

June 2011

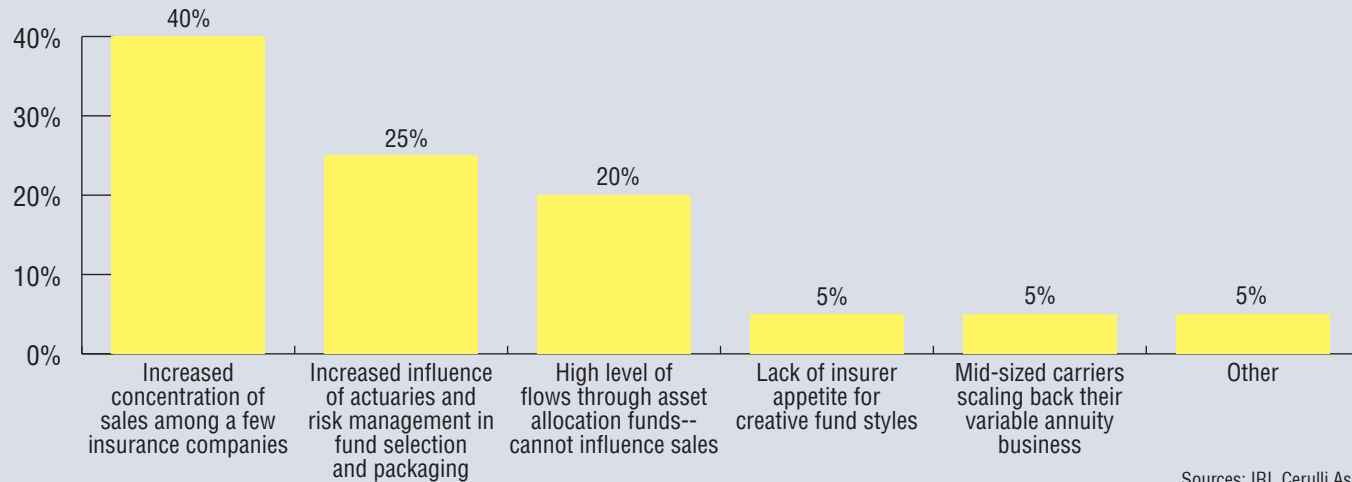
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Exhibit 1: Greatest Challenge in Growing VA Subadvisory Business, 2011

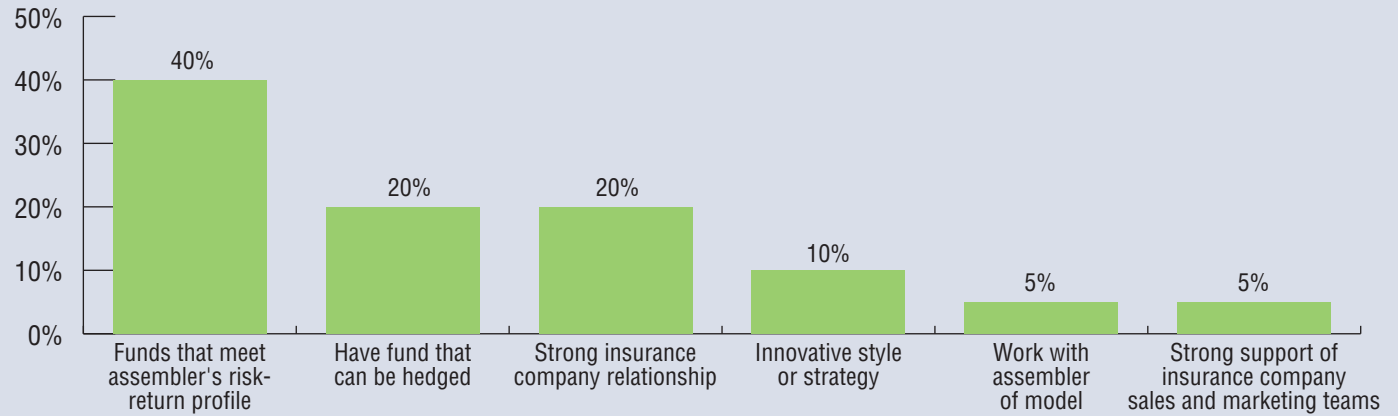


Sources: IRI, Cerulli Associates

Asset managers (40%) find that the increased concentration of sales among the top insurance companies is their greatest challenge in growing their variable annuity (VA) subadvisory business.

