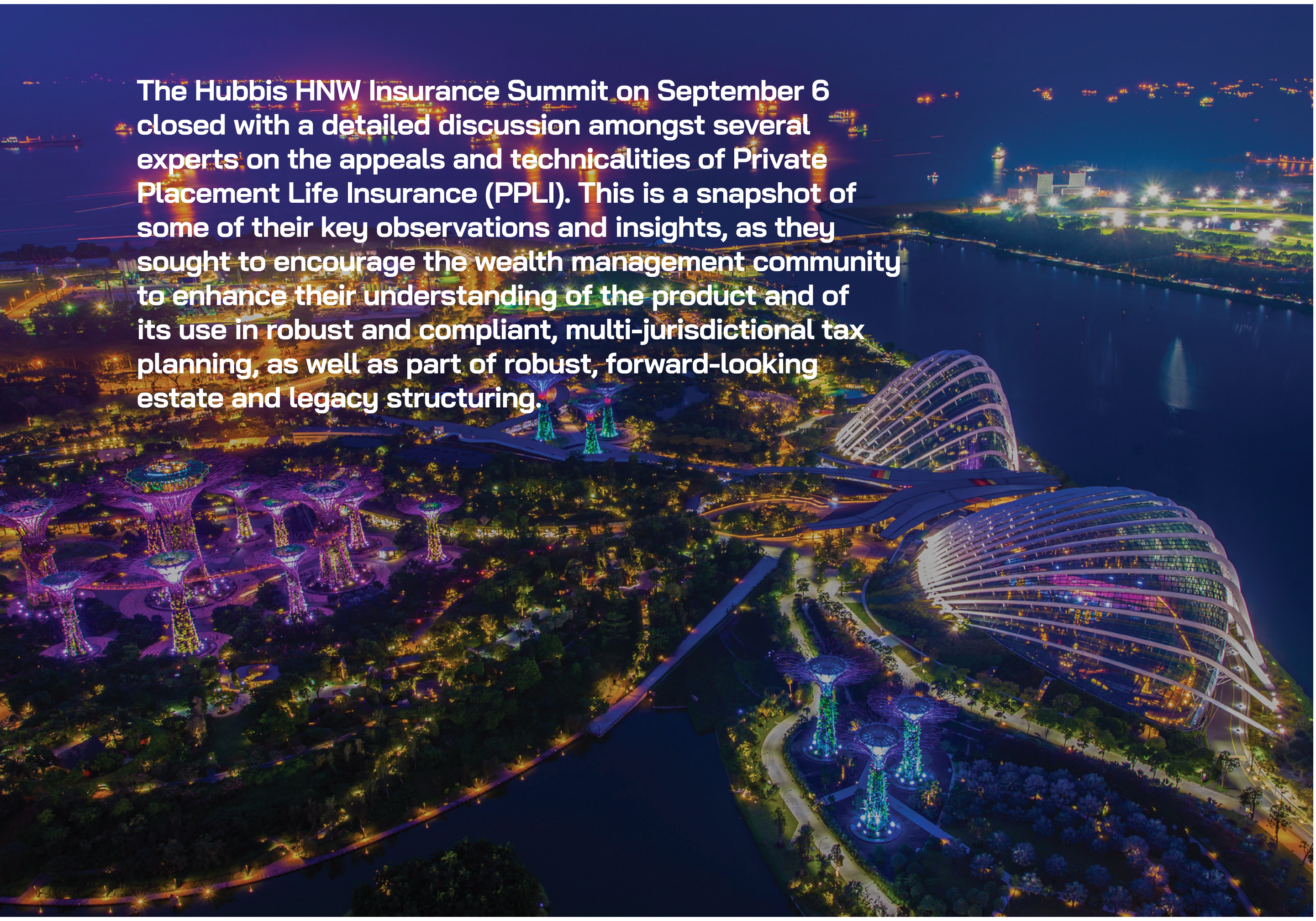
Private Placement Life Insurance (PPLI) for Asia's HNWIs - Why they Need It and Why Advisors Should Promote It



The Hubbis HNW Insurance Summit on September 6 closed with a detailed discussion amongst several experts on the appeals and technicalities of Private Placement Life Insurance (PPLI). This is a snapshot of some of their key observations and insights, as they sought to encourage the wealth management community to enhance their understanding of the product and of its use in robust and compliant, multi-jurisdictional tax planning, as well as part of robust, forward-looking estate and legacy structuring.

