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Insurance companies in Thailand – reengineering products for wealthy clients

Is the unit-linked business in Thailand developing? Are insurers offering open architecture? What are the industry's priorities as wealth grows? Will life insurance for HNW clients develop along international lines? These and other questions were debated by a panel of insurance experts.

These were the topics discussed:

- *How is the unit-linked business in Thailand developing?*
- *Becoming more diversified?*
- *Becoming more open architecture?*
- *What are your priorities as wealth grows?*
- *What's the opportunity for HNW life insurance and how will the proposition develop?*

PANEL SPEAKERS

- **Yingyong Chiaravutthi**, Head of Investments, Prudential Life Assurance
- **Samdarshi Sumit,** Chief Retail Officer, Retail Business, Generali
- **Darren Thomson**, Chief Strategic Bancassurance Officer, AIA

THE THAI INSURANCE MARKET HAS EVOLVED positively and expansively in recent years. "People are moving away from products that were, essentially, deposit substitutes towards protection products and towards the unit-linked products," noted one panellist. "As these offer much better investment and protection propositions, this will help the industry and the clients."

"Financial literacy is rising fast in Thailand," explained another expert. "There is far more awareness around the value of insurance, which means that it is no longer a product that has to be pushed to clients as much as before. As there are more product categories being added and a strong investment proposition linked to insurance, as well as a rapid rise in consumer lending, it is far easier, for example, for the customer to have a term plan linked to the tenure of the loans. This type of product structuring is making insurance a lot more affordable and helping people to buy protection, all of which will drive the industry forward."

A panellist observed that growth will come not so much from savings products in the future, but from proper financial planning linked to protecting income to planning for retirement, to educating children and legacy planning.

"To achieve all this and to cater to clients' needs of the future, we need to move away from the old environment of clients being reluctant to speak to insurance advisers because they feel the hard sell coming. We need to move towards financial advice

that promotes needs-driven purchasing of products. As an industry, we need to change client perceptions and enhance the value of the financial advisory discussions."

And one expert noted that the products available are rather similar across the different insurers. "We therefore need to differentiate in terms of distribution, as well as additional services linked for example to unit-linked products. In the high net worth (HNW) and ultra-HNW segments we need to focus more on legacy planning, taxation issues, asset allocation and other ancillary services that can be connected to the actual product offerings."

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Unit-linked products rising in prominence

Thai insurance companies see tremendous growth opportunities for the unit-linked business, which began slowly and then sprang into greater prominence roughly three years ago. A key driver of the unit linked business has been the persistently low-interest rate, driving investors to seek higher returns away from traditional fixed-income assets or money market instruments.

"The demand for unit-linked products is clearly evident," said one specialist. "On the supply side as an insurance company, we have been working on

SAMDARSHI SUMIT
Generali

improving returns for the clients, educating them on the concept of asset allocation, mutual fund investments and other facets that drive these unit-linked products."

"The unit-linked market took time to gain traction, but is now gathering some momentum, particularly in the banking space last year on the single premium side, and also on the regular premium side we have seen our agency force gather greater interest from customers to move away from the more traditional products."

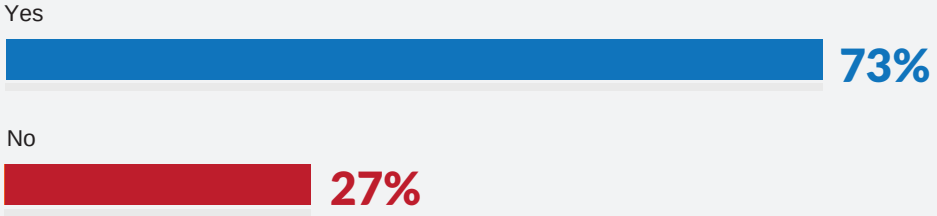
At one leading global insurer with a long history in Thailand, clients have around 36 funds to choose from, which range from very conservative money market funds to global, diversified equities and bond funds. The firm's clients now have a wider array of products that help them achieve a higher return than buying a more traditional product from an insurance company.

Distribution channels diversify

Insurers have different models for distributing their products, via the networks of the banks and/or their own agency sales forces. "The distribution game is evolving and changing for the better," commented one panellist. "There is a lot more open architecture throughout the financial system here, so there are some banks which are tying up individual product lines as the product market diversifies. The banks are sometimes therefore breaking

DARREN THOMSON
AIA

DO YOU EXPECT THE LIFE INSURANCE MARKET TO GROW DRAMATICALLY IN THE NEXT 5 YEARS?



