
Market Insights Webinar

From Due Diligence Works

4-3-20

Agenda

- Market Ideas
- Resource Deployment
- Reg BI Preparation

The Market Environment

Due to impacts of the Coronavirus over the past 30 days, we have experienced:

- Rates move to extreme lows
- Travel restrictions, stay at home orders, and school closures
- Market swings and disruptions

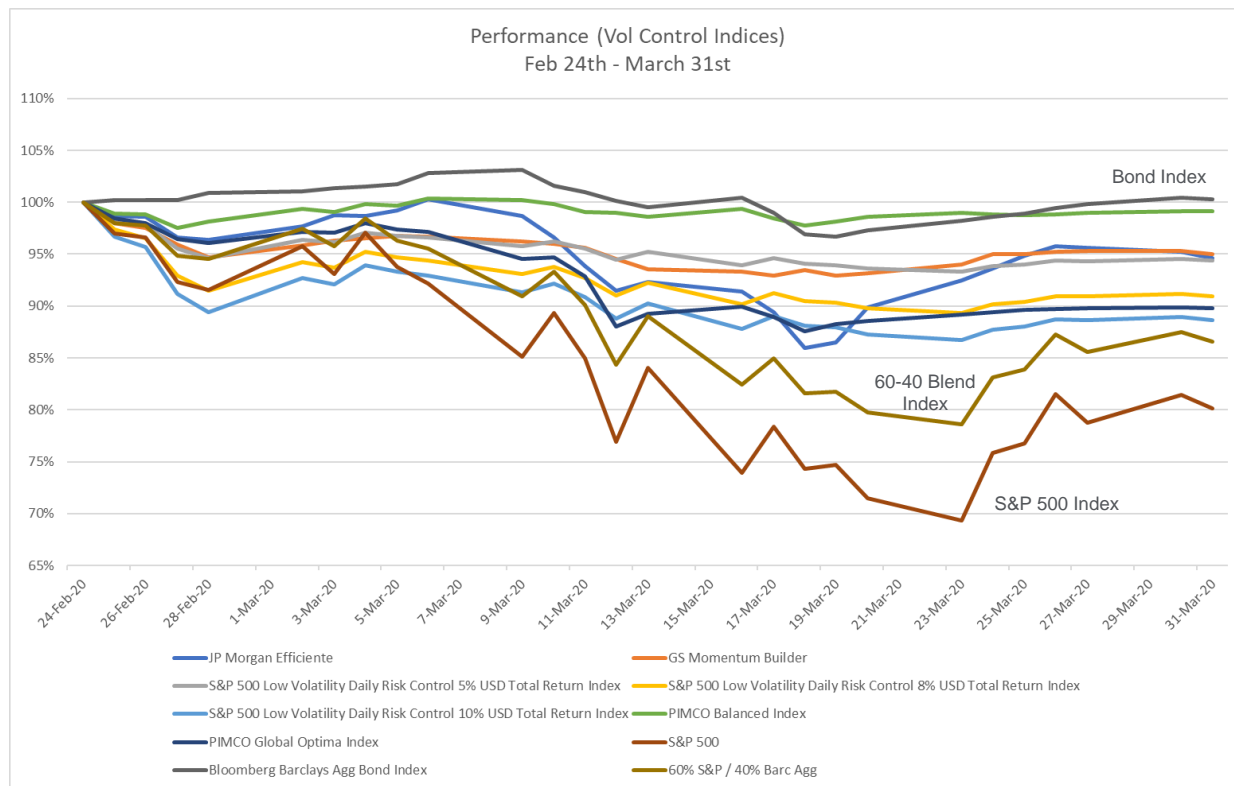
CAUSE



- **2008 Recession** was brought about by structural failures in the financial system, including weak or repealed regulations, that allowed questionable mortgage practices, abusive lending by banks, and the growth of banks that became “too big to fail.”
- **Coronavirus Crisis:** The current turmoil is brought about by a temporary health pandemic, rather than a flaw in the financial system. Rules and practices put into place after 2008 have strengthened regulation around the banking industry, including, importantly to insurers, greater requirements for reserves. This puts insurers in a better position to be able to withstand market volatility and keep contracts intact.

