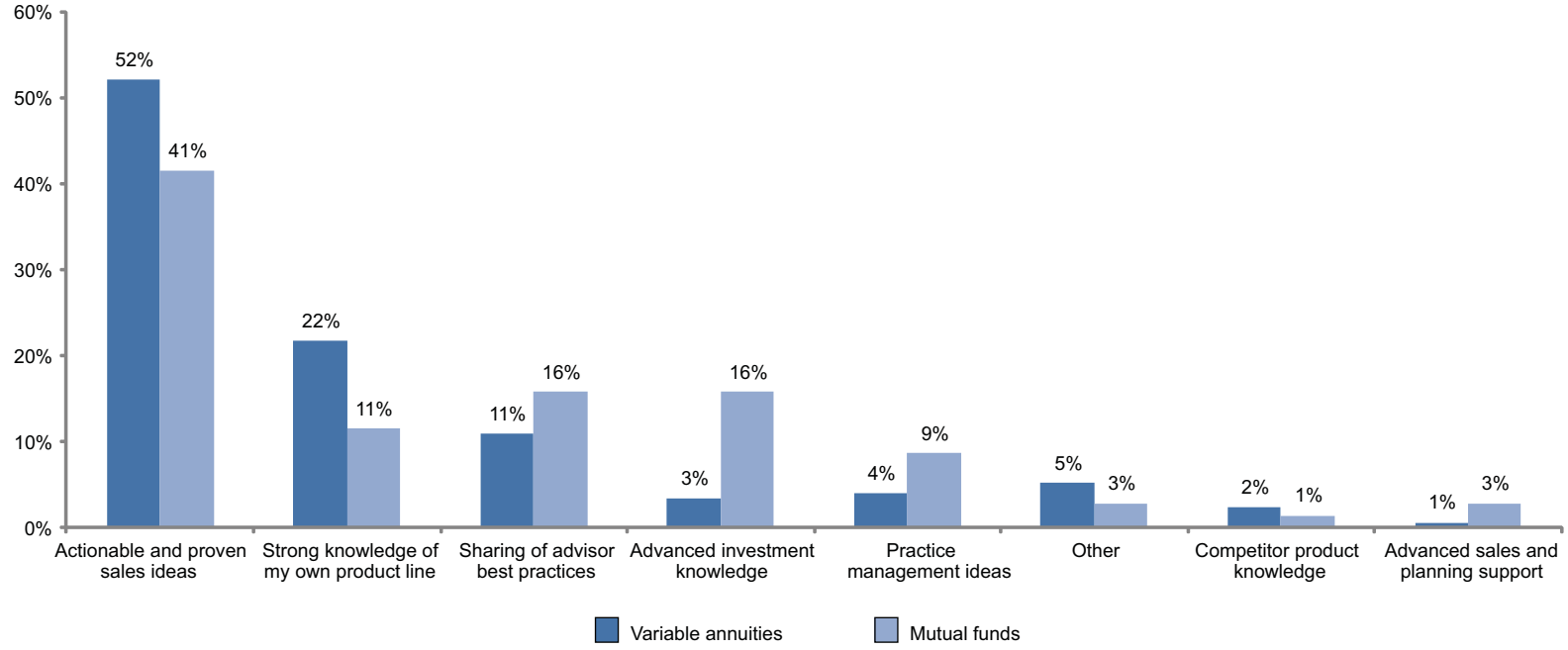
# ANNUITIES AND INSURANCE 2012: EVALUATING GROWTH CAPACITY, FLOWS, AND PRODUCT TRENDS

**EXHIBIT 13.17**

**Primary Value Wholesalers Provided to Advisors by Product Sold, 2012**

**Sources: Cerulli Associates, in partnerships with Sequoia and the Investment Management Consultants Association**

***Analyst Note: All product lines statistics also include specialist wholesalers. "Other" responses include helping advisors with their practice management, closing the sale, and providing industry knowledge.***



