

FIXED INDEXED ANNUITIES IN VOLATILE TIMES

- 1. Given all the recent news about banks, what are some of the fundamental differences are between banks and insurance companies in terms of the products they offer and the risks those products create?**
 - a. Bank deposits can be withdrawn at any time but may be invested in long-dated bonds. As interest rates have climbed, those long-dated bonds have lost value and, if there are enough withdrawals, the long-dated bonds may need to be sold at a substantial loss. Insurance products, particularly FIAs, are long-dated and due to a combination of surrender charges and MVAs, have strong incentives for policyholders to hold onto for a substantial portion of their no-surrender period. Insurers generally hold long-dated bonds, with maturities that roughly align with that of their policies, avoiding the asset-liability mismatch some banks may face.
- 2. We know that not only on the proprietary indices, but even on widely traded strategies insurers work with banks for the risk management of these products. How does that relationship work and what sort of risks and obligations are commonly transferred. What happens if a bank is losing money?**
 - a. Insurers issue products in which they provide crediting which often takes the form of periodic options on an index. Insurers decide what they hedge and how, but it is common for an insurer to trade derivatives with large investment banks to hedge the market risk associated with the crediting in their policies. In these hedges, the bank commits to paying the insurer in a formulaic manner. Banks have a few ways in which to mitigate their own risk, but regardless of it they make or lose money in their hedging activity, they pay the insurer the formulaic amount. Banks and insurers often exchange collateral to mitigate the credit / default risk between them. Similar to how banks do not pass on their hedging gains and losses, if an insurer gains/loses as a result of their own policy-hedging activity that is generally not passed on to the policyholder.
- 3. With all the news on banks and the prevalence of bank indices in FIAs, what's that mean for these strategies? What does an index being a 'bank index' really mean?**
 - a. The indices in FIAs are generally systematic and rules based, whether sponsored by a major index provider, investment bank or asset manager. The Index Sponsor is responsible for administering and calculating (or hiring a calculation agent) for the strategy. Index sponsors generally have very limited discretion that only is exercised in exceptional circumstances. Indices provide exposure to specific assets that they describe (often major ETFs, broad-based indices, futures contracts), they don't doesn't create market exposure to the sponsoring bank or its debt, nor is the index a deposit with the bank or asset manager.
- 4. Are there other points of connectivity between these banks and insurers?**
 - a. Insurers generally have diversified fixed income portfolios in their general account, though these may contain regional bank debt.
- 5. With more volatility in interest rates and equities what does sort of impact can that have on new business and renewals?**
 - a. Lower interest rates will be particularly impactful on new business rates. The recent increase in implied volatility will impact S&P 500 rates both for renewals and new business, whereas proprietary indices (with volatility control features) are a bit more resilient and more consistently priced.
- 6. With the variety of index options out there, is there anything about this environment that you want to mention?**
 - a. Beyond the general benefits of diversification, from a positioning perspective if clients are now concerned about falling interest rates, that risk can actually be a benefit for multi-asset volatility-controlled strategies as rates going down generally help the performance of the fixed income portion of multi-asset indices.

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