



**The Actuarial Profession**

making financial sense of the future

Variable annuities: bridging the divide  
Sean Flanagan, Deutsche Bank AG



# Complementary and Competing Products

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# Agenda

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

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# What is a Variable Annuity?

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

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# Why do people buy Variable Annuities?

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

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# Where we've been

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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

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# Where we are

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- 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...?

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# The contestants

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- **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

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# The contestants

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- **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

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# The contestants

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

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# Tax wrappers

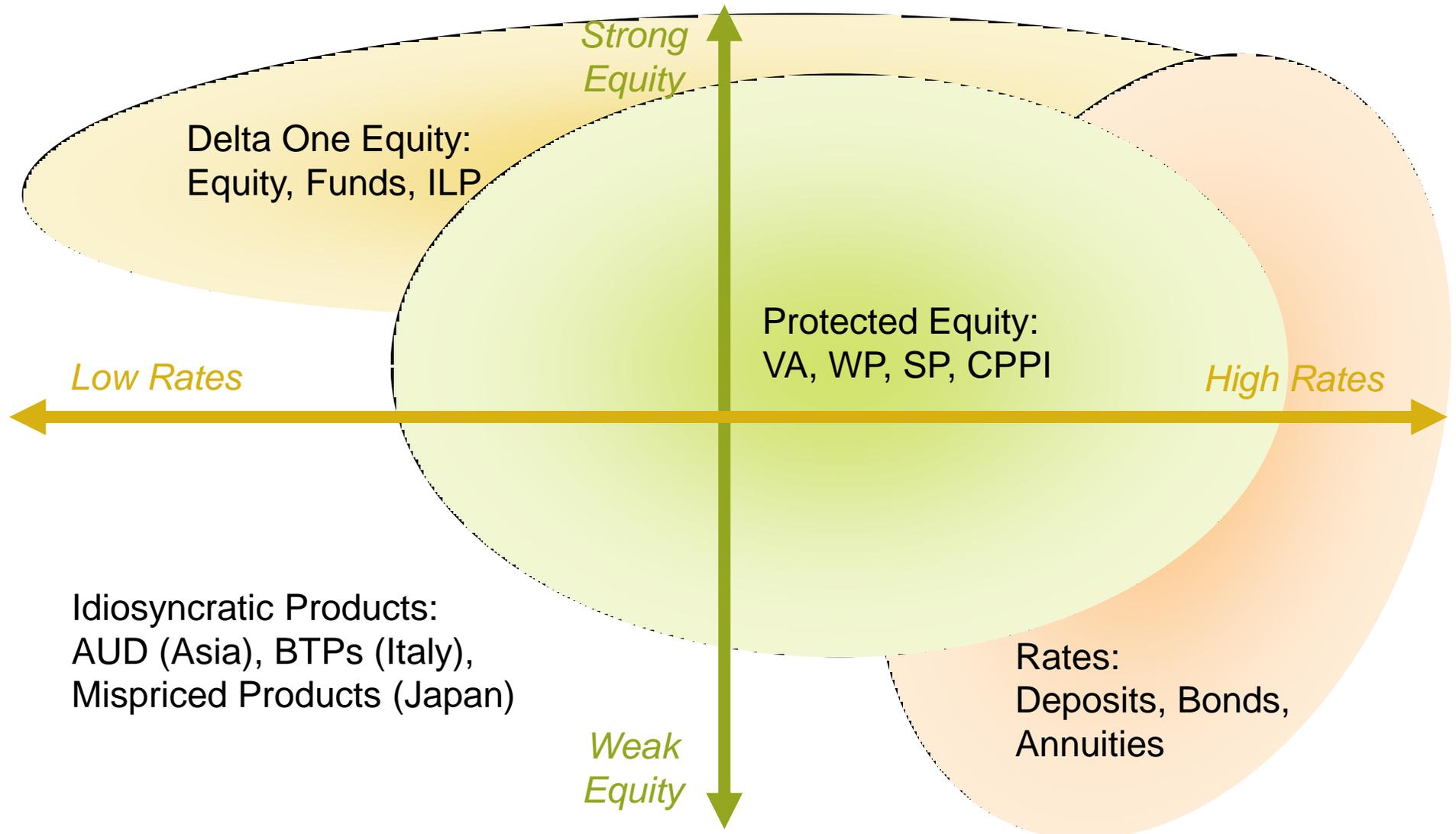
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- Insurance
- Pension
- Pre-Tax Retirement Accounts (Mandatory / Discretionary)
- Post-Tax State-sponsored Savings

# Dichotomies

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

# Which products thrive when?



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# Where do we go from here?

