

HIGH NET WORTH BUSINESS - PART I



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Who is a high net worth individual?

When defining insurance and non-insurance wealth bands, a high net worth individual (HNWI) is defined as a person with a net worth of at least US\$1 million, and an ultra-high net worth individual (UHNWI) is a person with a net worth of at least US\$30 million in financial assets, excluding primary residence, collectibles and consumer durables. HNWIs tend to be self-made professionals, entrepreneurs and those who inherit large sums of money, and are typically between the ages of 40 and 60. There are a number of key organizations that specialize in the high net worth market, including banks, brokers and insurance companies.

Where are HNWIs?

Asia Pacific boasts the largest number of HNWIs and, since 2014, the highest HNW wealth globally. Despite a slowing of the region's economies, political upheaval and a rising US dollar, Asia Pacific's HNWI numbers overtook those of North America, growing by 8.5% to reach 4.7 million in 2014, a million more than in 2012. By 2015, the number had surpassed 5 million, reflecting a further 9.4% increase over 2014. The region's HNWI numbers grew at 3.5 times the rate of the rest of the world, while the wealth of HNWIs grew at 5.8 times the rate. India recorded the largest gains in HNWIs (26.3%) and wealth (28.2%), moving into third place after Japan and China for HNWI wealth across Asia Pacific, displacing Australia into fourth position. China, Indonesia and Thailand all showed large increases in their population and in wealth due to strong equity and real estate market gains. While China is expected to be the strongest driver of global economic growth up to 2025, Hong Kong, India, the UK and the US are also contributors to economic expansion, particularly in the financial services, high-tech and health care industries.^{1,2}

Executive Summary Asia Pacific now has the highest number of high net worth (HNW) individuals as well as the highest HNW wealth in the world. China has emerged as the fastest growing market for HNW business, driven by customers' needs for estate and legacy planning. Investment income remains the top source of wealth for Chinese HNWIs, who are mostly investing abroad in order to avoid fluctuating risks in their home markets. Making the process of investment and insurance as effortless as possible is essential; over half of HNWIs will source insurance cover from a sales agent rather than through banks or websites. Given the aging population in many countries, retirement and long term care products are of particular interest, as well as products that offer additional benefits, such as genetic screening or access to cutting-edge treatment. However, establishing the true identity of the clients and the legitimacy of their finances is crucial, and all applications, no matter how large, will require third-party verification of accounts and financials.

What is important to HNWIs?

Business succession planning is the focus of nearly half of all HNWIs; other concerns include varying the product mix and diversifying investments outside of their domestic market. Unlike affluent customers in other regions, Asia Pacific HNWIs have a strong preference for holding their assets in cash or bank accounts, while their international investments are typically placed in global financial centers such as New York, Singapore, London and Tokyo. HNWIs prize expertise in investment management, specifically in growth-oriented investments.

Younger HNWIs in the emerging markets of Indonesia, Malaysia, China and India are particularly keen on investing in dedicated socially responsible

investment (SRI) funds. Wealth managers need to facilitate goal-based financial offerings to social-impact investors, but must be provided with the product knowledge and digital tools to expedite the business. Indeed, use of digital technology is ranked high in importance by the younger HNW generation when they are considering working with wealth managers to increase their assets. Relationship managers must be able to engage with clients through digital tools and through social media in order to leverage future business, as they allow the wealth manager to become more productive and access information on their client.

Making the process of investment and insurance as seamless as possible is essential to the HNWI. Additional important criteria for selecting a financial product are working with a single point of contact who offers a tailored approach and a high degree of personalization, as well as having an established relationship with the advisor, which helps to foster confidence and trust in the product offerings.

What insurance products are HNWI's interested in?

High net worth insurance is generally universal life (UL) single-premium business, denoted by a high sum assured and a flexible death benefit amount, with guaranteed interest rates on the investment. Life products are a fairly safe form of investment that can also help with estate and inheritance tax planning. Many product names include the terms *private*, *platinum*, *wealth*, *heirloom*, *elite*, *privilege* and *signature*, indicating the “white glove” nature of the products targeted specifically to the UHNWI.

 Investing through UL products can have several advantages for HNWI's:³

- Interest, dividends and capital gains are not taxable, making the cash value grow faster than a taxable investment.
- Withdrawals and loans are allowed against the policy's assets without any tax implications.
- The death benefit is a non-taxable event.

Retirement and annuity products are also generating interest, which is not surprising given the growing size of China's aging population, which is expected to reach 243 million people aged 60 and over by 2020. The demographic trends of Japan's market also lend themselves to retirement and inheritance planning; a quarter of its population was over 60 in 2013, a number that will continue to rise.

It is predicted that elderly care home cover and retirement planning are the future trends in the insurance market, with products directed at alleviating the cost of long-term care helping to fill the gap.⁴ Over half of

HNWIs will source such insurance cover from a sales agent rather than through banks or websites. Leading concerns of the HNWI with regard to planning for old age include:

- Health care, including medical facilities and gold standard physical examinations and dietary plans.
- Illness aftercare and recovery, treatment options and private overseas hospital treatment.
- Leisure activities, fitness facilities and physical exercise.
- Travel, lifestyle and living environment in retirement.

