

Life Insurance Solutions and their Rising Adoption in the Asian Wealth Management Market

In our Digital Dialogue discussion on Thursday, March 24th, we explored the state of the life solutions industry today, reviewing the latest trends in products, identifying the optimal solutions for individual needs, and analysing where demand is on the rise from different segments of clients in the Asia region, and why. The industry is replete with a host of acronyms, from UL, to VUL, IUL, WOL, PPLI, and there are other popular policies such as Savings Plans. In the current economic and interest rate environment, and given the outlook for financial markets and the continuing course of the pandemic, our panel of experts debated which products are most popular and why. They also looked at the major issue of funding policies and whether larger, more leveraged policies are advisable given the state of the financial markets and rising rates. And they debated the role of the banks and EAMs in helping promote these solutions amongst their clients, what additional training and expertise is required, and how they should best work with the life solutions experts from the specialist brokerage industry.

SPEAKERS



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THESE ARE SOME OF THE QUESTIONS THE PANEL ADDRESSED:

- » The pandemic has provided a major fillip for the life solutions market, but also hampered some of the execution, due to remote working and lack of normal travel. How has the life market come through these hurdles and is it yet achieving its potential in Asia?
- » UL, VUL, IUL, Whole of Life, Savings Plans, PPLI? Other new products? What types of solutions are in vogue today, what is coming through, what are the key differences, and what suits which types of clients?
- » Does the average private banker or wealth management advisor/RM understand enough about the life products and solutions to be able to help promote these concepts, and what needs to happen to boost their knowledge, engagement and involvement?
- » If you work directly with private clients, how should you begin the conversations, how should you then work with the specialist distributors and agencies to further advance these solutions for Asia's private clients, and very importantly, how do you participate properly and legally in the fee income/commissions?
- » How do wealth managers promote each of these solutions within the bounds of regulation/compliance, and are the rules/guidelines changing?
- » Premium financing is also an important part of the life solutions market, so what is the state of play?
- » Is inflation now a major factor to consider when assessing the right policies?
- » What role can life solutions play in estate and legacy planning, and which are the most appropriate structures?
- » What sort of additional training and education is required for any RMs or advisors to be able to promote these sophisticated products?
- » Should the wealth industry be engaging the second and third generations in such discussions, and if so, how?

Setting the Scene

HNW Life Insurance Solutions are most definitely now centre stage in Asia's dynamic, expansive wealth market. Those who fail to grasp the opportunity are missing out on a significant weapon in their revenue generation arsenal and essentially failing their clients, many of whom might seek initial guidance and direction from their bankers and advisory firms, who within the guidelines of compliance can also participate to varying degrees in the very substantial commission income being generated.

It is a great opportunity for the private banks and independent wealth management firms to help deliver insurance concepts and solutions in a compliant manner, and as they are restricted in what they can do by regulations, it is vital they work in sync with the specialist agents and distributors in the market.

The panel discussed this and also how agile the product providers have become in tailoring new products to appeal to current and future market demand. And the experts discussed how life solutions are playing an increasingly central role in estate planning and facilitating the smooth transition of wealth from policyholders to their chosen beneficiaries, something that is especially important in a world of intense and proliferating regulation and compliance, as well as in the face of the stark realities of the ongoing pandemic.

The market is most certainly there to be grasped - despite the virus and market uncertainty, the HNW and UHNW population remained robust, growing by nearly 8% in 2020, and Asia-Pacific remains one of the world's fastest growing major regions for HNW individuals (HNWIs). And at the same time, naturally the pandemic has also increased awareness amongst HNWIs in the areas of health, longevity, and legacy planning.

Overcoming the hurdles, emerging from the pandemic, satisfying pent-up demand

“As we now gingerly begin to travel and meet clients and partners again, I am more convinced than ever that there is a lot of pent-up demand to satisfy,” a guest commented, helping to paint the background to the current market. “Many clients have also used this downtime to reflect on their current situation, their planning, revisiting that planning to see if it still works today, or if this can be improved upon. They might be considering insurance from the death benefit aspect, and perhaps from a PPLI and VUL perspective, looking at the transfer of those assets to the next generations. So, there’s a lot of interest around that, not just from brokers themselves, but from end clients who’ve taken the time to educate themselves and find out what is available out there.”

