

Variable annuities: bridging the divide
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Complementary and Competing Products

Agenda

- What is VA?
- Competitive landscape
- What happens next?

What is a Variable Annuity?

- GMAB – DB – IB – WB???
- Insurance-wrapped
- Investment-linked
- Embedded guarantees
 - Accumulation
 - Decumulation
- Liquidity features
- Separate Account Investment + General Account Guarantee

Why do people buy Variable Annuities?

- Savings / Income for Retirement
- Certainty of Investment Guarantees
- Potential for Asset Growth
- Tax Benefits
- Building Inheritance Estate
- Advisers / Sales Commissions

Where we've been

Many have tried to meet retirement needs, and have suffered...

- State pension systems
 - Under-funded
- Corporate pensions
 - Under-funded / discontinued
- Insurers
 - GAO, pre-financial crisis VA
- Individuals
 - Equity and property market losses, low rates, increasing longevity

Where we are

- Huge opportunity...many chasing it
 - Insurers re-defining their offerings
 - Banks setting up long-term savings teams
 - Asset managers prioritising the retirement space
- Significant product design challenges
 - Low rates, poor equity markets
 - Regulatory reform (Insurance, Banking, Product)
- Who will win...?

The contestants

- **Insurance Companies**
 - VA
 - With Profits
 - Equity-indexed Annuities
 - Unit Linked / ILP
 - Insurance-wrapped Bank Products
 - Annuities (fixed term or lifetime)
 - Whole of Life / Term Life

The contestants

- **Banks**
 - Structured Products (Notes / Deposits / Funds)
 - CPPI and TIPP
 - ETFs
 - Interest-bearing Deposits
- **Asset Managers**
 - Mutual Funds / UCITS III / ETFs
 - Target Date Funds
 - Protected Funds
 - Alternative Investments

The contestants

- **Corporates**
 - Corporate Pensions
 - Equity
 - Debt
- **Sovereigns**
 - State Pensions
 - Government bonds
 - Tax Incentives

