

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Honors Theses, University of Nebraska-Lincoln

Honors Program

4-18-2021

Allianz Life Strategic Audit

Evan Powell

University of Nebraska - Lincoln

Follow this and additional works at: <https://digitalcommons.unl.edu/honorstheses>



Part of the [Business Administration, Management, and Operations Commons](#), [Insurance Commons](#), and the [Strategic Management Policy Commons](#)

Powell, Evan, "Allianz Life Strategic Audit" (2021). *Honors Theses, University of Nebraska-Lincoln*. 289.
<https://digitalcommons.unl.edu/honorstheses/289>

This Thesis is brought to you for free and open access by the Honors Program at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Honors Theses, University of Nebraska-Lincoln by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

Allianz Life Strategic Audit

An Undergraduate Honors Thesis Submitted
in Partial Fulfillment of
University Honors Program Requirements
University of Nebraska-Lincoln

By Evan Powell
Bachelor of Science in Business Administration
Actuarial Science, Finance
College of Business

April 18, 2021

Faculty Mentor:
Marijane England, Ph.D., Management

Abstract

Allianz Life is a company that specializes in creating life insurance and annuity products to wholesale to financial professionals. The company is based out of Minneapolis, MN, and is a subsidiary of the parent company Allianz SE. Allianz SE is the 46th largest company in the world and ranks number one for assets managed by an insurance company. Allianz SE is based out of Munich, Germany. This report aims to learn more about Allianz Life through internal and external analysis. The following analytical tools will be included: PESTEL, Porter's Five Forces, and SWOT analysis. These tools help to explain the business model of Allianz Life and how it can create competitive advantages in the strictly regulated world of insurance and annuities. Additionally, strategic recommendations are given for Allianz Life's next steps.

Keywords: Allianz, Allianz Life, insurance, strategy, annuities

Allianz Life Strategic Audit

Company Overview

Background

Allianz Life Insurance Company of North America (Allianz Life) is a subsidiary company of Allianz SE. Allianz Life specializes in wholesaling life insurance and annuity products and has recently started to focus on indexed annuities. Allianz Life became the number one carrier of fixed index annuities in 2008 and has remained at the top since (Allianz Life, nd). The company has very strong financial ratings and is highly accredited. A.M. Best gives a financial rating of A+ (second-highest of 16), Moody's gives a financial rating of A1 (fifth-highest of 21), and The Standard & Poor's gives a financial rating of AA (third-highest of 21) to Allianz Life. Strong financial ratings and a strong market share of the indexed annuity product line create unique opportunities for competitive advantage.

History

Allianz Life was created through a history of mergers and acquisitions. In 1896, North American Casualty was founded, and in 1910, North American Life Association was founded (Allianz Life, nd). The two firms merged in 1912 to create North American Life and Casualty (NALAC). NALAC, after being purchased by Allianz Global, then merged with Fidelity Union Life Insurance Company to form Allianz Life in 1993 (Allianz Life, nd). This company acquired LifeUSA in 1999 to represent the makeup of Allianz Life that is seen today. Allianz Life is headquartered in Minneapolis, MN.

Business Model

Allianz Life is a subsidiary of Allianz SE. Allianz SE is one of the largest financial services companies in the world in terms of global coverage, assets under management, and written premiums. Even after being an established company for some time, Allianz Life is still a growing company. In 2019, assets under management were \$151 billion, a 9 percent rise from 2018. Total premium grew 7.7 percent to \$13.73 billion in the same timeframe (Allianz Life, nd).

Allianz Life does not sell directly to policyholders. The company wholesales products to financial advisors, who then pitch the products to their clients. The company offers four product lines of annuities: fixed, fixed indexed (FIA), indexed variable (IVA), and variable. In addition, a fixed indexed universal life (FIUL) policy is offered (Allianz Life, nd).

While Allianz Life offers a decent selection of products, its focus lies on indexed annuities. Indexed annuities provide more potential earnings than fixed annuities and less risk than variable annuities. Within the indexed annuity spectrum, FIAs fall more on the risk-averse side than IVAs. Allianz Life was one of the first entrants in the indexed annuity space and quickly rose to the top. In 2019, Allianz Life led all companies in the United States in sales of FIAs at \$8.5 billion (Allianz Life, nd). IVA is a much more recent product line, and the industry still has a large potential market to be grabbed. IVA sales for Allianz Life in 2019 were \$3.8 billion, an 80 percent jump from 2018 (Allianz Life, nd). Being the industry leader in FIA and seeing outstanding growth in the IVA line creates strong and unique advantages for Allianz Life.

