S&P INDICES

Q&A

INDEX INNOVATION IN THE INSURANCE SPACE

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Q. Has index innovation changed the insurance market?

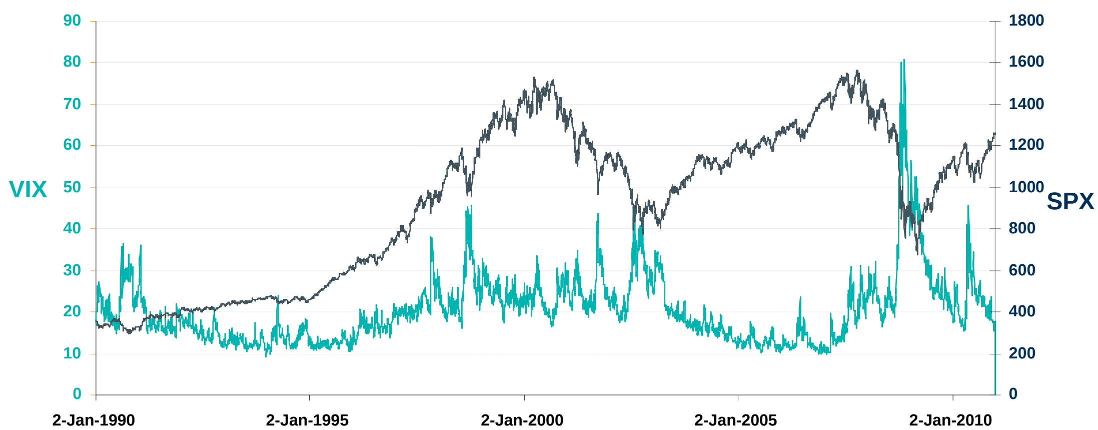
A. Index-linked insurance products, in general, are innovative in terms of the insurance industry. Since their introduction, index-linked products have been well-received by the fixed segment of the insurance market. The growth of indexed-linked insurance products can be attributed to the increase in the number of trading and investment vehicles that are now linked to indices. This growth has given consumers the opportunity to review more insurance products that offer market participation along with some downside protection, and allows producers to offer more products that meet their clients' needs.

Q. Can you provide an example of innovation in insurance product design?

A. In terms of innovation in product design, the Guaranteed Lifetime Withdrawal Benefits ("GLWB") rider has also contributed to the growth in these products. GLWBs generally tend to be very costly to insurance carriers as well as consumers. Therefore, to maximize the accumulation rate on the GLWB, insurance carriers are beginning to turn to different products, such as those linked to the S&P 500® VIX® Futures Index Series to help offset some of the cost. This index can be used to align the risk/reward tradeoff with that of the insured, thereby offering greater benefits and potentially lowering costs.

The chart below demonstrates the inverse relationship between the S&P 500 and the VIX.

VIX and S&P 500 Indices



Source: S&P Indices and CBOE (www.cboe.com/VIX). Data from January 2, 1990 to December 31, 2010. Graphs are provided for illustrative purposes. Past performance is not a guarantee of future results.

