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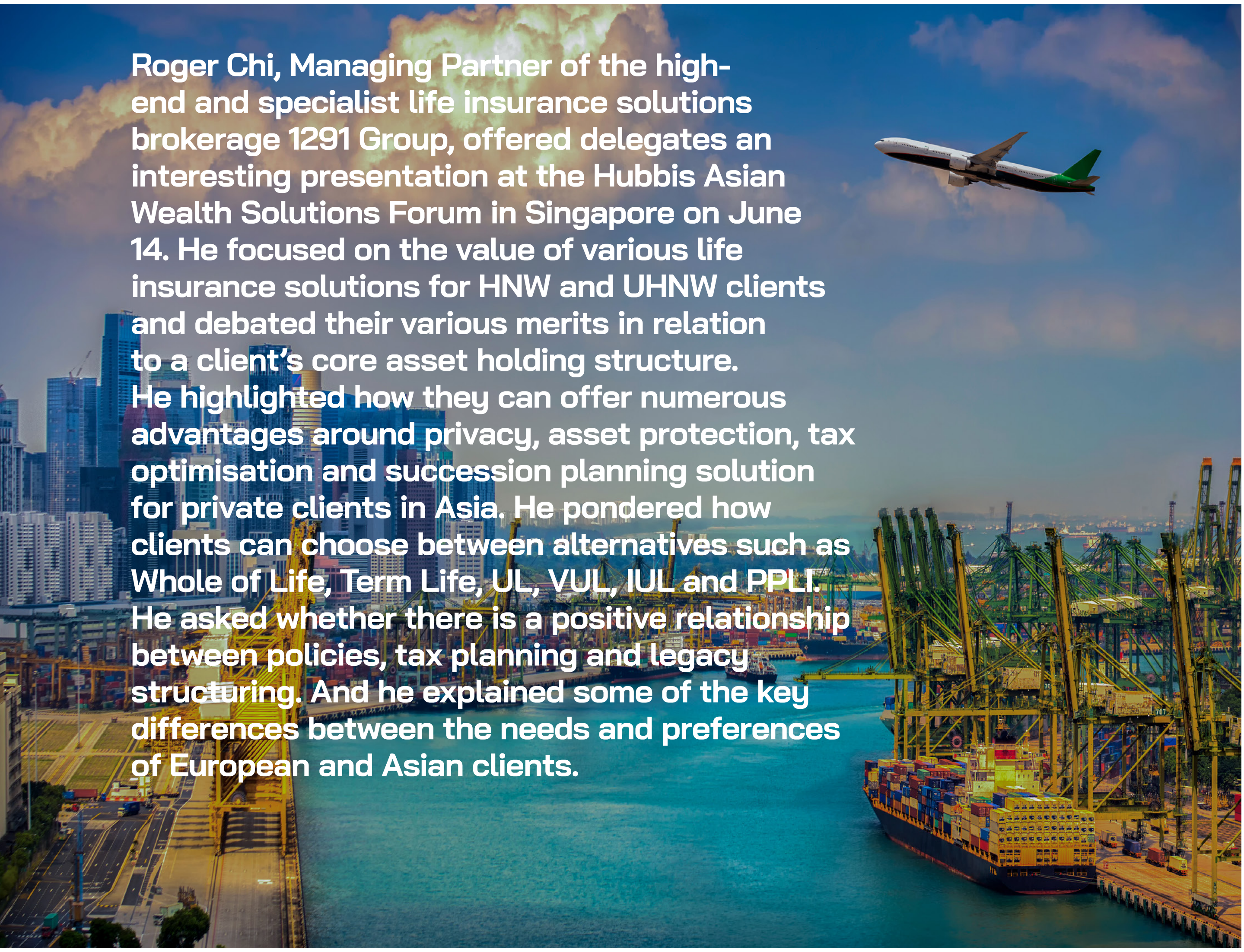
The World of Life Insurance and Selecting the Right Policies for Wealthy Asian Clients



