ANNUITY WATCH

Gee-Whiz Features Don't Help Annuity Sales

BY DANNY FISHER

ADDING "GEE-WHIZ" features doesn't always make things work better, whether it's insurance or anything else.

For example; I flew Cobra helicopter gunships in Viet Nam. They were awesome flying machines and easy to maintain. Then the Army decided it needed a gunship with more "gee-whiz" buttons and phased out Cobras for Apaches. The Apaches have more "bells & whistles," but they spend more time in maintenance than in the air. Combat readiness has suffered.

Having more "gee-whiz" buttons does not make an annuity function better either.

When I first started selling fixed annuities in the late 1970s, there were only a handful of single premium deferred annuities on the market. They were simple to understand and easy to sell.

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Now, thousands are available and all work differently. Many have bells and whistles that few agents, fewer clients, and many home office personnel simply do not understand. Law suits and high expenses have followed, and annuity sales have suffered due to the resulting bad publicity.

A client who teaches flying lessons reminds me of another problem. This client says new trainer aircraft can easily cost $250,000, with half the cost attributed to product liability insurance. Now the cost to learn to fly has gone up dramatically causing fewer people to seek a pilot's license and fewer new aircraft to be sold.

Similarly, for many fixed annuity companies, the cost of doing business has gone up due to being sued for what are essentially "product liability" cases.

This has led to decreasing company profits and decreasing rates available to be credited to fixed annuities, resulting in lower achievable annuity sales volume. The lawsuits have also caused requirements for more disclosure/suitability forms, and, in some states, annuity specific training in order for agents to sell any annuity.

As I see it, if insurance commissioners would not allow "trash annuities" to be sold in their states, most of the lawsuits, extra forms and training would not be needed.

Another client of mine, who is an economics professor in the University of Texas System, told me that she used to teach the basics of supply and demand with an emphasis on how politics affects economics. Now, however, she teaches that the most important influence in today's economics is media bias. In particular, she says, financial columnists and television commentators sway public, political, and rating agency opinions at will.

That happens in the insurance arena too. One of the clearest examples occurred in the early 1990s. In those days, insurers invested in junk bonds, some heavier than others. Then the "financial gurus" in the media said junk bonds were bad investments, without warning, some insurers were taken over by insurance departments simply because of the amount of junk bonds they held.

Similarly, in today's market, the rating agencies are downgrading insurance companies due to public and media concern about the quality of their real estate, mortgage and bond holdings.

The question here is, does media coverage of these developments predict or influence the end result, instead of just reporting on it? Many factors are involved, but it seems the media is definitely partially to blame.

Agents are akin to pilots. If an airplane crashes, many times "pilot error" is cited as the cause of the accident. The pilot should have been able to fly the aircraft even if a part was broken is the inane logic. Likewise, if an insurer fails, the agent should have done more "due diligence" before placing clients with that company.

Agents are advised to investigate the make-up of an insurer's investment portfolio. Sounds good in theory, but a short while ago, agents would have been looking for the insurers to hold bonds issued by then-considered secure companies like Lehman Brothers and Enron. Ooops! That was a bad idea.

No problem, agents can just rely on the rating agencies. Ooops again! Some B-rated companies that have been in business for years are still in business today, while some highly touted A-rated insurers have failed.

The point being, just because an insurer is judged safe today, doesn't mean it will be tomorrow. There simply is no way for any agent, insurance commissioner, or rating agency to accurately foretell who will remain in business and who will not.

A huge reason for our collective inability to foretell the future is because no one knows who the "financial gurus" will attack tomorrow or how government policy will change the economic climate. Hindsight is always 20/20. Foresight is tough!

Still, like pilots who fly in bad weather, professional agents serving clients in today's turbulent times need to keep their eyes on the task at hand – and stay alert to changing conditions, what ever they may be. NU

▶ Danny Fisher, CLU, ChFC, is founder and principal of The Fisher Agency, Dallas, and publisher of Fisher Annuity Index. His e-mail address is Danny@MrAnnuity.com.