Key Implication: With the growing concern that insurance company sales are becoming more concentrated in a few top insurance companies, sub-advisors are concerned there will be limited asset-gathering opportunity for their funds. It appears that while there may be insurer appetite for creative fund styles, with only 5% citing it as a challenge to growth, the increased influence of risk management in fund selection may stifle that appetite and act as an additional barrier for growth.

Exhibit 2: Asset Managers: Most Successful Strategy to be Placed in an Insurance Company's Fund of Funds, 2011

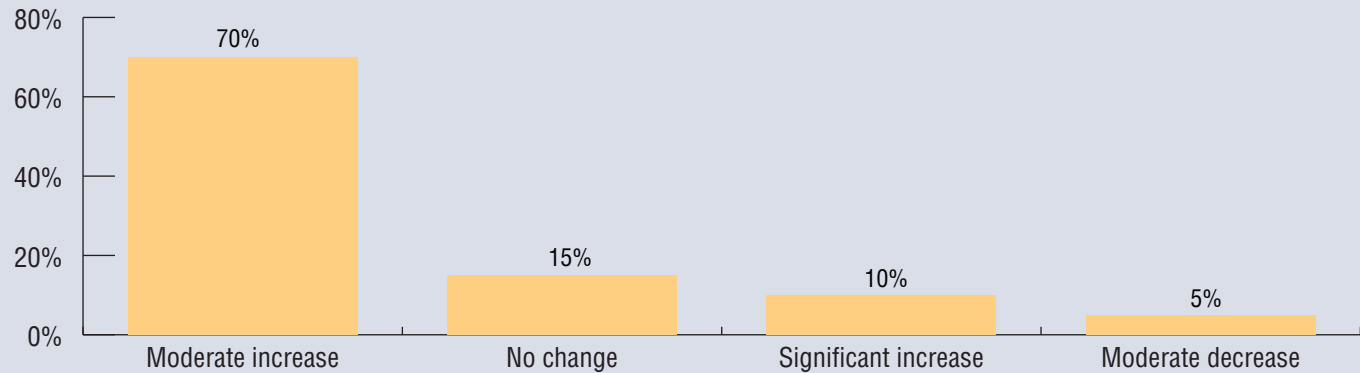


Sources: IRI, Cerulli Associates

When looking to be placed in an insurance company's fund of funds, the most successful strategy cited by 40% of asset managers is having funds that meet the assembler's risk return profile.

Key Implication: Asset managers looking to be placed in an insurance company's fund of funds are at the mercy of insurance companies' varying concerns. With the growing emphasis on risk management, asset managers who are able to meet the assemblers' risk-return profile find the greatest success in being placed in an insurance company's fund of funds. Having a fund that is hedgeable and having a strong insurance company relationship may be advantageous for 20% of respondents, respectively, however in order to succeed asset managers will need to ensure their fund has the appropriate characteristics.

Exhibit 3: Asset Managers: Three Year Expected Change in Number of Insurance Sponsors Subadvised, 2011

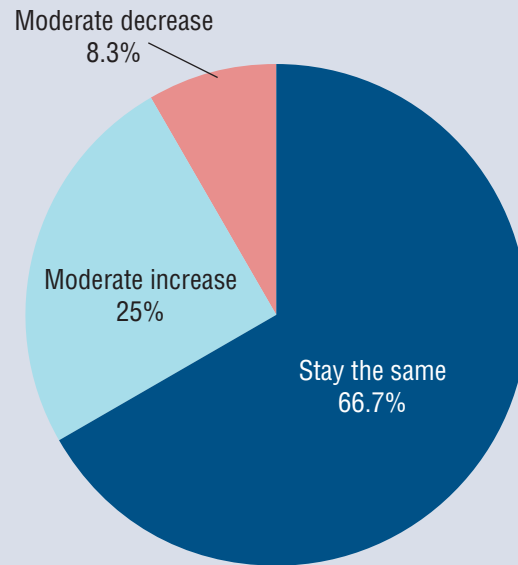


Sources: IRI, Cerulli Associates

Nearly three-quarters (70%) expect a moderate increase in their number of insurance company partners. An additional 10% expect a significant increase in their number of insurance company partnerships.