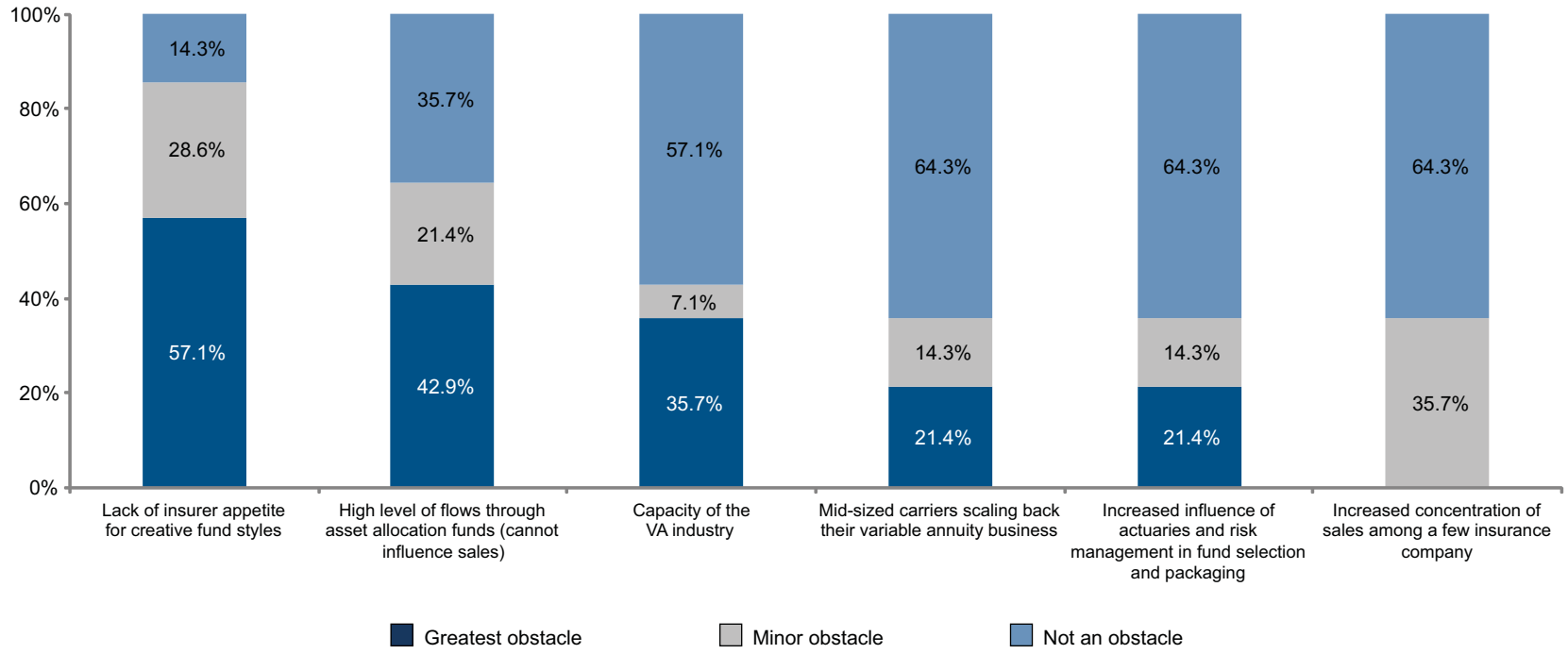

- Wholesalers name actionable and proven sales ideas as the primary value that they provide to advisors.

**Key Implication:** VA wholesalers place twice as much importance on understanding their own products, compared to mutual fund wholesalers. As noted, this is due to the complexity of product specifics, policy issue requirements, problem resolution, and the due diligence process (including the exception process). Accordingly, mutual fund wholesalers are able to place greater significance on how their products fit into advisor's business practices. As the VA product landscape shifts, wholesalers must also evolve into a consultative sales approach by sharing best practices among competing advisors and practice management ideas. Also, if insurers hope to gain traction within the RIA and other fee-based channels, wholesalers must improve on their ability to communicate investment knowledge and advanced planning. Insurers may benefit from hiring supplementary staff to provide in-depth advanced sales concepts including CPAs, and by requiring wholesalers to receive specific designations including Certified Fund Specialists (CFS).

**EXHIBIT 15.03**

**Asset Managers: Greatest Obstacle in Growing VA Subadvisory Business, 2012**

**Sources: Cerulli Associates, in partnership with IRI**




- The majority of asset managers (57%) name the lack of insurer appetite for creative fund styles as their greatest obstacle in growing the VA subadvisory business.
- The inability for an asset manager to influence fund flows was cited as the second largest obstacle in growing their subadvisory business (43%).