PESTEL Analysis

The PESTEL analysis is used for strategic business planning and incorporating strategies to reach business goals. It is an analysis that is done to look at external factors to the business to

better understand the macroenvironment surrounding it. The following factors will be examined: Political, Economic, Social, Technological, Environmental, and Legal.

Political

At the time of writing this paper, the COVID-19 pandemic has rattled the political landscape around the world and in the United States. Many policies have been enacted in response to the pandemic, including a series of stimulus payments. These payments were paid to United States citizens to curb the short-term effects of the virus on the economy. Some economists and analysts believe this will lead to an increase in inflation (Pladson, 2021). Former US Treasury Secretary Larry Summers states: "There's a real possibility that within the year, we're going to be dealing with the most serious incipient inflation problem that we have faced in the last 40 years". The increased inflation rate will cause the policy crediting rate demanded by insureds and annuitants to increase. This pressure caused by political actions under the Trump and Biden administrations will affect the insurance industry for years to come.

Economic

Historically low interest rates continue to affect the life insurance and annuity industry. The Federal Reserve slashed interest rates after the 2008 financial crisis, and rates have remained very low since (NAIC, 2020-a). Life insurers must maintain specific solvency benchmarks for their general account to make promised payments to insureds and annuitants. As a result, a large percentage of funds are invested into government and corporate bonds. The low interest rate environment makes it difficult to offer attractive rates on cash value life insurance and annuity products with a significant tie to fixed rates. Other complications for insurers from the low interest rate environment include liquidity and duration issues (NAIC, 2020-a).

Another economic concern is the damage caused by the COVID-19 pandemic. Life insurance and life annuity policies are priced and reserved by looking at mortality rates. As the effects of the COVID-19 pandemic on mortality become more apparent, the longer-term impact on the industry will be seen. Life insurers typically use a significant amount of reinsurance, so the effects will likely not be as pronounced as other areas of insurance such as health insurance (Leonard et al., 2020). Insurers that have a majority of business in annuities may actually see an improved performance during the pandemic since annuity payments often stop at the death of the annuitant.

Social

The aging population of the United States presents a unique challenge to the life insurance and annuity industry. Increasing health and care needs, uncertain life expectancy, and a smaller percentage of working individuals will lead to higher costs (Singleton et al., 2018). The risk of an individual outliving their savings becomes heightened with a population that lives longer. Annuities provide a defense against this aging risk, as they provide income streams until the death of the annuitant. The insurance industry feels the pressure to provide retirement solutions to the aging population.

Technological

Technological advancements continue to be made at increasingly high rates. Technology in the insurance industry is no exception. Insurance companies continue to invest in new technologies, with IT spending at life insurers jumping from 26% of all company spending to 29% of all company spending from 2012 to 2017 (Krishnakanthan, 2019). New advancements in automation, digital applications, and advanced-analytics engines provide unique opportunities to create more efficient business practices and reach new customers (Krishnakanthan, 2019).

Automation and improved analytics engines allow insurance companies to run more efficient models when looking to price and set reserves for their products. Improved algorithms allow life insurers to automate the underwriting process for some insurance products, giving consumers instant rates. These instant rates create a much higher level of convenience for consumers. While health insurance and property and casualty insurance are better known for their use of data mining and data engineering techniques, the life insurance industry is not far behind.

Environmental

Many insurance companies have corporate initiatives to better the environment. However, the inputs and outputs for the insurance industry have little reliance on environmental factors. In the past, the largest argument for an environmental factor is the use of paper in the industry and how deforestation may affect this input. However, in the digital age, even this input is much less prevalent. Looking long-term, global warming and other environmental crises may affect mortality rates. Between 2030 and 2050, climate change is expected to cause an additional 250,000 deaths per year ("Climate Change and Health", 2018). The majority of these deaths will occur in developing nations, where financial products are purchased less per capita, so the effects on the industry are still to be seen.

Legal

The insurance industry is one of the highest regulated industries, and regulatory agencies create many laws and regulations that must be followed. Life insurance and annuities are regulated by state insurance commissions (NAIC, 2020-b). In addition, policies with an investment component are regulated by the Securities and Exchange Commission (SEC). Recent

trends have called for state insurance commissions to adopt model regulations and laws set forth by the NAIC and other national insurance organizations (NAIC, 2020-b).

According to Deloitte, a well-positioned consulting firm, the following regulatory focus areas will be seen in 2021: digital transformation and data, operational resilience and workforce transformation, financial resilience, the evolution of state-based regulation, and climate risk ("2021 Insurance Regulatory Outlook", 2021). It is apparent that a continued emphasis on data privacy and digital consumer engagement remain important legal forces. As technology and data reliance advance, it is important to hold insurers accountable. Compliance practices will likely be more integrated into company operating models and cultures going forth ("2021 Insurance Regulatory Outlook", 2021).