He said there are many regulatory changes afoot, including challenges to trusts, and for Taiwan, the CFC rules coming in. “Clients are looking to see if there are other structures out there that they can use alongside what they have, or to enhance their current planning with what they have, maybe trust, maybe offshore companies, recognising that standalone may not be necessarily robust enough.

The advisory community has upped its game

And he remarked that the advisory community is more knowledgeable and more interested. “You have many external asset managers, including many new ones, and

Expert Opinion

NIKKI KOH, Chief Executive Officer, Singapore, Group Chief Commercial Officer, Charles Monet Associates

“The pandemic has provided a major fillip for the life solutions market, but also hampered some of the execution, due to remote working and lack of normal travel. Yet the industry has come through these hurdles well. The pandemic reminds all of us about our mortality and how quickly things can change. For the first time in our lives, we saw the world coming to a standstill in 2020 and economies/businesses were devastated with huge volatility in the stock market in 2020. It is a sharp message to everyone that a convergence of untimely death and a shock to the wealth portfolio can severely impact the intended wealth distribution to beneficiaries.

As a result, we witnessed a sharp increase in interest among HNWI’s to explore liquidity solutions through estate planning in 2020 and 2021. However, the industry was initially unable to engage customers since borders were closed and many countries were imposing lockdowns. Nevertheless, thanks to modern technology, video conferencing quickly became the new normal and brokers collaborated with carriers to design a new process to engage potential customers on a remote platform.

This has all been widely accepted by customers and I believe the remote platform will become a permanent solution for customers. As we come out of the pandemic, I expect that even more business will be done, as the remote process improves efficiency and face to face engagement through open borders will allow engagement of more potential customers.”

LEE WOON SHIU, Managing Director & Group Head of Wealth Planning, Family Office & Insurance Solutions, DBS Private Banking

“In the new post-pandemic norm, Asian high net worth families are more appreciative of the fragilities of life and the need for pre-emptive planning. This heightens the urgency for high quality customised life insurance advisory solutions to be delivered in a timely manner.”



they are looking at insurance as a means to differentiate themselves from the competition. They are setting themselves apart through insurance, perhaps private equity and so forth. They are even looking at combining private equity with PPLI, for example. It's something we've done quite successfully out of Europe and can bring into Asia. People are also keen on portability, especially given all the uncertainties of the past few years and now the Ukraine crisis. People want peace of mind for themselves and family members, and this involves flexibility and portability.

Jumping through the hoops

A banker opened his commentary by reporting a lot more interest in income plan solutions amongst their private banking clients, driven, he said, perhaps by necessity because of the lack of access to medical facilities for check-ups. He explained that income plans do not require any form of medical examination. "The income plan comes with an attractive income component where you get fixed or perhaps a projected income distribution upon some events happening," he elucidated. "Moreover, they are also available for premium financing through the banks."

A banker observed that the pandemic had significantly dented the protective shield that wealthy clients felt was cloaking them from some of the major insecurities in this world.

"Many clients are naturally more sensitised and more acutely aware of the fragilities of life and are much more proactive and open about seeking protection, and I think once the pandemic retreats



and more facilities are open again, there is a lot of pent-up demand to be unleashed, and we will have more conversations on UL, IUL and so forth. We think PPLI and VUL will continue to be interesting for certain clients as well, but UL and IUL will rise to the fore again. UL will remain a key element of the life solutions market, but for the moment, there are still significant hurdles."

Taking the life market to the next level in Asia – much good progress made but more to be achieved

