Corner Office Views

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Corner Office Views

Timely Insights to Inform your Business Strategy

Lead with knowledge and perspective. Connect with secular trends impacting financial services, interpret what they mean for your business, and drive new opportunities. Cerulli's Corner Office Views provides market leading insights and tangible takeaways for senior executives seeking to strengthen and scale their business models.

About the Author

Ken Yap, CFA
Managing Director, Asia

Ken Yap is Managing Director of Cerulli's Asia Pacific office. He oversees Cerulli's business development strategy and research initiatives in the region. For 19 years, Ken has worked with asset managers, distributors, and financial institutions, identifying expansion opportunities with his deep knowledge of the market. He specializes in product development and market entry strategies into Asia's established and emerging markets.

Prior to leading the Singapore office, Ken covered local and global asset management and distribution trends in Cerulli's London and Boston offices. Before joining Cerulli, Ken was a consultant at Analysys' Cambridge office in the UK.

Ken holds a Master's degree in business from University of Cambridge and a Bachelor of Engineering from National University of Singapore.

How can fund managers penetrate insurance markets?

Insurance products are some of the most established and well-known financial products in the region.

Key Implications

- Fund managers can access Asian markets by partnering with life insurance companies to produce investment-linked products (ILPs).
- Insurers are looking to provide broader range of strategies, such as multi-asset, to serve as underlying funds in their ILPs.
- BlackRock and Taiwan's ShinKong Life Insurance partnered to develop the market's maiden annuity ILP with BlackRock's target-date funds (TDFs) as the underlying investment.
- There is ILP opportunity for fund managers in Taiwan and Hong Kong, which have high life insurance penetration.
- While China's ILP market could be massive, fund management opportunities are largely limited to insurance asset management companies and affiliate managers.

Hong Kong

Pros

In Hong Kong, despite suffering from a backlash several years ago after complaints of mis-selling, ILPs—locally known as investment-linked assurance schemes (ILAS)—remain among the most accessible mutual fund distribution platforms in the region. In 2018, Hong Kong insurers recorded HK$17.4 billion (US$2.2 billion) in new linked office premiums, up 36.7% on the previous year.

In 2018, Manulife remained the largest ILAS provider, contributing 55.4% of the industry's new premiums, and 24.5% of the industry's in-force ILAS business. AIA and Sun Life led in terms of growth in new ILAS business, as new premiums more than quadrupled in 2018 to HK$3.5 billion and HK$1.2 billion, respectively.

Cons

It remains to be seen how the political unrest in Hong Kong will affect these products' underlying domestic investments. Furthermore, the availability of other, more retirement-friendly products, such as the new qualifying deferred annuity policies (QDAPs), may pose competition to ILAS as retirement instruments.

Taiwan

Pros

Backed by a high savings rate, Taiwan has one of the region's most vibrant insurance retirement markets. ILP assets in the market have been steadily growing for more than five years, at a compound annual growth rate of 6.9% between 2013 and 2018. Life insurance products practically serve as the main third-pillar retirement instruments in this market.

Fixed-maturity bond funds continue to gain traction in Taiwan. Due to the boom in its ILP premiums in 2018, Nan Shan Life saw its ILP assets rise from NT$82.4 billion (US$2.8 billion) in 2017 to NT$131.1 billion in 2018. Taiwan Life was the other insurance company benefiting from its double-digit ILP premium growth, as its ILP assets increased by 29.2% y-o-y in 2018.

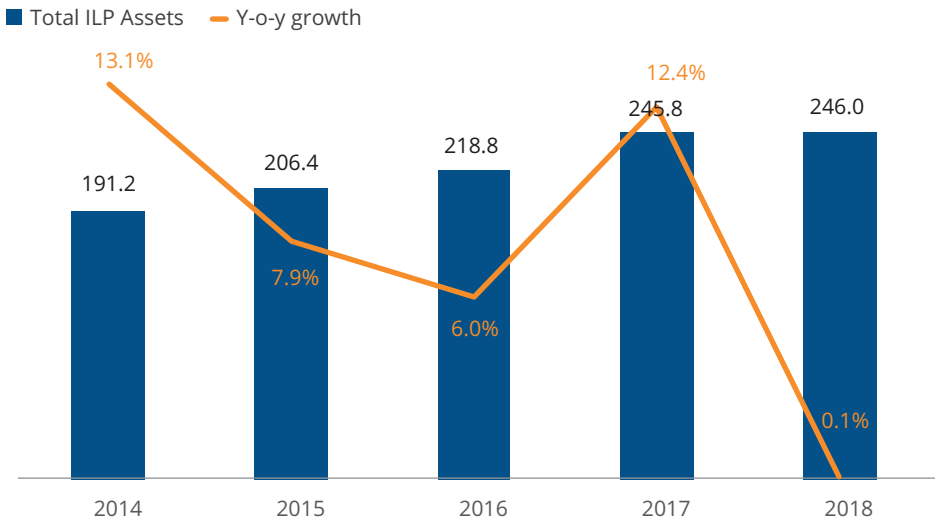
Asset managers and insurance companies can expand their product repertoires to include emerging themes in discretionary ILPs—target-date funds are potential candidates. In November 2018, BlackRock and Taiwan's ShinKong Life Insurance partnered to develop the market's maiden annuity ILP with BlackRock's target-date funds (TDFs) as the underlying investment. TDFs' glidepath feature can help meet the expected benefit payments with the low-risk assets, while the high-risk investments offer value-added returns.