Porter's Five Forces Analysis

This analysis will be restricted to the indexed annuity industry as this is the primary product sold by Allianz Life. This analysis will look at the following five forces: competitive rivalry, supplier power, buyer power, the threat of substitution, and the threat of new entrants.

Competitive Rivalry

Competitive rivalry in the indexed annuity market is high. The industry is growing and attractive, and the number of competitors is increasing. Major competitors include Athene, AIG, and Nationwide. One feature of the industry that is keeping forces felt by competitive rivalry lower is the high switching costs between products due to surrender charges (Termini, 2021).

Supplier Power

A major supplier in the life insurance and annuity industry is reinsurers. Reinsurers assume risk from an insurance company rather than policyholders. This includes risks such as mortality risk, surrender rate risk, investment risk, and catastrophe risk (Besner, 2004). Insurance

companies use reinsurance to handle extreme and unpredicted losses better. This allows them to take on larger blocks of business and take more aggressive strategies as a result of transferring some risk. Reinsurance is drawn up through a contract that clearly defines the scope and mechanics of the risk transaction (Besner, 2004). Reinsurers have a tremendous amount of bargaining power as suppliers. In 2003, the top five life insurance reinsurers captured 75.3 percent of the market, and the top fifteen captured 100.0 percent (Besner, 2004). The small number of reinsurers increases the pressures felt by insurance companies looking for reinsurance.

Buyer Power

Allianz Life does not typically sell directly to annuitants but rather to financial advisors that pitch the products to clients. There is currently a network of over 380,000 financial professionals who work with Allianz Life products (Allianz, 2021). The bargaining power of any one financial professional is very low. Financial professionals acting in the best interest of their clients often want to procure the best available product, and the consistently strong financial ratings and market leadership by Allianz Life demonstrate the quality of the products.

Switching costs affect the bargaining power of buyers, and it provides an interesting case for indexed annuities sold by financial professionals. Switching costs for an annuitant are high. Early withdrawal fees and cancellation fees often reach up to ten percent of account value, which helps to lock the annuitant into a long-term commitment to the policy (Termini, 2021). However, the switching costs for financial professionals selling annuities to new policyholders are low. These financial professionals often have a good understanding of indexed annuities, and would just have to learn the nuances of the new annuity product. If a financial professional is more concerned with serving its existing indexed annuity customer base, bargaining power is

decreased. If a financial professional is more concerned with selling new indexed annuity policies, bargaining power is increased.

Threat of Substitution

The threat of substitution for an indexed annuity is high. Many financial products serve the same main goal of an annuity – providing income during retirement. Similar products include 401(k) plans, Traditional and Roth IRAs, and general brokerage accounts. Annuities offer benefits such as tax-deferred growth and tax-advantaged income, but this comes at a cost. Administrative costs and early withdrawal penalties are negative aspects of owning an annuity (Termini, 2021).

Indexed annuities are not directly invested into the market. They are tied to an index, and the insurer credits the annuity. The crediting structure often narrows annual credit variability through crediting rate caps, buffers, participation rates, and floors. This added protection can be mimicked in other financial products. Investments can be put in more risk-averse securities such as bonds leading up to and during retirement. Hedge funds and mutual funds may also be used as substitutes for indexed annuities. These funds often have a combination of funds that work the same goals of wealth accumulation and distribution.

Threat of New Entrants

The threat of new entrants is moderate. While indexed annuities are one of the more complicated financial products available, most insurers have the capabilities to launch an indexed annuity product. One aspect holding insurance companies back from launching their own indexed annuity products is the amount of regulation in the insurance industry. It is a timely and costly process to get all of the requirements and reports ready for review by state insurance commissions and the SEC (NAIC, 2020-b). This barrier to new product launches helps keep the

pressure of new entrants down, but it is still a pressure to be felt by those in the indexed annuity market.

SWOT Analysis

The SWOT Analysis is used to look at internal and external factors that may affect a company and its objectives. Strengths and Weaknesses are internal factors that can be controlled by the organization. Opportunities and Threats are external factors that are controlled outside of the organization.