A banker proffered his views regarding the increasing

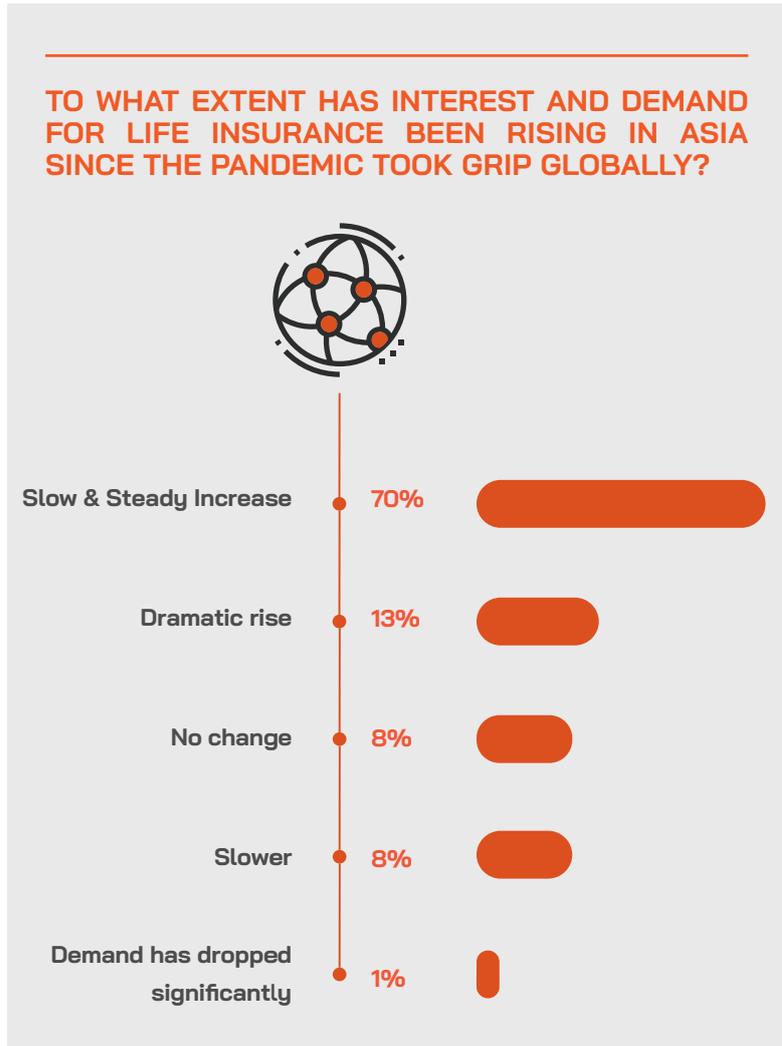
sophistication of private clients today. "There was a time, not that long ago, when you might go into meetings with clients and they were not at all well-informed, but now they ask smart questions and are on top of many of the regulations and concepts," he reported. "Advisors cannot simply talk their way through meetings unless they are really on top of their subject and the details. You need to know the products, understand the concepts and solutions and be able to communicate those to some very smart people. If not, then you will lose credibility and look second rate in comparison

to other bankers and advisors. This business requires greater professionalism than ever before.”

He explained that his bank takes a very holistic approach in terms of the clients’ needs and objectives. Tax, he said, is certainly in the spotlight across the globe, and even low-tax Singapore had increased top tier tax rate for high-income earners. “There is a heightened sense of unease for clients and one way to make sure that they’re able to neutralise some of the impacts of these tax liabilities is to put in place a very significant life insurance solution plan that will increase the pool of reserves for liquidity, for planning, for various reasons, including taxes. In short, that’s the current narrative,” he told delegates.

More open discussions and greater inclusiveness amongst family members is helping support the growth momentum

An expert reported that another factor driving the market to greater professionalism is the increased willingness of families to engage the second and third generations in their thinking, including on life solutions, which in the past had been somewhat taboo in Asia. “Family-wide solutions are more on the table for discussions these days,” he reported. “These are valid conversations that are valuable for all the key generations, as they plan for future events, future liquidity, tax liabilities, and so forth, all in a more open manner. That has also actually brought the whole level of engagement and discussion on insurance within the bank to a higher level for all of us, as it is more of a priority for the clients.”



As to the approach intermediaries and advisors should take with clients, he observed that the first and best step is always to engage them in a discussion of their situations and their objectives. He explained that a deep dive into their personal and company positions and their family situations are invaluable in the determination of the final shape and scale of the solution to be created.

The ‘soft’ side of private banking

“This is not a science; it is more of an art, I would say,” he elaborated. “Taking that approach, you have empathy and engagement, and

you arrive at a product that is both compelling and convincing for the clients to consider. If the proposition is very logical and based on analytical thought, it is a personalised and highly valuable solution and not simply another product pitched to earn fees.”