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Private Placement Life Insurance – combining asset flexibility, privacy, protection, tax efficiency

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PPLI stands for Private Placement Life Insurance. It is a private placement because the underlying assets are private placement, bespoke assets, not just cash or only bankable assets, they could be operating business assets, real estate, private equity, luxury items such as art of yachts or jets, and even digital assets.

« "We can share best practices about family office operations across the globe to demonstrate that most family offices have more in common than otherwise when it comes to middle and back-office operations. None of the challenges they face, nor best practices used, are necessarily unique to this part of the world." »

And it is life insurance because the underlying vehicle is life insurance typically with the parent or parents as policyholder(s), and often as life or lives assured. If lives assured, when the last life assured dies, the policy pays out to the nominated

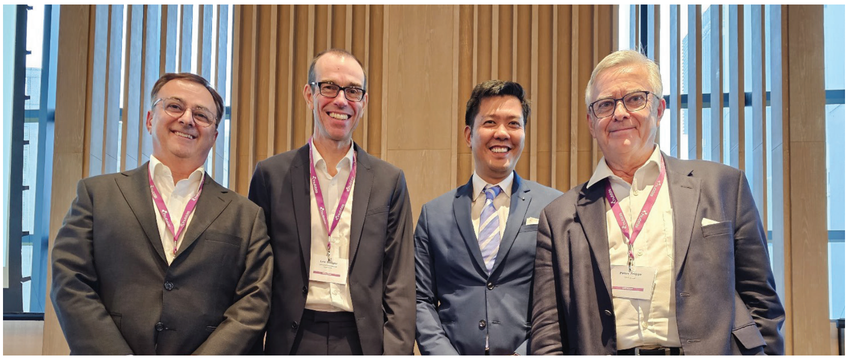
beneficiaries, who tend generally to be the children, the legal heirs, but they can be third parties.

The PPLI is tax-effective as all gains in the policy are rolled up, and the policy is very private from the reporting perspective – the insurer becomes the legal owner of the assets, so the policyholder(s) does not need to report annually or specifically about those assets. PPLI is very popular in European countries.

As one expert summarised, PPLI offers Privacy protection through a compliant structure; Asset protection by law; tax savings, higher net returns and simplified reporting; value as part of astute Estate planning separate from the ordinary estate; and Cash to ensure sufficient liquidity at the time of death. And clients today need asset protection with a strong layer of legal protection, hence those assets are free from external interference and bankruptcy, simplified as to CRS and tax-deferred as to the growth of the assets.

PPLI can be ideal for asset protection, but clients and advisors must structure properly according to different jurisdictions

An expert pointed out that if a policyholder, for example of a PPLI, goes bankrupt in a common law jurisdiction, the court will appoint a trustee in bankruptcy who has the power to revoke the policy. This means that at the structuring stage, it is advisable to take further steps. At the outset, the policyholder can, irrevocably, appoint for example children or a spouse as the beneficiary(ies), so as the policyholder, he or she can never benefit.



However, he said many people want to retain the benefit, just in case, so in that situation, it is best in the common law environment to combine it with an irrevocable discretionary trust. "You assign your policy to a trustee, then you've got the protection of the irrevocable discretionary trust, but you remain the discretionary beneficiary. However, you can never be forced to receive a distribution or instruct the distribution, you don't have that power, but you will be protected from your creditors."

Another expert said this must be set up at the start of the process; if you try to tack the trust on later, it would be overturned in the event of a subsequent bankruptcy, or perhaps if faced suddenly with a pending divorce.