Strengths

Allianz Life has a variety of strengths. One strength is brand recognition. The parent company, Allianz, has the 39th highest brand value of companies in the world. The brand value is worth almost \$13 Billion ("Allianz: Allianz once again...", 2020). This is due to a very involved advertising strategy. Allianz sponsors seven sporting facilities, including Allianz Arena in Munich, Germany and Allianz Field in Minneapolis, MN. Even though Allianz Life is a subsidiary, it still has the instant brand recognition that comes with the parent company. A financial professional that looks at a product being pushed by a representative of Allianz Life is likely to think of a reputable and credit-worthy company.

Another strength is the market share that Allianz Life currently holds in the indexed annuity market. Since the inception of indexed annuities, the company has been at the top or near the top for new business sold. A consistent history and proven knowledge of the industry lead to strengths that the company can leverage.

Weaknesses

As seen in the Strengths section, being a subsidiary of a large company has its advantages. But it also has its disadvantages. The subsidiary is expected to act in the best interest

of the parent company and to realize the profits required. The parent company is present on all continents except Antarctica (Allianz SE, nd). Allianz SE views its operations in Europe to be its primary concern, and it is one of the leading insurers in the Asia-Pacific (Allianz SE, nd). Its presence in North America is not as prevalent. Allianz Life serves as the main subsidiary in North America. It can be viewed as a weakness that North American operations are not the focal point of the parent company. Finding the right balance of autonomy is difficult for any subsidiary that operates in an international parent company.

Opportunities

The largest line of business being pushed by Allianz Life, indexed annuities, is a relatively new product line in the insurance industry. There is still a significant amount of indexed annuity products that can be developed, and it provides an opportunity in the industry that the company can capture. Common developments center around changing crediting features associated with the annuity - such as caps, buffers, floors, and participation rates related to the index ("Buyers Guide to Fixed...", 1999). Other features involve the crediting term length and different crediting methods such as point-to-point and annual reset ("Buyers Guide to Fixed...", 1999). Combinations of these features and others lead to unique products that reach new target markets. One concern of annuities that many individuals hold is that crediting rates are too low; this is often seen with fixed annuities. A way to counter this with an indexed annuity is to offer a product with a high crediting term, with a high or no cap, and a high participation rate in the index. Competitors have launched products such as this, and it presents an opportunity to capture a share of the retirement market that is more concerned with high-growth potential and would have typically invested in products such as mutual funds and hedge funds.

Threats

One threat Allianz Life faces stems from the intense regulation of the insurance and financial services industry (Bhasin, 2019). Since the parent company is on an international scale, Allianz Life has to incorporate multiple financial reporting methods: GAAP for United States reporting, and IFRS for international reporting. Having to report with two different reporting standards is not an issue faced by all firms in the industry. Staying up to date on one reporting method is difficult enough, but having to for two is even more difficult. Reporting with two standards requires additional manpower for the financial reporting team and can create confusion. This is a threat for the company.

Strategic Recommendations

After researching the company background and performing PESTEL, Porter's Five Forces, and SWOT analyses, I have developed strategic recommendations for upper management at Allianz Life.

Focus on Products with High Accumulation Potential

The first recommendation I have is for Allianz Life to focus on indexed annuities with a high accumulation potential. With treasury rates at historic lows and the threat of increased inflation looming, individuals looking for retirement products will demand a higher rate of return. The highest selling IVA product at Allianz Life is the Allianz Index Advantage Index Performance Strategy with a 3-year term. This product offers the longest crediting term and highest crediting rate cap of any IVA product at the company. The company should double down its efforts to service its existing high-accumulation indexed annuities and create new ones. To offer even more potential gain for an annuity, the company could look into launching products that have a longer crediting length, a higher crediting rate cap, or a higher participation rate in the index.

Take Appropriate Actions During the Pandemic

The COVID-19 pandemic has affected many businesses in negative ways. However, I see ways to take appropriate actions against the pandemic and increase brand recognition and reputation as a result. One action is to use Allianz Field as a vaccination site. Many sports stadiums have been serving as vaccination sites to increase mass immunization. Allianz Field, which is the home stadium for Minnesota United FC, would be in the public eye for a good cause and improve brand image for Allianz Life.

Allianz Life has shown great initiative in giving back to underserved individuals in the Twin Cities. These individuals have been hit hardest by the pandemic, and Allianz Life increasing its efforts to give back in this time of need would further this cause. This is another action that the company should implement.

Allow Purchasing Products Directly from Allianz Life

Allianz Life currently sells its products exclusively through financial professionals. A channel for policyholders to purchase directly from the company should be established. This can most effectively be done with a website that you can apply for policies on. With the advancements made in insurance technology and automated underwriting, it is more feasible to create a system where policyholders can obtain policies without consulting a financial professional.

