Outlook brightens in Asia for private annuity sales: Cerulli

By Kerry Pechter *Wed, Jan 29, 2020*

'The importance of annuities is expected to increase significantly, as many markets continue to encourage personal retirement savings,' said Ye Kangting, a Cerulli research analyst.

Annuities issued by insurance companies are expected to grow in importance in Asia, as individuals seek “third-pillar” (private) nest eggs to supplement their “first-pillar” (government) and “second-pillar” (employer-based) pensions, Cerulli Associates said.

Insurance annuities “are likely to remain the preferred route to retirement planning in the near term due to their payout features, with some providing lifelong payouts and guaranteed returns,” according to an Asian edition of the regular Cerulli Report.

“Some Asian governments, such as those in Hong Kong and China in recent years, have leveraged retail investors’ familiarity with annuities and their track records, and introduced annuity-related initiatives to boost the third-pillar retirement segment,” the report said.

In Singapore and Hong Kong, where life insurance penetration is high, annuities’ first-year premium income has grown over the past few years, with double-digit growth in 2018. But Korea’s first-year premium income dwindled over the same period, largely due to competition from retirement pension policies offered by insurance companies under the Employment Retirement Security Act.

China stimulated its commercial annuity market in May 2018 when it introduced tax-deferred pension insurance as part of a third-pillar retirement system. Plan holders can defer tax on their income used to buy pension insurance until they reach retirement age and start drawing money from the policy.

So far, more than 20 insurers have been allowed to offer pension insurance. More providers could be approved as the government rolls out the scheme across the country. The government introduced enterprise annuities in 2004 and occupational annuities in 2016 to supplement statutory pensions.

In Taiwan, deferred annuities have been growing steadily in the past couple of years. Total deferred annuity premium income recorded a compound annual growth rate of 11.1% between 2014 and 2018, despite a slump in 2016. Investment-linked annuities overtook traditional annuities to achieve a 56.7% market share in 2018.

“The importance of annuities is expected to increase significantly, as many markets continue to encourage personal retirement savings,” said Ye Kangting, a Cerulli research analyst. “There is room for innovative funds and partnerships. Asset managers wanting to penetrate the market can consider positioning investment-linked products as instruments for retirement accumulation, while exploring investors’ preferred product features.”