Roger Chi, Managing Partner of the high-end and specialist life insurance solutions brokerage 1291 Group, offered delegates an interesting presentation at the Hubbis Asian Wealth Solutions Forum in Singapore on June 14. He focused on the value of various life insurance solutions for HNW and UHNW clients and debated their various merits in relation to a client's core asset holding structure. He highlighted how they can offer numerous advantages around privacy, asset protection, tax optimisation and succession planning solution for private clients in Asia. He pondered how clients can choose between alternatives such as Whole of Life, Term Life, UL, VUL, IUL and PPLI. He asked whether there is a positive relationship between policies, tax planning and legacy structuring. And he explained some of the key differences between the needs and preferences of European and Asian clients.

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ROGER CHI
1291 Group

Demystifying the life insurance policy landscape

Roger explained that his mission is to demystify the world of life policies.

Under the broad heading of high death benefit policies, he said that there are several policies aimed at achieving liquidity at that most difficult moment of a policyholder's death. These include traditional life insurance policies, such as Whole of Life, Term Life, Universal Life and its affiliates Variable UL and Indexed UL.

Traditional life insurance policies with traditional aims and values

"These traditional policies involve you allocating a pool of money and assets to a life insurance company that invests on your behalf and provides death benefit coverage," he reported. He told delegates how these policies are both asset management vehicles and death coverages structures that are essential for liquidity for surviving family members.

"Life insurance at its core is for widows and orphans," he said. "They need to be protected, and they can be across civil and common law countries." He added that these policies are legally accepted and also politically welcomed as they support individuals and social structures, and the insurers themselves make up some of the largest institutional investors around the globe.

Know what you are buying

"Clients who take up policies know exactly what they get out of them, exactly what the benefits are, exactly what they can and cannot do," he said. "The policies hold a variety of the client's assets, they are held by one of 45 insurance companies in 15 jurisdictions we work with, and through specific agreements such as the POA (power of attorney) the clients can ultimately control the assets, they are CRS compliant and with consolidated and simplified reporting."

Private Placement Life Insurance (PPLI) as a modern way to hold your assets

He then drilled down into the specific general advantages that life policies can offer clients, before narrowing down his focus to VUL and then more specifically to PPLI, or the private placement life insurance policy, long one of 1291's preferred policies

He pointed to PPLI as best understood as a flexible asset holding structure (such as an offshore company or trust) for a diverse array of assets, and a solution that works in both common law and civil law countries. It is not only bankable assets that PPLI can hold. Assets such as operational businesses, real estate, private equity and even digital assets can be included.

Roger told delegates how every individual and family is unique but in his many years of experience working in life and wealth solutions, there are five key themes to consider for life insurance, summarised under the acronym PATEC, which he explained stands for the following:

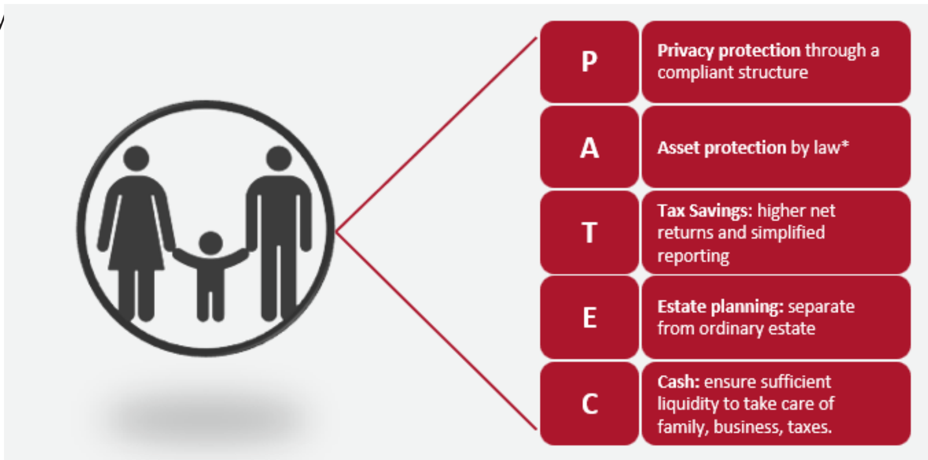
P - Privacy protection through a compliant structure;

A - Asset protection with robust legal structures;

T - Tax Savings: higher net returns and simplified reporting;

E - Estate planning: separate from ordinary estate; and

C – Cash to ensure sufficient liquidity to take care of family, business, and taxes.