The one concern I have with the implementation of this strategy is that the product line currently offered by Allianz Life is a very complex one. FIUL, FIA, and IVA are some of the more complicated financial products available in the market. The company may want to offer more straightforward products such as term life insurance with the launch of a direct-to-consumer channel such as this. Offering simpler products directly to the consumer would get an

initial, cheap policy in the policyowner's hands and open opportunities for pushing more complex, involved policies to the same policyowners.

Conclusion

Allianz Life has a rich history of providing great financial products to policyholders. Its current market share of the indexed annuity market is substantial, and there are many reasons for this. As the industry and consumer expectations continue to evolve, the company needs to take appropriate actions not to get left behind. Allianz Life should ensure that its products have the features that capture the maximum amount of the current and new markets. Consumers should find products accessible and should have a strong sense of respect for Allianz Life.

Bibliography

2021 insurance Regulatory Outlook. (2021, February 09). Retrieved March 24, 2021, from <https://www2.deloitte.com/us/en/pages/regulatory/articles/insurance-regulatory-outlook.html>

Allianz: Allianz once again named the world's #1 INSURANCE brand IN Interbrand's best global BRANDS RANKING. (2020, October 20). Retrieved March 30, 2021, from https://www.allianz.com/en/press/news/company/brands/201020_Allianz-again-best-insurance-brand-in-interbrand-ranking-2020.html#:~:text=%E2%80%9CWe%20are%20immensely%20proud%20to,almost%20%2413%20billion%20in%202020.

Allianz Life. (n.d.). Annuities and Life Insurance: For All That's Ahead. Retrieved March 17, 2021, from <https://www.allianzlife.com>

Allianz SE (n.d.). We Secure Your Future. Retrieved March 17, 2021, from <https://www.allianz.com/en.html>

Besner, R., FSA. (2004, October). *Life Reinsurance*. Address presented at Conference on Insurance Regulation and Supervision in Asia. Retrieved March 30, 2021, from <http://www.oecd.org/finance/insurance/35272227.pdf>

Bhasin, H. (2019, May 17). SWOT analysis of Allianz - Allianz SWOT analysis. Retrieved March 31, 2021, from <https://www.marketing91.com/swot-analysis-allianz/>

Buyer's Guide to Fixed Deferred Annuities with Appendix for Equity-Indexed Annuities
[Pamphlet]. (1999). NAIC.

Climate change and health. (2018, February 1). Retrieved March 24, 2021, from
<https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>

Krishnakanthan, K., Münstermann, B., & Purushothaman, K. (2019, December 16). The
insurance switch: Technology will reshape operations. Retrieved March 24, 2021, from
[https://www.mckinsey.com/industries/financial-services/our-insights/the-insurance-switch-
technology-will-reshape-operations#](https://www.mckinsey.com/industries/financial-services/our-insights/the-insurance-switch-technology-will-reshape-operations#)

Leonard, M., Snell, D., & Barry, M. (2020). *COVID-19's impact on global growth and the
insurance industry is likely deeper and wider than the current consensus, and could last
well into Q3 and beyond* [Pamphlet]. Insurance Information Institute.

MetLife, Inc. PESTEL analysis & Environment Analysis. (n.d.). Retrieved March 31, 2021, from
<http://fernfortuniversity.com/term-papers/pestel/nyse4/1018-metlife--inc-.php>

NAIC. (2020, September 3-a). Low interest rates. Retrieved March 23, 2021, from
https://content.naic.org/cipr_topics/topic_low_interest_rates.htm

NAIC. (2020, September 3-b). Life insurance. Retrieved March 23, 2021, from
https://content.naic.org/cipr_topics/topic_life_insurance.htm

Pladson, K. (2021, March 12). Will Biden's covid relief plan cause inflation? Retrieved March
31, 2021, from [https://www.dw.com/en/will-bidens-covid-relief-plan-cause-inflation/a-
56844984](https://www.dw.com/en/will-bidens-covid-relief-plan-cause-inflation/a-56844984)

Singleton, M., Desai, B., Francombe, P., & Savarese, D. (2018). *Who Pays for Ageing?* Swiss Re. doi:https://www.swissre.com/dam/jcr:015c5fa7-0cd2-4c5c-a0f7-69c0e112c5e8/Expertise%20_Publication_The_health_protection_gap_in_Asia_short_version.pdf

Termini, A. (2021, January 13). Annuities vs. stocks: Understanding the pros and cons of both (1268894166 937433182 R. K. Hossain, Ed.). Retrieved March 24, 2021, from <https://www.annuity.org/annuities/strategies/annuities-vs-stocks/#:~:text=The%20main%20difference%20between%20this,available%20through%20common%20stock%20ownership.>