# B-Ds struggle with lost revenue amid VA cuts

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Tumult on the variable annuity scene is dampening sales at broker-dealers, raising some concerns about the impact on revenue for the firms and their representatives.


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Efforts by life insurers over the last 18 months to cut investment selection, reduce income and withdrawal benefits, and curb additional contributions toward already-existing contracts is helping carriers reduce risk tied to their VA exposure. But distributors are paying the price for some of that conservatism, as reps turn up their noses at the changes and become more reluctant to sell.

“Like most other broker-dealers, we are seeing a decrease in variable annuity sales over the last six or seven months,” said Vere Reynolds-Hale, national sales manager at First Allied Securities Inc. “What you're seeing is an industry shifting and adjusting to the current economy.”

Variable annuity sales at First Allied in the first six months of 2012 were off by about 15% from the comparable period last year, according to Mr. Reynolds-Hale. That percentage is echoed by executives at Raymond James Financial Inc. and at ValMark Securities Inc.

## Trending downward

Sales data from the first quarter — the most recent period for which industry figures are available — show that variable annuity sales had been trending downward for the last three consecutive quarters. The first-quarter figures show that $36.8 billion in variable annuities were sold, compared with $38 billion in the previous quarter and $39.5 billion in the year-earlier period, according to LIMRA.  Reduced features on living benefit riders have contributed to that slip in sales, industry experts said.

Some insurers have taken the extra step of moderating variable annuity volumes by limiting the amount of money clients can add to legacy contracts: As of Monday, MetLife Inc. no longer will take new contributions to blocks of old VA contracts that are tied to attractive living and death benefits.

“Sales are down, but recurring revenue and trails are up, so we're basically flat for the year,” said Scott Stolz, president of Raymond James Insurance Group, explaining how the firm will cope with the lost VA money.

One question is whether the adviser marketplace will come to embrace these products again, said Greg Cherry, senior analyst in Aite Group LLC's wealth management practice. He noted that the rate environment could push commission revenue down for some time.

But at the individual practice level, and for reps for whom a significant chunk of their business comes from variable annuity sales, the prospect of unappealing products and less opportunity to add money to existing contracts are reasons to steer away from VAs.

Lower sales and less money going into legacy VA products means less commissions for reps, which can eventually take a toll on an individual practice, said Judson Forner, an investment analyst with ValMark.

## 'Turned off'

“If you sell your business, you'll get a better multiple if you have trail income,” he said. “The fact that the insurance companies can change that worries advisers about their future income and about their future liquidation if they want to sell their book. In a way, advisers are turned off by the fact that at the whim of a particular carrier, their livelihood can be thrown into disarray.”

Though revenue stemming from new variable annuity sales will make up a smaller piece of the bottom line, advisers and firms are seeing activity pick up in other investments.

“A lot of people are migrating toward managed accounts with exchange-traded funds,” said Richard Dragotta, a branch manager with LPL Financial LLC.

Mutual funds and ETFs become more attractive as firms move to a fee-based model and encourage clients to think about product allocation, according to Bing Waldert, a director at Cerulli Associates Inc. “If you're driving the conversation to clients to look at the whole picture, and you find that they need to diversify, you'll probably use a mutual fund or an ETF to fill those gaps,” he added.

At First Allied, Mr. Reynolds-Hale expects fee-based accounts to drive revenue. The firm last fall launched a program called Allocation Architect to encourage advisers to take a holistic view of clients' holdings and to talk to them about their asset and product allocation.

Variable annuities aren't anathema to fee-based accounts, Mr. Reynolds-Hale said. “Variable annuities are part of that play and how you can fit them into a fee-based wrap account,” he said.

Mr. Dragotta noted that while the pickings are slim among variable annuity providers, it's hard to find an alternative to the guarantees a client can obtain only through an insurance product.

“It may not be as good as it once was, but for the right person, it's the only way to provide guaranteed cash flow,” he said.