



PRINCIPAL
Best Retirement & Investment Partner of the Decade

Built on Solid Ground

Retirees are now reaping the fruits of the seeds PRINCIPAL has sown, as it continues to grow a culture of readiness for tomorrow. The Mediazone Group is proud to present this year's winner of the Award for Best Retirement & Investment Partner of the Decade, here's why.



The first time is always the most difficult, a wisdom Rex Auyeung knows very well. The Chairman of Principal Financial Group - Asia has, in 21 years, paved roads and laid the groundwork for savings and retirement in the region, an economically and culturally diverse group of markets, including some of the most dynamic and crucial in the world.

While most of the continent is labeled as emerging markets, Hong Kong in contrast, is considered mature; the same can be said of Singapore. In such markets, Auyeung shares, there are a lot more issues to address.

The city is much more competitive, with large international groups deeply entrenched in it, some for about a hundred years. To be of any relevance, a company has to find the correct angle, be it in product design or customer service, and always come up with something different. Being relatively young, especially back then, Principal had to clearly state who they were, and more importantly, what they can accomplish.

New Territory

Today many business schools invite Auyeung and his colleagues to take part in speaking engagements for their MBA students. It is recognition of the company's uniqueness. Perhaps owing to its origins in Iowa, which is was an agricultural state before transforming into a noted financial hub, Principal takes a more conservative approach.

"We have created a culture that's more long-term," says Auyeung. "We don't look for a quick return, particularly in the business we're in – retirement planning – as there's no such thing. You have to invest, build, and really think through your strategic approach."

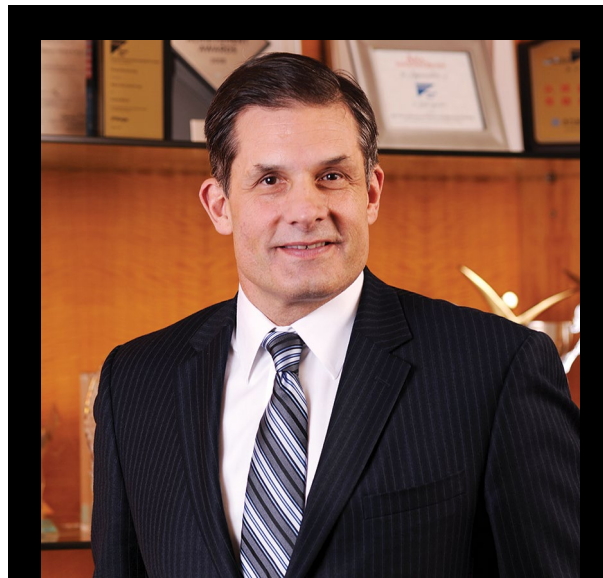
In the same manner did Principal gain its foothold in Asia.

"ROI is longer for us. It takes a longer period of time to see the fruits of the work we've done. You really need patience and stability in your thought process. I've always compared this to a long distance flight. You will bump into turbulence, guaranteed. You will go through difficult times. But does that mean you turn back? No. My goal is to

get from point A to point B."

Principal is fortunate to have, in its formative years, secured people of distinct talent who can and have put in their 101%.

"When we built in Asia, when we hired management people, I looked for the entrepreneurial type: people who haven't walked through the bridge before, who can go through uncharted waters. We needed that kind of mentality." While the criteria of skills and leadership has gradually changed with the company's growth, the framework has always been strategic thought, people who can think



"Winning numerous awards over the past years is a validation of Principal's excellence in all-round pension service, commitment to delivering market-leading retirement solutions and dedicating the company's full resources to our members. These also affirm that our core values are appreciated and recognized by the industry and our clients and demonstrate the consistency with which we put them into practice."

- Arthur Bacci -

Head, Principal International (Hong Kong)

and execute unconventionally, and take risk as well as responsibility.

Graying of Hong Kong

"The ageing population issue is a worldwide concern. Hong Kong, being a smaller population of about 7.5 million people, will soon have 20% comprising senior citizens. The 'graying' phenomenon is coming," says Auyeung. He goes on to state that as people get older,

health care requirements and appropriate infrastructure such as proper housing and hospitals will increase.

"I do believe this an opportunity in that Principal has the right capabilities and skill set to bring products and services to Hong Kong and offer this kind of support to help accord the ageing phenomena. We cannot solve all the problems, but through the existing system, the MPF, we can offer products, and good customer experience of which we can make our customer feel at ease, that the retirement nest they accumulate is in good hands.

"One unique aspect of Hong Kong, being a financial center, most citizens believe they can handle their own retirement planning - that they are all Warren Buffets. At the end of the day, we all know that this is not true. In my mind, it is better to leave it in the hands of professionals and let them build the safety net for you."

