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Ian Kloss of Quilter International in Singapore on the Virtues of Life Insurance Solutions

Earlier this year, Quilter completed the successful rebranding of its cross-border wealth management solutions business from Old Mutual International to Quilter International. The rebranding is a result of Quilter separating from Old Mutual in June 2018 and listing separately on the London and Johannesburg stock exchanges. Quilter International, which is headquartered on the Isle of Man, operates in multiple global markets, offering wealth planning solutions to expatriates and local investors across the world including Africa, Asia, Europe, Latin America, and the Middle East. Hubbis 'met' up with Ian Kloss, Head of SE Asia and CEO for Singapore to hear of the firm's progress in the region, and learn more of Quilter International's and his own belief to certain key business principles, all based around transparency. Kloss is an avid proponent of life insurance solutions for managing and preserving the wealth of Asia's high-net-worth individuals (HNWIs), ultra-HNWIs, and also mass affluent clients. He believes life insurance not only provides a liquidity backstop for families in times of crisis, but also helps individuals and families plan their investments for the life challenges and events ahead of them. Moreover, these products, he says, are ideal structures for the complex needs of wealth transfer in an increasingly regulated world. He spends a lot of his time working with Quilter International's distributors and industry partners to promote life insurance not only as a financial solution but a structuring solution that will help Asia's wealthy families preserve and transfer their wealth to their younger family members.

IAN KLOSS
Quilter International

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Scanning the life insurance markets you cover in Singapore and SE Asia, how does Quilter position itself for success?

There are three main elements that we, and actually the broader life and wealth management industry, should be founded on, which help to add value to relationships with our clients and other financial institutions.

The first one is transparency. We must be transparent about what these life products achieve, what they do not do, how they are priced, and how the charges are divided up. On this last point, if I was one of our clients, and I am actually, I would want to know precisely what the charges are, how they work, and why I'm paying them and what I'm actually getting for that money.

The second element is fair value. If you provide fair value for your clients, and you can explain and justify that value, you can charge accordingly and appropriately. The concept of fair value becomes the moral compass for the whole relationship.

And finally, and far from least important, is competence or technical know-how. You need to be able to convey to the client how and why the product solves his or her concerns. In order to achieve this, the conversations need to be about making the technical elements of the product understandable to the clients and relatable to their real-life situations and plans.

To what extent is this a Quilter-driven effort, or are the clients actually demanding these pillars, these values, are in place and robust?

From a client's perspective, there is a lot of information available online, and clients increasingly see how important it is to be well-informed, so that they can assess the merits of different options and different providers. But even for those who do not have the time to do this kind of due diligence, it's still crucial to inform them of what the optimal solution is for them, not for us. We need to engender trust - the truth is the regulator might be there to protect the end-users, but it is us at the coal face who must prove trustworthiness and embody the right values. Yes, regulation is becoming more proactive rather than reactive and the regulators are very hands-on nowadays with business heads such as myself, but ultimately it is up to us as industry leaders to set the standards.

Who are your core clients, and how has the client base been evolving?

We have three tiers of clients, which I can summarise in brief.

We have retail customers, and they are generally offered a product suite and retail fund access; this allows for flexibility, allows them to put in regular premiums or ad hoc savings, gives them easy access, and a sensible range of investment options.

This solution is digital, automated, user-friendly and scalable, which means we can offer this at the right price levels. The typical clients here

usually starts with USD50,000, however, it might just be a few thousand dollars with a view to building up a nest egg. These clients are largely in the early stages of their career and might have substantial family commitments meaning that they have higher expenditures than they will later on in life. The idea is to make the solution as flexible as possible for people just embarking on their journey and give them something digital, low cost and easy to run.

Of course, this is first and foremost a life insurance policy, which brings with it a lot of the financial planning benefits, tax efficiency and affordability you would expect. However, alongside this, the solution offers clients a strong investment element which enables mass affluent clients access to a wide range of retail funds.

