Shaping a winning insurance offering

As insurance companies look to find an opening to tap the protection, savings and retirement needs of Hong Kong's wealthy, Simon Walpole of Deloitte Consulting explains how they are trying to position their offerings and ally with the right distributors.

The growing number of wealthy individuals in Hong Kong presents a vast opportunity for insurance companies.

Over the last five years, for example, new business premiums have doubled in size. And more recent figures show that there are no signs of a slowdown.

The Office of the Commissioner of Insurance (OCI), for example, reported that the first half of 2015 saw a growth of 13.6% compared with the same period 12 months earlier; this brought in HKD184.9 billion (USD23.9 billion) in total gross premiums.

A closer look, however, reveals a polarisation where this performance seems increasingly concentrated among a handful of the top players only.

"When you distil the numbers, you find it is only the big companies that have been growing really quickly, while the medium-sized ones are growing at a much slower rate," says Simon Walpole, partner at Deloitte Consulting.

The widening gap is due partly to the success of the bigger players in being able to create large and effective sales and distribution networks.

By contrast, those companies at the other end of the spectrum either lack scale or the positioning, explains Walpole. To catch up, they need to look at tie-ups, partnerships and alliances with other insurers as well as distributors to fast-track their growth.

From both perspectives, this puts distributors in a powerful position, and they can command a premium to ink a deal with an insurance company.

The USD1.2 billion Manulife agreed to pay for its 15-year bancassurance partnership with DBS Bank, in the four key markets of Singapore, Hong Kong, China and Indonesia, is a good example.

SIMON WALPOLE
Deloitte Consulting

Yet for insurers, these types of deals still make financial sense. "There are a lot of policies being sold in this market, and it is clearly booming," says Walpole.

"The opportunity to take more market share simply can't be ignored, which is why insurance companies are willing to pay to ramp up their distribution."

DISTRIBUTION POWER

The double-digit growth in premiums in Hong Kong shows that distributors are definitely doing something right – and, says Walpole, insurers are leveraging the various channels effectively, albeit in differing ways.

"The distribution channels vary considerably, even among the top players," he says. "There is a lot of diversity in how each player approaches the market."

The three major channels are still agency, bancassurance and broker, all of which appear to be growing. Although the biggest change is among agency forces, there has been a dramatic historical rise of bancassurance. Brokers, meanwhile, are holding steady with an 18% share of the market.

"There are some skilled agencies in Hong Kong that connect with their customers in different ways," he says. "They have been especially good at capitalising on the change of profile of policy holders, particularly those from mainland China."

FINDING A NICHE

Amid the race among insurance companies to woo distributors and increase their share of the growing pie in Asia, the objective is to get a step ahead of the competition.

This is driving insurers to strive for differentiation by positioning their offerings in various ways. Some view themselves as protection-based companies via life and health insurance, and offer long-term vehicles for saving for retirement; some see their competitive edge more as wealth management partners, including the asset management side; while others specifically cater to bank customers, and want a HNW element to their business, explains Walpole.

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In line with how different insurers are approaching the market, the types of products being offered by certain companies are quite diverse, he adds. There is also an increased focus in Hong Kong on products which appeal to investors from overseas. "More than 50% of their new business premium income now comes from non-Hong Kong residents, in particular Mainland Chinese."

COPING WITH REGULATIONS

Looking forward, the growing market opportunity in relation to distribution capacity, product variety and alliances must be seen in the context of the tightening noose of regulations.

In particular, the creation of the new Independent Insurance Authority (IIA) is expected to drive a tightened focus on intermediaries and sales practices, especially as agents and brokers will in future be directly regulated by the IIA, rather than continue to self-regulate. Plus, conversations are now underway about whether some of the tighter sales practices from Europe could end up coming to Hong Kong, adds Walpole.

At the same time, new Risk-Based Capital reserving, solvency and risk management regulations will be introduced over the next five years. These will help make capital requirements more sensitive to the level of risk that insurers are bearing, as well as enhance overall corporate governance and risk management practices.

To navigate the path ahead, a lot of management agility is needed. Being nimble, diversified and flexible enough to adjust IT and operations to accommodate the changes demanded by regulators will dictate which firms are able to continue to make the most of the market's potential.

Those who do will emerge stronger, and be able to sustain their growth in the long run, explains Walpole.

It is also imperative that anyone who sells insurance policies or products ensures customers not only understand what they're buying, but also that they are making a long-term commitment that will not be easy to exit from in the short term – at least without losing money on the investment. "I think there is a responsibility [among advisers] to explain this more clearly," says Walpole, "because they're selling something that is very closely tied to an individual's future welfare."

Responsible selling certainly shouldn't impact the potential for continued growth in the market, or for insurers to expand further, he adds. ■