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HINTS FROM A BROKER ON INTRODUCING A NEW ANNUITY

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In the past two years, several insurers that had never written heavy volumes of premium before have entered the fixed annuity sales arena. While most of them have done a super job, it is clear that some were not properly prepared before introducing the annuity to the marketplace.

If a company wants to sell larger volumes of annuity premium and do it right, here are some hints to help get started in the right direction. They are based on my experience as a broker who works with multiple products and has seen vast numbers of annuity introductions over the years.

Step 1: Determine how much premium the company can accept. Factors determining the amount include drain on surplus, increase in manpower, and an efficient system to process and service new business.

Step 2: Determine the desired profit spread between what yield is paid to policy owners and the commissions paid to agents. This decision will influence who sells the annuity.

Step 3: Determine who will produce the business. Annuity sales are derived from four distribution channels; professional agents, wire houses, financial institutions, and so-called "commission hounds." The annuities sold by each channel are different and they very rarely ever cross paths.

The professional agent wants to sell high quality, consumer-oriented annuities with a low, but fair commission. Wire houses sell annuities in similar fashion to professional agents, but normally prefer a proprietary product that no one else can sell. Generally speaking, financial institutions prefer to sell annuities with higher commissions and are more likely to sell portfolio rates. These three channels generate basically the same profit margin for the company.

The annuities sold by the commission hounds – agents wanting the highest commission deals they can find with very little regard to anticipated renewal rates – generally also reap a larger profit margin for the insurer. The business tends to stay on the books longer because of the onerous surrender charges and because a large number of the agents quit the business before the penalties expire.

Step 4: Decide what type annuity is to be sold; floating rates, CD type, equity indexed, or variable annuities. This is a tough decision, because each has different advantages and disadvantages. In today's business environment, there is absolutely no question that CD type annuities are dominating the marketplace. Clients are voting with their dollars and they are electing CD types by a landslide as the annuities of choice.

Step 5: Decide to make it easy or hard to sell the annuity. This may sound silly, but someone needs to make a conscious decision as to how business will be transacted. Is it going to be hard or easy for the agent to sell or the client to buy? The easier an annuity is to understand, the easier it is to sell. The easier a form is to fill out, the more likely it is to be completed correctly. The easier it is to do business with a company, the more business is sold.

Most of the annuity sales brochures are designed to look pretty and talk about the advantages of annuities in general. However, they are virtually worthless for the reader who wants to obtain information.

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When people read a brochure about a specific annuity, they want to know exactly how it works! For example, what interest will be earned and for how long? What are the surrender charges? Under what circumstances are charges waived? How much can be taken out each year without a penalty? Are monthly income checks available? How should someone contact the company for service? How often will statements be mailed?

Those are all questions for which clients want answers. If the brochure doesn't spell them out, the agent and client waste time trying to find out the answers from the home office. Frustration sets in when no one in the home office knows the answers, because they were not properly informed concerning the highlights or nuances of the new annuity in the first place.

Speaking of pretty forms, consideration should be given as to how it will look when faxed. Will they be clear and readable or will it look like one big smudge?

Unbelievably, even though a company introduces a new annuity, some companies try to use an old, generic application designed twenty years ago. Seemingly, no one at the company even looked to see if it was appropriate to use for the new annuity.

In addition, I've seen four page applications and multi-part forms – even worse, on legal size paper. In today's world, forms are faxed, e-mailed, and downloaded from Web sites. No one keeps legal size paper in the paper trays and there is absolutely no reason for any fixed annuity application to be longer than one page.

A couple of small examples on how to improve an application are: 1) Beneficiary designations should make clear that the relationship is to the owner or annuitant. 2) Most forms ask for the annuitant's signature when there really is no need for it.

Finally, if a company has a Web site, the annuities, current rates, and all forms should be easily accessible. With some companies, one needs an access code to find out the information. **It's poor marketing when the info is kept a secret.**