

HNW sector growth = Insurer opportunity



Asia Pacific's high-net-worth market is dynamic, active, and growing rapidly due to the region's entrepreneurial surge over the past decade and a half.

Ms Carmony Wong of RGA takes a look at the current landscape.

The world's high-net-worth (HNW) market today totals approximately 12.4 million individuals, all of whom have investable assets of more than US\$1 million. Asia Pacific comprises 4.3 million of those individuals, or more than one-third of the total.

Since 2000, the tremendous wealth developed in this region via entrepreneurial ventures has launched it into the higher levels of the globe's fast-growing HNW market, with both mature and developing economies contributing to this rising wealth.

According to the Wealth-X and UBS World Ultra Wealth Report 2014 as well as recent research from Capgemini (which has been studying the world's wealthy for more than two decades), the Asia Pacific's HNW cohort is growing faster, both in size and assets, than are markets in the rest of the world.

Indeed, Capgemini's Asia-Pacific Wealth Report 2014 states that from 2008 to 2013, the region's HNWI population rose by 17.3% and its wealth by 18.2%, versus 13.5% and 12.3%, respectively, worldwide.

The HNW market today is divided into three basic tiers, which are ranked by available investable assets. "Millionaires next door" have US\$1 million to \$5 million; mid-tier millionaires, \$5 million to \$30 million; and ultra-HNWs have more than \$30 million. The fast-growing mass affluent market, which consists of individuals and families with investable income of between \$100,000 and \$1 million, is also coming into its own as a tier in Asia Pacific. All of these market segments represent substantial opportunity for insurers.

The niche emerges, strengthens

In the mid-1990s, life insurance – primarily universal life contracts – first began to be used in the US as a way for high-

net-worth individuals (HNWIs) to diversify their investment risk and protect estate assets. These products offered death benefits, attractive crediting rates and the opportunity to build cash values available for borrowing or withdrawals.

By the early 2000s, this concept had migrated to Asia Pacific, but it did not initially find traction. Few countries in the region have inheritance or estate taxes, and its primary use in the US was the cost-effective funding of intergenerational estate tax plans.

By 2007, however, as entrepreneurship in the region expanded, the HNW market for life insurance for both business and personal needs grew rapidly. Carriers established onshore underwriting units to collaborate with growing ranks of insurance brokers specialising in the HNW market.

Private and investment banks, meanwhile, were successfully assuming management of assets and estate planning for the region's wealthy. These specialist brokers and private banks soon became integral to the process of developing insurance solutions for the asset management, business continuity and estate planning needs of Asia Pacific's traditional and new wealth.

Entrepreneurs a growing segment of HNW market

Today's Asia Pacific HNW market consists primarily of inheritors, entrepreneurs, and key employees of entrepreneurial ventures. Much of the sector's recent growth has come from entrepreneurs, who are pivotal to the strengthening large-case life insurance niche.

These individuals, typically between the ages of 40 and 60, have a myriad of personal and business investments, financial and estate planning needs, including wealth accumulation and protection, investment and debt risk



mitigation, business continuity planning, and tax and inheritance protection of investment and estate assets.

Products and distribution

Currently, universal life represents more than 90% of all life insurance policies sold to Asia Pacific region HNW clients.

These policies are mostly (though not exclusively) US dollar-denominated single premium products. Premiums, which can be between 30% and 50% of the sum assured value, are financed by their private banks with loans also frequently issued in US dollars. The policies are structured with a declared crediting rate which can change over time, and most provide a guaranteed minimum rate.

Specialist insurance brokers, the main product distribution arm, work closely with the client, the insurer, and the client's private bank.

The number of insurers providing products for HNW and mass affluent customers has expanded substantially. In the early 2000s, most insurance policies for wealthy individuals and families were issued by offshore insurers (mostly in Bermuda), which had the capacity to issue these sizable policies.

Over the past few years, Asia Pacific providers have developed sufficient capacity for the HNW market as well as products denominated in currencies for rising needs, such as RMB-denominated policies for investment and currency appreciation.

Today, most Asia Pacific HNW clients buy their policies in Hong Kong and Singapore. Hong Kong buyers are mainly local residents, mainland Chinese and Taiwanese, and Singapore buyers are primarily Singaporeans, Malaysians and Indonesians.

The mass affluent market has also recently seen some active development. Many local insurers have developed single premium whole life products for mass affluent customers which are sold through agents and their bank networks. In addition, several insurers are preparing to offer onshore products as well as services for mass affluent customers in Taiwan, Indonesia, Malaysia, China and Korea.

Underwriting

Over the past decade and a half, HNW underwriting has evolved into its own specialty, in order to meet the many and growing challenges of creating solutions for the unique blend of personal, business and family legacy needs of the region's wealthiest.

Financial underwriting for HNWs is stricter than for the traditional market. Insurers need to assess the tax structure of an applicant's domicile, for it will influence the development of an appropriate sum assured. Financial evidence is also important, but can be a challenge for applicants in some developing countries, as many are asset-rich but low in income.

Insurers would also do well to ensure an applicant's relationship with his or her private bank is of sufficient duration – ideally, two years at the minimum – to demonstrate a reliable, solid track record of the applicant's financial



status. Given the high premium amounts, as well as the fact that the policy is collateral for the loan, insurers need some confirmation that the financial information is accurate.

As HNWs frequently travel for business and personal reasons to stable as well as unstable regions, insurers may want to consider travel patterns when assessing an applicant's risk, to determine if the particular risk can be accepted, and if so, on what terms. Given that medical underwriting for HNWs is stricter as well, and not every medical test might be available in every country, coordination of tests with an HNW's travel schedule is a must.

Benefits, challenges and opportunities

Life insurance can be a powerful, cost-effective tool in wealth and estate planning solutions, and HNW and mass affluent markets represent a broadening range of opportunities for product development and the provision of value-added services. Insurers must craft innovative ways to expand and enhance their offerings to target new entrants into mass affluent spaces.

Both inheritors and entrepreneurs have needs that are specific to the levels and nature of their wealth. Inheritors tend to hesitate to discuss estate planning with their elders, who are in turn less than willing to cede control of their assets to a trustee. Entrepreneurs, meanwhile, have unusually blended personal and business assets, an aspect that adds an extra layer of complexity to their financial and estate planning needs.

Products for this market are focused more on the investment aspect than on any life insurance need. Insurers interested in entering or expanding the market will need to ascertain several issues, including anti-selection risk and the tax structure of the domicile in which these products will be offered. In addition, today's highly competitive market means policies continue to require attractive guaranteed crediting rates.

Clearly, substantial opportunities exist to expand the HNW onshore market in many Asia Pacific countries, creating new customers and new markets. Companies that understand the range of clients that currently qualify as HNW will be the ones best positioned to serve the needs.

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