Insurance Solutions for Wealth Management and Legacy Planning in Asia

Is demand from Asia's wealthy clients for life insurance solutions rising, and what applications does the industry see for legacy or tax planning? Is Universal Life still the go-to product, or are other solutions rising in prominence, such as Variable Universal Life, Private Placement Life Insurance, or others? How does the wealth management industry sell these solutions, and is the 'art' being refined? These and other issues were debated by a panel offering genuine hands-on expertise in a lively, detailed insurance discussion at the Asian Wealth Solutions Forum.

These were the topics discussed:

- *What's the level of interest and demand from your clients in using insurance products and solutions - to either transfer wealth and / or optimize tax?*
- *When you consider all the options - UL VUL PPLI ect – what most relevant today? For you? Your clients?*
- *What product innovation are we seeing?*
- *When you think about the structure and platform and investments - what are the challenges / concerns and opportunities?*
- *Can you consider possibilities where this can enhance your relationship with clients?*
- *Is Hong Kong favoured as a jurisdiction for life insurance solutions? Will that continue?*

PANEL SPEAKERS

- **Mark Smallwood,** Chief Executive Officer, Rapier Consulting
- **Rohit Ganguli,** Head of Wealth Planning Asia, EFG Bank
- **Mark Nelligan,** Chief Executive Officer Pershing, a BNY Mellon company
- **Ian Kloss,** Head of Region, Southeast Asia & CEO Singapore, Old Mutual International
- **Cho Peng Lim,** Chief Executive Officer, Singapore, IPG Financial Services
- **Thomas von Rueti,** Chief Commercial Officer, Singlife
- **Nicholas Kourteff,** Chief Executive Officer, Singapore, Transamerica Life Bermuda
- **Woon Shiu Lee,** Managing Director & Regional Head of Wealth Planning Family Office & Insurance Solutions, DBS Private Banking

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THE KEY TAKEAWAYS

Diversification gains greater sway

Five to 10 years ago, Universal Life (UL) dominated the market, but a leading distribution expert on the panel reported that it has dropped from 90% plus of policies to around 60% or less, while perhaps one-third is Whole Life (WL), with the balance Variable UL (VUL), Index UL, savings plans and others.

Clients demand more

HNWIs and UHNWIs expect more of the products, more of the salespeople and more of the providers. They want transparency, greater certainty of protection and greater ease of fulfilment.

Discussions are more intense than ever before

To arrive at viable solutions in the new world of intensive regulation and solutions that work from legacy and estate planning perspectives, discussions with the clients are more intensive than ever. As a result, the private banks, the brokers and the industry at large therefore need to up their game in terms of awareness and expertise.

Listen, don't preach

Clients must first be understood, and then a holistic solution offered that is tailored to the needs of the client and the wider family situation.

Digital does not need to mean the adviser is replaced

Digital delivery must be combined with human touch and expertise to prove a more compelling offering.

Innovation and flexibility are both vital

There are more solutions available and a greater recognition amongst providers that nothing in life is predictable. Innovation must be combined with flexibility to offer solutions that work for clients today and in the years or decades ahead.

Open architecture can help the clients

Open architecture via a digital platform that offers clients and brokers full access to new solutions and innovations can help the industry evolve and diversify. The digital platform can enable 24/7 usability, straight-through processing, correct and accurate data feeds that are up to date.

The Common Reporting Standard (CRS) as a driver for growth

CRS is a key catalyst for the expansion of the life insurance solutions market, as the policies, if properly structured, can help merge the estate and liquidity solutions with a single line of reporting for regulatory compliance. One expert noted that as a result, VUL has leapt from 1% of their business to more than double-digit in just the past two years, partly driven by CRS and the desire to simplify reporting.

Single-premium finance less appealing, multi-pay growing apace

The market has been moving away from single premium finance, largely due to the cost of dollar finance, while multi-pay has been rising in prominence. Even though the sales commissions are lower upfront, there is a stream of more predictable revenues for the distributors.