Market Ideas – Volatility Control Indices

- Volatility Control Indices have been increasing in the market since the great recession
- They were developed as diversified portfolio failed clients in 2008
 - Market did come back, but for clients who couldn't wait, or stomach the volatility, missed the recovery
- These volatility indices have had limited pressure from the market to show how they perform until now
- How have they done – as expected
 - They have protected downside exposure
 - They have also missed part of the recovery
- ***Vol Control indices are not all the same and have different characteristics***



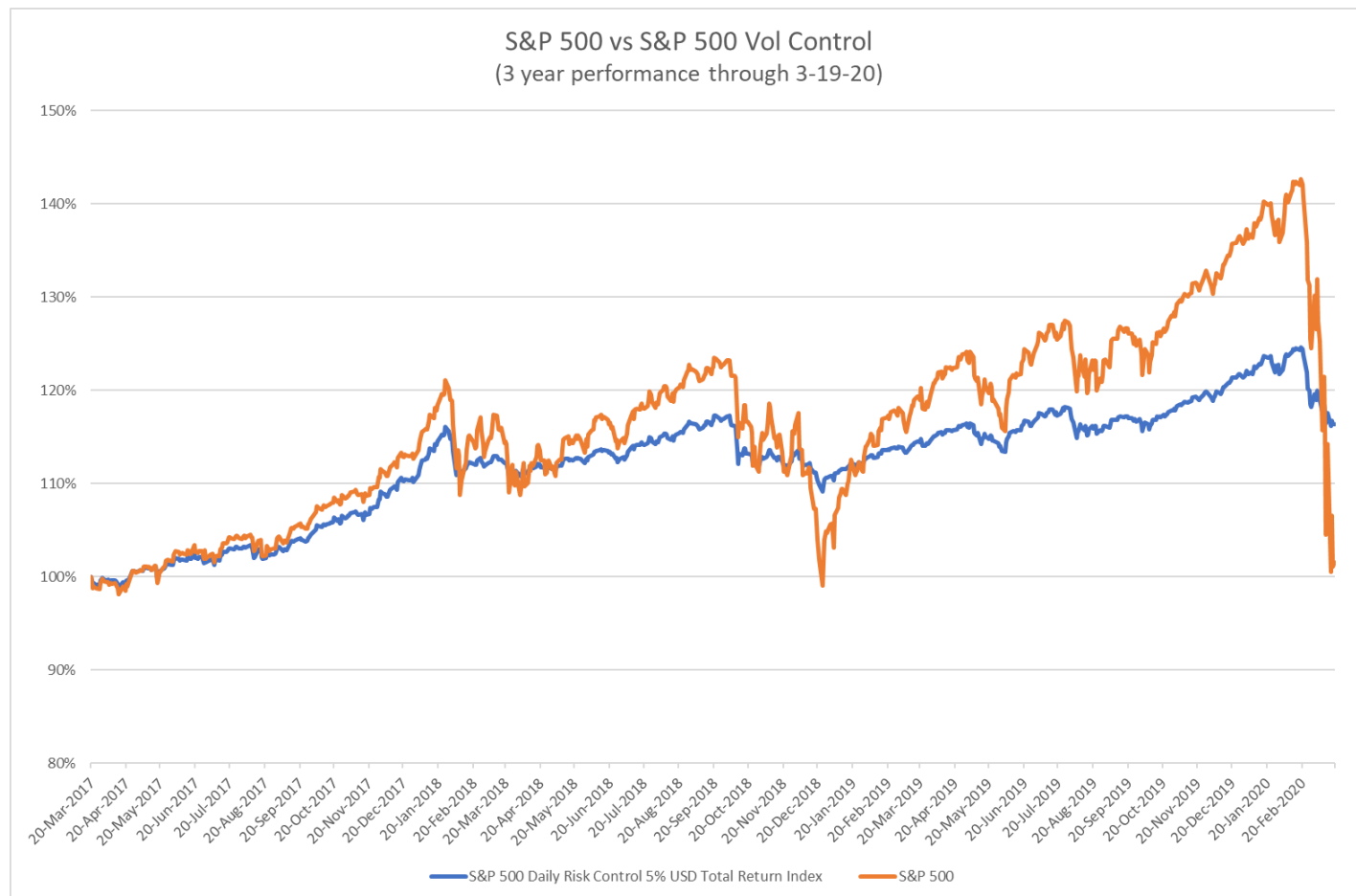
Indices selected are not all inclusive, but a representative sample

Market Ideas – Volatility Control Indices

Over a 3 year period, the volatility and performance (up and down) is apparent.