Where are the opportunities?

Migration and second citizenship are rising among wealthy Chinese due to personal security concerns, improved tax efficiency and easier international mobility. HNWIs tend to favor nations where obtaining a green card or citizenship will allow them a high degree of passport freedom and travel to multiple destinations without requiring a visa. The UK, the US, Canada, Australia and Singapore are the top five destinations for investment immigration. Nations such as Antigua, St. Kitts and Malta are growing in popularity due to the low costs of immigration, the speed of immigration processing and their tax benefits, all important drivers of applying for citizenship. Grenada, Dominica and Cyprus are also top destinations for citizenship applications.

Partnering with banks or with private medical centers could facilitate contact with HNWIs and increase the potential to do business. Value-added services such as annual physical examinations and health screens can encourage the HNWI to invest in insurance products. HNWIs place a higher importance on health and well-being than the general population. The most popular value-added services include those which improve quality of life (e.g., private health care), assist with overseas education placements and broaden social circles. Ancillary benefit offerings such as health monitoring, access to health apps or including optional cancer screening and genetic testing should be considered. Having access to cutting-edge treatments and state-of-the-art medical technology, medical expense cover, social media and income in retirement also matter to HNWIs. The greater the offering in advanced medicine by a medical facility, the more likely the HNWI is to choose that institution. Up to 40% of China's super-rich will travel abroad for treatment; medical tourism is undertaken by up to 60% of HNWIs. Preferred overseas destinations for medical treatment are the US and Japan.^{4,5,6}

What are the risks related to this business?



Knowing who the clients are and the legitimacy of their finances is crucial. The primary concern is that individuals might take out large sum cover for fraudulent purposes, including money laundering or tax evasion. It is frequently difficult to source reliable financial evidence or tax returns for the self-employed; another problem is obtaining medical records. The top health issues among HNWIs include neck discomfort, indigestion, memory decline, fatigue and insomnia. Chronic medical conditions include rheumatoid arthritis, diabetes and high blood pressure. Half of HNWIs under 35 suffer from health issues, rising to 80% in those over 45 years old.⁵

Any large sum application requires third-party verification of accounts and financials, and exceptions should not be made in waiving either medical or financial requirements for such covers. Additional HNW application risks include currency risks, geopolitical risks and underwriting the elderly HNW. While not specific to the US HNW market, stranger-originated life insurance (STOLI) policies are of particular concern given the possibility of fraud on high-value policies. These policies, also called “death bonds,” can be sold on to investors after the contestability period has expired. However, there is subsequently no insurable interest after the policy is sold, and the net worth of the insured could be falsified in order to justify the high sum assured.

Typically, contestable periods mean insurers can only contest a claim for misrepresentation during specified periods, which normally range between 1 and 3 years from policy commencement. After this period, claims can only be challenged for fraud. Contestability periods of less than 2 years could potentially lead to anti-selection.

Conclusions

There is increasing focus on disease prevention through medical screening and the use of wearables and health apps within the HNW population. Offering advanced medical assessment, such as cancer screening and genetic testing, is likely to improve the chance of HNWIs’ investing in an insurance product. Wealth managers need the ability to perform medical insurance risk assessments and engage with clients through digital tools and social media in order to leverage business. Making the process of investment and insurance as seamless as possible is essential, as demonstrated by the fact that the most successful firms have already engaged in a digital strategy.

In summary, business succession planning is the focus of nearly half of all HNWIs, while other areas of interest include retirement and annuity products. Life insurance plans should directly relate to relieving the financial burden of long-term care, which is set to increase in demand due to the aging population. Value-added services such as health screening can further encourage sales of insurance products to HNWIs. Key selling points include having a single point of contact, active case management with regular updates, flexible medical arrangements in a top medical facility, courtesy calls, and guaranteed and complete confidentiality.

Notes

1. Capgemini (2015), “Asia-Pacific’s HNW population overtook North America’s in 2014,” 2015 *Asia-Pacific Wealth Report*, available from: www.worldwealthreport.com/apwr [accessed 7 Feb 2017].
2. Capgemini (2016), “Asia Pacific Wealth Report 2016,” *Capgemini*, available from: www.worldwealthreport.com/apwr [accessed 10 Feb 2017].
3. Timetric (2016), “Insuring HNWIs Life and Non-Life Insurance,” *Wealthinsight*, available on request.
4. Taiking Life and Hurun Report (2015), “Meeting the challenges for an aging population,” *Retirement Planning and Healthcare of Chinese HNWIs*, available from: <http://up.hurun.net/Humaz/201511/20151102145917886.pdf> [accessed 20 Mar 2017].
5. Taiking Life and Hurun Report (2016), “The healthcare-pension combo trend 2016,” *Hurun Report*, available from: <http://up.hurun.net/Hufiles/201608/20160816102509033.pdf> [accessed 20 Mar 2017].
6. Hurun Report (2016), “Chinese global citizen 1.0,” *Hurun Report*, available from: <http://up.hurun.net/Humaz/201606/20160607130229107.pdf> [accessed 20 Mar 2017].

About the Author

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