Low crediting rates have broad implications

As crediting rates are low currently, and perhaps lower in the future as the US is now seemingly heading in the same direction as Europe and Japan towards negative rates, there are wholesale implications for the life industry, thereby increasing the appeals of alternatives to UL, such as VUL, PPLI, Whole of Life and Index UL.

A blunt instrument is now far sharper

The final word came from a panel member who summarised that whereas insurance was somewhat of a blunt instrument before, today the industry as a whole and the solutions it offers are far sharper and more relevant.

MARK SMALLWOOD
Rapier Consulting

"IT IS CLEAR FROM THIS LIVELY AND INSIGHTFUL DISCUSSION," he said, "that RMs and wealth planners really need to look deeply at this area, as they will see that it provides them with an opportunity to present an added-value offering in that process within the broader team to deliver the right solutions for their clients. As the clients build their wealth portfolios, they will build their protection portfolios as well."

The first key trend identified was the ongoing diversification in terms of products. A panel member recalled that only five to 10 years ago more than 90% of their firm's placements were Universal Life (UL), but particularly in the past couple of years, this has changed markedly, so much so that less than 60% of is today UL, while around one-third is Whole Life (WL), with the balance Index UL, savings plans and others.

"The clients are certainly more demanding these days," came another voice. "They want more certainty in their protection discussions, and they want more ease of fulfilment, while also demanding greater efficiency in their underwriting process. We as an adviser in this space see more referrals now coming away from the banks, and from external asset managers, other institutional asset managers, law firms, and so forth. We also provide underwriting using a variety of forms of financial verification. In short, the trends are towards certainty, ease and efficiency, and implementation."

A private bank representative said that discussions are becoming more detailed than

ROHIT GANGULI
EFG Bank

MARK NELLIGAN
Pershing, a BNY Mellon company

before, partly due to regulations, partly due to the wider choice of products. “This is a great opportunity,” he remarked, “but also a challenge because people see a lot of products, and they need to know what is right for them.”

As a result, he said the banks, the brokers, the industry at large therefore needs to up their game in terms of expertise, awareness, implications, links to succession planning, suitability, and so forth. “there is much to be gained from these discussions,” he added, “but it is tougher and more time-consuming.”

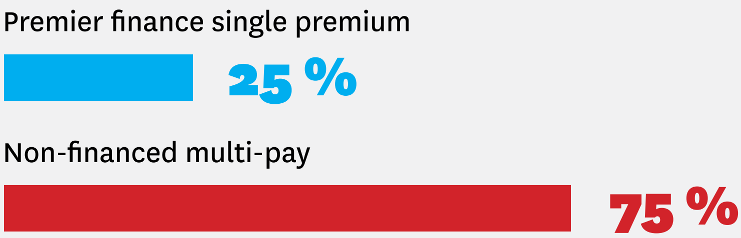
The first step for wealthy clients is to listen to them. It was discussed that even before that meeting, “we make sure we are armed with the requisite background information on their activities, portfolios, family situation, and preferences, so we can see their behaviour and also what they will face ahead. This type of homework really gets us ahead of the curve in term of pitching the clients the best solution and the best product. And as I said, the first meeting is a broad, holistic discussion, without any proposals from us.”

Off-the-peg no longer works

Whilst in the past the bank would have prepared a packaged solution. “But by drilling down to understand the assets the clients have, the demographics of his family members, the exposures that they may have because of the locality of the assets, because of the loans they might have, the result is that we are able to later achieve a far more sizeable deal - perhaps a USD20 million or more

IAN KLOSS
Old Mutual International

IS THE FOCUS NOW ON PREMIER FINANCE SINGLE PREMIUM OR NON-FINANCED MULTI-PAY?



Source: Asian Wealth Solutions Forum 2019

policy - that we would otherwise have reached. It is a far more thoughtful, intelligent process now."

Another leading expert in the field advocated digital delivery but reinforced the importance also of proper advice and listening to the clients, especially for the HNW and UHNW clients that were the focus of this discussion. "We use digital to enable the process, and not to drive the process, in particular on the HNWI side, while in the retail segment you can, of course, execute more through the digital avenue."