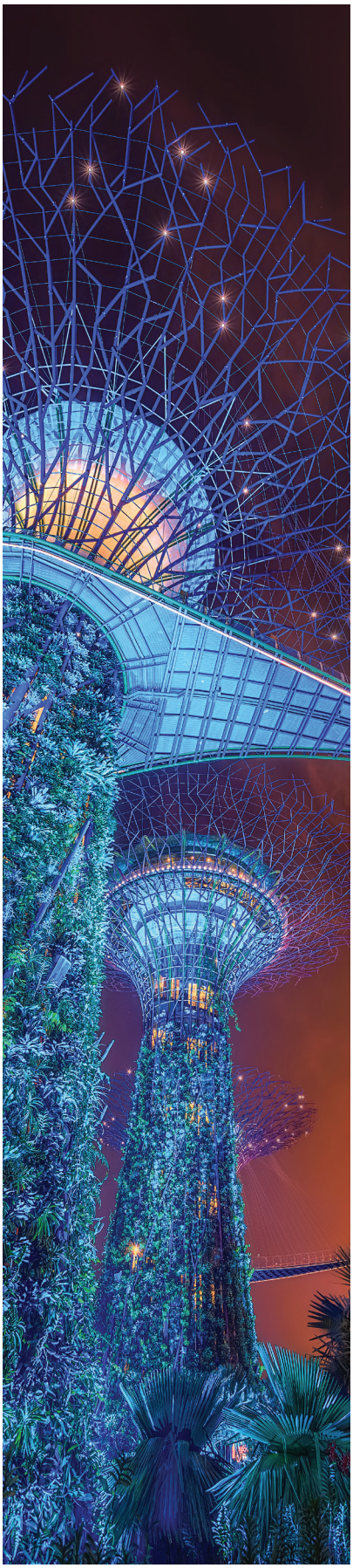
Similarly, it includes a number of other benefits ranging from probate avoidance, quick distribution of assets upon the death of a loved one, elements of legacy planning and so forth. It even enables clients to effectively assign segments of the policy to various members of the family to make wealth transfer more efficient. These solutions are more advanced than your average unwrapped trading platform or investment plan.

Then as the wealth of the client rises, so does the complexity of the product suite that we offer. For the remaining two tiers of clients, the product suite increases in capability, and builds on the benefits above by offering more open architecture solutions for affluent accredited investors, with higher levels of experience and more complicated wealth planning needs. Finally, we cater for the growing High Net Worth market and the often-challenging multi-jurisdictional needs that this type of client demands. We tend to partner with private banks, trustees, asset managers and insurance brokers to build the best solution possible for our clients.

Which comes first, demand from the customers, or the sales effort from you and your distributors?

In fact it's both. From our perspective, the product is a consequence of the needs of the client. The products we deliver are, as I have explained, all investment-linked or investment-driven and encompass the standard protections. As investments are so integral to the products we offer, the conversations our partners have with their clients are extensive, as the planning is not just for the inevitable, either death or taxes, but for their lives, their hopes, their dreams and to help them with their legacy and succession.

Insurance can also help with some real-life risks in a very unconventional way. While an unpopular topic, protecting family wealth from divorce is a very real problem that some clients can face, especially given that divorce rates continue to rise all across Asia, and the world as a whole. Insurance can supplement or even replace the need for pre-nuptial agreements, which are both costly and can cause significant damage to the family dynamics at a time where married couples are just starting out. In short, our solutions offer value to clients of all types and of all ranges of age and wealth.



Can you offer more insights into your distribution partners and how you work with them for the benefit of the clients?

Because of our business model, we are wholly reliant upon independent asset managers, independent financial advisors, and financial planners to distribute our products to their clients. Accordingly, we need to justify to them why we're better than our competition; we therefore continuously work to produce solid evidence as to why our products are the best for their clients.

"To these partners, and for their end clients, it is about the suitability, matching the right solutions to the right client, and understanding that process, so that is where we spend a lot of our time on training them, not only to give better advice, but also to make sure that the recommendations they're making are entirely suitable, and that they match the products we have. If we do not match the needs of certain distributors and their typical clients, we will tell them; we are not chasing premiums for the sake of premiums, we have our eyes firmly set on longevity, reputation and sustainability."

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So, you mostly work through the IAM/EAM/IFA community? Why?

All of our products are sold through the independent and regulated financial services professionals, be it an institutional broker, independent financial advisor, or qualified financial planner and all of these partners are registered and regulated. Whilst these professionals may have referral relationships from private banks, trustees, or investment managers – they ultimately work for the client and as such have a responsibility to them first and foremost to deliver a solution that is suitable – as opposed to a product first, client second approach.

For private banking tiers of client where there is an insurance need identified, we continue to build on the training and education for brokers as well as relationship managers so that the industry as a whole has a better working knowledge of client needs and what insurance as an asset class can help with.

How do you ensure that transparency regarding fees and structures is adopted throughout the distribution chain?

Everyone has to make a return out of this business. But if there is total transparency, there is clarity. If negotiation on fees needs to take place, then it should be done on the basis of this total transparency.