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

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# Boundaries are blurring

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- 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

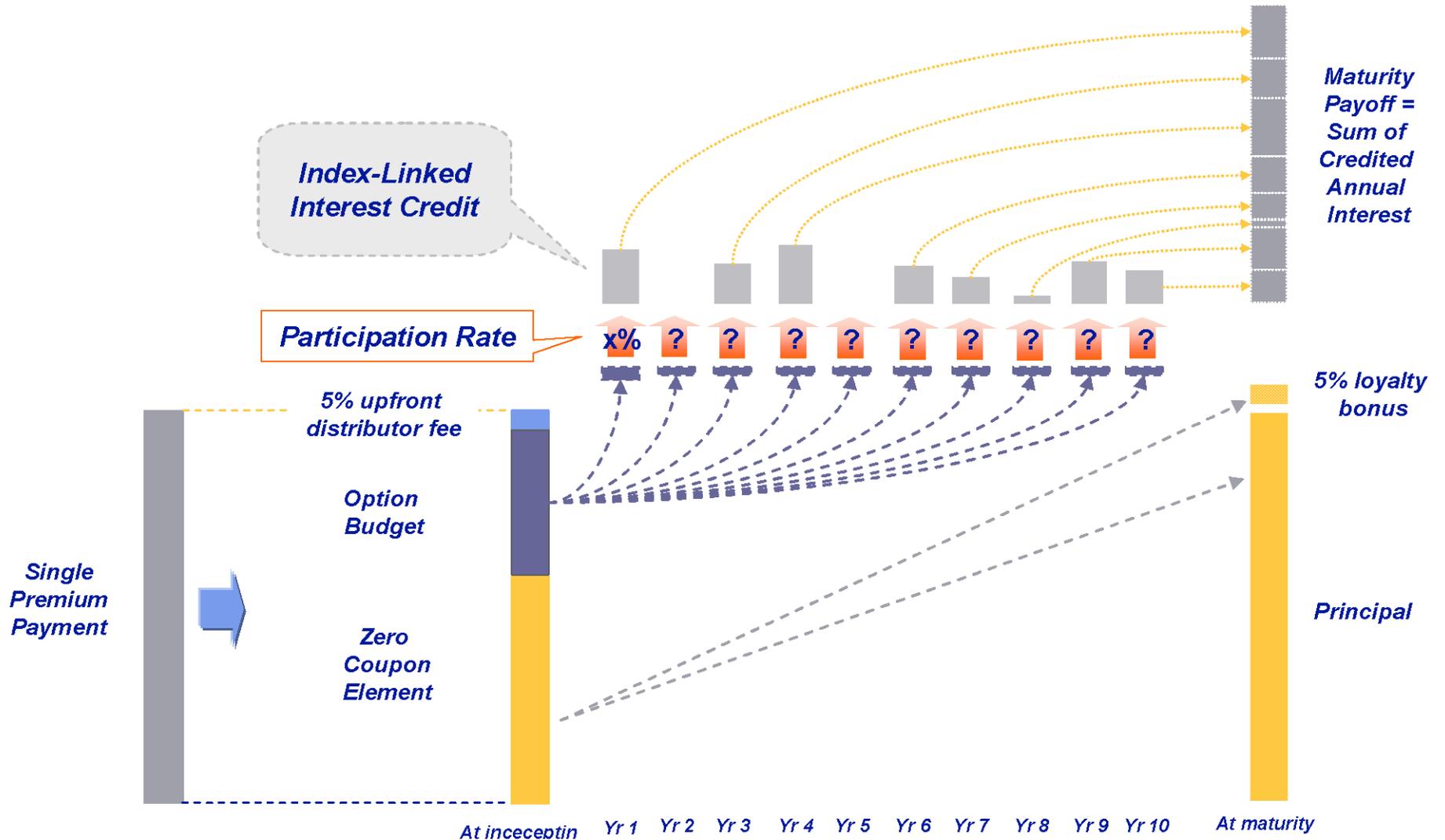
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# What's interesting right now?