More choice and flexibility

As to innovation, he noted that choice and flexibility were vital. "Life is not exactly linear," he remarked. "We conduct legacy planning for our clients looking forward 30-40 years, but things change, people may lose loved ones, perhaps they get divorced, maybe they have a financial windfall, or perhaps lose their jobs, so we have to have solutions which are more flexible."

Innovation is also in part the delivery of HNWI solutions, and how the industry manages relationships between insurers, brokers, clients, banks in a more efficient way than we do today, so there is more time left to focus on advice. "In short," he said, "we are seeking to make the implementation more efficient from the distributors but also for the client, leveraging digital delivery."

A broker spoke up, noting that nevertheless in the HNW space, delivery is still very paper-driven.

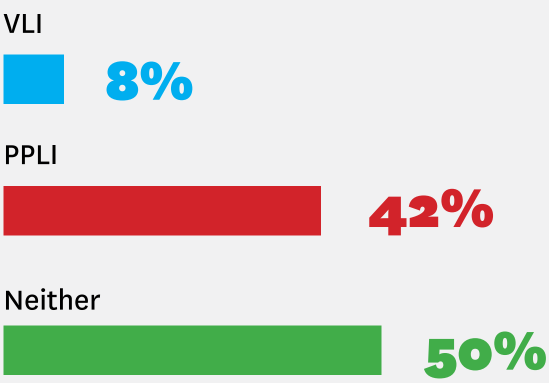
LIM CHO PENG
IPG Financial Services

"All our submissions are on paper, we have masses of files of application forms, and it is true that this distracts us from advice. We most definitely need to look at how we can digitalise all these submissions and look towards easier and more efficient way of implementing and submitting."

Older providers are generally less nifty

This expert also noted that for the carriers themselves, the older-established names tend to have rigid processes and that it is not easy for them to rapidly change. "I believe that as an industry we should all definitely work towards change, and we are striving

ARE YOU LOOKING AT VLI OR PPLI FOR FISCAL PLANNING?



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towards an electronic gateway in which we hope that some of the carriers would be willing to participate, so that we will all go through one gateway for submitting applications."

An expert added that as an advisory firm they were localising distribution and content, partnering with firms in the region to localise both content and service. And for investments, they now have a CIO office in Hong Kong, which can also receive feedback from the distributors, from the referral parties, from the banks, thereby relaying more certainty in regard to clients' questions. "For us," he explained, "it is about process efficiency, reducing documentation, reducing forms, so policy illustrations are roughly halved in size in recent months."

THOMAS VON RUETI
Singlife

The digital platform

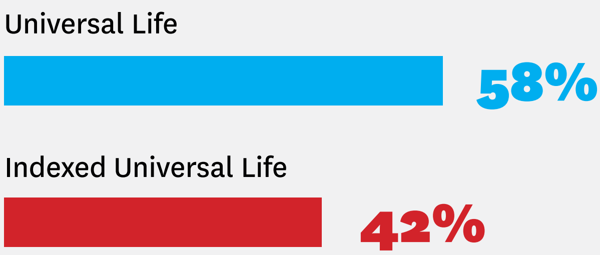
Open architecture via a digital platform that offers clients and brokers full access is another innovation helping the industry evolve and diversify. "The goal," elucidated one expert, "from a digital platform technology perspective is to create an operating system source which allows us to quickly implement change in product development, a bit like the insurance equivalent of iOS or Android, so the technology allows for immediate implementation, new product ideas, quick fixes to feedback, adjustments to everything from online access to the ability to hold new accounts with different custodians. And it allows partnerships, which are essential we believe in a world where there is greater strength in partnerships and networks."

The digital platform enables 24/7 usability, straight-through processing, correct and accurate data feeds that are up to date, he added. "We did not yet solve all these challenges," but it is firmly on the radar and we seek feedback to help us achieve this. We are on the right path, though."