When would the Vol Control Indices make sense?

- It is easy to pick an entry point from a chart showing the past, not so easy when looking forward
- Can a client financially or emotionally handle the volatility
- Can they stay invested over the tough times



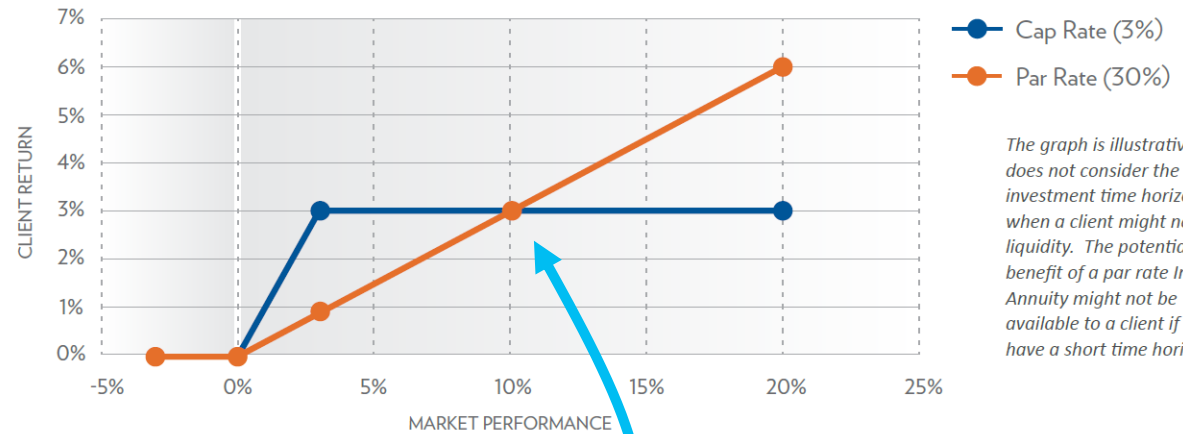
Market Ideas – Participation Rates

An Under-Utilized Strategy in Index Annuities, Also available in Structured Products

Cap Rates are most common for advisors looking for returns above banking rates with additional risk.

Participation Rate options provide some different alternatives. When the market is this volatile, moving double digits in days, providing potential to participate in a percentage of the upside (uncapped), may be favorable to a hard limit on client gains.

Cap Rates vs Par Rates



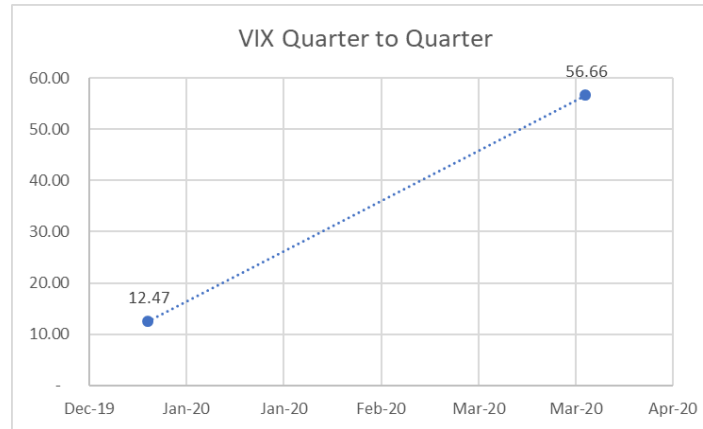
The graph is illustrative and does not consider the client investment time horizon or when a client might need liquidity. The potential benefit of a par rate Index Annuity might not be available to a client if they have a short time horizon.

