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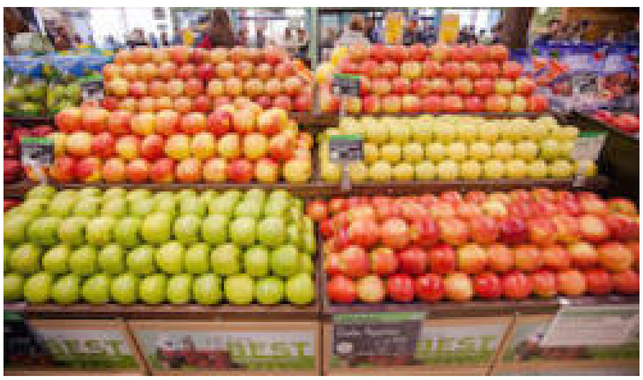
Cannex Launches Annuity Comparison Tools

By Kerry Pechter THURSDAY, DECEMBER 7, 2017

Advisors, brokerages, IMOs and insurers will be able to use the Toronto-based data company's new analytics to make apples-to-apples comparisons of variable and fixed indexed annuity contracts and their riders.



"Apple-to-apples" comparisons between annuity contracts or between different types of annuities have always been difficult to make. If it were easier for advisors to determine which contracts are the most "suitable" or in the "best interest" of a client, more of them might recommend annuities.

Cannex Financial Exchanges, the Toronto-based data company that serves the annuity industry in the U.S., and Canada, wants to remove that barrier to sales. The company has for many years offered a wizard for comparing SPIAs (single premium immediate annuities). It now offers tools for evaluating the relative merits of variable annuities (VAs) and fixed indexed annuities (FIAs).

The tools are called Cannex VA Analysis and Cannex FIA Analysis. Besides helping individual advisors match the right annuity contract or annuity rider with the right client, the product is designed to help brokerages and insurance marketing organizations pick contracts for their shelves and enable life insurers to perform competitive benchmarking.

Cannex, which serves more than 300 broker-dealers, banks, IMOs and other institutions employing some 350,000 advisors or agents, aggregates data on an estimated 50 SPIAs and DIA contracts, 100 multi-year guaranteed-rate (MYGA) fixed deferred annuity contracts, 200 FIAs and 200 VAs from some 30 issuers who represent an estimated 85% of total sales. The firm receives almost four million requests for quotes on SPIAs each year.

"This has been about seven years in the making," Cannex president Gary Baker told RIJ. "When I joined Cannex in 2010, the first thing that certain clients asked me was, 'I like what Cannex does with income annuities. Could you please do that with the other annuity products?

"It was difficult for advisors or firms to pull apart the structure of these bundled contracts to assess the income benefits and the death benefits. So there was pent-up demand for transparency. But it was not until we bought the QWeMA business from Moshe Milevsky that we had the elements to do that."

The biggest demand for these tools should come from advisors who hope to use the so-called living benefits (lifetime income riders) and death benefits of VAs and FIAs in retirement planning. These riders have turned VAs and FIAs, which once were mainly used as tax-deferred investment vehicles, into popular retirement income vehicles.

Advisors can use the tools to rank the living benefits of various contracts by their minimum monthly payment, average monthly payment (based on Monte Carlo projections of future performance), average income benefit over a lifetime (based on mortality tables) average death benefit and average "total economic benefit" (which combines living and death benefits).

To calculate those amounts, Cannex uses the S&P 500 Index whenever analyzing FIA rider values and a 60/40 stock/bond mix when analyzing VA rider values. "We're running the same 'electric current' through every contract," Baker told RIJ. "We've found that even if you vary the asset allocation to 50/50 or 70/30, it doesn't seem to change a product's score or its ranking. Some products do have ceilings on the equity allocation when a rider is chosen, and we're in the process of adding that to the software." The tools can compare contracts within or across product categories.

"We'll also be able to create a heat map with 100 cells where the advisor can see the performance of a living benefit in various deferral periods. That's in development right now," Baker said. For example, the map could help advisors see the optimal number of years that a client should wait before "turning on" an income rider. The heat map could also show how a client's age at purchase might affect the relative strengths of different products.

"For the first release [of the VA Analysis and FIA analysis tools] through our platform, we decided that the simplest approach would be to look at new annuity sales [rather than exchanges of one annuity contract for another]. We do support transfers off-platform, either for a back-end compliance group that wants to evaluate a transaction, or at the point of sale," he added.

Cannex expects brokerages and advisors to rely on its tool as evidence of their efforts to establish the suitability (under FINRA rules) or "best interest" (under the Department of Labor's BICE or Best Interest Contract Exemption) of a contract, and as an indication of due-diligence. To that end, it has obtained a letter from the Wagner Group, the Boston-based employee benefits law firm, testifying to its applicability to that purpose.

"In our view," the Wagner letter said, "the Cannex Methodology annuity analysis and evaluation software would qualify as an analysis and evaluation tool that registered investment advisors and their IARs [investment advisor representatives] would be able to utilize in accordance with their duty to act with the care, skill, prudence and diligence of a prudent person under (i) the BICE's best interest standard of care as applicable to rollover advice provided to Retirement Account clients and (ii) ERISA's Prudent Man Standard of Care as applicable to non-rollover advice provided to Retirement Account clients subject to Title I of ERISA."

But "even if there were no DOL rule, there would still be demand for this product," Baker told RIJ. "The demand for this predates the DOL rule. We've shown the new tool to FINRA, and they gave us some feedback on how it can be used to establish the suitability of an annuity sale. A lot of companies are positioning their tools as "DOL" tools, but that's not our position."

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