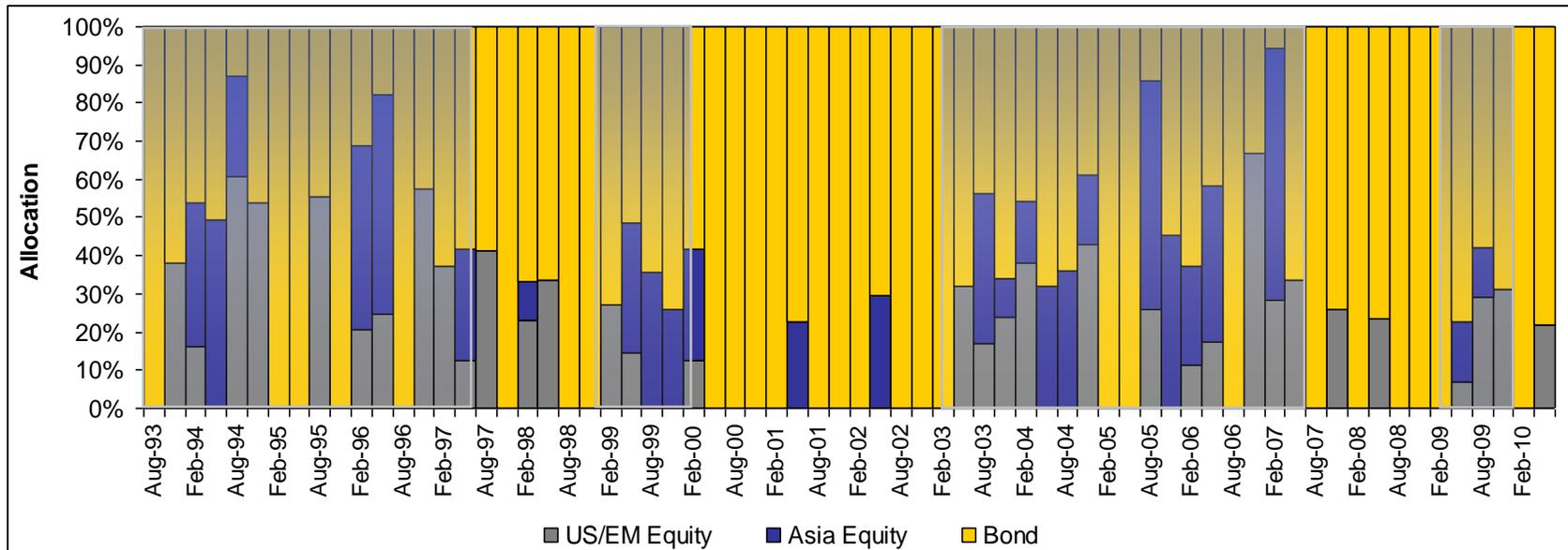
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- Long-dated guarantees with local assets
  - EIA
  - CPPI
  - Vol-controlled VA and SP
- Individualised retirement platforms
  - iCPPI
- A manageable alternative to GMWB for life
  - Lifetime iCPPI

# Equity-Indexed Annuity



# Volatility-targeted Strategies



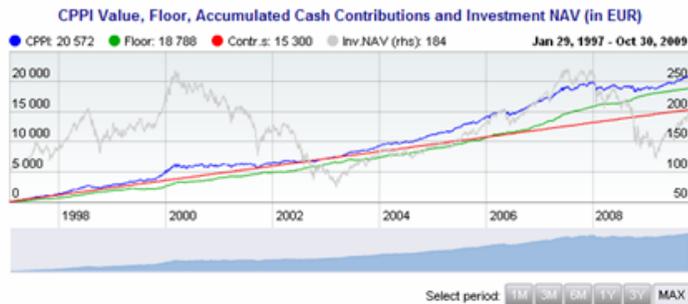
# Individualised CPPI (iCPPI)