Market Ideas – RILA

Volatility is Good for Cap Rates

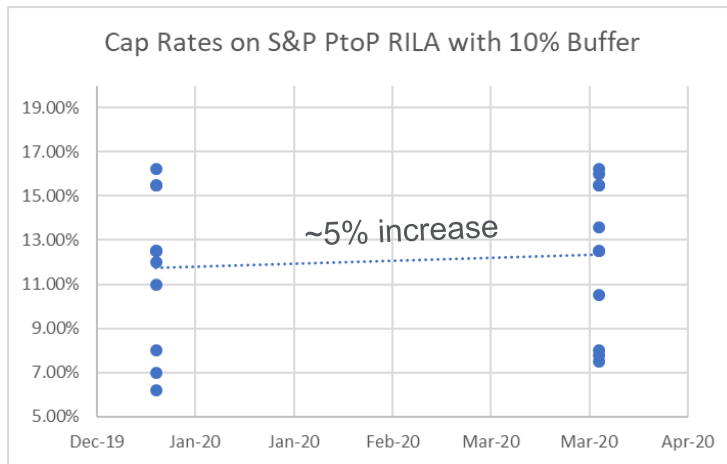
As volatility has increased during the quarter from 12.47 to 56.66 on the VIX, rates have...

- **Increased in RILAs Buffered Strategies**
- **Decreased a relatively small amount in Floor Strategies**



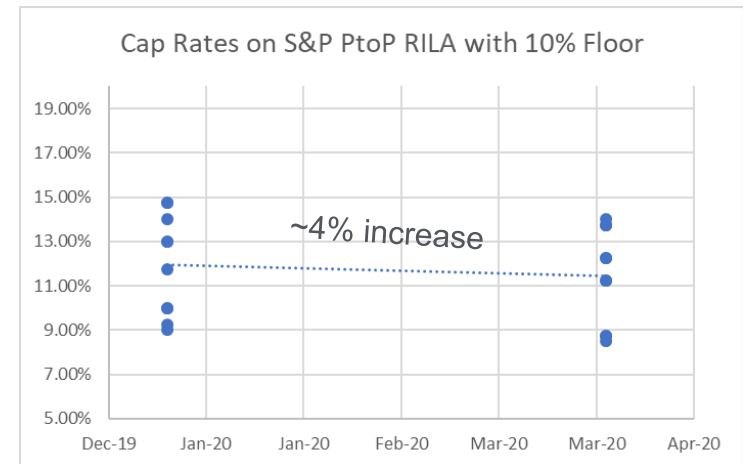
Why?

Options pricing and the VIX are negatively correlated (typically when the VIX increases, option cost decrease). This can enable more favorable relative rates for clients.



Is a 10% buffer enough?

Or is a 10% floor the better option for your clients?



Market Ideas – Insurance Company Stability

Should life insurance or annuity owners be worried today? How does the current market turmoil from the coronavirus crisis differ from the 2008 financial crisis? A few key differences impacting policy owners:

First Layer of Protection: Insurance Companies are responsible for meeting all guarantees promised to their annuity and life insurance contract holders.

In the event that the Insurance Company becomes insolvent and cannot provide guaranteed benefits to the policy owner, the Insurance.

Secondary Protection: Guaranty Association in the state in which the client purchased the contract provides a secondary, limited, layer of protection of the guarantees promised in the annuity or life insurance contract.