The issue of safe custody

The role of specialist firms working with the insurance companies to provide custody and an execution platform for policyholders was the next, closely related topic. "As a custodian firm," said a guest, "we simply provide a service to wealth management firms, so they do not need a balance

DO YOU PREFER UNIVERSAL LIFE OR INDEXED UNIVERSAL LIFE?



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sheet to execute deals. Some 18 months ago, we saw demand for investors, the typical clients of the delegates here today, to put their investment assets into an insurance wrapper and then for that to either self-manage or be externally managed, or managed by the insurance company, opening up a new channel for us that is beyond our original solution set on the platform. As we know, nobody can contest an insurance policy, although they can contest a Will, so for some of your clients that want a determination of inheritance to go to a specific beneficiary, this really does solve the problem with the ability to invest via the wrapper either through a third-party manager, or self-managed, and we are then simply the independent custodian behind that structure."

The Common Reporting Standard (CRS) is viewed as one of the key catalysts for the expansion of the insurance solutions market. "Certainly," said one panellist, "many of our clients are more interested in life insurance as an effective way of providing a legacy for the next generations. And instead of having to report line by line on their assets, they see it might be easier to take their portfolio and put it, for example, in a VUL or a PPLI type product, which is then used for their legacy planning. VUL has leapt from 1% of our business to more than double-digit on just the past two years, partly driven by CRS and the desire to simplify reporting, and also as a tax deferral tool."

Another guest highlighted how trends in Switzerland and Europe are being exported to Asia, for example, using a VUL policy as collateral for lending. "Very common to see that in Europe," he noted, "but Asia is now starting to look at it more favourably. And another very core trend is that insurance is taking root more robustly here in Asia. Actually, if you look at the industry statistics, Asia is very under-broked versus Europe, so there is significant gap to close, meaning it is the right industry at the right time. Additionally, the relationships between banks and insurers are a lot closer in Europe, so we can also learn from that out here."

An expert highlighted a growing focus on PPLI. "We use PPLI not just for the whole DPM portfolio, but also the whole business and founder shares as well, that has become rather popular in the North Asia market for us. We use analytics as well, so the

NICHOLAS KOURTEFF
Transamerica Life Bermuda

client might perhaps hold a lot of UK properties with UK exposures, or a lot of US real estate where there is US estate tax exposure, so these are angle where we can help with solutions and tax and estate planning. We also look at the broader family, the younger generations, where they are living, or domiciled, and make sure that the clients know that there are insurance solutions out there that can address the specific needs. Accordingly, this type of holistic analysis, not just of the client's present needs, but also current portfolio, the future portfolio, future potential demographic needs of the family members helps tailor the ultimate solutions. We also work with specialist partners, with lawyers, tax advisers, and others. The clients see we are serious in evolving a genuine solution, not just there to push product. It is all about better engagement, we feel."

Moving on to the specifics of product creation, a guest explained that the market has been moving away from single premium finance. "When last year dollar Libor hit closer to 3%, and then with the margin, above 4%, that was a tipping point. Before that we had already also been educating the RMs to say that multi-pay or instalment payment is another option, so when rates for borrowing surged past 3.5% and beyond, multi-pay really came in, because in this structure, a client can pay only the first partial instalment today, but if he or she dies shortly after, the whole death benefit still gets paid to the family member, while the unpaid premium is waived. In short, the risk on life is passed back to the insurer. It also adds considerable flexibility. In short, we are now seeing almost about 45 plus of our overall UL placement paid under multi-pay option. A year ago, that figure was below 10%."

"But," came a voice, "that means from an RM's point of view in the short term they are getting less compensation, and a hit to the P&L expectations for their firm, they are on the other hand achieving a smoother flow of revenue from those policies and a good outcome for the clients."

LEE WOON SHIU
DBS Private Banking

The virtues of multi-pay

Another expert agreed, noting that multi-pay's great virtue is indeed flexibility, for example over a 15-year term. "If the client then gets a windfall in year three, I believe it's sensible to pay down the rest of the premium, they can do that anytime. In our policies, we illustrate that from day one. The other interesting trend we have seen is more clients just paying cash for everything upfront, with customers saying, OK, I am happy to allocate this USD3 to 4 million for my legacy planning, it's then solved and I can move on to other areas."