“If the bankers don’t contact the clients about these needs, and they don’t talk about it, somebody else will for sure. I started at a time when insurance was still a taboo, but today is much less so,” this expert added. “And we have commercial banks, we have IFAs, we have private banks, and many tied agencies talking to clients. So, clients are much

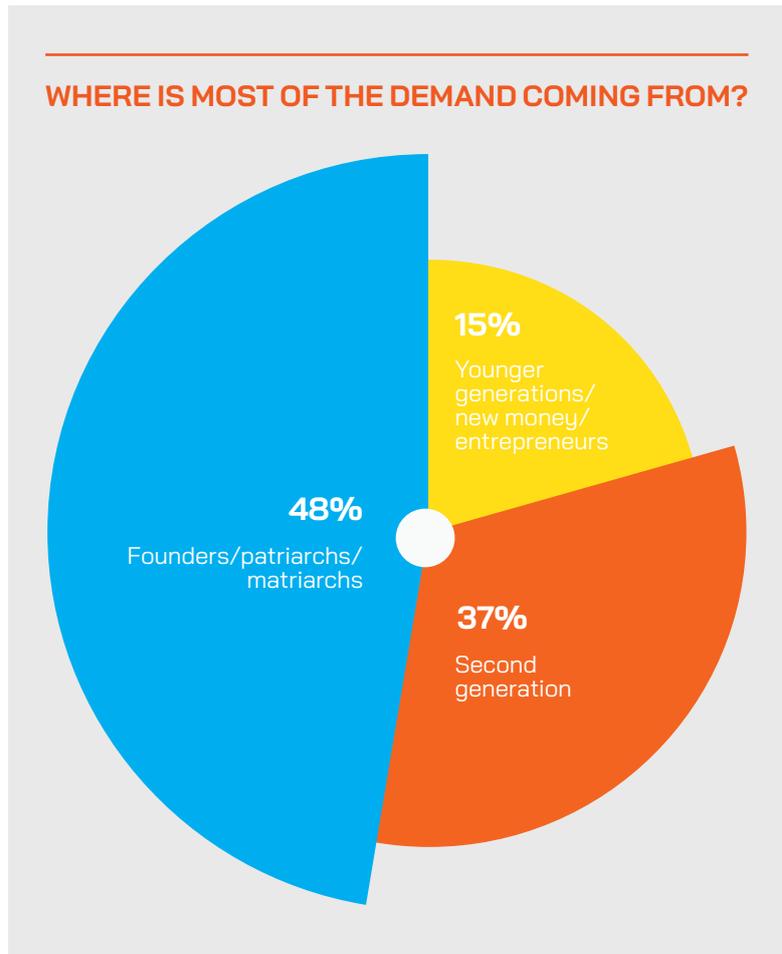
more aware now. Accordingly, I really believe that bankers and advisors should, and it always be at the front of it, bring up this topic, ask the correct questions, and hopefully it will trigger their curiosity and awareness.”

But a word of caution – don’t overstep regulatory boundaries

“But wealth managers need to tread carefully when they promote these solutions, so that they remain within the bounds of regulation/compliance, especially as things change fast,” another expert commented. “Most banks have a referral process when they identify clients with needs and bankers do not get involved in the recommendation of solutions. They only refer to brokers for subsequent follow up.”

In an expanding world of choice for life solutions, narrowing things down requires great attention to detail and to personalisation

Decision making involves a deep dive assessment of the options available. An expert said there are many elements to the decision including the actual terms of the policies, as well as the carriers, the jurisdiction, the structure, and so forth. “You must weigh up and see what suits the clients best, and to do so you need to understand them and their needs,” he said. “Is it for asset protection, or for cross-border succession planning, is the client looking to relocate, must the policy be portable, what about the younger generations of the family and their location and needs, and so forth, these are just some of the elements.”



The role of the wealth advisory community in promoting life solutions is vital to the rollout of the industry in Asia

A banker observed how a very powerful pitch is to bring a whole ecosystem of advisors from different fields together to address the very specific pain points that the advisor might have identified for their clients.

“You cannot go it alone as a banker or EAM,” he warned. “First, you are not permitted to delve into the actual products, that is the job of the licensed brokerages, and secondly, you do not have the expertise. You can play a vital role in opening the doors, stating conversations, and then inviting the right type of

partners in to see these through to fruition. The more proficient you are, the larger the deals potentially, and certainly the more relevant the solutions for clients.

Banks and EAMs need to come prepared

An expert observed how it is vital for intermediaries to work up a real understanding of their clients’ objectives, and their leanings, and that involves doing some real analysis and research. He said he senses that the wealth industry as a whole is moving in the right direction, but there is more progress to be achieved and patience is a key element, as it is not only about closing the deal.