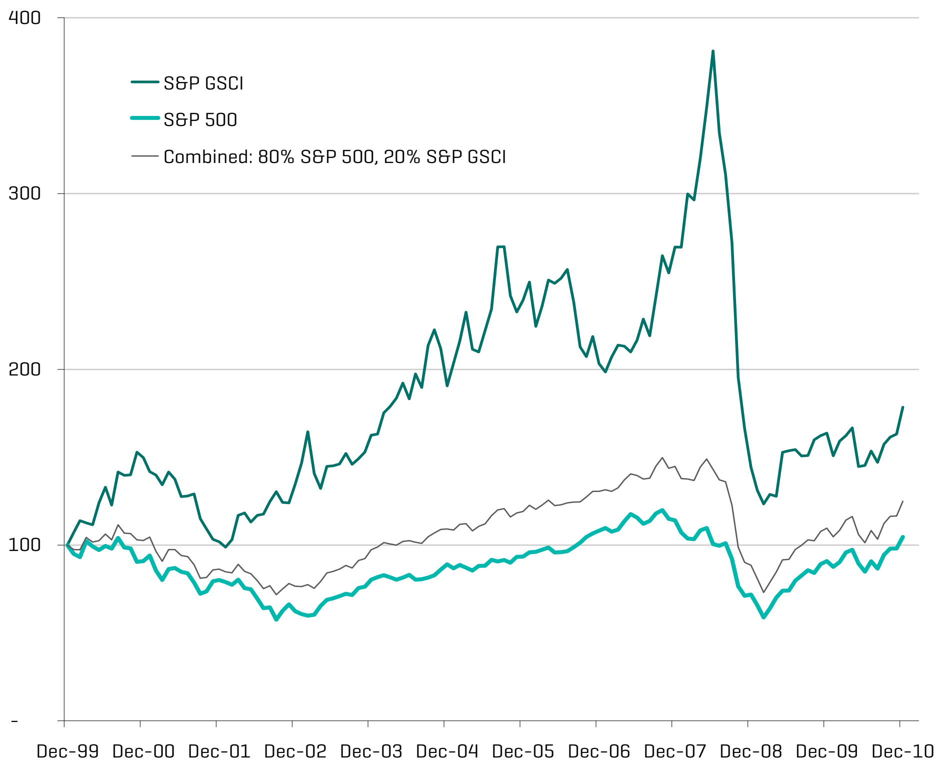
Q. In terms of index-linked crediting options, what are carriers doing to offer diversification and principal protection?

A. One example that comes to mind is the S&P GSCI®, a commodity-based index that has gained a lot of attention due to the recent movements in gold and other precious metals. As a crediting option, products linked to the S&P GSCI provide diversification in the commodities sector along with the downside protection offered by many index annuity products. The S&P GSCI offers producers a means of providing diversification to their clients.

Using both the S&P 500 and the S&P GSCI for diversification can be advantageous.

The charts below demonstrate how the performance of an equity portfolio (represented by the S&P 500) may improve by including exposure to the S&P GSCI.

Benefits of Adding S&P GSCI Exposure to a Portfolio



Source: Bloomberg Daily Closing prices December 31, 1999 to December 31, 2010. Graphs are provided for illustrative purposes. Past performance is not a guarantee of future results.

Dec. 1999 - Dec. 2010	S&P GSCI	S&P 500 TR	Portfolio: 80% S&P 500, 20% S&P GSCI
Total Return	78.46%	4.60%	24.90%
Annualized Total Return	5.36%	0.41%	2.03%
Standard Deviation	24.99%	16.41%	15.14%
Correlation			
S&P GSCI	1.00	0.26	0.58
S&P 500 TR	0.26	1.00	0.93
Portfolio: 80% S&P 500, 20% S&P GSCI	0.58	0.93	1.00

Source: Bloomberg Daily Closing prices December 31, 1999 to December 31, 2010. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Q. What makes the index-linked insurance market an attractive option for investors navigating the current financial environment?

A. Index-linked insurance products are actually gaining a lot of attention in the insurance space. This can primarily be attributed to the low interest rate environment currently seen for fixed products. Insurance carriers as well as consumers are looking for higher yields, one of the main drivers for index products. As demand increases for these products, more carriers are flocking towards the index-linked insurance market and are finding different ways to position themselves within this market.

Q. What do you think the future holds for the insurance market?

A. These products will likely continue to grow in popularity, both in terms of the number of companies offering index-linked insurance products and consumers seeking the diversification and downside protection they offer.

To support the quest for knowledge about these products, S&P Indices provides educational content specifically tailored for advisors to help increase their knowledge and better communicate with their clients.

Alan Grissom

Alan Grissom, Vice President at S&P Indices, is responsible for insurance channel management.

Prior to joining S&P Indices, Alan was a founding partner of Advisor Intel, a marketing and consulting firm serving insurance carriers and financial advisors, as well as a founding partner of Enso Software, a software development firm focused on financial illustrations and concepts.

With over 15 years of experience in the insurance space, Alan has worked for some of the largest insurance carriers in the world. Most notably, Alan was named Director of the Independent Distribution Channel at American General Life and Accident after successfully leading the annuity products division to record sales and profits for over six years.

Alan has a master's degree from Vanderbilt University's Owen School of Management and a bachelor's degree from The University of Alabama.

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