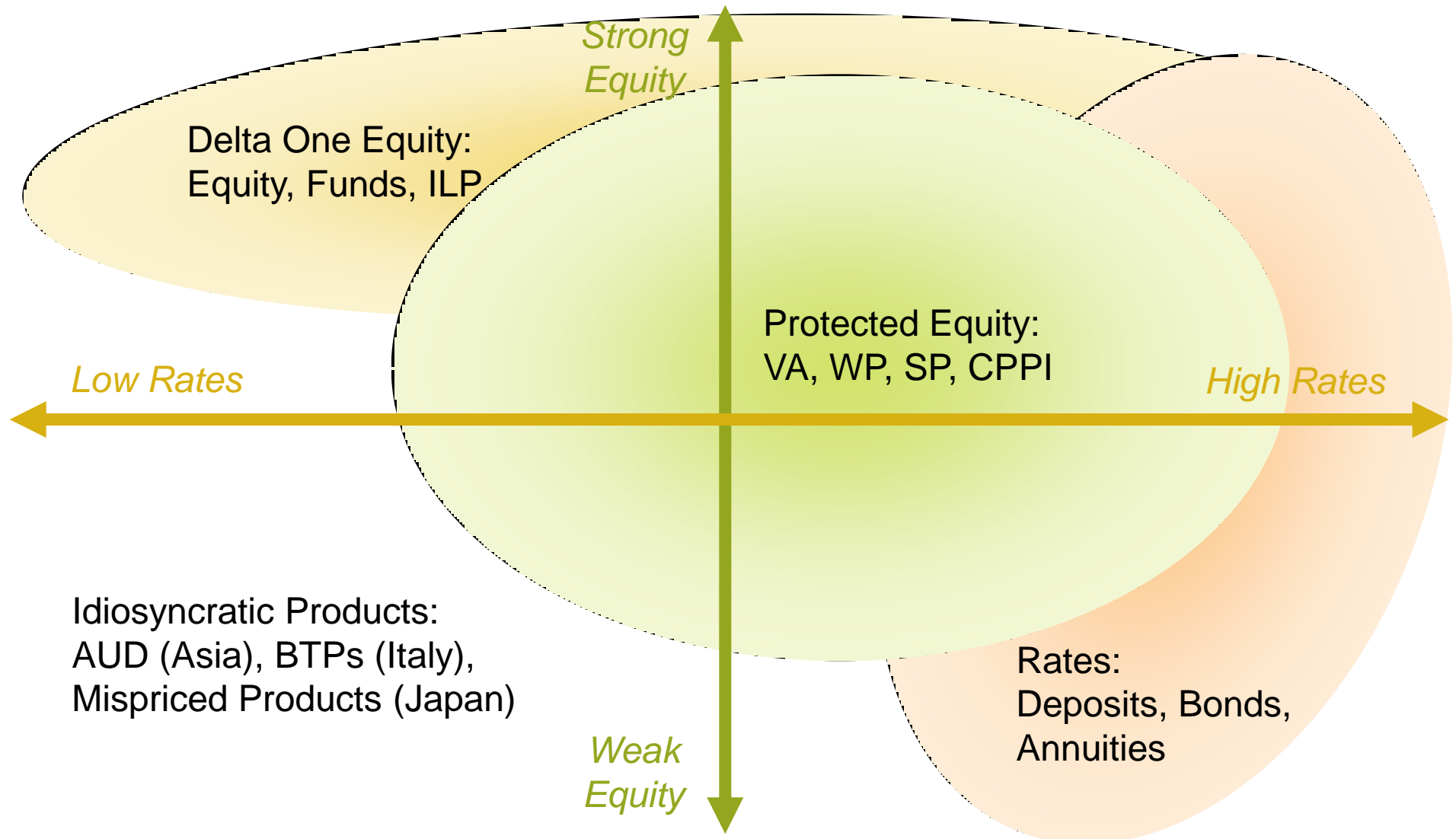
Tax wrappers

- Insurance
- Pension
- Pre-Tax Retirement Accounts (Mandatory / Discretionary)
- Post-Tax State-sponsored Savings

Dichotomies

| | Fixed Exposure | Variable Exposure / Path Dependent |
|---------------------------------|--|--|
| Liquidity at NAV | <ul style="list-style-type: none">• VA• Unit-linked / ILP• Delta One Funds• Savings Deposits | <ul style="list-style-type: none">• CPPI• TIPP |
| Liquidity with MTM / MVA | <ul style="list-style-type: none">• Structured Products• With Profits• Annuities• Term Deposits | <ul style="list-style-type: none">• Equity-Indexed Annuities• Volatility-controlled Structured Products |

Which products thrive when?



Where do we go from here?

- Product design is crucial
 - Attractive underlying investment
 - Beneficial guarantees
 - Reasonable price
 - Manageable risks
 - Capital efficiency

