Insurance Solutions tailored to the needs of Asia's High Net Worth Community

Peter Tsih, Chief Executive Officer, Asia Pacific & EMEA, of International Planning Group, has seen a fundamental shift in the way high net worth families in Asia approach wealth planning to manage risk, maintain continuity and provide liquidity. He discusses the evolution of insurance-based wealth planning solutions, as well as highlighting the firm's recently-announced global joint-venture.

Executive summary

Over the past four decades, International Planning Group (IPG) has built a prominent market position in the development of wealth structuring and transfer planning solutions based around life insurance solutions for HNWIs and their families.

There has been a notable and fundamental shift in the global marketplace amongst high net worth families toward total wealth planning and a growing acceptance that solutions based around life insurance can help achieve this, Tsih observed.

These can achieve transparent and compliant tax-optimisation strategies, they can diversify and protect accumulated wealth, existing capital can be leveraged, and liquidity can be provided for various purposes including inheritance tax funding.

TSIH HIGHLIGHTS THE DOMINANCE IN the past decade of Universal Life (UL) policies, but with the growing volatility in debt and equity markets aligned with rising interest rates, he explained that the attention of high net worth (HNW) clients has developed rapidly in the fields of whole life policies, variable universal life (VUL) as well as annuity and savings plans.

Rising volatility, rising rates. Rising cash values?

"We have seen a shift in the mainstream financial markets and this will certainly affect the our business in several ways, including encouraging more of Asia's wealthy and super-wealthy clients to consider alternative solutions," Tsih commented.

The interest rate environment will impact the life insurance market, he explained, as many clients are using premium financing as their funding method. As the bank's cost of funds increase, so will the borrowing cost for the client. However, over time the crediting rates in these policies should also increase thus the funding method may still retain its attractiveness.

"Clients who are purchasing their UL policies now are doing so in a low interest rate environment. Logically this means their cash values may rise faster than expected if the insurance companies increase crediting rates in the near future.

This is uncharted territory for insurance companies as interest rates have never been this low for as many years so we have to wait and see how the insurance companies will react to rising interest rates. We have started to see some insurance companies increase their crediting rates and we believe this trend will continue in the short term.

What we don't know is whether the increase in crediting rates will keep pace with the increase in lending rates. That is the big unknown. To counteract this unknown, the clients have the option of using an instalment plan to pay the premium.

The instalment plan is commonly known as a multi-pay option where the client can choose the number of payments they want the premium to be divided into. Each payment can be in different amounts so there is a lot of flexibility built into a UL product to suit the client's financial situation.

UL no longer the only game in town

While UL has been the dominant product in the years since the global financial crisis, Tsih reported that whole life policies have made tremendous progress over the past several years.

"On whole life there is no expressed crediting rate," Tsih said. "Instead, the key difference is that the insurance company reinvests or allows the policy holder to participate in the earnings of that portfolio. The insurers will award dividends, or bonus, into the policy based on the earnings of the portfolio; they also smooth out returns over time." The key appeal of whole life is that the policy is guaranteed. Buyers accept a slower cash value growth for a product that is more conservative and guaranteed.

Whereas a UL policy does not guarantee the death benefit, which in turn means the policy may lapse if the cash value cannot sustain the policy in the long term.

"Whole life therefore allows the client to stick the policy in a bottom drawer and not think about it again," Tsih observed. "It is safe and wholly reassuring." Another trend Tsih identified is towards VUL, which bankers and brokers are beginning to understand better and sell more enthusiastically and effectively.

> **"VUL is more specific and requires us to understand the client in greater detail to identify their more precise needs and tailor accordingly."**

VUL enters the mainstream

VUL, says Tsih, presents a solution for specific risks that clients may face. "I would say UL is like a Swiss army knife, with many different uses, while VUL is more specific and requires us to understand the client in greater detail to identify their more precise needs and tailor accordingly."

To explain this further, Tsih referred to some of the Asian countries such as Taiwan, Philippines, Thailand and Indonesia where there are many family-owned businesses.

PETER TSIH
International Planning Group

"Some of these family companies might have gone public, but the majority shareholding is with the family still and not monetised. VUL is an ideal way to do this, to extract value without selling. It is especially helpful for succession planning."

