

Volatility Control – Less Is Mower

By Jeff Barnes, National Accounts Senior Manager, EquiTrust



I have a friend who races riding lawn mowers. Yes, this is actually a thing. He even travels out of state to compete in races. And can those things fly! Unfortunately, he had a bad accident in a race a few years back – a broken-foot-and-fibula kind of accident with steel rods and several screws.

I own a riding lawn mower, which I use for cutting my grass. One day I asked my friend why his mower is so much faster than mine. “Because I took the governor off of mine,” he said. Then he chuckled, “and I did a few other things to it.” He explained that the governor regulates the engine’s speed by controlling the amount of fuel provided to it. Removing the governor lets him go faster. And sometimes crash.

This made me think of Volatility Controlled Indices included with annuity and life products. It is kind of like an index with a governor. There are benefits to controlling an index’s volatility for purposes of index-linked annuities and life insurance.

First, call options are less expensive for the issuer. Generally, this allows the insurance company to provide higher cap and participation rates compared to an index without volatility control. This is pretty obvious when you look at rates offered on a volatility controlled index compared to an index with no volatility control – such as the S&P 500 Index.

Second, reduced volatility bodes well when it comes to renewal rates. The call options tend to be more stable than a non-volatility controlled index because market conditions don’t impact the option costs nearly as much. Less potential for “renewal rate wrecks,” so to speak.

I am not suggesting that one type of an index is better than another. But I am suggesting that the opportunity for greater participation in an index with more stable results may be worth a look. And I encourage diversifying among the different crediting strategies when choosing allocations.

I get excited about how our industry continues to evolve in ways that help our clients customize products to accurately suit their needs. More horsepower and speed isn’t always the best solution.

For purposes of mowing my lawn, having a governor is probably a good thing. But my mower includes a feature that my friend’s mower doesn’t ... a cup holder.

About Jeff Barnes

As National Accounts Senior Manager, Jeff is responsible for building and supporting marketing organization relationships to enhance sales and recruiting success. Jeff joined EquiTrust Life in 2012 and has over 25 years of insurance-industry experience. Jeff is a graduate of Drake University, and is active with NAFA where he served four years on the Education Committee and now serves on the Membership Committee.

(Potential pull-quote: ***There are benefits to controlling an index’s volatility for purposes of index-linked annuities and life insurance.***)

Disclosure:

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