VA changes at major insurers are afoot, executives say

MetLife, Prudential plan product updates; Hartford takes more steps to cut exposure

By Darla Mercado

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Just when it seemed that the variable annuity industry couldn't handle more change, major sellers MetLife Inc. and Prudential Financial Inc. expect to roll out product updates this month, while The Hartford Financial Services Group Inc. is looking to reduce further its VA book of business.

Both life insurers hosted earnings conference calls Thursday morning to discuss second-quarter results, which improved from a year earlier. MetLife brought in $2.26 billion in net income, up from $1.07 billion a year earlier; while Prudential's financial services units reported net income of $2.20 billion, up from $779 million.

Moderating VA volume remains on the agenda at both insurers, after the companies picked up considerable volume last year amid tumult in the industry.

VA sales fell to $4.6 billion at MetLife, a decrease of 34% from a year earlier, while gross annuity sales were $5.3 billion at Prudential, up from $4.5 billion a year earlier.

The most recent quarter's flows “were slightly higher than what we wanted, but not higher than we expected,” said Charles F. Lowrey, chief operating officer of Prudential's U.S. businesses.

A year ago, the insurer averaged about $5 billion in sales per quarter, he said.

Further steps in the form of product changes are ahead for the insurers this month, according to executives on the call.

MetLife, for instance, has updated its withdrawal rate so that withdrawals made before the policy's fifth anniversary decrease to 4.5%, from 5%.

“We're changing more features on our variable annuities and altering our dollar-for-dollar [withdrawal] feature,” said Bill Wheeler, president of the Americas at MetLife.

That change will be implemented this month, he said.

Changes are also afoot at Prudential, which is preparing to launch its Highest Daily Lifetime Income Benefit 2.0 in the coming weeks.

This latest version includes a fee increase, bringing the single-life version of HD 2.0 to 100 basis points and 110 basis points on the spousal version of the rider. Both were previously 95 basis points.

The minimum issue age on HD 2.0 has also been raised to 50, from 45.

At Hartford, much of the talk around VAs focused on the next steps the insurer will take with its legacy variable annuity block.

The company had a loss of $101 million in the second quarter, compared with a profit of $33 million a year earlier. Charges tied to its VA block hampered results. Hartford faced a deferred-acquisition-cost unlock expense of $127 million, compared with $17 million a year earlier.

Analysts asked about Hartford's moves to continue isolating and reducing its block of runoff VA business, which is headed by Beth Bombara, president of life runoff. "Under Beth's leadership, our goal is to reduce the liabilities and the risk of the annuity book, and — if the opportunities present themselves — to isolate or separate it," said Liam McGee, Hartford's chief executive.

The company is mulling over a number of ideas to reduce that liability, he said.

An analyst asked whether Hartford might offer lump sums to legacy clients in exchange for surrendering their variable annuity and living benefit. A similar concept, which gives clients a bump in account value if they drop the benefit, is being offered by Axa Equitable Life Insurance Co. on a death benefit feature and Transamerica Life Insurance Co. on a living benefit guarantee.

"We're exploring every possible area for accelerating VA runoff, including that concept," Mr. McGee said. "Guarantees differ from insurer to insurer, and there is no evidence yet that consumers will make the trade."

Mr. McGee noted that it is one of many possibilities Hartford is weighing.

"We are determined to reduce our book as quickly as we can," he said.

RELATED STORY

Life insurance guidelines could tie captive agents' hands

By Darla Mercado

July 22, 2012

Life insurance agents who are limited to selling proprietary products may find it difficult to meet a fiduciary standard as it is being defined by a task force helmed by a fiduciary advocate. The first draft of the guidelines was developed in June by a task force headed up by Don Trone, founder of 3 ethos. The group is charged with writing guidelines for the sale of life insurance products, as a preliminary step in setting standards for financial planners when they offer clients life insurance within the context of a comprehensive financial plan.

However, the best practices could leave captive insurance agents — that is, those who sell one company's products — on the sidelines.

That's because the task force's standards state that an adviser's or agent's compensation, distribution structure or use of proprietary products should not conflict with the recommendation of a life insurance strategy to a client.

WHO GETS NEW BUSINESS?

“A number of agents have a proprietary relationship and are affiliated with a career company, which means new business should be offered to their primary company first,” said Terry Headley, an agent and managing partner at Headley Financial Group, a special market development office of The Principal Financial Group Inc.

How captive agents will accommodate the best practices is still to be determined. But disclosure of potential conflicts is a starting point, said Joseph W. Maczuga, executive director of Fee Advisors Network, a consulting firm. He also is a member of the task force that drafted the standards.

“You have to disclose that you get additional perks for the sale, be-cause if you don't, it's an area of conflict,” Mr. Maczuga said.

Gary Sanders, vice president of government relations at the National Association of Insurance and Financial Advisors, declined to comment on the draft standards, saying he hadn't reviewed them.

Tom Korb, a spokesman for the Association for Advanced Life Underwriting, said it doesn't comment on the work of other groups.