Asia ex-Japan Life Insurance Investment-Linked Product Assets, 2014–2018 (US$ billions)

Sources: Regulator websites, Cerulli Associates

Analyst Note: Hong Kong, Thailand, Malaysia, and the Philippines are excluded from the analysis. [1]Includes retirement, retirement pension, and variable ILP assets. [2]2018 figure is estimated.

	2014	2015	2016	2017	2018
China	15.8	20.6	20.8	21.7	20.4
Taiwan	48.5	49.1	51.4	57.2	60.2
Korea[1]	96.0	106.4	113.9	125.2	123.7
Singapore	20.7	20.4	21.8	26.1	25.1
Indonesia[2]	10.2	9.8	10.9	15.7	16.7
Total ILP Assets	191.2	206.4	218.8	245.8	246.0
Y-o-y growth	13.1%	7.9%	6.0%	12.4%	0.1%



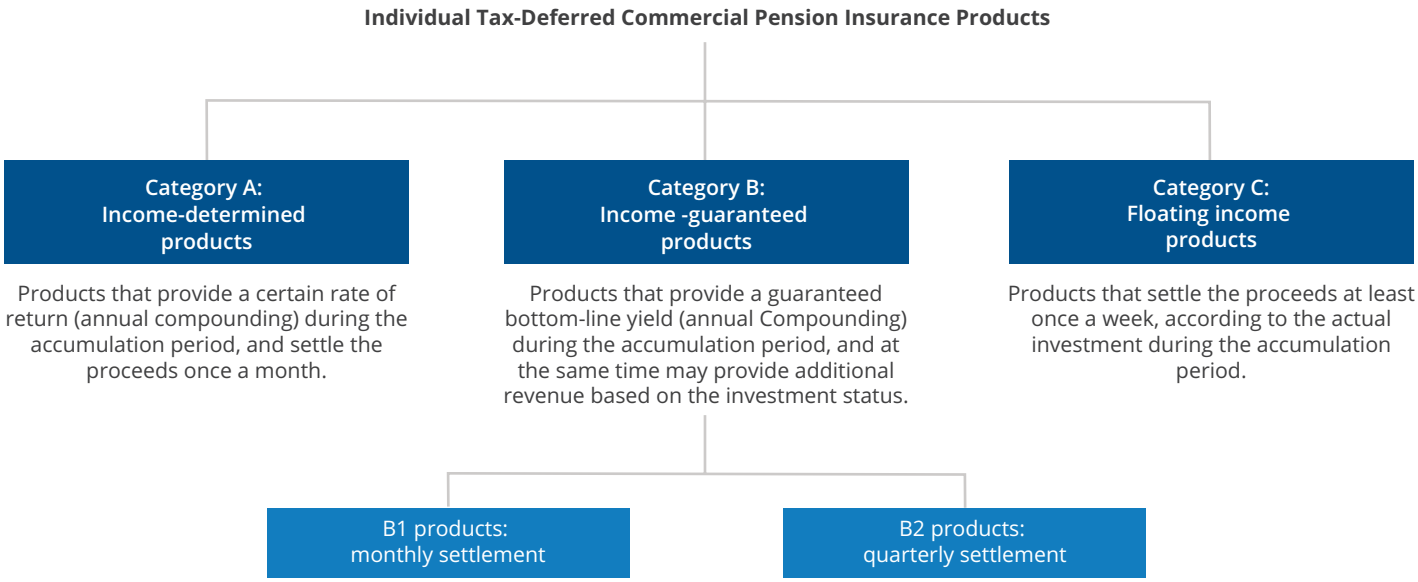
Cons

It is mostly the smaller insurers that are open to working with external managers. Large players have capabilities to invest their general account funds on their own, including overseas. Still, more of them do work with external managers for their underlying ILP funds. Also, volatility in 2019, mainly due to the U.S.-China trade tensions, made ILPs less attractive relative to other products.

> Life insurance products practically serve as the main third-pillar retirement instruments in Taiwan.

Types of Individual Tax-Deferred Commercial Pension Insurance Products in China

Sources: China Banking and Insurance Regulatory Commission, Cerulli Associates



Pros

Longer-maturity universal insurance will likely remain attractive as insurers try to entice buyers with offers of generous and guaranteed returns. We expect Chinese insurers to continue to seek decent returns and work with fund managers that can deliver stable cash flows to help them meet payouts. In 2018, Taikang Life and Hongkang Life were the insurers among the 10 largest to see ILP asset growth.

Cons

ILPs are still nascent in China, and their development has been constrained by tightened regulations and the volatile stock market. The insurance regulator's crackdown on short- and mid-term life insurance products led to a slowdown in ILPs and universal life insurance products. ILP assets declined 5.7% year-on-year to US$20.4 billion in 2018.
The regulatory cat-and-mouse game will likely continue to create uncertainty in the ILP business as the country tries to strike a balance between enforcing prudential regulations and encouraging market competition. This, coupled with insurers' preference to manage such products in-house or with affiliates, is likely to result in limited outsourcing for the time being.

Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com

CERULLI
ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com

United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011

Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040

Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045