

Sun Life's Mecca Pilgrims Drive Growth: Corporate Canada

By Katia Dmitrieva - Oct 18, 2013 7:01 AM GMT+0800

Dyah Apsari, a 55-year-old Indonesian woman in Saudi Arabia this month for Hajj, is the kind of customer [Sun Life Financial Inc. \(SLF\)](#) is betting on for the insurer's expansion in [Asia](#).

Hajj, the religious pilgrimage required of all Muslims, cost Apsari about \$8,000, half of what she and her husband earn in a year. Sun Life, the only North American life insurer in Indonesia to offer an Islamic-compliant savings and insurance plan for the trip, is targeting the nation's Muslim [population](#) of 216 million, the highest in the world.

"It's the top 80 million today that can afford the kind of products we offer but the true Shariah market is the next 80 million -- the middle to lower-middle income classes," Bert Paterson, president of Sun Life's Indonesia unit, said Sept. 23 at the company's headquarters in Toronto. "How do you reach that part of the population? You need to build distribution, you need to have products that appeal to that type of customer."

Sun Life has operated in [Indonesia](#) since 1995, and Asia accounted for about [8.8 percent](#) of revenue last year. Canada's third-largest insurer is hiring employees in the region's fastest growing countries, targeting 7,000 staff in Indonesia by the end of 2013 from at least 6,000 last quarter. Asia revenue may jump to 12 percent by 2015, Bank of Montreal said.

Apsari purchased Sun Life's product, offered in partnership with travel agent PT Pantravel, in August before she left for Mecca. The deal includes travel insurance, a death benefit and bookings for hotels and flights. Her son and daughter receive help saving for their eventual pilgrimages in a country where the [per-capita](#) gross domestic product is \$5,100.

‘Huge Price’

“I need my children to also go on Hajj, but it’s a huge price,” Apsari said this month in a phone interview from her home in Jakarta. “This product was something really different. It helps me financially.”

Apsari, who works in the private [transportation industry](#), had never been a Sun Life customer before the visit from a company salesman.

“We have exclusivity with Pantravel and we’re currently keen to expand that,” Paterson said. “We’re happy to work with anybody who can help us distribute the products to the customers we’re targeting and we’re continually talking to potential partners.”

Indonesia’s population is 85 percent Muslim and its middle class will double in the next seven years to about 141 million, according to a [report](#) by [Boston Consulting Group](#). The global market for takaful, or Shariah-compliant insurance, will [reach](#) \$25 billion in the next two years, according to Ernst & Young LLP’s Ashar Nazim.

Insurance Premiums

Customers in emerging Asian countries including Indonesia paid the [second-lowest](#) amount in insurance premiums per-capita last year, behind [Africa](#), according to data by Swiss Re Ltd. The Asian region’s 6.5 percent premium growth in 2012 beat the global figure of 2.3 percent.

Shariah-compliant insurance, a 1,400-year-old market, is based on the Koranic principle of mutual assistance. Policy holders contribute money to a pool managed by the company, which is then used to pay for claims. Any surplus is returned to customers.

Hajj, the largest gathering of people in the world, ends today. [Saudi Arabia](#) caps the number of pilgrims who can enter each year after people have been trampled to death, including a decade ago when 14 people were killed. This year, the government warned 2 million pilgrims about the risk of coronavirus, a respiratory illness.

Waiting List

Indonesia's cap this year was 220,000 and about 1.8 million Indonesians are registered on a waiting list, according to Sun Life. Apsari waited 12 years for her turn and her children will wait 10 to 15 years.

Sun Life's Asia unit, which includes [Hong Kong](#) and the [Philippines](#), represents the strongest economic-growth region, according to Tom MacKinnon, an analyst at BMO Capital Markets. The unit's compound annual growth rate of 20 percent between 2011 and 2015 will be higher than for the U.S. and [Canada](#) businesses, he said in an Oct. 16 note to clients.

Sun Life reported second-quarter life and health insurance sales that climbed 32 percent to C\$496 million (\$482 million) from a year earlier, led by a 38 percent expansion in individual life sales in Asia. The company doesn't break out regional results within Asia.

Sun Life stock [gained](#) about 29 percent this year through yesterday, beating the 12 percent return of the 46-company Standard & Poor's/TSX Financials Index.

Seeking Expansion

Takaful products make Indonesia an attractive investment as Canadian insurers seek expansion abroad, said Victor Kuntzevitsky, an associate at Northland Wealth Management, which manages C\$225 million including Sun Life shares.

"I see Asia becoming a larger revenue source for Sun Life, more so [Malaysia](#) and Indonesia and less [Japan](#)," Kuntzevitsky said in a phone interview from Toronto. The company should seek to boost Asia to 30 percent of revenue in the next 10 years to take full advantage of the region's improving demographics, Kuntzevitsky said.

Insurers providing Islamic coverage face competition from established rivals, a limited number of takaful reinsurers to mitigate risk and a lack of avenues for investing client assets, Moody's Investors Service said in a Sept. 25 note.

“The expansion of takaful insurance into large commercial contracts remains challenging,” Moody’s said.

Still, Paterson said he’s excited by the prospects for growth in the region.

“There’s no doubt in my mind that Indonesia will have the largest [Islamic finance](#) market in [Southeast Asia](#) in the next 10 to 15 years,” he said.