Key Implication: The above reflects an optimistic view of the variable annuity subadvisory space. 2010 and 2011 have already seen major carriers, such as ING, Genworth, and Riversource, either deemphasize or outright exit the variable annuity business. Insurers have also reduced the number of investment options on their platform, and are not expecting this number to rebound. Thus, while asset managers might be optimistic about their prospects in the variable annuity space, it is difficult to see where their new relationships will come from as the number of active variable annuity insurers shrinks.

Exhibit 4: Insurance Companies: Expected Change in the Number of Investment Options that Qualify for Living Benefit Options, 2011

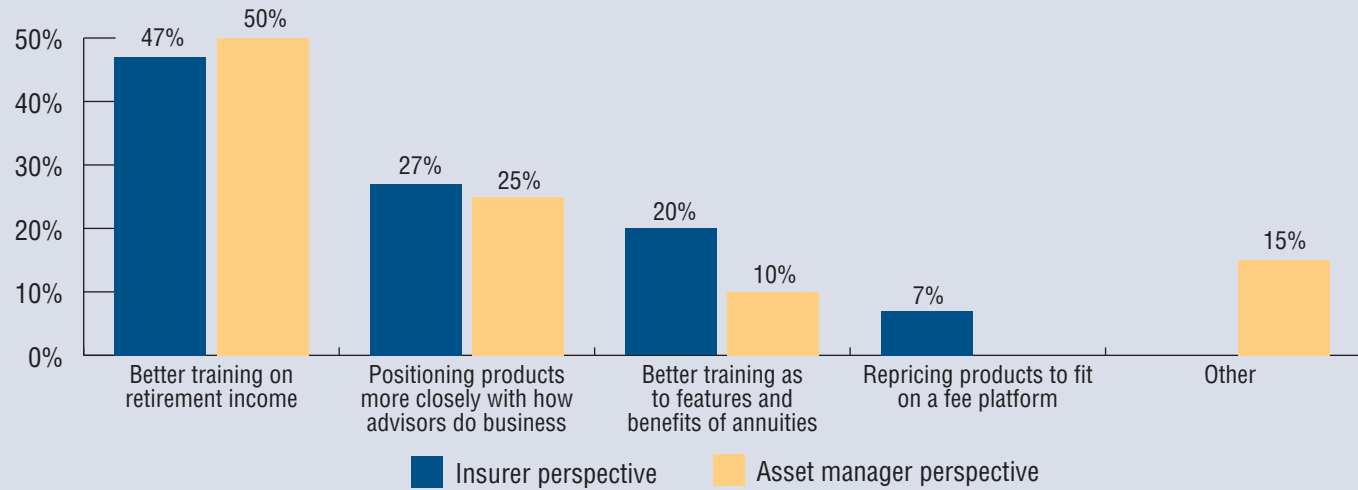


Sources: IRI, Cerulli Associates

Insurers anticipate that over the next year the number of investment options that qualify for living benefit options will likely remain the same (66.7%)

Key Implication: Insurers nearly exclusively restrict investment options for advisors and investors if they wish to select a living benefit. This is done to help insurers manage the risk associated with their guarantees. However, many insurers have placed additional restrictions on these investments as they attempted to deal with the bear market and its extreme volatility. While this is a necessary step for insurance company solvency, Cerulli believes that there is peril for the insurance industry in placing too many restrictions on the investments in variable annuities and not allowing advisors to invest in same level of freedom they would with their clients' other funds.

Exhibit 5: Most Promising Strategy for Broadening the Number of Advisors Who Sell VAs, 2011

