A MORE PROFESSIONAL APPROACH TO UNIVERSAL LIFE POLICIES

UNIVERSAL LIFE INSURANCE IS BECOMING A MORE REGULAR FEATURE OF THE PRODUCT-SET FOR ASIA'S WEALTHY. FOR NICHOLAS KOURTEFF, EXECUTIVE DIRECTOR, WEALTH PLANNING, PRODUCT MANAGEMENT AND DISTRIBUTION AT UBS WEALTH MANAGEMENT IN ASIA PACIFIC, THIS PRESENTS EXCITING OPPORTUNITIES FOR MORE GROWTH, ASSUMING THAT IT CONTINUES TO PROFESSIONALISE AND RISKS CAN BE UNDERSTOOD.

Universal Life Insurance is a protection concept which is rapidly maturing within the Asian wealth management landscape, and has become more widespread in the past couple of years.

Demand from high net worth (HNW) and ultra high net worth (UHNW) individuals for material estate planning solutions and product variation are two reasons for growth.

Another key driver, and perhaps a more sustainable one, has to do with the professionalisation of the HNW insurance sector, which in turn fuels market maturity.

Regulators are also helping to promote professionalism in the HNW life insurance industry by promoting advisory standards.

Moreover, says Nicholas Kourteff, executive director, wealth planning, product management and distribution at UBS Wealth Management in Asia Pacific, despite more demand, the underlying cost of insurance has remained fairly stable and policy optionality has expanded.

A growing number of distributors are now entering the HNW market. They have been facing mounting pressure over recent years to diversify their revenue sources and deepen existing relationships.

Making universal life policies available to HNW clients, therefore, is allowing the larger institutions to become more multi-faceted in their proposition.

"If you are not seen as a holistic client provider, then you may be missing out on core client needs," says Kourteff.

GIVING CLIENTS GUIDANCE

Awareness that life insurance is a key building block of any sound financial plan has been steadily growing among HNW individuals in Asia.

They value the fact that, if the worst happens, then there are structures in place to keep their assets relatively intact and provide financial liquidity, explains Kourteff.

However, although clients in Asia generally have increased awareness about life insurance, they fundamentally view universal life insurance in a different way than do their counterparts in North America.

Nicholas Kourteff
UBS Wealth Management

Asian buyers tend to see it as part of the wealth management product offering, in addition to the high sum assured death benefit, they subsequently expect to see a return on their premiums, he explains.

In Kourteff's view, that shows the importance of ensuring that clients receive suitable advice. Hence, UBS has carefully selected a panel of brokers to collaborate with.

The first step, he explains, is to know the client and their wealth planning needs – something he says that advisers should already be doing.

Once the client identifies any needs that they may have for protection, the stages of conducting financial and medical underwriting begin, in conjunction with discussions about the most appropriate ownership structure of the insurance solution.

This is all a pre-cursor to what Kourteff says is the most crucial element – policy servicing.

Servicing demands, he says, will depend on a client's liquidity, business interests, age and core motivations behind the policy purchase in the first place. But above all, these clients are busy, so they focus on the efficiency of the implementation and policy maintenance.

CAREFUL RISK ASSESSMENT

Moving the market forward also requires an understanding of the risks relating to universal life insurance.

When purchasing a Universal Life policy, the client is exposed to the financial health and investment capabilities of the carrier.

A general risk, he explains, relates to interest rates. Market moves, away from the initial crediting rate, are likely over the medium to long term, but Kourteff says managing this risk comes back to servicing and ensuring the policy holder is aware of the policy crediting rate changes.

Also, if interest rates perform unfavourably, clients have options.

One alternative is for the client to decrease the death benefit, another alternative may be for the client to top up the policy, as the key to Universal Life is both the flexible premium and the adjustable death benefit.

It is important to note, that as the bulk of Universal Life is premium financed, the client must also be prepared to service increased interest charges or payout their loan.

Clients should also be aware of particular policy features.

For example, if the policy is surrendered during the surrender period, the client may receive less than their initial premium (initial premium less surrender charge).

In reality, says Kourteff, the surrender rate among HNW individuals in Asia is minimal. He accredits this to the emphasis on advising and servicing by professional distributors.

HEADING FOR NORMALISATION

For the time being, universal life policies are predominantly presented to HNW clients by a select group of the larger wealth managers and banks out of the main wealth hubs of Singapore and Hong Kong, either directly or via broker distribution.

Based on broker analysis, the penetration among the client base of HNW and UHNW individuals is still in single digits, but they seem confident about growth potential given the broad issue of under-insurance.

Kourteff has seen a competitive shake-up in the region over the past few years, with some new providers entering this space by buying market share.

Entrants are also driving new initiatives, he adds.

For example, this might be in the form of more focused client segmentation, based on geography, health and lifestyle, as well as by pricing policies on a more efficient basis.

Looking long term, the development of a more diverse and relevant life insurance industry will depend on the extent to which a stronger skill-set, more professionalisation and an improvement in the types of services that are likely to arrive in markets outside Hong Kong and Singapore.

Kourteff predicts several entrants will breech onshore markets such as Indonesia within the next five to 10 years. This suggests what he describes as a "normalisation" of the industry, with education and training expected – and required – to play a crucial role. ■