Trader Insights

Bank of America Merrill Lynch

Actionable Ideas for the Power to Trade Smarter

What's Behind the Rise of the Fixed Indexed Annuity Market?

Will Holligan
Head of AMRS Insurance & Corporate Equity Derivative Sales

Mr. Holligan: Since the financial crisis ushered in a lower rate environment, annuity products have had to evolve to remain attractive. Investor tastes have also changed in the face of greater volatility, with heightened demand for alternative equity exposure and principal protection.

The result has been substantial growth of the Fixed Index Annuity Market and the emergence of target volatility indices. In the last five years, this market has grown in annual sales to more than $60 billion*.

A target volatility or "risk controlled" index is designed to provide exposure to a portfolio of assets, often from multiple asset classes. You can help stabilize the volatility in the structure by adding technology that allows you to target a particular volatility level. This level is achieved by adjusting exposure to an underlying asset, based on that asset's recent volatility. Realized volatility above the target, will increase allocation to cash and realized volatility below the target may increase the allocation to the risk assets. Because target volatility indices aim to keep the portfolios realized volatility constant, they are designed to reduce hedging costs and give insurers more consistency in pricing which can help benefit consumers.

We're a leader in the insurance solutions space, offering broad range of structured solutions based on our award winning research and derivatives expertise, supported by a robust platform and team of professionals. Structured solutions aim to provide predictable pricing, principal protection and market access to different investment ideas and help insurance companies deliver efficient customized annuity products to their end clients.

For other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep.

*Source: 2018 Annual Fixed Index Annuity Sales