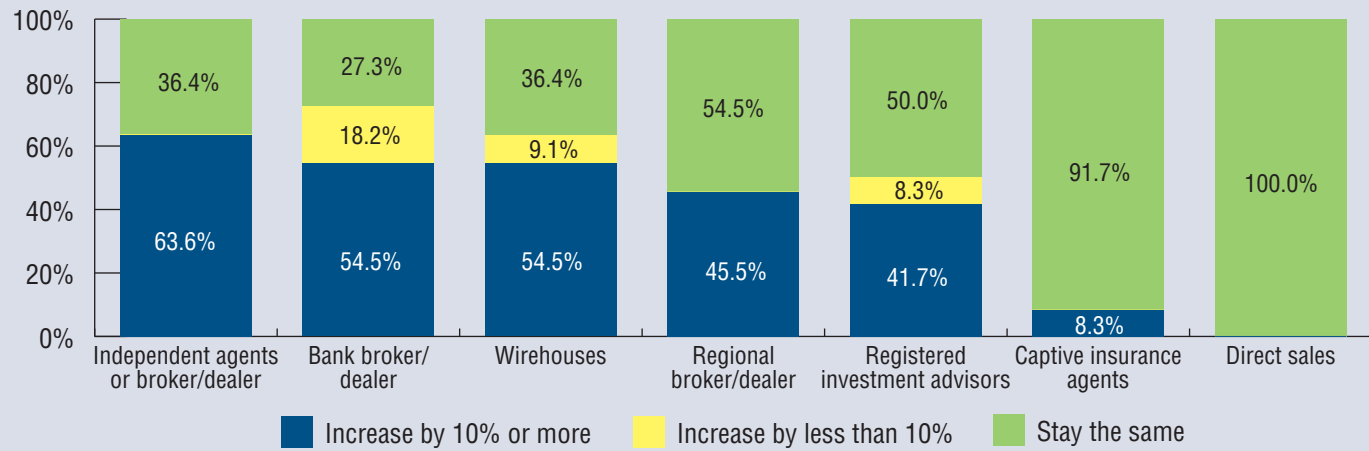


Sources: IRI, Cerulli Associates

Both asset managers and insurers (50% and 46.7% respectively) find that increased training of advisors on retirement income is the best strategy for broadening the number of advisors who sell VAs.

Key Implication: With only a small segment of the advisor population accounting for the majority of VA sales, an increase in the number of advisors selling variable annuities is critical to the long-term growth of the industry. Both insurers and asset managers find that focusing on increasing awareness as to how a VA can fit into a piece of a retirement income plan could increase the number of advisors significantly. Training on features and benefits of annuities may be needed, however it can be an innately complex as well as time consuming process, which could turn advisors away.

Exhibit 6: Insurers Projected 2013 Sales by Channel, 2011

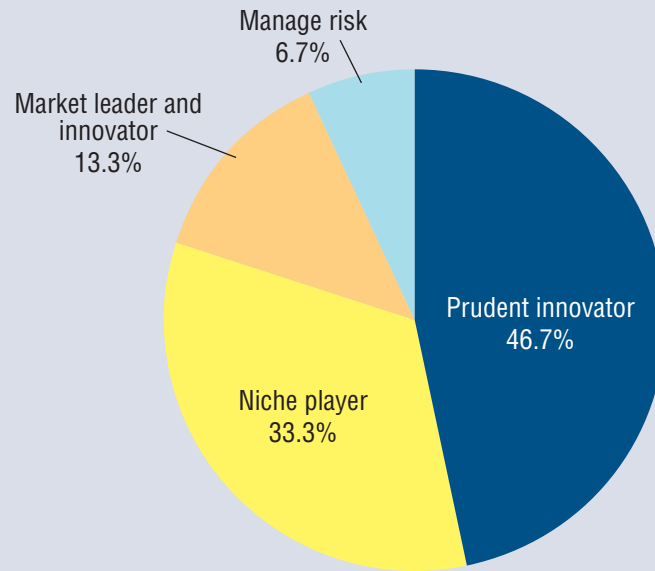


Sources: IRI, Cerulli Associates

Sales through the independent broker/dealer channel is projected by 64% of insurers to increase by more than 10% by 2013.

Key Implication: The independent broker/dealer channel has the largest population of advisors, and therefore poses an opportunity for insurers to increase annuity sales. The bank channel represents an opportunity for advisors as it typically generate their client base from branch employee referrals, who are likely more conservative investors. TIAA-CREF, a dominant 403(b) retirement provider, remains the largest contributor to the captive channel, but nearly 92% expect sales to remain the same as that industry is in a state of transition. Lastly, direct sales are projected by insurers to remain the same as the annuity is largely an advisor-sold product.

Exhibit 7: Variable Annuity Insurers Product Development Philosophy, 2011



Sources: IRI, Cerulli Associates

Insurance companies named being a “prudent innovator” as their most common product development strategy.

Key Implication: Product development philosophies can range among insurance companies. Nearly half (47%) find that their product development philosophy is to be a prudent innovator, which requires them to come up with unique but conservatively priced products. A third of annuity insurers find that they are a niche player, developing conservatively due to limited distribution channels.



