

A Renaissance for Guaranteed Annuity Products in the New Era of Higher Rates

Everyone wants a nice income when they retire. Many wealthy investors are lucky enough to enjoy those returns as surplus to their actual needs. Others really need the income to ensure they and their families have pleasant retirements and a comfortable future. New York-headquartered Axonic Financial Group is a specialist creator of tailored, guaranteed and often bespoke annuity products for mass affluent and HNW private investors as well as for institutions, both onshore in the US and offshore. Robert Painter, the New York-based Head of Product and Actuarial for Axonic Financial Group US, gave a lively presentation at the Hubbis Singapore Investment Forum to highlight how his firm is delivering such guaranteed income products to the wealth community in Asia, and for them to then promote to their private clients. With more-than-healthy returns available in products that will allow clients to sleep easily at night, it seems like a win-win. He set the scene in the US market and explained that the firm is making a push into Asia, where demand is historically modest but growing pace. Annuities have been around for decades, but after some four decades of falling interest rates, investor attention is especially being reignited as rates have surged since early 2022, and the 'higher-for-longer' scenario seems indeed to be playing out in the foreseeable future.

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ROBERT PAINTER

Head of Product and Actuarial
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Axonic Comes to Asia

Axonic Insurance Solutions was formed in 2022 as a subsidiary of US-based Axonic Capital, an independent financial services firm formed in 2010 and headquartered in New York, offering asset management services across

annuity investment solutions for investment growth, principal protection, and income generation.

The firm collaborates with single-A-rated US group AmFirst Insurance to distribute both onshore in the US and offshore, which is where the team are starting to focus considerably more effort these days, especially in Asia.

The right products for the region

The products they distribute include life and annuity products with a particular focus on multi-year guaranteed annuities. The products come essentially under two headings - the Guaranteed Fixed Rate Plan with 3, 5 and 7-year annuity products, and their Guaranteed Investment Plan products, the second of which are essentially indexed-linked annuities

demand for interesting, diversified and secure investment products in the structured annuities field.

The US scene

Supported by a detailed and comprehensive slide show (LINK to PDF), Robert presented an overview of the US annuities market and discussed its relevance to structured investments. The US annuity market sales in 2022 were about USD311 billion in total split roughly two-thirds fixed and one-third variable annuities. The market is growing at roughly 12% annually. The top 3 US manufacturers include New York Life, Athene Life & Annuity and Corebridge (formerly AIG).

Key products

Robert outlined the various types of annuity products available. He said there are two simple products. The

« “As rates rise the relative value of bonds, structured products and annuities increase versus traditional equity and real asset investments. With cheaper protection and/or larger option budgets investors can move beyond pure equity beta. In short, investors now have the tools available to allow them to more precisely specify their returns.” »

structured credit and commercial real estate lending, with an AUM of over USD4.2 billion.

Axonic Insurance Solutions has a team of insurance experts, and partners with leading firms in financial risk management, re-insurance, and asset management, to offer innovative

that offer both downside protection and minimum returns and also some degree of upside related to leading indices, for example, the S&P500.

Axonic is now making a concerted push into the Asian markets, where they have identified significant potential in the private wealth community, seeing increasing

first type is the fixed annuity, an insurance contract that promises to pay the buyer a specific guaranteed fixed interest rate over a term on their contribution.

Another simple product is Fixed Index Annuities that offer market-linked returns with downside minimum Guarantees. They are

insurance contracts that promise to pay the buyer a specific guaranteed variable interest rate determined by the performance of a selected index (subject to return caps) over a fixed term on their contribution. Payoffs come in many forms.

There are two rather more complex products in the form of Variable Annuities and Registered Index-Linked Annuities.

Guaranteed by top-rated insurers

Robert explained that the Insurance guarantees are backed by: Assets held on the insurance company balance sheet, and Insurance company capital (essentially the creditworthiness) supporting the guarantees if the assets do not perform. All guarantees are delivered by highly rated, regulated and proven insurance company providers. All products also have conversion features to allow for deaccumulation.

Growth aplenty

He reported that the US Guaranteed Product Market Is growing, with new sales records for index-linked products (Fixed-Index Annuities and Registered Index-Linked Annuities), and money is moving increasingly into annuities and guaranteed products, and from fund-based to index-based products.

Regulated, tax advantageous and well structured

Robert explained that annuities can have certain advantages compared to structured notes that are largely issued by the bulge bracket global investment banks.

Annuities are regulated insurance products, and there are tax

Axonic International – a Snapshot

Hubbis has sourced the following information from the Axonic International website.