“Yes, closing the transaction is important,” he concluded, “but it is not the only factor. Bankers and advisors need to be patient, to make sure they are putting the right solutions in front of clients, and to be more patient. And there are benefits to this patience – you might be able to get a USD10 million deal over the line quickly, but with a more holistic approach and greater patience, you might be able to forge a USD60 million transaction. So, we need to be more client-centric, more patient, more careful and time our approaches and pitches smartly.”

Charting the right course straight from departure

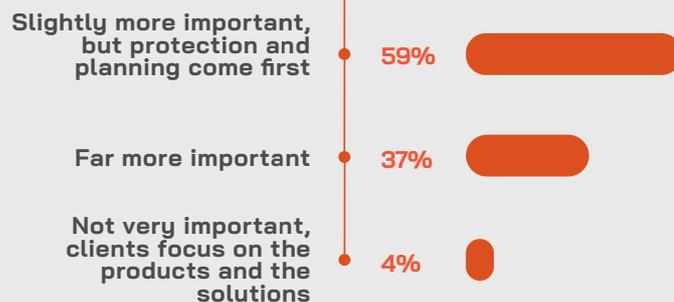
An expert offered some words of advice on how to develop the right types of conversations. “We all know of the needs and of the openness to discuss these matters, but we need to approach these issues delicately, with empathy, with genuine professionalism and armed with real knowledge, and each internal team member in these discussions needing to play their role, and with the right curation of external partners and experts,” he advised. “You need to be extremely organised in how you have these discussions, to properly understand the client and their concerns, and for everyone to be ready to play their role to help guide these propositions forward properly.”

He explained that clients are not looking for ‘fluffy’, generalised discussions; they want genuine professionalism and expertise, real information and guidance. “Gone are the days where one person could go and have a general type of discussion and try and cover all bases,” he said.

TO WHAT EXTENT IS LIFE INSURANCE NOW A MAINSTAY OF ORGANISED, SMART ESTATE AND LEGACY PLANNING AND STRUCTURING FOR ASIA’S WEALTHY?



TO WHAT EXTENT IS TAX BECOMING A MORE IMPORTANT DRIVER TODAY WHEN CLIENTS ARE CONSIDERING INSURANCE?



The role of leverage in funding premiums and policies

“Leverage is also an important part of the life solutions market. UL & WOL policies have a first day cash value that can be pledged to banks for lending,” a specialist observed.

“This allows a customer to place approximately 30% of premium, combined with 70% of premium through financing, to achieve a death benefit that is a multiple of the premium. Once a customer decides on a solution, we will work with the bankers to facilitate the

required documents that allow banks to receive the insurance policy as a collateral.”

Another guest explained that a key element in expediting solutions for any very wealthy client centres on premium financing, in which his bank has built up considerable expertise and history. “There are increasingly different ways in which people pay the premium for these policies,” he reported. “What was very common before was the single premium payments, where they would pay the premium in one go, and at our bank, those are the kinds of policies which can be financed easily because they have a significant cash value, typically between 80% and 90% on Day One, depending on the exact nature of the product.”

More options on the table than ever before

But that was the case before. Now there is more variety. “The bank’s role in the entire insurance process is really largely on being the assignee for policies, and as insurance carriers become more innovative in terms of products and processes, as brokers become more innovative in terms of their discussions, there are changes afoot around the way policies are financed by banks. Actually, right now, the majority of cases I see are still single premium type cases, people are increasingly exploring different ways of paying their premiums, and banks are increasingly flexible in their willingness to consider different alternatives.

Deep dive and due diligence

He also added that the banks need to take a deep dive assessment of the structures around the

Expert Opinion

LEE SLEIGHT, Head of Business Development, Asia, Lombard International Assurance

“Education remains my mantra for 2022. As awareness of the PPLI solution becomes understanding, education on the expanded benefits and where the solution can assist in the wider wealth and succession planning is critical – this must happen at the business-to-business level (brokers, bankers, wealth advisors, etc.) whilst simultaneously filtering down to their clients. The planning needs are there, what is required is a clear understanding of how PPLI can cater to these ever-sophisticated needs.”