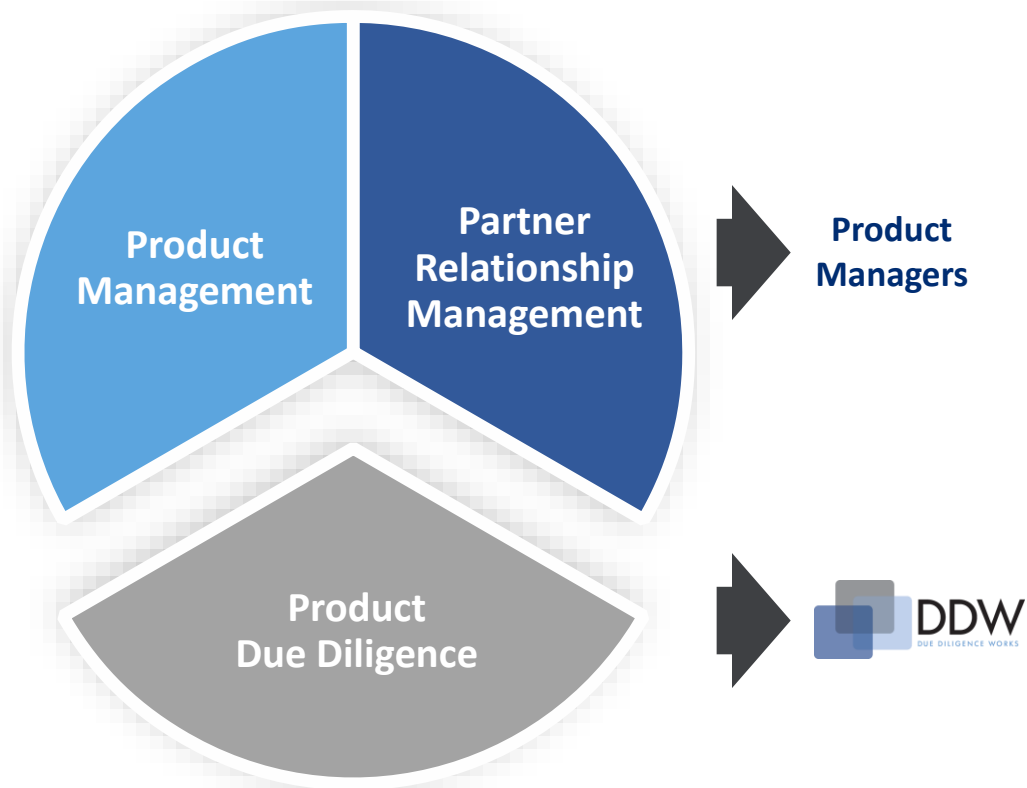
- First, the state will try to move contracts to other insurance companies that will continue to provide the contract's guarantees to the client. (This is the primary scenario seen in 2008 when large insurance companies failed.)
- Otherwise, the policy will continue to be administered by the state's Central Guaranty Fund.

Resource Deployment

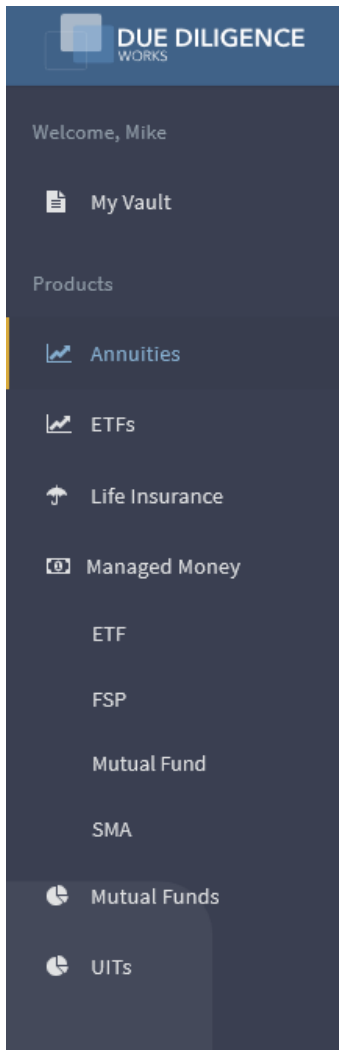
The Past
Generalist Model



The Current / Future
Specialist Model



Reg Best Interest – Compare Tool



Principles of Reg BI Recommendations

- Recommend best solutions for clients
- Demonstrate alternatives products that were considered
 - This should look across product types, i.e. Annuity – Mutual Funds – ETF
- ***DDW is developing a Cross Product Comparison Tool*** which will compare specific products across categories
 - Advisors can select the product they are considering from their product menu (custom for each BD),
 - Add the product cart,
 - Run a comparison,
 - Save for documentation (or submit with trade to supervision).

Next Session –What do you want to hear about?

A. Broker Dealer Panel

- Operational challenges, Product committee focus

B. Product Manufacturer Panel

- Beyond rates, how are you changing products for today's environment

***Thank you – We are here to help!
Let us know if you need anything***