Axonic International is a 100% owned subsidiary of Axonic Capital LLC, established in 2010 with USD4.2B in AUM. Axonic Capital is an independent financial services firm, headquartered in New York City, offering asset management services across structured credit and commercial real estate lending.

Axonic International provides niche opportunistic investment solutions and expertise that allows them to create unique advantages through sourcing and asset allocation. Axonic's investors are given the flexibility to diversify fixed-income portfolios for a differentiated source of return and enjoy higher returns.

Axonic International partners with leading names in financial risk management, re-insurance and asset management in offering innovative investment solutions providing investment growth, principal protection and income-producing strategies.

Their solutions are offered out of the Channel Island of Jersey, which is described on their website as a leading international jurisdiction offering stability and economic strength.

They offer the Guaranteed Fixed Rate Plan, a fixed rate account with guaranteed rate periods of 3, 5, and 7 years, with the ability to diversify into multiple guarantee periods.

And they offer the Guaranteed Investment Plan, an international investment plan with index options, and that in turn, links returns to the values of the world's major indices while guaranteeing that the investor's contribution will be valued at no less than 107% or 105% at the end of 7 or 5 years in the corresponding Index Plan. It provides 100% participation on the upside and is subject to an annual cap.

To explain further, the website reports that each 5-year investment plan that remains in the customer's (Jersey) sub-trust for the entire duration -- that is, no withdrawals have been made -- will be guaranteed to equal no less than 105% of the original investment, according to the firm's website.

The site states that at the end of the 5-year period, an amount necessary for the investment to equal the guaranteed amount will be automatically credited to the Index Plan value. As long as the assets remain in the Index Plan, this minimum guarantee will automatically renew for successive 5-year periods at the investment's then-current value. The same investment approach is applied to 7-year plans.

deferral advantages. There is segregated collateral for some annuity products. Meanwhile, insurance guarantees are senior to general obligations upon default. From a market perspective, there is more price and valuation stability as insurance pricing is more stable. Investors have the ability to efficiently convert to other products (savings or deaccumulation). There are also beneficiary/death benefits.

Good rates for cashed up investors

He explained that with higher rates, there is a new opportunity for institutional structured investments. Guarantees are becoming richer, meaning higher fixed-rate guarantees, higher caps on fixed index annuities, the cost of protection is decreasing, and overall, complexity can be replaced with simplicity as complex structuring is no longer needed to achieve the desired returns for customers. payoffs are no longer necessary.

New horizons

Robert concluded that it is essentially a new world for annuities. "Over the past 15 years, fixed rate products and protection were not viable asset classes for the long-term investor, but they

now need to be considered," he told delegates. "As rates rise the relative value of bonds, structured products and annuities increase versus traditional equity and real asset investments. With cheaper protection and/or larger option budgets investors can move beyond pure equity beta. In short, investors now have the tools available to allow them to more precisely specify their returns."

Tailored to fit

Expanding on this, Robert added that investors gain upside with strategic leverage that can be calibrated to increase long-term mean and enhance the portion of the distribution they seek.

Additionally, investors can sell back upside performance which may not be fully useful to them and re-deploy that value into portions of the distribution which are useful for them.

He offered an example of an institutional investor with specific objectives. The family office investor has a long-term investment horizon and minimal interim liquidity requirements, while the goals include a long-term term (20 year) investment horizon to match liabilities, where the investor wishes to maximise total returns (using term premium and illiquidity premium), while

ensuring they have guaranteed principal protection, at the same time as generating a sufficient minimal return to have a very high probability of supporting stakeholder funding requirements of 4% to 5% per annum.

He then explained the solutions available to achieve this combination of principal protection, funding certainty, and additional upside by incorporating leverage and options.

A bright future all around

He closed the talk by looking ahead to some possible developments in terms of new technologies and solutions. Increased computing power will help deliver bespoke investment advisory solutions for retail investors, combining and optimising the mix between insurance and investments and achieving portfolio optimisation through insurance and investments allied to investor goals and circumstances.

He closed by remarking that the arrival of the blockchain should help allow access for retail investors to products and strategies only currently available to institutions on a large scale, as well as significantly reducing denominations and costs. ■

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Don't Miss Out on our **Hubbis Investment Forum - Singapore 2024**, which will take place **Wednesday 6th November 2024**.

Want to become a **Significant Part of these events next year? Speak? Join as a Partner?** Please send us an email at events@hubbis.com if you would like to get involved.