Nikki Koh, Chief Executive Officer, Singapore, Group Chief Commercial Officer, Charles Monat Associates

“There are various steps needed to take the life solutions market in Asia to the next level. I think there should be greater education and awareness amongst bankers and clients around how different solutions can aid HNW families. This should go beyond the patriarchs, to educate the second generation who will be inheriting the wealth built by the first generations. We could share with them how life insurance could be used in combination with trusts to ensure a lasting legacy beyond generations. Also, as Asian customers become more sophisticated about how high death benefit life insurance and income plans can benefit their families, we could then move on to educate them about how PPLI can be a complementary tool for wealth transfer that could include non-bankable assets. In Europe where customers are only familiar with PPLI, there could be more education on how high death benefit solutions can help with their estate planning.”



beneficial ownership of the policies as part of the funding decision. “When the bank is considering financing, they will need to look at the entire arrangement to see if there is sufficient disclosure around beneficial ownership,” he explained. “Transparency has for some time now become a really key element of any kind of structure, any kind of arrangement, and definitely any kind of a financial tool. Insurers are also

financial institutions. In short, I think drilling down to who the beneficial owners are and disclosures on that are going to be the norm.”

How much do you need? More than you might think...

A lot of clients and also bankers tend to underestimate the amount they need. They think that one or two or

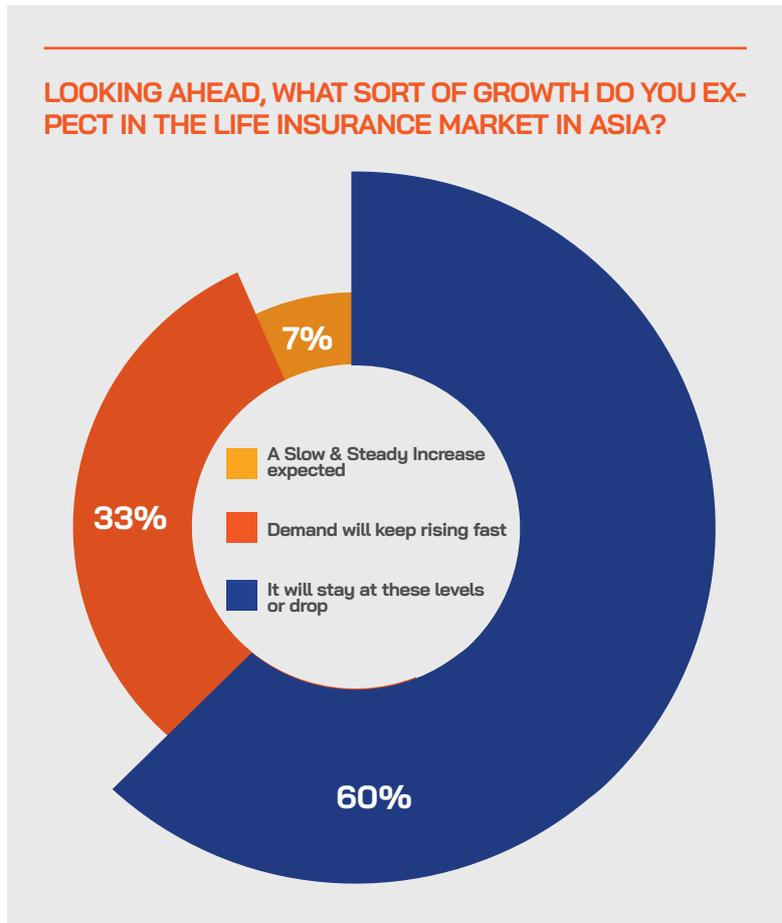
even 10 million dollars of coverage is enough. But inflation is here again and if payouts happen decades ahead, the coverage might not be enough. So, many would encourage advisors and clients to try to help clients to realise that they need bigger amounts of coverage.

The role of life solutions in robust estate, succession and legacy planning

Life solutions fit very tidily into the overall wealth and estate planning drive in the region. “There has been a remarkable level of activity and discussions on these solutions around protection and how they fit with properly formulated planning, wealth preservation and succession,” a banker told delegates. “And that’s radiated through to the development of more products, and in light of the past two years, more flexibility amongst insurance carriers in terms of how to implement insurance solutions. These advances can only benefit the client because they have more tools to meet their objectives.”

