Life insurance comes of age in Asia Pacific

For too long, the life insurance sector has been the dull cousin of general insurance – lacking the dynamism and product innovation that grows the market and attracts the best talent. All that is changing as life insurance and wealth management find lucrative common ground that could spell a bright future for a hybridised form of protection. We spoke to **HSBC Global Insurance**'s **Mr Edward Moncreiffe** for insights.

By Paul McNamara

Asia is presently experiencing a new set of socioeconomic and demographic pressures that are creating real demand for estate-planning solutions. Some of these pressures stem from rapidly ageing and increasingly wealthy societies.

First-generation wealth creators are now looking for ways to consolidate their position and also to pass their legacies onto the next generation. A macro environment of low interest rates and significant equity volatility has made insurance an attractive and reliable instrument to underpin such legacy planning.

Opportunity knocks

This is where a small group of life insurers have spotted an opportunity for real growth.

"What we have seen in the past 20 years in Asia for product development has been a largely traditional set of whole-of-life and universal-life products," said HSBC Global Insurance chief executive officer Edward Moncreiffe. "These are typically participating or with-profits in nature, backed by a general account or single fund where the assets, predominantly fixed income, are managed by the insurer."

Such products fell out of favour when interest rates started to decline – prompting savvy life insurers to think more laterally.

"There has been a sizeable shift, led by the Singapore market, into indexed or variable legacy products," he said. "The two new solutions that we offer now in Singapore are a variable universal-life plan and an indexed universal-life plan. The indexed universal-life plan really changes the way that the assets are managed.

"The customer chooses a combination of the general account, which the insurer manages, and which is fixed income – and an indexed account, where customers can choose the index to allocate their premiums," Mr Moncreiffe said.

There are also safety rails in place.

"That index is then capped with a cap and a collar," he said. "You're guaranteed to 0%, you're capped at 10% and you are then still accessing capital markets but not taking any loss because it's floored at zero. The customer chooses the level of the premium split between the general account and the indexed account. That typically allows the customer to access higher investment returns, take a little bit more risk and have a slightly lower premium or cost of protection as a result.

"We are also one of the very few to offer variable universal-life plans. These are entirely bespoke, customised products for each individual policyholder, and they are effectively cash free.

"Instead of paying a premium to the insurance company, the customer would pledge assets which, for us, need to be market observable or listed or liquid assets in exchange for cash premium. That effectively requires individual facultative underwriting and investment parameters. We then assume ownership over those investments during the life of the policy.

"This is quite attractive to a lot of high-net-worth customers because it solves for liquidity and most high-net-worth customers minimise liquidity calls. Not having to sell assets in order to pay premiums, whilst increasing and diversifying your estate value, is an attractive solution," said Mr Moncreiffe.

Singapore to the fore

Hong Kong and Singapore are both significant financial centres, so why has Singapore taken the lead in this field?

"I think Singapore has had to be a bit more innovative," said Mr Moncreiffe. "Hong Kong has this very large greater China high-net-worth diaspora that naturally chooses to manage wealth in Hong Kong. Singapore has had to be more competitive. It also has a more facilitative regulatory regime for unit-linked or index-linked products within the insurance sector."

Does Mr Moncreiffe think that these new products will make it to Hong Kong?

"Yes, because I think there is pressure in Hong Kong to protect and develop its high net worth markets and capabilities across the value chain," he said.

"These are not isolated insurance products. The product management ultimately feeds asset management and capital markets companies. Unlike a traditional general account insurance product where I can manage it with a small investment team in-house, these solutions create a value chain and a supply chain that go into wider financial services," said Mr Moncreiffe.

Hybrid insurance and wealth management

So, life insurance is muscling in on the wealth management sector?

"Absolutely," he said. "It is exactly that. It is life insurance going outside its narrow box of protection and retirement and delivering genuine wealth management solutions. In a way, the US market has been like this for years. It has taken time to arrive at scale in Asia.

"There are only a handful of players, including us, who for the past 20 years that have really been doing high-net-worth legacy plans, but now the whole market wants in because it's a big growth engine, with regional premiums at roughly $11bn a year.

"These products serve three purposes," said Mr Moncreiffe. "One is traditional protection, where you're leveraging a very large death benefit for a relatively small premium. Second, is the estate planning piece, which we see as the primary driver of demand.

"And the third thing is key man and business continuity. You have a lot of first-generation business owners and entrepreneurs in Asia who are reaching a certain age, and this is a way effectively for the company to make sure that when the visionary leader passes away or transfers to the next generation, the business protects the value that that person brings," said Mr Moncreiffe.

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Future developments …

Where does this take the industry in the next two to five years?

"It will just get bigger and bigger," said Mr Moncreiffe. "It's $11bn in premium today and it's growing double digit and it's going to continue to grow double digit. Demographics and demand for wealth transfer in Asia will drive this. And it means that more and more players will try to muscle into this space.

"But the barriers to entry are quite high in terms of the underwriting capability, the asset-liability management capability, the balance sheet resilience and credit rating strength, the financial crime and controls that you need to put in place. I think there's a moat around it.

"But it's likely you'll see more international financial cities and governments competing for this. Wealth is increasingly borderless, so the competition for this business will always be international," said Mr Moncreiffe.

.. including distribution

"Perhaps the most interesting part is going to be around how distribution evolves. Today, the market is split roughly 60% from brokers and 40% from banks because they are the ones that have been prepared to invest in the human capital, manage the licensing risk and the conduct risk and specialise in this business.

"If you look at other markets around the world, it's evolved very differently in terms of broker-dealers and IFAs. Now we also have family offices and independent asset managers looking at this as a core part of their wealth servicing proposition. The evolution of distribution will be just as important as the evolution of product design," he said.