Privacy

He drilled won further into each of these, noting that the insurance companies become the UBO, or the ultimate beneficial owner legally, and this gives very significant privacy to the policyholders.

Asset protection

From an asset protection standpoint, life insurance assets cannot be seized from insurers. "If you go bankrupt and have some personal guarantees, nobody can take the life insurance policy or the assets," he stated. "And these provisions kick in after a very short window, which is the fraudulent conveyance period," Roger reported. "The clawback period is standard and usually one year, but in some jurisdictions, it can be shorter than three months."

Tax advantages

He explained that one of the key things that PPLI provides especially for developed countries, such as the US, UK, Australia, or Western Europe, is the array of tax benefits for life insurance companies.

"Governments don't want widows and orphans to come back to the government and ask for a handout from the government books, so they encourage via tax deferrals on gains and income from the assets, and they remain tax deferred as long as the assets stay within the policy. That means those assets can grow even faster, as they are still untaxed, meaning that compound returns should be considerably higher."

He added that there are other advantages such as withholding tax reductions on dividends or gains overseas. For a Singapore client with no capital gains tax at home, they should value such reductions, he explained. "I had one client last year, for whom we saved USD60,000 just in withholding tax reclaims," he stated.

Estate planning

These policies are also greatly advantageous for estate planning. Distributions from life insurance are made outside of probate. Simplified reporting is also very valuable in a world of regulation and tax-hungry governments. "Reporting and filing are incredibly onerous and a major issue for many individuals, but with these policies all you report back is one single line, the cash surrender value of the life insurance policy; you do not have to itemise the assets included or the activity."

Cash is king

He then pointed to the cash component. While PPLI and VUL are similar, VUL carries a higher death benefit. A PPLI may often have a relatively low death cover (of perhaps 1% to 20%) and VUL will typically have 200% or 300% death coverage.

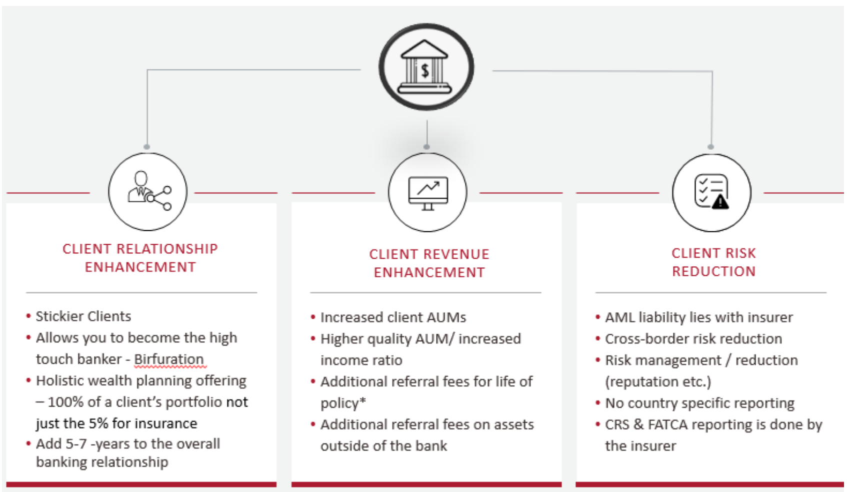
He said VUL structures are very popular again right now as interest rates have gone up. On the other hand, the traditional universal life and whole-of-life policies with premium financing are now underwater, as there is a negative carry. "Many clients realise now is not the time for premium financing for those traditional deals, but they still want high protection levels, so VUL is very popular currently," Roger reported.