The great value in engaging the younger generations in planning and in the selection process for the right life solutions

“It is really valuable to engage the second and third generations in such discussions. They should understand the longer-term objective of preserving wealth beyond generations,” a guest told delegates. “This can be done together with wealth planners and trust services by showing them how powerful a combination of life insurance and trusts can work together. There can be more client events which include the second and third generations or small group discussions with the client and their family.” ■



Expert Opinion

LEE SLEIGHT, Head of Business Development, Asia, Lombard International Assurance

“Overall, there is an increasing demand for transparency, not least of fees paid for the solution. For wealth advisors, providing a relevant solution for the client, achieving their objectives whilst at the same time giving them a clear oversight on the underlying assets driving the value and the costs associated with the structure can make a real difference.”

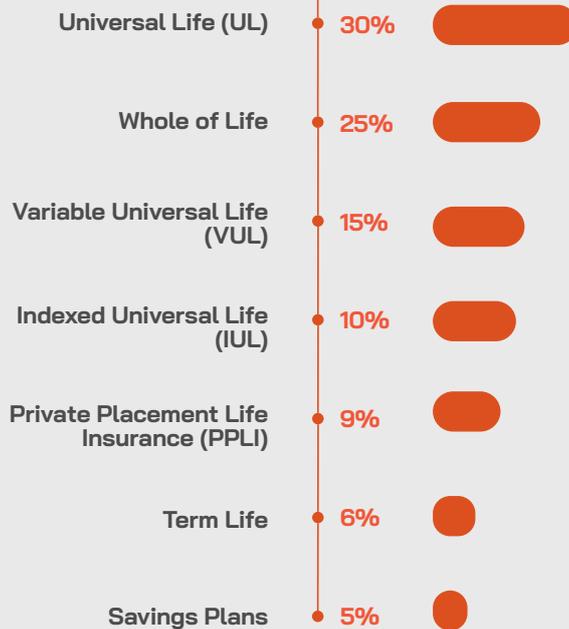
NIKKI KOH, Chief Executive Officer, Singapore, Group Chief Commercial Officer, Charles Monat Associates

“Inflation has always been a factor to consider when preserving wealth because USD1 million in 30 years will be worth much less than today. However, with the pandemic and recent geopolitical events, inflation seems set to rise significantly, which means that clients might want to consider getting themselves insured for much more. We have already seen this happening in 2021 where the sum assured of policies and the number of policies have both increased.”





WHICH LIFE INSURANCE PRODUCTS ARE MOST IN DEMAND IN ASIA'S HNW AND UHNW WEALTH MARKET TODAY?



Expert Opinion

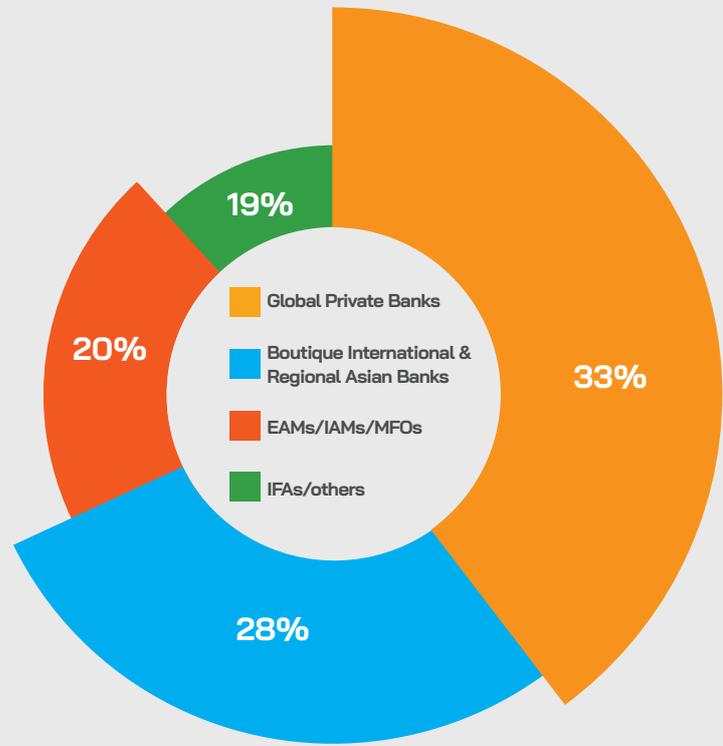
NIKKI KOH, Chief Executive Officer, Singapore, Group Chief Commercial Officer, Charles Monet Associates

"Life policies can play a significant role in estate and legacy planning. Life insurance with high death benefit can provide important and substantial cash injection at the worst time in a HNW family's portfolio. It functions as a buffer to portfolio volatility and can be best used together with family trusts for UHNW individuals. When it comes to tax planning, PPLI policy in trust is an internationally recognised structure to achieve succession planning and estate planning for clients holding assets across multiple jurisdictions. Family wealth can be passed on without needing to contend with probate delays and estate administration. With that combination and a programme to insure every generation, it is a good way to build a lasting legacy beyond generations."