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Exhibit 8: Variable Annuity Manufacturers: Salesforce Headcount by Functional Role, 2011

	Divisional Sales Managers	External Wholesalers	Internal Wholesalers	Hybrid Wholesalers	Key Account/ Relationship Managers	Marketing
High	8	205	205	56	12	38
Average	4	57	45	6	5	13
Low	-	-	-	-	-	-

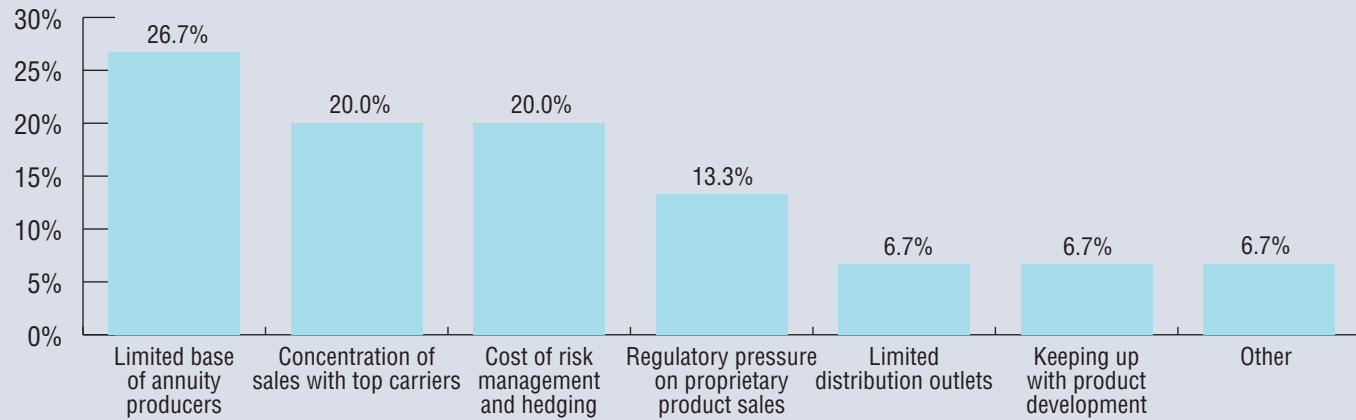
Sources: IRI, Cerulli Associates

Variable annuity salesforces average 57 external wholesalers and 45 internal wholesalers.

Analyst Note: While the low figure for each role here is zero, it should be noted that it was different insurance companies who reported not staffing this role. Every reporting insurance company had distribution personnel in some of the various roles above, however at least one insurance company did not staff a specific role.

Key Implication: When looking at asset managers, the largest wholesaling teams cap out with less than 100 wholesalers, whereas, as we see above, there are annuity salesforces double that in size. In the past, annuity positioning had struggled to keep up with sophisticated, fee-based advisors. In addition there exists a similar divide between asset management and annuity wholesaling. Asset management wholesaling has been able to evolve more quickly to the model of consultative selling and moving relationships to partnerships, while taking the focus off product. This evolution is slower to occur in the variable annuity space. Advisor-wholesaler conversations in the annuity space have focused too much on competitive features and benefits and not enough on how the variable annuity can address client needs.

Exhibit 9: Insurance Companies: Greatest Obstacle in Variable Annuity Business, 2011



