

HNW DEMAND SURGE EXPECTED FOR LIFE INSURANCE IN EMERGING MARKETS, WEALTH MANAGERS MAY NEED TO ADAPT

LONDON – Demand for HNW offshore insurance-linked investment – universal life, variable life and PPLI – structures in the emerging markets is both large and underserved by private banking businesses, according strategic insight from Scorpio Partnership. The insight is based on depth interviews with decision makers at over 50 life companies and wealth managers focused on 14 emerging markets (see table below) and a total HNW/UHNW asset base of USD11.9 trillion.

Current estimates are that less than 5% of all wealth management portfolios in emerging markets include an insurance component but demand is rising among individual investors. Scorpio Partnership research indicates that life policy-linked instruments within portfolio solutions are expected to increase to 15% within five years. This would suggest an HNW/UHNW market of assets that could incorporate insurance-wrapped cover of almost USD1.2 trillion.

Interestingly, given the growing interest to tap this market by the life companies and rising demand from end investors, developing an insurance solutions strategy at most private banks is considered to be “tomorrow’s problem”. However, demand and opportunity suggest strongly that it is “today’s need”. Life companies are rapidly turning their attention to these markets but the wealth managers are still only adjusting slowly.

“This is an untapped frontier of wealth management. To date, in the offshore emerging market context most private banks have scratched the surface of demand for insurance solutions. The attitude appears to be that insurance is too complex to sell and so focus is shifted elsewhere on the product palette. It is our view that in the search for new and sustainable revenue streams the more forward thinking banks will now adjust course to incorporate these solutions as there is demand and the complexity is surmountable”, said Sebastian Dovey, Managing Partner.

Based on these demand projections, Scorpio Partnership’s view is that there is a strategic opportunity for private banks to pro-actively broaden product capability in this area targeting emerging markets (and as part of a broader global strategy) and develop a structured approach to the distribution of these financial solutions to HNW and UHNW clients.

Notably, it is judged that the crucial market is the HNW community which encompasses USD7.8 trillion in assets. Typically, international wealth managers have focused their insurance sales in emerging markets upon the UHNW market space. However, the insight indicated the real demand (and stronger fee potential) rests with the USD1m-10m investable asset base.

Emerging market HNW opportunity sizing

Client wealth segment	Target market total HNW asset base (14 markets)*
USD1m-USD5m	USD5trn
USD5m-USD10m	USD2.8trn
USD10m-USD20m	USD2.3trn
USD20m+	USD1.8trn

Source: Scorpio Partnership

*Note: India, UAE, China, Hong Kong, Korea, Singapore, Taiwan, Thailand, Argentina, Brazil, Chile, Mexico, RSA

Specifically, of the 14 markets, those in the Asia Pacific region appear to show the strongest characteristics for substantive growth in consumption of insurance instruments. This view is based on a number of factors including:

- Presence of relatively benign regulatory conditions for the sale of insurance products in many target emerging markets
- Positive demographic conditions in most relevant emerging markets in relation to the appeal of life-linked investments
- Introduction of a strong growing customer preference for dynamic wealth planning solutions as generation transfer rises up the priorities
- Presence of a strong carrier landscape with fast growing uptake in the general insurance fields and the potential of a strong distribution channel through the private banking sector.

The caveat in this landscape currently is that the private banks have appeared to be relatively slow on the uptake of this potential.

“Private banks’ still consider insurance a retail issue and ignore it, often in spite of the relevance for their client base,” stated Dovey.

Insurance-linked investments foster longer client-bank relations

The interest about insurance linked solution is the stickiness of the relationship. Both private banks and carriers acknowledge that life-linked solutions have an average relationship cycle of 10 years. Most bankers noted that this was as much as three times as long as the typical length of a portfolio relationship with a bank.

“Life policy investments present the banks with a longer and more durable earning cycle which in current market conditions must be thought of as more attractive. Indeed, for the right circumstances, the insight strongly suggests that insurance-linked solutions will become a mainstream product within a decade in the emerging markets,” said Dovey adding the main delay in this growth has been the lack of push from the distribution channels of wealth managers.

The opportunities to drive significant revenue through insurance in the wealth market are clear. To achieve these private banks should consider the development of a strong internal insurance advisor capability. Broader education of the banking staff could also increase awareness and sales. Several banks and life carriers appear to be starting the process of addressing this.

-BACKGROUND ON INSIGHT-

To develop the assessment of the options in emerging markets and insurance solutions, Scorpio Partnership conducted 50 interviews with stakeholders around insurance solutions and the emerging markets during Q2, 2010. These stakeholders have either been with banks (Heads of private banking, private bankers), Carriers (Heads of Business, Heads of Strategy, Heads of Product Development, Heads of Institutional partnership), and professional advisors (lawyers, accountants). The objective of these open conversations was to determine the level of opportunity in the wide range of markets.

Along with the qualitative insight from the interviews, Scorpio Partnership has also undertaken quantitative analysis of the market conditions as well as desk research on the industry sector. This process has drawn on both public sources as well as proprietary data held with Scorpio Partnership.

NOTES TO EDITORS

About Scorpio Partnership

Scorpio Partnership is the leading insight and business consultancy to the global wealth industry.

The firm specialises in understanding the wealthy and the financial institutions they interact with. We have developed four transformational disciplines – **SEEK**, **THINK**, **SHAPE** and **CREATE** – each designed to enable business leaders to strategically assess, plan and drive growth. The solutions Scorpio Partnership develops regularly win awards for its institutional clients and help them financially profit.

Our discipline teams leverage expertise in:

SEEK

- Client research
- Advisor research
- Market mapping
- Company/Intermediary research
- Brand identity audits

THINK

- Product/Service development
- Business case development
- Concept solutions
- M&A diligence
- Brand identity development

SHAPE

- Market entry solutions
- Media and Event solutions
- Training and Education solutions
- Sales & Marketing campaigns
- Brand identity solutions

CREATE

- Campaign management
- Change management
- Strategic marketing
- M&A implementation
- Specialist consulting

Scorpio Partnership has conducted more than 300 global assignments across wealth for institutions in the banking, fund management, regulation, IT and technology, insurance and charity sectors.

Scorpio Partnership has been voted best global consultancy to the wealth management industry for the three consecutive years *. The firm is independent and owned by management.

For more information go to www.scorpiopartnership.com

*Wealth Briefing

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