life annuity specialist

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Sammons: Uncovering the Secret Sauce of an Industry High-Flier

By Warren S. Hersch August 21, 2017

It's not every annuity provider that sees its legal structure as a competitive differentiator. But for **Robert TeKolste**, president of the Independent Annuity Group at **Sammons Financial Group**, the company's non-public status ranks high among several factors that have underpinned the annuity group's extraordinary performance in recent years — outside financial results that show few signs of abating and that are causing the industry to take notice.

"Our private ownership is a big component of our growth," says TeKolste. "The ability to take a long-term perspective can't be underestimated. If we do the right things for the long term, the short term will take care of itself."

Robert TeKolste, president of the Annuity Group at Sammons Financial

That long-term perspective, he adds, is also taking good care of the 1,500-plus staffers who participate in Sammons' employee stock ownership plan or ESOP, a qualified defined contribution employee benefits plan that invests primarily in the company's shares. The ESOP, says TeKolste, has also nurtured Sammons' "high-performance culture."

The alignment of employer and employee financial interests enabled by an ESOP, TeKolste says, is superior to that of the industry's many publicly held companies, which tend to think short-term; and to mutual insurers, which can invest for the long-term (the companies being responsible to their policyholders, rather than shareholders), but which don't offer employees the same ability to profit from their success and growth.

Sitting atop Sammons' legal structure, adds TeKolste, is a global conglomerate that can support the insurer's strategic objectives. **Sammons Enterprises**, the holding company, includes **Briggs International**, **Compatriot Capital**, **Sammons Power Development** and **Sweat Water River Ranches**, in addition to Sammons Financial, which sell products through two life-annuity companies: **Midland National** and **North American**. The various companies are invested in three core markets: financial services, industrial equipment and real estate.

The financial muscle of the parent firm (one of the largest privately held companies in the U.S., Sammons Enterprises boasts more than $4 billion in annual revenue, $84 billion in assets and 3,900 employees in five countries) is undoubtedly a factor underpinning the financial unit's sterling credit worthiness. **A.M. Best**, **Fitch**, **Moody's** and **S&P** all have bestowed top-tier ratings on the group's two carriers.

How much has all this helped the company in its drive to grow and increase market-share? Industry statistics tell the numbers.

Last May, **S&P Global** identified Sammons Financial as the 11th fastest-growing U.S. life-annuity provider. The analytics firm based its ranking on Sammons' $10.5 billion in direct premiums and considerations in 2016 and year-over-year growth of 31.3% — numbers for which Sammons' Annuity Group accounts for the lion's share, or about 75% of revenue. Among carriers with premiums topping $5 billion, only **Athene** merited a higher spot (5th place) in the pecking order.

(Based on NAIC statutory accounting principals (SAP), S&P Global's premiums for Sammons Financial cannot be compared with revenue and earnings that Sammons Enterprises calculates using SEC-mandated generally accepted accounting principals (GAAP).

As reported, Sammons also led large life-annuity companies in growth of admitted assets (up 15.2%) in 2016, according to an *A.M. Best Review* tabulation. Runners-up among the top four in the publication's rankings include **American Equity Investment Group**, **Global Atlantic Group** and **Great American Life Group**.

All well and good. But as TeKolste emphasizes, Sammons doesn't obsess over the numbers.

"We're here to grow long-term value," says TeKolste. "And we're doing it by balancing the interests of our four primary stakeholders: people who buy and sell our products, our employees, and the communities where we do business — communities to which we give back through philanthropic initiatives."

Expanding Distribution

To keep the momentum going, he adds, Sammons is building out a multi-tiered distribution strategy that includes five channels: independent agents, banks, registered investment advisors, broker-dealers and independent marketing organizations. Of the five, the company is giving special priority to the last two, including some 300 broker-dealers and 40 IMOs.

The reason: The **Department of Labor** fiduciary rule, the first phase of which went into effect on June 9 and holds retirement advisors to a best interest standard. Business processes, best practices, staff and products that Sammons has developed over the years to supports these channels — including an ongoing multi-million investment in DOL-compliant technologies — have positioned the company for a smooth transition to a fiduciary rule regime, says TeKolste.

Still more changes will be needed, he adds, to satisfy the needs of insurance intermediaries once the rule's remaining components, including the widely anticipated best interest contract exemption, or BICE, go into effect. (As reported, The DOL has filed a notice to extend the applicability date from January 1, 2018 to July 1, 2019.)

To align with the DOL rule, companies industry-wide are simplifying product design to ease sales, enhance transparency and, through a leveling of commissions across like products, minimize potential conflicts of interests. Future product iterations, says TeKolste, will be tailored to specific channels, the offerings aligned with the features, contract terms and compensation structures desired by the various intermediaries.

"Distributors are now dictating what the product shelf will look like, as well as the compensation," says TeKolste. "That's a big shift from the past, when we as a carrier developed a portfolio of eight or ten products, then brought that portfolio to a distributor and asked, 'How can we help you sell these?'"

"The financial institution requirements of the DOL rule are really changing how products are made available on a distributor's shelf," he adds.

The changes underway extend also to the support and information resources that go with the products. These range from new digital platforms for handling policy applications to data aggregation services that can help document product performance and transaction activity.

Might the DOL rule also prompt a shift in product focus at Sammons? TeKolste says the Annuity Group will continue to offer the plethora of solutions on its product shelf, including fixed, fixed indexed and variable annuities. These include, among other solutions, the MNL (mostly fixed indexed) products available through Midland National, and the NAC series (also mostly fixed indexed offerings) sold through old North American. (Sammons separately sells annuities through units catering to the retirement and institutional markets.)

What will change, he adds, is a heightened focus under the rule on delivering holistic planning. This evolution will require customizable products, including both fee- and commission-based compensation arrangements to suit distributors' different business models.

"Product sales will more closely correlate with actual and documented needs of the consumer," says TeKolste. "There will be both commission- and fee-based products, as there are today. We don't foresee a wholesale shift to fee-based comp under the rule."

Expect, however, a shake-out among wholesalers. While many of the company's strongest distributors have a "path to compliance" under the rule, others lacking the necessary financial resources, says TeKolste, will either merge with bigger players or fold.

How will the shift impact Sammons' annuity sales? TeKolste says the company is anticipating a near-term trough in premium revenue — a shift that's already under way — followed by an upsurge as the company consolidates its position in an industry with fewer players.

This forecast aligns with that of S&P Global. **Tim Zawacki**, the company's lead insurance analyst, observes a dip in direct premiums in the first half of 2017: $3.8 billion versus $5.58 billion for the first six months of 2016.

"Indexed annuities have been a key driver of Sammons' success," he says. "Yes, the company will face challenges for the remainder of this year because of uncertainty over the DOL fiduciary rule. But we think the company is well positioned to bounce back in sales volume and premiums once the rule is in play."

Anthony McSwieney, a senior financial analyst at A.M. Best, echoes the sentiment, adding that earnings of Sammons and other fast-growing industry players have also profited from asset management strategies that have placed savvy bets on higher-earning alternative vehicles; and from the implementation of enterprise risk management (ERM) best practices that have minimized product, operational and investment risks for the carriers.