Sources: IRI, Cerulli Associates

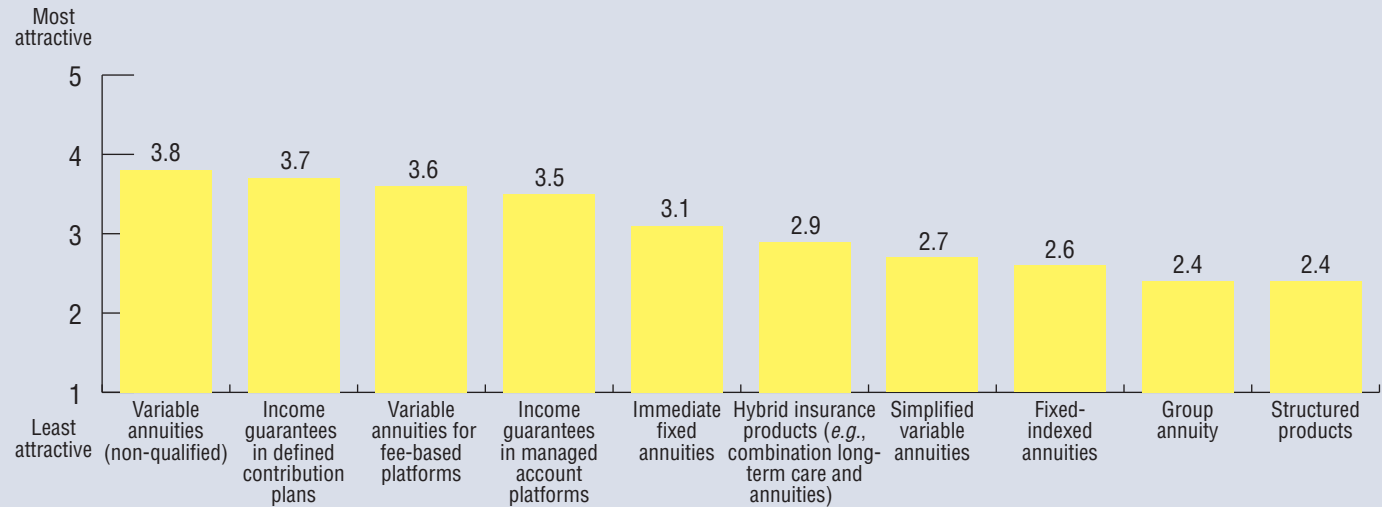
Approximately 27% of insurers find that the limited base of annuity producers is their greatest obstacle in the variable annuity business.

Key Implication: With the annuity being by and large an-advisor sold product, having a limited base of producers represents a great challenge for annuity manufacturers. In order to encourage healthy growth in net sales, firms need to continue to educate advisors as to how a VA can work as a portion of a client's portfolio and aid in providing guaranteed income in retirement.



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Exhibit 10: Rank the Attractiveness of the Following Product and Distribution Opportunities: Insurer Perspective, 2011

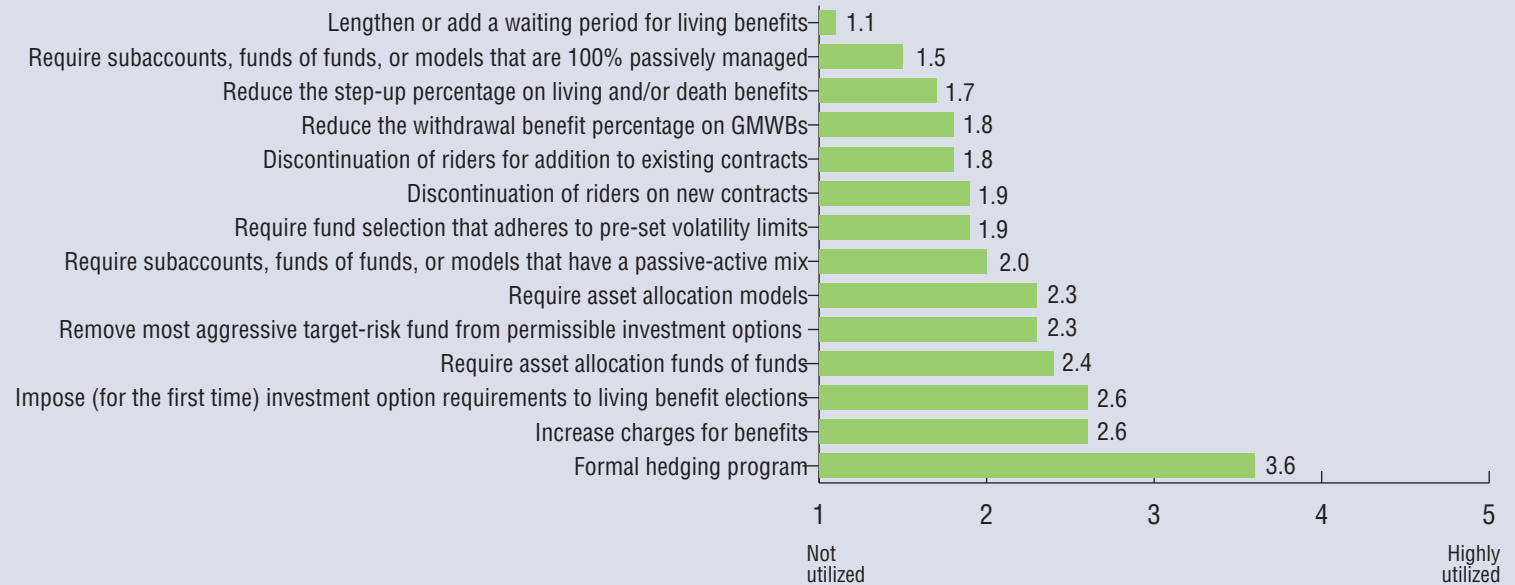


Sources: IRI, Cerulli Associates

Insurers find traditional, non-qualified variable annuities and income guarantees in defined contribution plans to be the most attractive opportunities going forward.

