

The Rising Appeals of Annuities in Today's World for Wealthy Private Clients

Two specialists from Cayman Island-headquartered Knighthead Annuity & Life Assurance Company (Knighthead) told delegates at the Hubbis HNW Insurance Summit on May 3 why Annuities are of considerable and rising value for wealthy private clients in a higher interest rate world, and explained why they should consider working with their firm to structure such deals for private clients. The two specialists were Robert Chan, Vice President of Business Development, and John Harrell, Executive Vice President and Head of Sales. This is a snapshot of their lively and informative talks.

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Robert Chan
Knighthead Annuity

Knighthead is a cayman Islands-based annuity and life assurance provider formed in 2014 to provide reinsurance of fixed liabilities to primarily US insurance companies, and fixed annuity products for distribution by US banks and broker-dealers to their international clients.

The origins of the firm centre on the lack of a fixed annuity in the international offshore space. Knighthead has continued to expand its direct segment with more than 70 reputable firms as distributors offering the firm's guaranteed products – offered through trust arrangements – to international clients.

Knighthead has strong financials and works with strong distributors and partners

Knighthead has a strong record of financial performance, balance sheet strength, product knowledge, 'A' category ratings, and broad access to capital, making the firm an attractive counterparty, unique within the international/offshore segment.

Knighthead has delivered 3200+ Directly Issued Policies and has completed over 50,000 reinsured

policies. Total assets are around USD4 billion. They do business in over 100 countries (except the United States, which is reinsurance only). The firm boasts approaching USD500 million in capital.

Knighthead is owned by over 40 institutional individuals, some of them family offices. They have an independent board, and the firm is regulated by CIMA, the Cayman Island Monetary Authority, and is very proud of being 'A-' rated not only by AM Best, the largest and longest insurance rating agency in the world but also 'A-' by KBRA, as well.

The portfolio is now around USD4 billion and there is USD500 million in capital as additional protection

Their investment managers are Knighthead Capital, an SEC-

“A lot of our Asian clients love to roll it out to 10 years if they don't need the income, and after compounding for 10 years, it becomes close to 70%.”

registered, New York-based firm that focuses on long-short investments and specialises in event-driven, distressed credit and special situation opportunities across a broad array of industries. It has experience managing the retirement assets of some of the largest state and federal pension funds as well as pension assets for several private companies including Prudential, Canada Pension Plan, and the New York State Common Retirement Fund amongst others.

Rising interest rates mean rising demand for annuities

Annuities are becoming far more interesting as interest rates rise.

Harrell explained that a few years ago when the return was barely over 2%, the popularity of annuities was low, based on current yields, the target return for the portfolio supporting this direct annuity business is approximately 5%, meaning that the firm is much busier these days.

“Our biggest competitor is from people that do nothing,” Harrell quipped. “Our investments are not terribly exotic - corporates, some government paper, some mortgage paper and we do not use leverage at all in the portfolio. Some 95% of the assets are fixed income, and about 90% of the portfolio are level one or level two assets that are liquid and can be easily redeemed. All in all, it is now far easier to make customers comfortable with the concept and the offering.”

As a result, Knighthead entered 2023 retaining its position as the leading provider of fixed and indexed annuity solutions to non-US clients in the bank and broker-dealer channel, working with its 70+ distribution partnerships including agreements with major financial firms such as Raymond James, LPL Financial, Oppenheimer and Company, Cetera Financial Group, Cathay Bank, East West Bank, Flushing Bank, Israel Discount Bank, Regions Bank and NOAH Insurance Group, among many others.

What you see is what you get

“Why should clients invest in an annuity?” Chan then asked,



John Harrell
Knighthead Annuity

rhetorically. The reason right now, he reported, is that they are essentially delivering a fixed income fund generating high returns without any need for the investor to worry about locations or fees and so forth.

He said if a client were to buy fixed income themselves, there are plenty of fees to pay for advice and execution, but with annuities, there are no fees.

He reported that the roughly 4.7% to 5.1% return (depending on maturity) is what clients get today. There are

no extra charges, as commissions are built into the equation. As a result, clients know exactly how much income they're going to get for the next 3, 5, 7, 10 years.

The MYGA product, which stands for Multi Year Guaranteed Fixed Annuity, is a US-dollar single premium fixed annuity.

For sizes up to USD250,000, the 3-year annuity offers 4.7%, 5 years offers 4.9%, 7 and 10 years are at 5%. For deals above USD250,000, these rates are 10bp higher, in other words, at 10 years the rate is now [May3] at 5.1%.

There is flexibility as to when clients take their income; some clients roll it all up to the end

Chan also explained that if a client invests in a bond fund, they will generally need to pay tax on that annual income. If they invest in an annuity, Knighthead can compound the income annually. "A lot of our Asian clients love to roll it out to 10 years if they don't need the income, and after compounding for 10 years, it becomes close to 70%," Chan enthused.

That return is predictable, and guaranteed, Chan stated. And he said to remember they are rated A- and that the US insurance rating agencies are rating on the ability of the company to meet its obligations for the next 7-10 years. He said they are very conservative, very careful and very stable in terms of their investments for the portfolio.

Annuities can be purchased standalone or can be housed within structures such as a PPLI

He also explained that the annuity can be bought as a standalone investment. Or it is available in PPLI, in other words, the annuity is bought as a fixed-income investment and placed inside the PPLI structure.

Chan reported that their biggest single markets now are China, Japan, then Mexico and Taiwan in terms of their client base. He told delegates they want to grow in the rest of Asia, the Middle East and Europe. ■

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