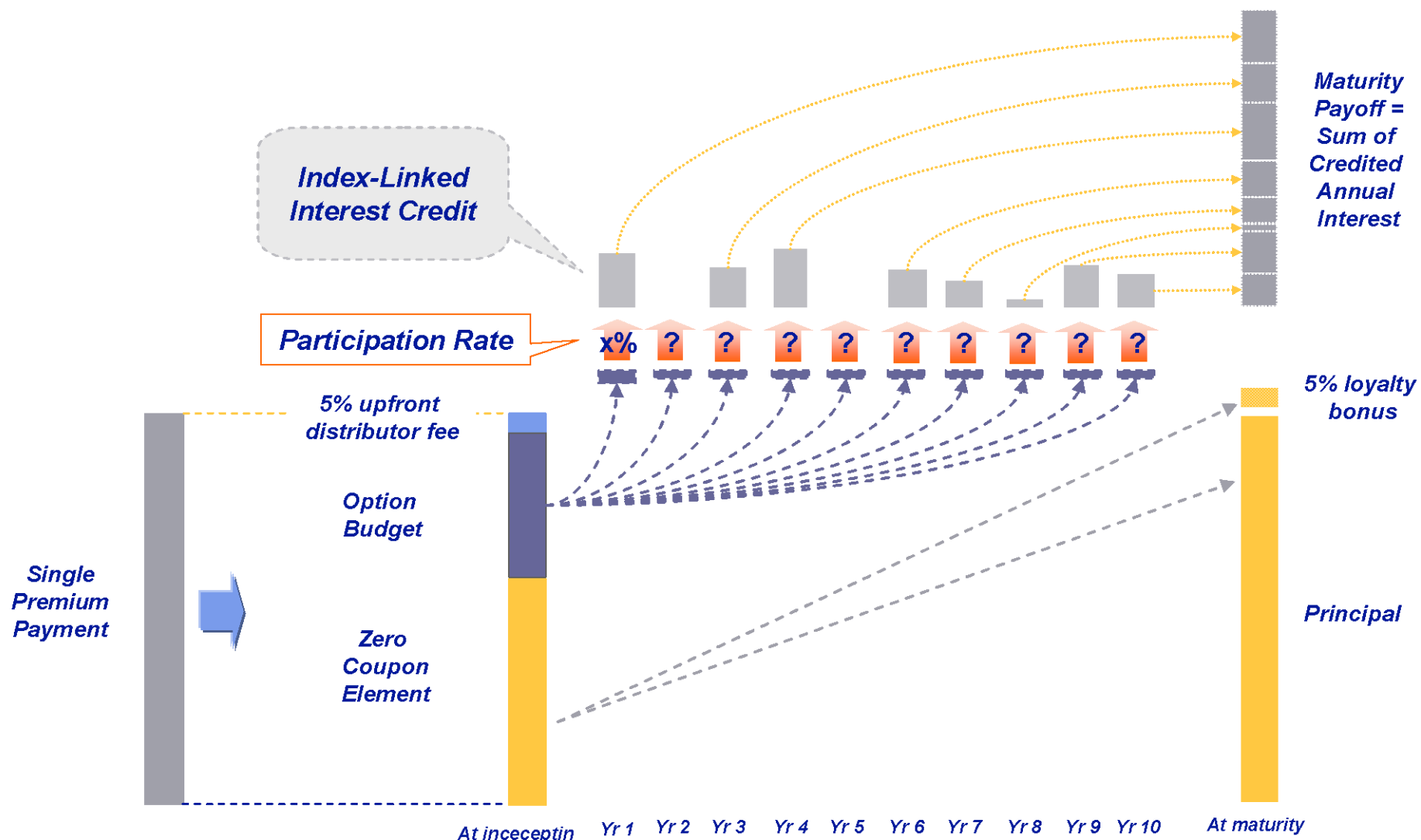
Boundaries are blurring

- Banks entering asset management space
- Asset managers using structured product techniques
- Insurers outsourcing guarantees
 - Adoption of CPPI
 - VA hedging partnerships
 - Wrapping of structured products
- Product boundaries blurring
 - With Profits / VA / EIA / SP / CPPI
- Export of retirement products to developing markets