Nevertheless, Tsih also explained that while the stock is not sold, a concern for some clients is that it requires passing up direct control of those shares, as they must be assigned to the insurance company writing the policy.

"But if the insurance companies can design a way of retaining ownership that would allow the clients to still retain control, then problem solved," Tsih observed.

"Selling this type of product is more complex and the team has to be trained to do so."

Annuity and savings plans in greater focus

Other trends Tsih identified include annuities, income plans and savings plans, which are starting to catch on. "The volatility we have seen this year is making people feel less secure, so clients are looking for a safe place to put their money and consider insurance companies, particularly the savings plans, as a safe place."

Tsih noted that savings plans offer on average between 3% to 4% and with a roughly 2% guarantee. "This might be higher for much larger policies," he added. "They are primarily annuity plans and would not have an insurance component. The lock in period on this type of product is as short as five years."

IPG Howden to take advantage of global opportunities

On June 7, IPG and leading international employee-owned insurance group Hyperion, announced the formation of a new entity, IPG Howden, capitalised via Hyperion's purchase of a controlling interest in IPG's Asia and EMEA businesses.

The objective of the partnership is for IPG Howden to leverage an enhanced infrastructure, increased scale, expanded capabilities, greater resources and existing onshore licenses to pursue new opportunities, additional market segments and new life insurance carrier and product solutions.

"By leveraging the unique capabilities, resources and strengths of both entities, IPG Howden will create the necessary critical mass to dramatically increase penetration, revenue and profits in the international life insurance market," Tsih explained.

He explained that IPG and Howden are complementary businesses with a common culture of empowerment, underpinned by employee-ownership. "We are both entrepreneurial and agile in nature and this will help us develop further and faster in the wealth space."

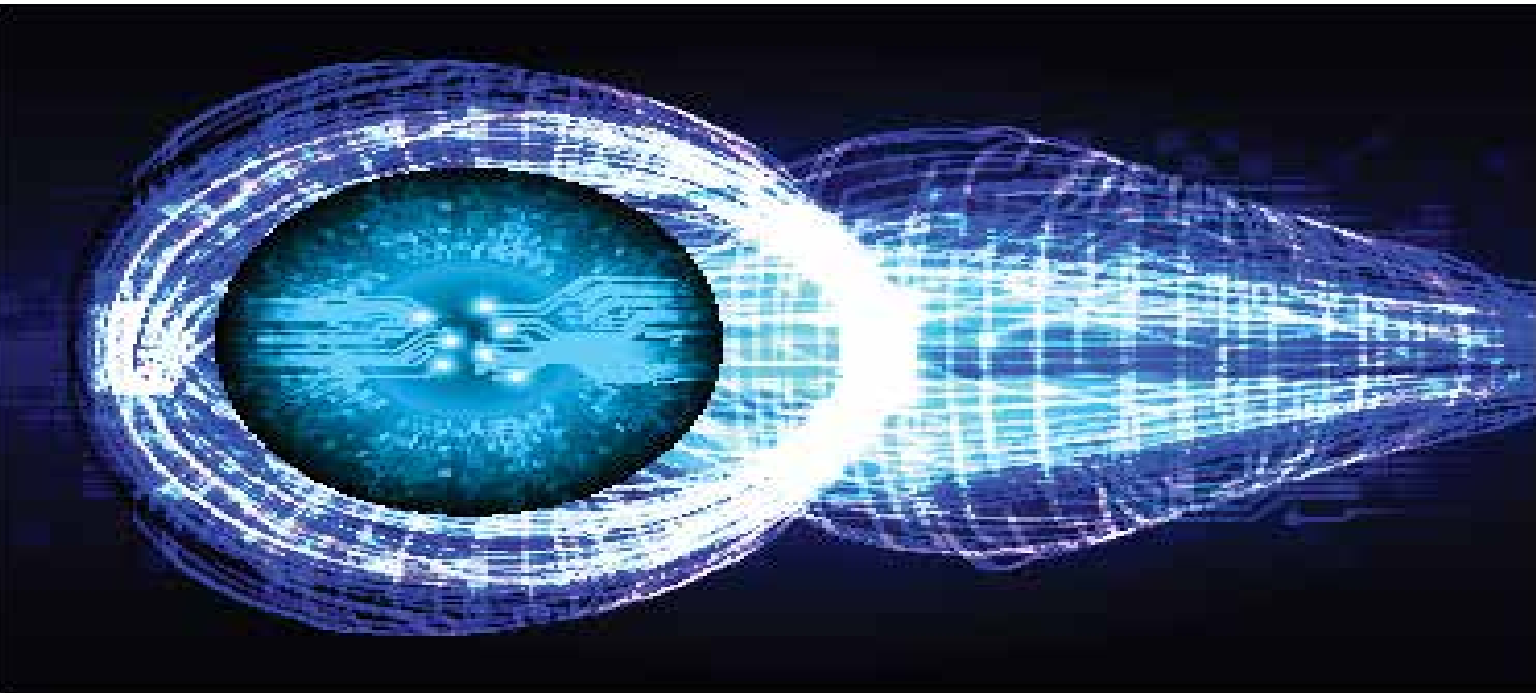
The existing IPG management team will continue as before and report into a new board of directors, which will be chaired by IPG Chairman, Jon Baker Sr. Other board members include David Howden (CEO Hyperion Group), Goh Chye Huat, Howden Asia's CEO, Jon Baker Jr (President of IPG) and Peter Tsih, who will also remain IPG's CEO of Asia and EMEA.