Single-premium multi-pay

And another guest concurred that they had been seeing more single premium multi-pay. "In the past two years or so," he said, "less than 10% multi-pay has become more than 30%. Why? For the younger clients in their 30s and 40s, they can still get that protection they need. They can put that sound foundation in place, and they have that certainty and that peace of mind. Once the clients get older they have the flexibility of universal life, so the clients in their 50s or 60s, when they are no longer carrying debt, their children are educated and they are self-sufficient, their businesses are flourishing, they are no longer providing personal guarantees, we are seeing clients decrease their sum assured. With interest rate uncertainty, and interest rate changes, the product may not have endowed, the client has basically paid multi-pay, but with decreasing sum assured when the clients are older, they are using the flexibility of the universal life solutions the clients can ensure they have that payment protection till they are age 100."

Whole of Life

The discussion moved to the trend towards more Whole of Life policies as well. "For us," explained one broker, "this is now more like 30%, especially those issued out of Hong Kong, because the way that the benefit illustration is that they solve very well in terms of endowing and there is a large component of cash, plus the cash surrender value is guaranteed from day one. So, from a financing perspective, it does give the clients some comfort that cash value will never go down to zero, unlike universal life."

Nevertheless, the same panellist noted that the whole of life plans are less transparent. "How much do they actually deduct for cost, we do not really know, how much are they really paying, well that depends on their fulfilment ratio whether they are able to achieve that," they commented. "So, there are some pros and cons."

Crediting rates falling...

Crediting rates are low, with one expert noting that if the US is heading in the same direction as Europe and Japan, there is a broad movement to negative interest rates potentially. "In this scenario," said one panel member, "that whole crediting rate question then moves on to the alternatives, so obviously the VUL, or PPLI, or the Index UL, the latter of which is a very interesting space particularly for the client who doesn't want the risk necessarily of the VUL or PPLI but wants something intermediate."

A guest commented that Index UL basically provides the crediting rates based on the performance of certain indices like the S&P 500, or the Hang Seng Index. "It is a predetermined index combination," they reported, "and basically the insurance company does not actually invest in the index themselves, they just buy options on it, allowing the policy owner to participate in the crediting rate of the performance of the index. For example, if the performance of the index is up 20%, of course they don't get that 20% benefit, there is a cap to it, to keep the options affordable, similarly, if it goes down 5%, there is a floor, perhaps of zero or minus 1%."

The result, they explained, is to give the client the option that instead of benchmarking the crediting rates solely on the fixed income portfolio, they can participate indirectly in the stock market. "Index UL is relatively new to Asia, but has been available for about seven years to date," they explained, "and actually it has done very well because it allows an alternative way of getting a better crediting rate, which will likely continue in an ongoing low-interest rate environment. We are seeing this trend from our perspective, especially with the younger clients."

Collaboration and communication

"From a Singapore perspective," came another voice, "we have worked with carriers to fine-tune the product solution specifications, so that sort of communication and collaboration between us and the carriers really gives the industry and the end client what they need - something attractive enough, but also simple enough to get more traction with clients."

The discussion returned briefly to VUL, the appeals of which include the simplicity of reporting, flexibility and client control. The life company provides control back to the individual, the policy owner, to direct the underlying investments and clients like that level of control. What clients have been concerned about, however, is transparency regarding fees, as clients don't like selling assets to pay fees.

The final word came from a panel member who summarised that whereas insurance was somewhat of a blunt instrument before, the whole thought process and structuring are becoming much more sophisticated for the application of solutions for estate and transition planning, while the selection and tailoring of the products now more accurately suit the risk profile of the clients, and their key objectives.

"It is clear from this lively and insightful discussion," he said, "that RMs and wealth planners really need to look deeply at this area, as they will see that it provides them with an opportunity to present an added-value offering in that process within the broader team to deliver the right solutions for their clients. As the clients build their wealth portfolios, they will build their protection portfolios as well." ■