WHICH WEALTH MANAGEMENT INTERMEDIARIES ARE DOING THE BEST JOB AT PROMOTING LIFE SOLUTIONS?



Expert Opinion

LEE SLEIGHT, Head of Business Development, Asia, Lombard International Assurance

"Enhancing current planning is vital. The evolution of the current fiscal and regulatory environment encourages wealth advisors to engage with their clients and review their existing planning to enhance this, whether it through their use of trusts or offshore companies – all of which are becoming increasingly relevant as we see a clear move towards CFC rules in the region."

LEE WOON SHIU, Managing Director & Group Head of Wealth Planning, Family Office & Insurance Solutions, DBS Private Banking

"The increase in tax liabilities targeted at high net worth families (ranging from potential new Wealth Taxes to increases in income tax rates) point to a necessity for such families to access liquidity solutions via a tax efficient structure which will help optimise their long term liquidity reserves."



*Expert Opinion***NIKKI KOH, Chief Executive Officer, Singapore, Group Chief Commercial Officer, Charles Monat Associates**

"There are many products in the market, such as UL, VUL, IUL, ILP, Whole of Life, Savings Plans, PPLI and so forth, and each might be relevant for individual clients. The market started with UL and premium financing more than 10 years ago and it was a compelling proposition until recent years with the reduction in crediting rates. The market then shifted in a big way towards WOL which provided guaranteed benefits and a whole life fund with smoothing features in the projected returns.

At the same time, there has been growing interest and sophistication in IUL and VUL solutions which I expect will take more market share from 2022 as these solutions begin to look compelling for customers. Savings plans are also another way to create a legacy by providing a long income stream for subsequent generations, especially in situations where clients might be cash rich but not healthy enough to qualify for high death benefit life insurance. Term life policies are often used to ensure that adequate liquidity is available for heirs to meet inheritance tax liabilities. There are also opportunities for PPLI in Asia as customers begin to understand the benefits and ease of transfer of wealth using such vehicles.

Lastly, a single product may not be the only solution to satisfy the unique wealth planning needs of global HNW clients. For many clients who already have universal life insurance with a high death benefit to secure their family's wealth, other solutions such as whole life savings plan can be added as a supplement to give clients the ability to maximise the legacy left to heirs and improve the efficiency of passing assets to the next generation."

"As to whether the average private banker or EAM RM understands enough about the life products and solutions, my impression is that 30% to 50% of RMs today are familiar with UL and perhaps WOL with financing. However, much more education and consistent engagement needs to take place so that they can identify client needs better, how to ask good questions that lead them to allow a broker referral and to open clients to consider the broader spectrum of solutions available. The engagement to facilitate this would include formal trainings and also informal conversations between private bank teams and international brokers in the industry on a regular basis.

It is probably more important for bankers to be able to ask the right questions that trigger an awareness from the client about potential pitfalls. Bankers may not need to know the products in detail since they will only need to refer to the broker for follow up and execution. As opposed to product training on the pricing and IRRs, creating awareness about offering needs-based advice, focusing on the need and then the solution to meet the need will be key to enhance bankers' understanding of life insurance in order to drive insurance business at the private banks. These can be done through a combination of formal training and informal engagement with brokers in the industry.

Setting the conversations off in the right direction is essential, as is assembling the right teams to guide the clients forward. I like to begin by understanding the client's family and business. I find it beneficial to hear from the client what led to their success in business and what their biggest concerns are with regards to wealth protection and distribution. Once we have some clarity on that, we could help clients discover potential pitfalls and gaps in their current portfolio.

Bankers themselves do not need to and should not speak about products as they are not licensed to do so. They should only identify clients with needs and refer them to brokers for a follow up conversation and who will take clients. For example, I have come across clients with huge property portfolios and some cash. But they often forget through the process of executing the suitable solutions. It is part of the referral process to disclose to clients that there may be commissions paid on successful referrals."