Understanding the nuances around smart structuring and the combination approach

A panellist added that PPLI has a number of key tax mitigation and other advantages over just using a trust, and wider jurisdictional acceptance around the globe, but the one disadvantage is it only lasts as long as the life insured. A trust, for example in Singapore, can last 100 years, or if you want to use Jersey law or other regimes, it can last in perpetuity.

"My advice is to have the PPLI contract hold your assets, but let the beneficiary be the trust, that way you can combine the optimal solution to the structure," he concluded. He also remarked that the trust will help significantly in an area many people forget about, namely the incapacity of the policyholder or even beneficiaries. "How many here have thought about Lasting Power of Attorney?" he pondered.

No advisor can go it alone in these complex matters- private bankers need the support of genuine specialists in these fields

A fellow speaker added that these issues need careful scrutiny and looking at from the client's viewpoint and that combination structures are often the best way forward.

"With the plethora of regulations around the world, it is often a trust, and a PPLI or a VCC in combination," he said, noting that to achieve the optimal outcomes professional advice from insurance specialists, trust firms, lawyers and others is vital. "And it depends on where assets are, where clients live or reside, and where family members are located, and also in anticipation of changes to those factors in the foreseeable years ahead," he remarked.

Fees for PPLI are lower upfront than for many traditional life policies but should be viewed essentially as very valuable and predictable annuity revenues

Bankers have often tended to steer away from PPLI due to its low upfront commissions, as, in a gross simplification, it can be said that fees are paid out on an annual basis.

"With PPLI, we charge a small sliver on a very large pool of assets, which could for PPLI represent all the client's assets, bankable and non-bankable alike," an expert explained. "Essentially fees come as an annuity stream., rather than all upfront, so you need to think about the NPV of those streams to you as a banker or RM with your bank or firm. You need to look at it with a different mindset."

They added that transparency is increasingly vital, and clients should also understand how these fees are being calculated and paid out. "In Europe, this shift to transparency and full disclosure is more advanced than in Asia but Asia is following suit," a speaker reported.

The 'trusted' advisor relationship should endure, and the AUM can stay exactly where it is with the PPLI structure

Another panellist reiterated the flexibility of PPLI in that is can house both mainstream and alternative assets and often encapsulates a client's entire holdings of both liquid and non-liquid assets, with the only approximate caveat that they should be capable of intermittent revaluation.

Moreover, the private banker or EAM RM does not need to 'lose' that AUM, as those assets vested with them and their banks or firms can endure, albeit with new legal owners in the form of the insurance company. "For the wealth managers, they can continue their trusted relationships, keep the AUM for years to come, and this makes PPLI even more of a win-win for all parties concerned."

PPLI is used across many countries and is clearly gaining in popularity in Asia

A speaker reported that in France, 60% of families have their money in a PPLI structure and that PPLI is not just for the uber-wealthy.

"One of the reasons why we have tax solutions using PPLI for 45 different countries is that insurance is encouraged by governments generally around the world; they see it as a good thing," he commented. "BVI companies are sometimes seen as a bad thing. Or trusts, which are often seen in the public mind as a bad thing. Offshore is considered 'bad'. But insurance is good, and everybody has some form of insurance. And insurers are often the biggest buyers of government bonds, and represent a very powerful lobby, so the governments don't mess around too much with the tax concessions that are given to the insurance companies."

He extrapolated from that comment, pointing to the value of the IFAs, bankers and RMs taking the right approach to encouraging these types of conversations with their clients.

"The first question I love to ask clients in this area is, have you made a will? The answer can often be 'no' surprisingly, and it opens the door to a flow of the discussion from there. And I like to ask them if they have a lasting power of attorney – in Singapore, life expectancy might be 85 years old, but about 50% of the population will spend the last 10 years of their life with some kind of disability. With these questions, I am positioning myself as someone who is genuinely interested in trying to help the client."

And then the discussions flow, and later on, at the right moment, the advisor can introduce the client to the insurance brokerage specialists and other selected experts to help them create the right solutions. ■