Hyperion Insurance Group is a leading international insurance group with over 3800 staff across 38 countries. It comprises broking divisions and an underwriting division. Howden, the retail broking arm of Hyperion, provides a range of specialist insurance solutions to clients around the world. Together with Howden One, its global specialist insurance broking network, it comprises over 10,000 professionals, operating in more than 80 territories, and handling a combined Gross Written Premium of over US$18 billion.

Training and upgrading

Another priority for Tsih and his team in the near future is to upgrade the training and sophistication of staff. "This is not sales training," Tsih explained, "they know how to do that. It is providing information to help them give the right advice to clients. In a fast-moving world, sometimes we need our people to slow down, see what is happening in a bigger context, whether that is market evolution, regulatory change, product development from carriers and so forth.

In short, we want to build our advisory capabilities and excellence." Tsih notes that the better the sales team understands their clients, the more questions they ask, the more answers they can give. "This is part of our drive towards tailor-



ing and customising solutions to fit the clients' needs. If we know more about the clients, we can calibrate the product in numerous ways and shapes."

He added that with IPG's history and large book of historic and new business, there is a unique opportunity to revisit clients, revisit existing policies and structures and find out how any of these can be improved on and the clients' needs personally addressed.

Tailoring solutions

Hong Kong will remain close to two-thirds of the IPG business in the foreseeable future, partly, Tsih explains, because of the China growth story, which remains a huge opportunity for the firm. Moreover, Singapore's growth engines were domestic business, which has been hit by a move to bank insurance, and Indonesia, where the tax amnesty has given rise to a pause in activity.

IPG partners with private banks, family offices, independent financial advisors, law firms and tax professionals around the globe to assist their HNW clients in developing innovative wealth planning solutions. IPG's global platform - A Platform Built for You - provides their clients access to the world's leading planning, product and programme capabilities delivered through a team of highly experienced planning professionals.

"We have built an industry-leading wealth transfer team of planning specialists with backgrounds in banking, law, tax, insurance and fiduciary structures," Tsih reported. "We operate through sales offices in six global financial hubs and offer open-architecture that offers access to dozens of product providers and over $200 million of capacity per client."

Tsih himself has over 33 years of experience in the financial and insurance sectors in the US, Hong Kong and Singapore, with a major portion of his career with HSBC. Prior to joining IPG, Tsih was the CEO of Willis Towers Watson, Global Wealth Solutions in Hong Kong.

He concluded with his strong view that the opportunities for his industry have seldom been better. "The improving sophistication of planning amongst Asia's wealth clients is definitely driving a greater interest in insurance-based solutions. Not only are they more receptive to the concept in general, but they are increasingly willing to listen to, and adopt, more tailored solutions that address their and their family needs more precisely." ■