CANNEX RESEARCH

Conversations with CANNEX Q&A: Jay Charles of Luma Financial Technologies

Cannex's Tamiko Toland explored the role of FinTech in advancing annuities with Jay Charles, Director of Annuity Products at Luma Financial Technologies. He has spent his entire career in financial services, mostly focusing on strategy. Before joining Luma, he worked for a larger insurer integrating with FinTech. After seeing "firsthand the impact that technology as well as FinTech firms can have on annuities," he saw an opportunity to improve outcomes for the end investor. Cannex's annuity rate and modeling data power Luma's annuity services, supporting advanced analytics. If you've waited to see how technology would finally make a dent in improving the process of managing annuities, tune in to the replay to go even deeper than the summary presented here.

Q&A

Why is Luma making the pivot into annuities?

Moving into annuities is really a natural progression for Luma since it's one that clients demanded. Some of our existing structured product clients saw what Luma was able to do to increase transparency for those products and asked if we could do something similar for annuities. Jay said that Luma has seen that annuities share many of the same challenges in breaking down the products into simpler parts so financial professionals can understand how they work.

Annuities require training, just like structured products, so that was another obvious fit that Luma's clients recognized. Furthermore, there is a direct tie-in for index-linked products, both fixed indexed annuities (FIAs) and registered index-linked annuities (RILAs). Some of the crediting strategies are borrowed directly from existing structured products, which are the mainstay of the platform.

> *"It's a natural progression led by our clients that really helped us jump with two feet into this space."*

How does Luma approach annuities that aren't as similar to structured products?

The firm hired a team of annuity experts and has also developed partnerships to support the build of our solution. The traditional variable annuity, especially with options like living benefits, is certainly different from index-linked annuities but still utilizes the Luma chassis.

Jay also points out that annuities themselves are very diverse. The simplest products can be extremely good for generating either guaranteed income for life or a fixed rate of return. Other varieties "can meet more sophisticated needs as well." He emphasized that it is important to figure out which product is right for the specific client situation. So looking across the entire range of products is important not just to find the right individual contract but also identify which types of annuities are best suited for a given client situation.

"Luma's ability to break down the products to help the advisor compare across different options and see how those could impact their end clients' financial needs is a key thread that goes across all product sets."

What benefit does FinTech bring to annuities?

First and foremost, much of today's annuity business is conducted through manual processes like spreadsheets. Annuities are a complex product and technology is great at translating the performance over 10,000 simulations in a way that drives better client outcomes. In addition, FinTech can address manual processes every step of the way. Jay also mentioned that Luma views the full experience for financial professionals that starts with education and licensing and continues through electronic order entry. The system also offers post-sale servicing through lifecycle management.

Combined, all of this contributes to the next evolution of the annuity business and makes using annuities in financial planning easier and simpler. Ultimately, that benefits the end investor who otherwise might not get the recommendation in the first place.

Another big advantage of technology is the ability to take a huge product shelf, maybe containing over 300 different annuities, all with different options and variations, to facilitate comparisons using a common benchmark. This ultimately exposes the financial professional—and, therefore, the client—to a broader range of choices.

"Technology does a fantastic job taking complex datasets or modeling techniques and simplifying them in such a way and putting it on an advisor's desktop."

Does the demand for FinTech come from distributors or financial professionals?

Many broker-dealers and banks have said that they've been waiting for a technology solution to help them digitize the annuity space. But the fact is that this would just help bring annuities on par with many other financial instruments, such as managed money, and provide similar tools, analytics, and ability to compare across products to drive to a better client outcome.

Even though banks, broker-dealers, and insurance marketing organizations (IMOs) are different in many ways, they all see value in leveraging technology to better understand, present, and manage annuities. Jay observed that, while Luma is fully customizable, their clients tend to have "very similar needs" across channels and uniformly have adopted the key modules (Learning Center, Product Marketplace, and Lifecycle Manager).

"Ultimately, FinTech will make the financial advisor more likely to want to transact in annuities because it is a better experience for them and they are more confident that they're bringing the right annuity products to their end investor."

Has COVID accelerated this change?

The pandemic has certainly accelerated adoption, though we're going down the path that we would have reached eventually. It's forced greater adoption of technology. In the absence of being able to have face-to-face conversations with the investor, the financial professional needs to be able to communicate with the client and demonstrate how a product could perform in a virtual setting.

Beyond the initial presentation, Jay noted that the trend extends to something as simple as getting a signature on an application and making sure that the flexibility exists to conduct business digitally. For the part of financial professionals, they don't want to have to pivot from a training platform to a product comparison tool, then go elsewhere for an illustration, in order to have a conversation with a client. From there the application submission may be yet another pivot. Finally, managing the contract once it's in place is difficult, especially considering the need to do so for many clients that have different kinds of annuities from a variety of insurers.

Enabling financial professionals to effectively identify appropriate solutions on a product shelf that might have 300 annuities, when they were previously selecting only from a handful of familiar options, gives them a "more arrows in their quiver to help meet those client needs."

"Having the right tools in the platform to understand how these products work is something the financial professionals also are certainly asking for."

What annuity trends do you anticipate?

Registered index-linked annuities (RILAs) had a very strong year in 2020 and we'll continue to see more entrants to that market. The client takes on more investment risk than with pure principal protection type guarantees in order to get higher returns, which is especially attractive given low interest rates. Jay pointed out that the prevalence of living benefits waned due to the pandemic, with many insurers exiting that space, though it's likely that living benefits will be attached to RILAs more often because of the rising popularity of that product line and continued need for income protection. Across index-linked products, expect to see innovation among custom volatility-controlled indices.

"Products where there is shared downside risk between the carrier and the end investor will continue to be—especially in a low interest rate environment—an important product set to give the end investor the upside that they're demanding across these products."

Do you have any annuity “pet peeves”?

Pet Peeve #1: *Annuities are expensive*. In the past, some products had high commissions, but the industry is well past that today. He likens annuities to cars and a customer may want an economy car or a sports car. While they both get you from Point A to Point B, they are very different products with different experiences. When a client selects an annuity with higher expenses, the value justifies that.

Pet Peeve #2: *Annuities are only for conservative investors*. In fact, they can fit into the portfolio of clients within a wide range of risk tolerances. Even those with a greater appetite for risk can benefit from a base guarantee—whether on income or principal—that gives greater flexibility to assume risk in the remainder of the portfolio.

“The annuity is unique in that it generates guaranteed income for life or a level of principal protection that is unparalleled across any other products other than Social Security or a pension.”

“Adding an annuity to a portfolio allows clients to take more risk in other parts of their portfolio.”

Cannex supports pricing, analysis, and presentation of annuities for industry partners. Contact us for more information on our platform or custom services.

Cannex Website | cannex@cannex.com | 800–387–1269