

AIG Unit Reclaims Crown as Top US Fixed Annuities Seller in Fourth Quarter

EVANSTON, Ill. March 11 (BestWire) — In the final quarter of 2009, a renamed insurance company subsidiary of American International Group Inc. became the No. 1 seller of fixed annuities overall in the United States, according to Beacon Research, a research firm that tracks the data.

The last time the subsidiary, formerly known as AIG Annuity Insurance Co., reached first place in overall sales of these retirement-savings and income products was the first quarter of 2008 — six months before its parent company received a multibillion-dollar government bailout.

Western National Life Insurance Co., the renamed subsidiary of AIG (NYSE: AIG), vaulted from sixth place to become the sales leader in the fourth quarter, bumping New York Life to second place, according to Beacon.

In June 2009, AIG Annuity rebranded as Western National (BestWire, Sept. 8, 2009). In the fourth quarter, sales of Western National's fixed annuities reached \$1.96 billion, the firm said.

Jeremy Alexander, Beacon's president and chief executive officer, said the quarter marked the first time the company reached first place under the new name. It almost always has been a top player in traditional fixed annuities, and most of its business is sold in banks, he said.

However, some have questioned whether the government bailout of AIG has put Western National "in a more competitive position against other carriers," Alexander said.

Bruce Abrams, president and CEO of Western National, told BestWire there is no advantage. "We continue to price very disciplined like we always have and we have the same target returns that we always have had."

About 95% of its fixed annuities are sold through banks, Abrams said. Several banks suspended sales of its products when the crisis at AIG hit in September 2008 but those banks re-established selling agreements with Western last summer, he said.

Abrams said the company has been the No. 1 seller of fixed annuities in banks for 14 consecutive years through 2009. He cited data from Kehrre-Limra, which tracks annuity sales exclusively in banks.

However, Western National Life dropped to third place in the bank channel after its parent company's issues hit in the third quarter of 2008, but regained first place in bank sales in the third quarter of 2009, Abrams said.

Second-place New York Life generated sales of \$1.75 billion in the quarter. Over the past few years, New York Life has been one of the biggest players in fixed annuities, with distribution spread among banks, broker-dealers and captive agents, Alexander said.

Chris Blunt, executive vice president of New York Life and head of its retirement income security business, told BestWire the company doesn't manage to market position. "We want to offer a

competitive rate but never at the expense of our prudent investment philosophy that backs up our guarantees.

"Fortunately for us, the past few years have proven that there are plenty of consumers who aren't willing to sacrifice sleeping soundly at night to get a few extra basis points of yield," he said.

When asked if agents tell customers who Western National's parent is, Abrams said "that's up to the bank — that's their agency." There's no legal requirement under insurance law to disclose who owns an insurer, he said. Some agencies require an owner acknowledgement signed by the customer while others don't, Abrams said.

Total fourth-quarter sales of fixed annuities — including the equity-indexed variety — declined 43% from the same period in 2008, to an estimated \$19.6 billion, according to Beacon and the Insured Retirement Institute. For 2009, total market sales dipped 2% from the prior year to an estimated \$104.3 billion.

The problem for carriers now is finding investment-grade bonds to back these blocks of annuities, Alexander said. There's great demand for investment-grade debt so it's been very difficult to find enough, he said.

Typically, carriers bought income-generating investments such as mortgage-backed securities and corporate bonds but "obviously, no one's buying much in the way of mortgage-backed anymore," Alexander said.

The company regained first place because interest rates were falling at a time when consumers were looking for guaranteed products, Abrams said. Certificates of deposit rates were low — well below 1%, so they turned to fixed annuities, he said. Western National's top products have interest rates ranging from 1.8% to 2.1% — better than a CD at 0.7%, which is the national average currently, Abrams said.

The banks make the annuities more attractive by accepting lower commissions but that translates to higher interest rates for customers, he said. "Banks work with us if they want to give up commission," he said. Western National has a large, flexible administrative system that enables it to do that, Abrams said.

Rounding out the top five sellers in the quarter, according to Beacon, were: Allianz Life Insurance Company of North America, which captured third place, with sales of \$1.58 billion; American Equity Investment Life Insurance Co., with sales of \$899.9 million, which ranked No. 4, while Aviva USA took fifth place, with sales of \$888.6 million.

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