That's where I think we need to get to as an industry - and I'm not getting on a high horse here, but I am a realist and pragmatist at the end of the day so I do bring up conversations on disclosure with certain financial institutions. The concept of being transparent on how much money some referral partners like banks, or financial institutions are really making from insurance products is still a fairly strange idea to them. Things are changing gradually, and we are working well with those who adopt our standards, or who already represent those values we hold dear.

Tell us more about why you spend so much time, money and effort on training your partners?

The industry needs professionalism and full transparency to build trust, but it also needs new financial advisors with financial planning skills and a real drive to do well for themselves and for their clients. In the UK, I recently read that the age of the average financial advisor there is close to 58. That's not

necessarily a bad thing, but we need continuity, and we need to handle the next generations of clients. We need younger financial planners who are well trained - who can see their career ahead of them as a way to make a positive difference to others as well as a way of earning an income for themselves.

Accordingly, we spend a lot of time and resource in this area, to help nurture the industry for today and for the future. We know that ultimately, we're only as good as the advisors who talk to our policyholders. And I think we have a duty of care to make sure that those advisors are continuing to hone their craft and improve their skillset, so we do whatever we can to help them.

Tell us about particular products and structures that are popular with HNW and UHNW clients today, and why.

The needs of the HNW and UHNW community are somewhat different from the typical mass affluent or affluent expatriate type customers. Variable Universal Life (VUL) and Private Placement Life Insurance (PPLI) policies are the only products we offer to our HNW clients or UHNWIs. These offer them access to a trading platform to manage their wealth in an open architecture style and with incremental benefits tailored differently for individual needs, related for example to their tax residency, the location of their assets and the particular situations of the beneficiaries.

As to those incremental benefits, so many of our wealthy clients today invest internationally beyond their home country's borders, and that brings tax obligations and estate planning needs that might not immediately be apparent. Although inheritance tax disappeared from Hong Kong and Singapore more than a decade ago, some of the highest rates of inheritance tax in the world are actually found in Asia, for example, 55% in Japan, or South Korea at 50%. And further afield, Spain's top rate is 82.5%, France is 45%, while in the UK and US the top rate is 40%.

For those clients who are concerned about estate duty on their overseas assets, holding that wealth through an insurance platform that legitimately detaches them from those underlying assets is a highly astute move. That is important, as for example, the exemption from US IHT is only USD60,000 unless for citizens or green cardholders. The rest of the estate in the US will be taxable at rates of between 18% and up to 40%.

That's a liability that many Asian investors who don't have domestic estate duty at home would never envisage they would have to suffer, but life insurance, for example, has the ability for a HNWI to structure ownership of a wide range of assets but not be the beneficial owner. Accordingly, if you have a portfolio of US stocks that instead of being owned individually are via an insurance bond as an investment, that would mean you the policyholder would no longer own the underlying assets for the purpose of the US estate duty. That is a very simple one-line route for people to bypass that liability.

Turning to the UK, the situation of foreign owners of UK based assets has been getting ever tougher for the past five-plus years. Many

wealthier Asian clients have UK properties, so this is a frequent area they wish to explore.

The biggest challenge for most foreigners since 2015 in buying UK residential is that capital gains tax is levied on its disposal. And then the bigger change of course that we all know from April 2017 was that those clients who are foreign buyers of UK property who are traditionally and correctly and appropriately being advised to purchase that UK residential property from an offshore company no longer have the protection from UK inheritance tax.

And stamp duty has risen substantially too, so the UK government's tax take is now rather substantial. However, VUL, for example, can offer a solution if properly structured, with appropriate funding of the life insurance cover with that liability needing to be repaid on the demise of the client.

Has the arrival of FATCA, CRS, AEOI and the substance rules been in any way helping to drive your business, or change it?

Kloss: Yes, these challenges for individuals and families are in even sharper focus with the rollout of FATCA, CRS, AEOI and other new rules globally. Looking at all this from the viewpoint of the tax authorities, the more complex the situation in the future, the more chance of being investigated. With assets spread across different countries, this triggers multiple reporting by the corresponding financial institutions. So, the question now is how to make it less complex.

We can also help reduce this complexity by consolidating HNWI assets into a private placement life insurance (PPLI) structure. By consolidating these assets in our policy, it simply becomes one single line reporting with no false reporting or duplication, and due to the nature of insurance policy actually, we only need to report policy value.

We have to report the withdrawal amount as well, but the details of the underlying assets and even the gains income being generated in the underlying assets will not be reported. Moreover, for legacy planning, both PPLI or VUL solutions help to avoid probate and help enhance the degrees of certainty on whether their wishes on transfer at their death will actually be achieved.