While many in the city have a dim view of the MPF, Auyeung believes it is actually a progressive step. Effort must be placed however, in doing a better job in explaining the logic behind it. For one, many in the public mistakenly conclude that it can singlehandedly take care of retirement needs. Auyeung explains that it is only supposed to make up 25-26% of the retirement system of an individual, or what Principal calls Pillar 2, Pillar 1 being social security and Pillar 3, personal savings. All three need to be in play to build a comprehensive retirement base. At only 5% of income capped at a \$1500, this is hardly sufficient.

"The good thing about the MPF is that it wakes people up about retirement savings. The habit of regular saving at a younger age is truly a concept people in Hong Kong can understand better."

New breakthroughs extending life expectancy have an implication as well. The longevity of individuals in different markets varies – Hong Kong's being around age 82 while many are at 68-70 – yet retirement age remains fixed. The old mentality was that retirees only had 5-10 years left, which is not if it ever was a universal reality. While Auyeung believes that the retirement age needs to be reviewed, and that considerations be made allowing continued work, as the elderly have a wealth of experience to contribute to society, the significance

and urgency or retirement planning is only stressed. This is further exacerbated by fortuitous events such as calamities and financial crises, which occur more frequently than ever.

Taking Initiative

Most customers, barring more discerning individuals, often select financial service providers based on fees. While obviously critical criteria, Auyeung espouses looking beyond cost, as choosing the right service providers makes a big difference. In Principal's case, its product features, customer experience, and investment performance have made very compelling factors. What remains a recurring task is effectively communicating these, along with the attributes of the MPF system, for the consumer to appreciate.

"I believe, having the opportunity to deal with other markets around the world, that the voluntary contribution scheme in Hong Kong is a truly effective way of promoting a stronger savings mentality. Yet it has to go hand in hand with tax benefits. If the government is unwilling to give concessions to individuals to save at an early stage, it makes things difficult. It takes two hands to clap.

"I do believe, looking at Hong Kong statistics, that voluntary contribution has been increasing, which is good news. Yet it is still not there. I am truly hopeful that going forward, the government will continue to review how to encourage people to participate in the voluntary side more."

Auyeung stresses the importance of encouraging the saving habit. Tax concessions can be a key factor for a successful retirement program, but only following the understanding of its value. Every stakeholder, in the industry and in the government, must take part in ensuring the MPF is explained to the public properly, so that its decisions have a knowledgeable basis, rather than 'I was told'.

Challenge Accepted

"Hong Kong has always been rated as one of the most competitive markets in the world. All the global heavyweights, particularly in pension, gather here. We have to continue placing the company in a competitive position. The second challenge is compliance with ongoing regulation. The government's core fund

is coming to town and we are ready for it.

"A byproduct of this is fee pressure. The worldwide sentiment in the pension industry is that fees have to go down, not just in Hong Kong. We have to find a way to still generate a profitable portfolio with lower fees and rising expenses."

The challenge boils down to scale. One particular solution, Auyeung says, is to have enough to withstand these three pressures. What could turn the tables is customer experience. Lessons from overseas markets state that while costs remain the hottest topic, the intangible value of positive customer experience



"We have a very clear definition for customer experience. It goes beyond having good manners and being pleasant company. It entails how we work together to understand their needs and goals, fully explaining the product and constructing a scheme around it that addresses those needs. We partner with our customers. The human touch is very important."

- Carmen Lam -

Managing Director, Principal Investment & Retirement Services Ltd.

is a game-changer for service providers, and Principal has toiled immensely to perfecting this aspect.

"The world has changed. You no longer can survive by doing what you always have, but by putting yourself in the customer's shoes. It's how they feel about you, not the other way around. That's the mentality we're trying to change in the Hong Kong market.

"I have to give the government cred-

its, particularly for putting pressure on service providers to perform better. We need regulation so we can excel. However, it must achieve fine balance, not too loose or too tight, but well enough, that service providers are forced to look ahead for opportunities, products, and service standards to improve the industry. If all service providers do the same thing, overall, the customer benefits."

More change to come

"The mindset of principal is very forward-looking. We do believe that the sole disadvantage of Principal in Hong Kong is coming to the market late. We are dealing with old, existing, established, and strong brands. We have to find a way to circumvent that."

The company constantly seeks ways of doing things differently, be it in products and service attitudes, in tandem with unquestionable investment performance. All would not matter however if it does not reach its customers. The catalyst for such is digital services.

"Even a dinosaur like me uses technology," Auyeung jokes. Principal engages its customers on the web, through email, mobile channels, and even SMS (the company was in fact the first of its kind in Hong Kong to use text messaging in client servicing), enriching its relationships with customers where they are most comfortable. "As a service provider we must be able to receive information and communicate through these platforms. You need to have something that puts everything together. That glue is technology; it links us to the public, to the world outside."

A driver of change, Rex Auyeung works with a mindset of near zero constants. What remains constant is disruption, a condition of progress. There no longer are one-size fits all products; that concept is long gone. Principal's success lies in its acknowledgement of diver-

sity and circumstance – the worlds each customer lives in – and with respect to those, how they can be of unquestionable help. Through this, the business reshapes itself to address growing and changing demand. ■

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