**autobahn®TradeFinder**

CPPI - Plan Reporting

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

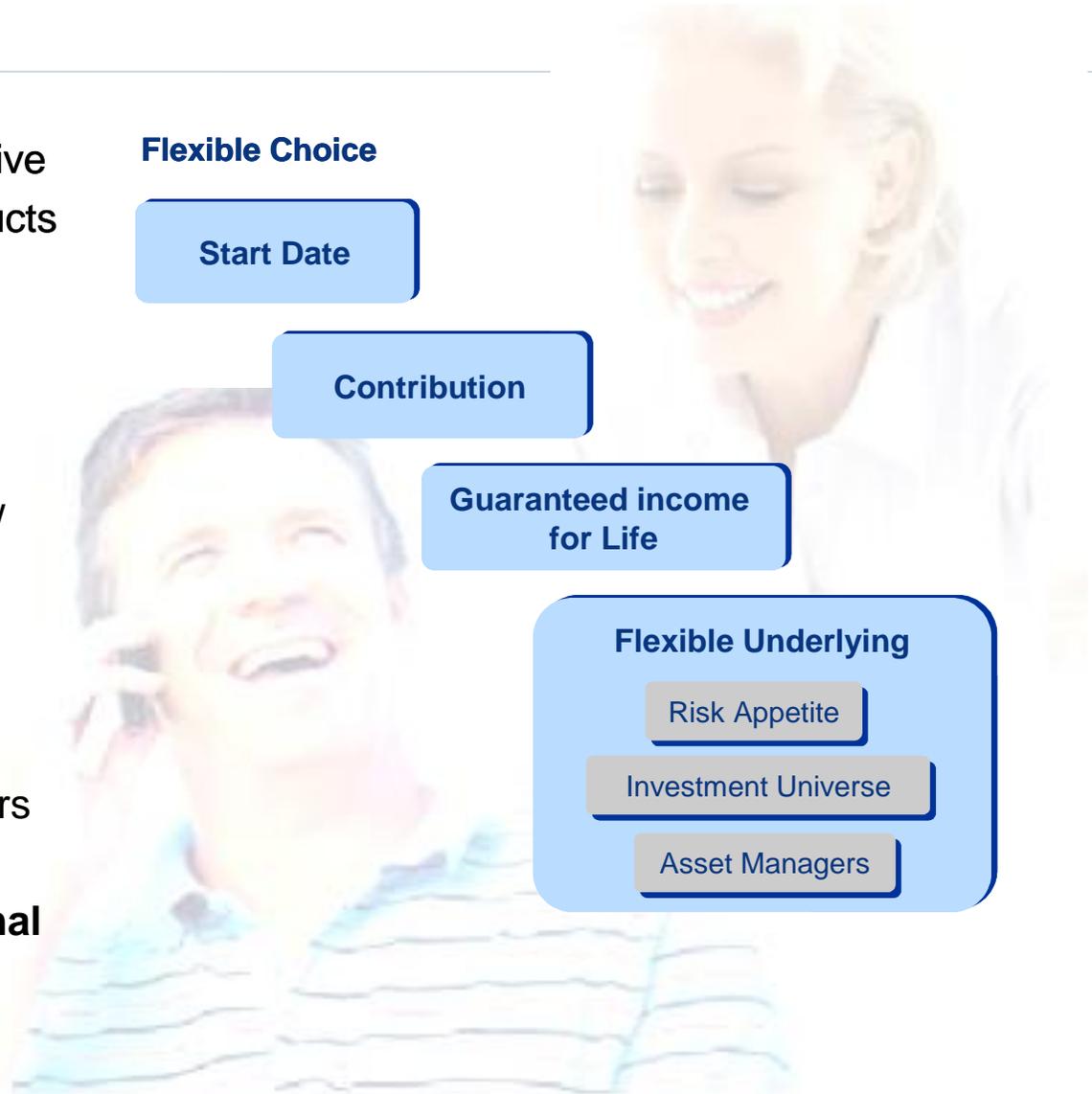
Guaranteed income  
for Life

## Flexible Underlying

Risk Appetite

Investment Universe

Asset Managers



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# Questions or comments?

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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.

