

# Creating a more compelling HNW insurance proposition

*Customer choice and a more targeted, educated salesforce are critical components of ensuring that insurance products can meet the needs of Asia's HNW individuals, says Steve Hickman of Old Mutual International.*

Creating more product choice and getting the sales process right are vital ingredients for building a viable long-term insurance business targeting HNW individuals in Asia.

Yet neither can come quickly. "Having been in Asia for 12 years, the growth opportunity is large, but making a footprint and building the value proposition

Having worked at AIG and HSBC in Asia previously, Hickman, who is also head of South-east Asia at Old Mutual, is well-placed to judge the steps needed.

Essentially, he puts it down to giving customers what they want and delivering it in a way that is in their best interests. "More competition is always a good thing because it keeps the market

---

**"More competition is always a good thing because it keeps the market sharper and ensures better solutions can be created for customers."**

---



**STEVE HICKMAN**  
Old Mutual International

that can win business is a complicated process," says Steve Hickman, in his capacity as global head of HNW sales at Old Mutual International.

sharper and ensures better solutions can be created for customers. We will start to see more and more insurance companies provide that in this region."

## VARYING THE OFFERING

As insurance companies old and new eye the landscape in Asia, there is scope for offering a variety of HNW solutions.

Observers might be forgiven for thinking that Universal Life (UL) policies are the only option for these individuals to get the type of protection they are looking for.

Yet Variable Universal Life (VUL) policies – such as the type offered via Old Mutual's Silk Life Plan, just in Singapore for now – provide another way to secure a high death benefit with increased levels of flexibility over currency choice, crediting rates and withdrawals.

“Again, customers like, and deserve, choice,” explains Hickman, “although not a dramatic difference, as these policies cover an individual's life, but more in terms of how people pay the premium and what the investment component is invested in.”

## FULL UNDERSTANDING

Even with greater product choice, the first stage in helping customers to find the right insurance solution is understanding what they need the protection for. “Each product fills different needs,” says Hickman.

UL and VUL certainly don't suit every HNW individual.

For example, where somebody has a mortgage and just wants to cover that liability for 10 years, they should just buy term insurance, he says. That would also suit somebody looking for a key-man insurance policy for a company for five years.

However, somebody with a long-term commitment to an employee can buy a

---

**“Customers like, and deserve, choice, although not a dramatic difference, as these policies cover an individual's life, but more in terms of how people pay the premium and what the investment component is invested in.”**

---

Another of the drivers behind the greater diversity in the insurance offering for HNW individuals today, is the fact that lending limits could potentially impact the ability of a bank to finance the purchase of a UL plan.

This might be the case, for instance, if the bank has a large exposure to any particular UL carrier, says Hickman. “The more popular a product, there is a greater chance that lending limits are being reached.”

UL or VUL policy and structure an executive bonus or a deferred compensation plan, as part of an employee retention programme.

In this case, the cash value is the equity portion of that policy and can be used 10 years later to create a supplemental retirement income stream.

Part of determining what suits which customers is knowing the asset position of the customers, explains Hickman,

## Creating more choice

*Old Mutual's Silk Life Plan is a VUL product which the firm believes has more depth and range than any product it has launched to date in Asia.*

*Silk has been designed to compete with traditional UL products and meet the needs of HNW individuals and businesses, standing out due to key factors such as its variability, high death benefit sum assured, and its joint life option.*

*Such features lend the product an angle that traditional whole-of-life products might not always have.*

*The main difference between Silk and other products in the market is that once the customer decides what sum assured they are looking for, they have more flexibility around how they pay the premium – either with cash and/or using assets.*

given that many wealthy Asians are asset rich with limited liquid capital.

Control is perhaps the most important aspect of the decision over what is the most appropriate policy. For example, with the investment aspect of VUL, it gives flexibility to the customer to select the bank with which they want to custodise the assets left from the premium once the charges are taken out.

As a result, says Hickman, they can use an investment platform they are familiar with, and work with their banker to select the fund managers to invest with.

“For a lot of HNW clients, it offers them more flexibility to use bankers they trust and work with day-in, day-out.”

By contrast, he says, with UL the insurance company maintains custody. They typically invest the assets in a bond portfolio, probably rated AA or AAA, although some might consider equities.

At the same time, customers need to fully understand the upside and downside of each product. “They need to be clear about which one has more volatility, depending on what their investments are,” says Hickman.

An important driver for HNW insurance over the last decade has been a need for private banks to bring in fee income during a period of low interest rates, and therefore low spreads on AUM.

Plus, it provides a valuable non-financial income stream for the banks.

These products also offer a relevant solution for clients to meet their protection needs. “Private banks are looking for such alternatives for their customers, to build a fence around their wealth management needs,” says Hickman.

There are also developments happening around the world in relation to a shift in mind-sets and regulations around commission payments.

This includes the Retail Distribution Review in the UK, and the focus on Class C products in Hong Kong.

The perspective, again, needs to be from that of the end-customer. “We anticipate that in an ever-tightening regulatory environment, commission levels might well come under review,” says Hickman.

## THE RIGHT ADVICE

Inevitably, customer suitability is the crux of the issue in relation to the integrity of HNW insurance solutions.

One of the issues to arise in Asia in relation to UL relates to it being sold as an investment product, rather than focusing on the death benefit as the most critical feature.

“This could be a risky proposition as a number of clients take loans to pay premiums,” says Hickman. “In the event of rising interest rates, these loans could

test and doing a role play with senior executives in the firm to just be able to talk about our product,” says Hickman.

This requires them to do two training classes of four hours each. Only by doing this can the firm have the comfort it seeks to ensure it is a genuinely needs-based sale. The salespeople also make follow-up calls to customers, in order to make sure they understood what they bought and how it works.

In general, Hickman says he is seeing sophistication levels growing among

---

**“Every sales representative who presents our product has to be accredited by taking a written test and doing a role play with senior executives in the firm to just be able to talk about our product.”**

---

become more expensive to service, so clients should continue to work with their brokers and bankers to review their policies for sustainability.”

He is adamant that he only wants customers to buy his Silk product, for example, if it clearly meets their needs. “We have a rigorous review process in terms of how our products are being sold and who is buying them,” he says.

The sales process for Silk shows the firm's thinking in terms of the importance it places on both distributor and end-client education. “Every sales representative who presents our product has to be accredited by taking a written

test and doing a role play with senior executives in the firm to just be able to talk about our product,” says Hickman. This requires them to do two training classes of four hours each. Only by doing this can the firm have the comfort it seeks to ensure it is a genuinely needs-based sale. The salespeople also make follow-up calls to customers, in order to make sure they understood what they bought and how it works.

“You have to talk about the long term needs of a customer in terms of income replacement, liquidity, estate planning and business succession planning.”

This has been helped more recently by a wider variety of products coming to market, including VUL. The more experienced brokers and bankers in Asia are also increasingly looking for alternative and creative solutions to meet clients' needs, he adds. ■