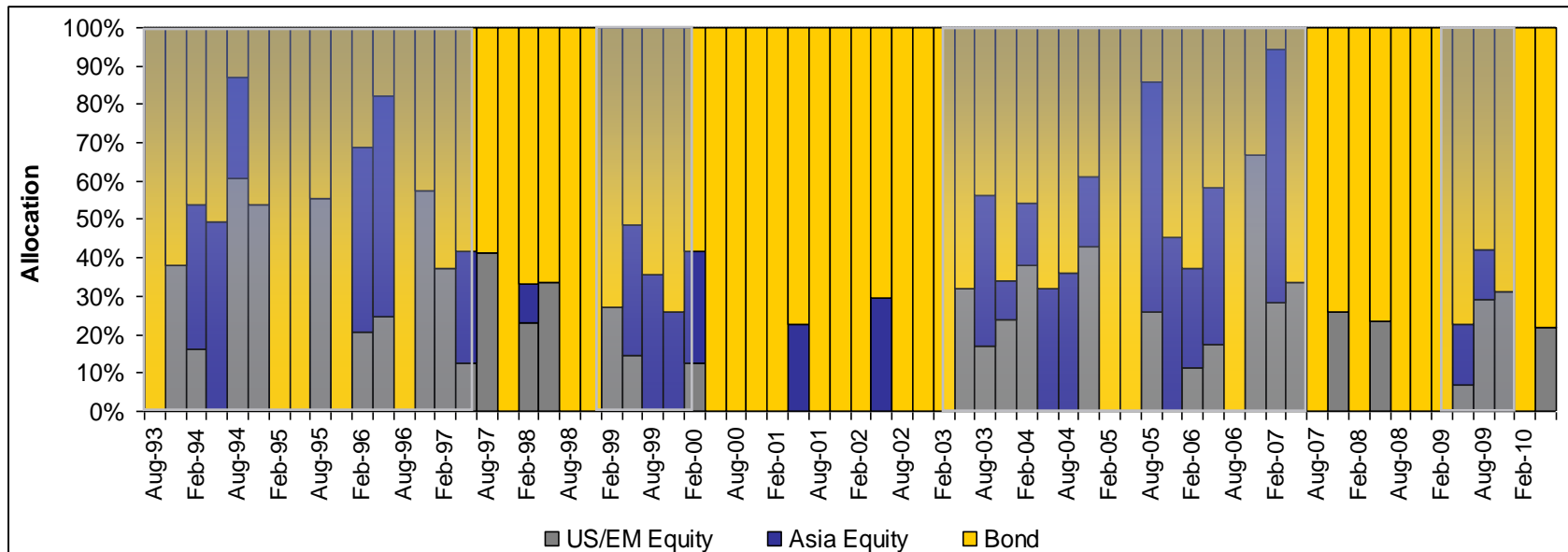
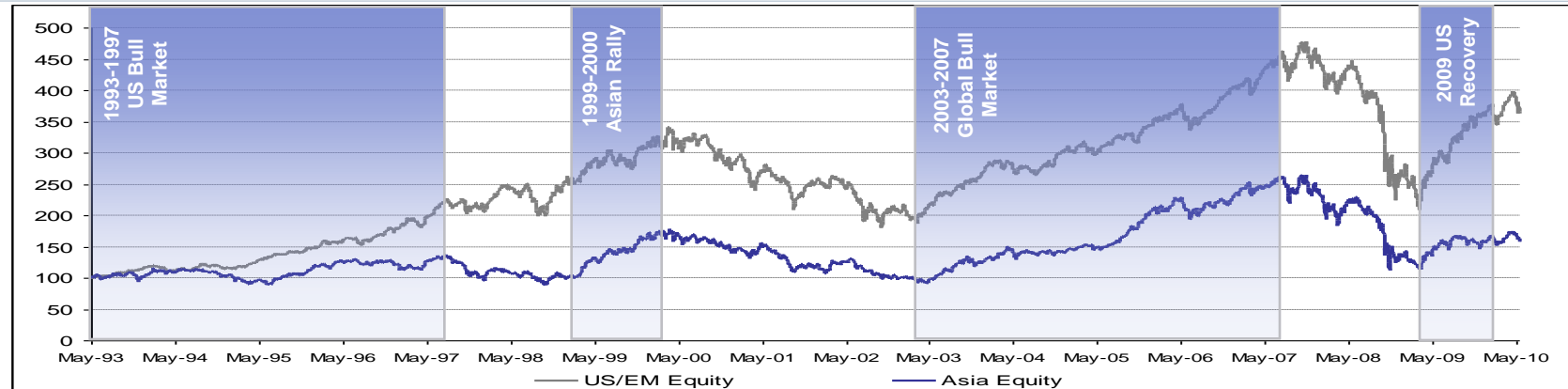
What's interesting right now?