Key Implication: Early product development in the fee-based arena focused on stripped down annuities, but was met with minimal success. As we see above, insurers now rank fee-based annuities over simplified annuities in terms of future potential. The current wave more closely resembles full-featured products, but with expenses stripped out to allow the advisor to charge a fee. However, it is interesting to note that insurers still rank traditional variable annuities as their best opportunity going forward.

Exhibit 11: Methods Used by Insurers to Manage Risks Associated with Guarantees, 2011



Sources: IRI, Cerulli Associates

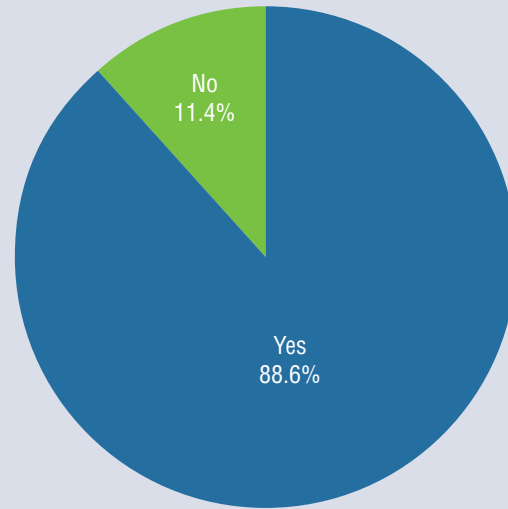
In order to manage risks that are associated with living benefit guarantees, insurers mostly utilize formal hedging programs. Increasing charges for benefits and investment option requirements tied for second.

Key Implication: Having a formal hedging program has been a common form of risk mitigation for many years, however with increase in costs and market volatility insurers are exploring options to supplement their hedging program. Increasing fees for benefits is a risk management tool that must be used carefully as individuals find annuities to be expensive, and increasing charges for benefits may deter new advisors and investors. Requiring 100% passively managed models and subaccounts are minimally used, and likely will continue to remain so as advisors prefer some degree of active management. Thus, insurers expect a passive-active mix to gain more popularity.



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Exhibit 12:
Support for the Creation of a Summary Prospectus for Variable Annuities, 2011

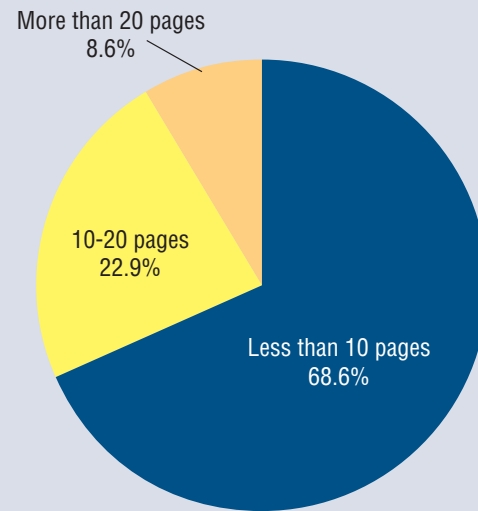


Sources: IRI, Cerulli Associates

The majority (89%) of firms, both insurers and asset managers, support the creation of a summary prospectus.

Key Implication: While the majority support the creation of a summary prospectus for variable annuities, the industry has yet to come to an acceptable version. The creation of a summary prospectus could potentially increase the acceptance of variable annuities in the financial industry. Simplifying the explanation of these complex products could help in educating advisors, and therefore attract new advisors to the industry.

Exhibit 13: Ideal Variable Annuity Summary Prospectus Length, 2011



Sources: IRI, Cerulli Associates

The ideal summary prospectus for a VA is short and to the point with nearly 70% looking for less than 10 pages.

Key Implication: The ideal length of a summary prospectus for nearly 70% of respondents is less than 10 pages. The shortened easy-to-understand version will hopefully encourage new advisors and investors to the industry.