To clarify this, in order to avoid probate, the potential beneficiary can gain control in a very fast way in order to manage the underlying assets again. In our PPLI solution, with the help of specialist advisors, this can be structured in a very efficient way. For example, if the policyholder is the father, we can structure the policy in a way where we can cater to multiple life assured. In that way, even if the father passes away with remaining life assured in the policy, that policy can continue for the benefit of the living.

And in a way comparing this to a Will, actually, the policy has a benefit of – the policyholder can actually nominate the policy beneficiary in advance. In short, wealth can be passed on in a very efficient and also tax-efficient way.

Typical private banking clients might have various funds, geographical asset mixes, types of asset classes, all held in different jurisdictions, and that can potentially involve numerous reporting lines, which in turn open up all sorts of data security concerns. Confidentiality is a major worry for HNWIs and therefore often a core driver for why they are even considering the solution.

By using a life insurance policy domiciled in the Isle of Man, as the Quilter policies all are, clients can effectively reduce it to one chain of information. The client could hold all those assets within a life insurance policy, thereby reducing it to one single line reporting once a year.

The legacy planning element is also one of the key features for clients with wealth planning. Very simply, it achieves the goal of bypassing probate. It also achieves the avoidance of forced encashment. A client might pass away when the markets are way down, but our solutions allow the client to construct something that will continue to be available for future generations and also allows for control of when withdrawals are made, rather than being held hostage to the timing of the death and prevailing market conditions.

Moreover, the policies allow for the nomination of the beneficiaries to own the policy. Upon the death of the policy owner, you can if you want to structure things to transfer ownership to a spouse or a second individual. So, for example, the father as the policyholder dies and the new policyholder as per the nomination of beneficiary instruction is the wife, and the children are the multiple life assured.

What is next for Quilter in Singapore and this region?

Building on our success to date, really. We have done well digitally in the COVID-19 world, and we will continue to invest and improve there. We will continue to work with our partners to enhance their understanding of the products, their understanding of the clients and key elements of the financial world at large. We will continue to build out our distributor relationships, which today in Singapore number around 80, plus relationships across SE Asia. Some firms have as few as two or three advisors, whilst others have hundreds. So, it is easy to see that the size of this training demand is huge, and we all have to do our part in the industry. Which is why in our world, we continue to hone our relationships and help enhance their individual skills and qualifications of the people we work with.

Could you briefly offer a profile of Quilter International?

Quilter plc is a FTSE-250 UK-listed entity with a market value of about GBP2.3 billion, and with a secondary listing also in South Africa. It was formerly known as Old Mutual Wealth Management.

Quilter International is owned by Quilter plc and is headquartered in the Isle of Man, which actually has the longest continuous history of parliamentary democracy in the world. The jurisdiction is particularly well-known for its anti-tax avoidance rules, it has very similar Common Law to that of Wales and a statutory system very similar to the UK – and indeed Hong Kong – and is highly consistent, a factor well-liked by Asian investors. Our life policies are housed in the Isle of Man.

Quilter International is one of the leading cross-border providers of wealth management solutions. Quilter International today oversees over GBP107.4 billion of investments (as at 30 June 2020) in customer investments, and our offering spans financial advice; investment platforms; multi-asset investment solutions; and discretionary fund management.

Our aim is to help clients manage, grow and preserve their investments, and as I explained, not just for their own future, but for their family and the generations to come. We are one of the few financial service providers to operate in multiple global markets, offering effective financial planning solutions to expatriates and local investors across the world including Africa, Asia, Europe, Latin America, and the Middle East.

Finally, could you tell us briefly about your background and your career.

I am from the US, my wife is British, and we have lived variously in the US, the UK, Hong Kong and Singapore. Since February 2017, I have sat as Head of SE Asia and CEO Singapore for Quilter International, before which I was with Old Mutual International, which was actually renamed Quilter International earlier this year, in Hong Kong as area manager for North Asia from 2014, when I joined from HSBC, where I had worked for many years in the UK and Hong Kong.

I schooled in Florida and then moved to France for a number of years which allowed me a wonderful opportunity to study music and the French language in lovely Aix-en-Provence, which was an amazing experience. I attended a jazz school for a number of years majoring in guitar, not because I saw a career ahead of me in music, but out of an appreciation of the art itself. I had the chance to do something that I loved and took it. Music remains a big part of my life, and one that I share with my wife and sons.

I have a 26 year old son who lives and works in the UK and a 13-year old who lives with my wife and I here in Singapore. My spare time is spent often enjoying outdoor exercise, bootcamps, running and such. I am a big family man, and my first love is to spend time with the family out of the house, finding new places to hike, trail run, or mountain bike. ■