**Key Implication:** As observed, insurers continue to de-risk VAs by increasing fees, decreasing guarantees, and restricting investment platforms. A common, and still maturing, strategy is requiring funds to be distributed into allocation models to help manage volatility. Several VA leaders including MetLife and Lincoln are recent examples. While these carriers still provide tremendous opportunities for asset managers due to scale, the days of open architecture within VAs are largely over, thus, limiting their influence of fund flows. However, asset managers that are quick to act on the emerging trend of simplified VAs may benefit greatly as many insurers launched these VAs without the optional bells-and-whistles. Furthermore, this may prove especially true for asset managers specializing in alternative investment strategies. Jackson National, Jefferson National, and Symetra, offer the most notable simplified VAs, and many other insurers are considering the tactic.

# Company Index


AEGON/Transamerica ..... 21, 27, 39, 45, 54, 255
AIG/SunAmerica ..... 17, 37, 38, 39, 54, 62, 100, 248
AllianceBernstein ..... 278
Allianz ..... 20, 27, 54, 100, 240
American Equity ..... 20
American Funds ..... 240, 251
Ameriprise ..... 24
AQR ..... 35, 255, 275
Aviva ..... 20
AXA ..... 21, 27, 38, 39, 107, 240
Bank of America ..... 121, 122
BlackRock ..... 34, 240, 246, 247, 251, 255, 266, 271, 277, 278
Deutsche ..... 277, 278
Dimensional ..... 253
Edward Jones ..... 15, 17, 24, 44, 46, 53, 82, 87, 121, 128
Equi Trust ..... 20
Fidelity ..... 18, 144
First Trust ..... 253
Genworth ..... 24, 111, 112, 233, 242
Great-West ..... 45
Guardian ..... 25
Guggenheim ..... 20, 278
H.D. Vest ..... 115, 121, 123
Hartford ..... 21, 24, 25, 46, 49, 54, 85, 229, 233, 242, 246, 248, 255
Industrial Alliance ..... 20
ING ..... 24, 233, 242, 248, 253
Invesco ..... 278
Jackson National/Prudential PLC .... 19, 25, 27, 33, 35, 37, 52, 54, 62, 65, 67, 71, 77, 78, 85, 86, 97, 107, 132, 136, 156, 222, 223, 226, 231, 233, 248, 249, 255, 266, 269
Jefferson National ..... 18, 45, 68, 130, 156, 212, 222, 223, 225, 226, 231, 233, 249, 266
John Hancock ..... 24, 25, 54, 107, 229, 233, 242, 248, 264
Lincoln ..... 37, 65, 71, 77, 97, 112, 129, 155, 226
Loomis Sayles ..... 278
LPL ..... 15, 44, 45, 46, 53, 121, 209, 215
Manulife ..... 24, 107
McGraw-Hill ..... 253

MetLife ..... 17, 25, 27, 34, 35, 39, 47, 52, 54, 65, 76, 78, 80, 85, 86, 102, 112, 129, 210, 211, 226, 240, 241, 246, 248, 249, 253, 255, 269, 275
Monumental Life ..... 18
Morgan Stanley Smith Barney ..... 121, 122
Nationwide ..... 18, 27, 37, 233, 255, 266
Natixis ..... 253
New York Life ..... 62, 66, 233
Northwestern Mutual ..... 110
Ohio National ..... 25, 37
OneAmerica ..... 112
Pacific Life ..... 27, 65, 67, 72, 73, 112
Parthenon Capital Partners ..... 121
PIMCO ..... 34, 35, 240, 246, 247, 251, 255, 260, 271, 279
Primerica ..... 121
Protective ..... 54, 249
Prudential ..... 17, 25, 35, 36, 39, 47, 52, 54, 85, 86, 102, 107, 112, 129, 132, 136, 210, 233, 240, 241, 248, 253, 255, 266, 269
Raymond James ..... 53
RiverSource ..... 24
Security Benefit ..... 18, 20, 45, 223
State Street Global Advisors ..... 264
Sun Life Financial ..... 21, 24, 25, 49, 54, 104, 112, 233, 242
Symetra ..... 18, 45, 156, 223, 225, 226, 233, 249, 266
T. Rowe ..... 246, 247
TD Ameritrade ..... 44, 45
TIAA-CREF ..... 47, 54, 55, 59, 85, 86, 148, 240
Wellington ..... 246, 247, 255
Wells Fargo ..... 45, 46, 53, 115, 121, 123, 209, 215, 253
Western National Life ..... 29