- Long-dated guarantees with local assets
 - EIA
 - CPPI
 - Vol-controlled VA and SP
- Individualised retirement platforms
 - iCPPI
- A manageable alternative to GMWB for life
 - Lifetime iCPPI

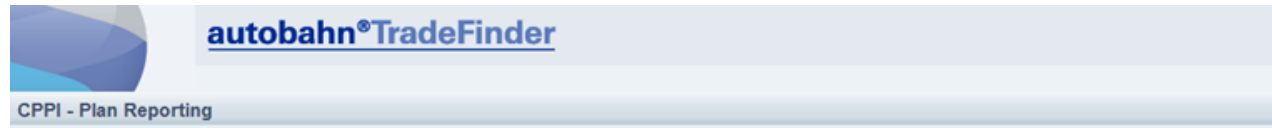
Equity-Indexed Annuity



Volatility-targeted Strategies

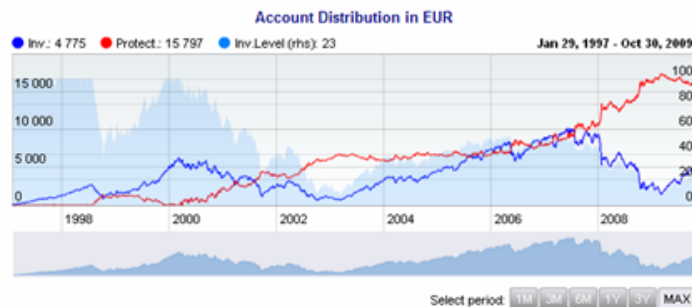
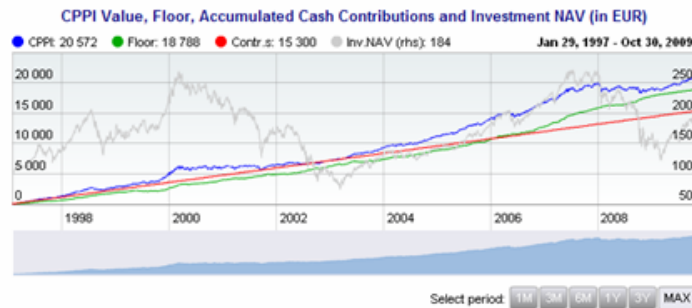


Individualised CPPI (iCPPI)



Plan Reporting - Policy: 1000003, Plan: 1000003 - (03-Feb-1997 - 30-Oct-2009) all numbers in EUR (except Units)

CPPI Overview



General Information

Policy: 1000003, Plan: 1000003

| | |
|--------------------------|---------------|
| Start Date | 29-Jan-1997 |
| iCPPI Value | 20,572.40 EUR |
| Accumulated Contribution | 15,300.00 EUR |
| Maturity | 01-Nov-2009 |
| Maturity (Risk Bucket) | 01-Nov-2009 |
| Capital Protection | 85 % |
| High Level Lock In | 85 % |
| Start IL | 100.00 % |
| End IL | 23.21 % |
| Min IL | 7.67 % |
| Max IL | 100.00 % |
| Average IL | 51.65 % |
| Weighted Avg. IL | 40.72 % |
| IRR - CPPI | 4.50 % |
| IRR - Investment I | 2.11 % |

Lifetime iCPPI

Market research states the following attributes for attractive retirement and pension products

- (1) Guaranteed income for *life*
 - (2) Being able to *pass on wealth* funds to *beneficiaries*
 - (3) Flexibility over when and how you can take benefits
 - (4) Transparency
- With FlexAnnuity policy holders are enabled to combine all of the above criteria in an **optimal mix**

Flexible Choice

Start Date

Contribution

Guaranteed income
for Life

Flexible Underlying

Risk Appetite

Investment Universe

Asset Managers



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