Source: Hubbis Thailand Wealth Management Forum 2018

YINGYONG CHIARAVUTTHI
Prudential Life Assurance

away from their existing partnerships and looking at the best provider. All this means greater choice and value for clients."

"The banks are embracing our unit-linked products," another panellist reported. "Their distribution works well, the licensing is right, demand is strong, in short, we see a confluence of positive factors all coming together at the same time."

The insurance companies that distribute unit-linked product through the bank channel usually tap into the HNW and ultra-HNW segments, while agency distribution generally taps into the mass affluent segment and some HNW individuals. But in either segment, there is still great untapped potential.

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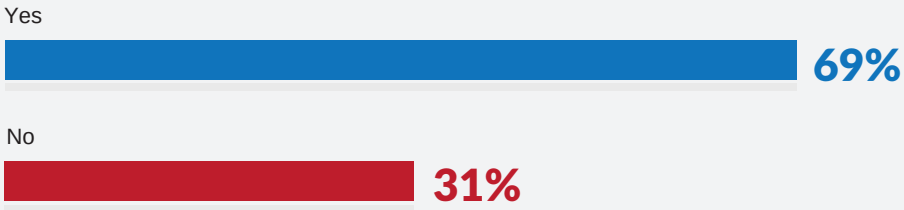
WILL THE UNIT LINKED BUSINESS GROW DRAMATICALLY IN THE NEXT FIVE YEARS?



Source: Hubbis Thailand Wealth Management Forum 2018

Another perspective, favouring the agency distribution route, was proffered when a panel member noted that if the insurance company is selling through agencies, then the insurance company has more of the power to say which funds they want to choose for their customers. "But if insurance companies sell via the bank channel," he said, "then the bank will mostly be the party that initiates which funds they want to sell to the clients."

A panellist highlighted the increasing use of digital or hybrid models coming into the equation to bolster the traditional bank and agency channels. "Customers like to go online and evaluate the offerings, for example. All these developments will strengthen the industry in the coming years."

"INTERNATIONALISATION IS CERTAINLY A TREND, BUT INSURERS HAVE THAI BAHT LIABILITIES SO A KEY CHALLENGE THAT EVERYONE IS FACING IS THE HIGH HEDGING COST OF THE US DOLLAR AGAINST THE THAI BAHT, WHICH IS COSTING AROUND 1% TO 1.3% CURRENTLY."

Greater internationalisation of asset allocation

The limitations of the Thai capital market, which is modest in size, liquidity and range of assets available, has meant a greater internationalisation, away from the traditional reliance on local funds, especially for fixed income and money market assets.

"We have seen greater acceptance of, and interest in, offshore assets in the unit-linked space," noted one panellist. "I recall that the split on our platform was about 30% offshore around three years ago, whereas today it has reversed, to the point of about 60% offshore. This is a positive development, but we should note that global market conditions have changed in recent months and we are in a wait and see phase to see how things develop."

"Internationalisation is certainly a trend," one panellist agreed, "but insurers have Thai baht liabilities so a key challenge that everyone is facing is the high hedging cost of the US Dollar against the Thai Baht, which is costing around 1% to 1.3% currently." He explained that the offshore assets, therefore, need to return to return around 4% to 4.5% in order to come back around 3% to 3.5%. "That," he said, "is very challenging because you have to push the limit of the credit risk that you are going to take offshore as well as additional duration risk, which may not be advisable."

Regulation: a call to arms

Regulation can help encourage further development of the market, noted one panellist. "We need to figure out how as an industry we can cater to the needs of the customer with more accommodative regulations. We need to have a more open market, to encourage a dynamic situation where each company can have distribution channels that help them engage better with customers. The existing regulatory environment needs to mature with this market."

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"Yes," a fellow panel member agreed, "regulation has to keep pace with other changes, for example, there are many offshore mutual fund investments sold here, but the insurance industry has to sell a 'mirror' fund registered locally here with the underlying fund offshore. Local regulators need to encourage the onshore market and understand the fact that clients are putting assets overseas and insurance is set to follow that pattern." ■