Flexibility in both VUL and PPLI

Like PPLI, VUL can also accommodate a lot of different assets, and VUL works very well in Asia, where many wealthy families are asset rich but more constrained on the cash side. And from the advisor's viewpoint, VUL is very attractive because they can earn the insurance commissions and the ongoing management fees on the various assets, as the AUM can remain with their EAMs/MFOs/ Private Banks.

"Retaining the client assets is a great advantage as you do not lose AUM and you keep a much better overview of your clients and their activities, resulting in more high-touch service you can offer them and greater stickiness," he stated.

He shifted his attention to some of the key advantages of PPLI, which is generally to be considered when the clients want a more 'modern' way



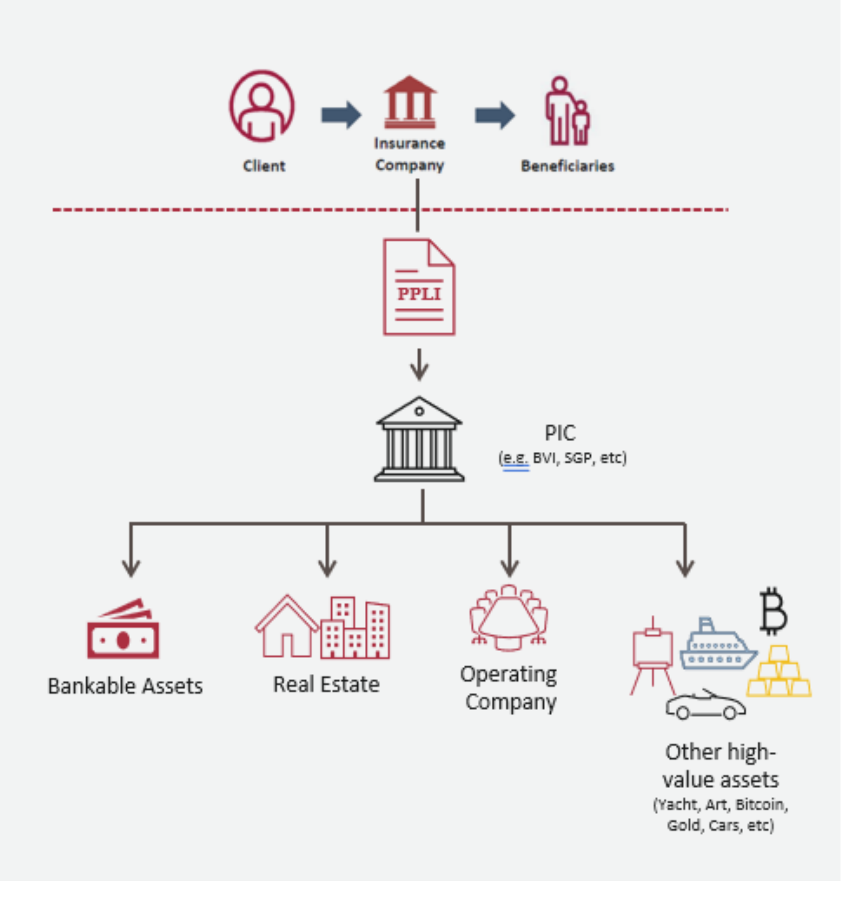
to hold their assets (similar to an offshore company or a trust) but do not need such a high death benefit perhaps as VUL offers.

He pointed to a study from the major marketing group NMG, which highlights how both PPLI and VUL have been growing as a percentage of the life policy pie, which has also been growing in recent years. "And as interest rates rise, UL and Whole-of-Life are becoming even less in demand," he added.

Combination structures alongside PPLI

Roger than highlighted a key advantage of PPLI in terms of its use alongside other structures. He explained that PPLI can very efficiently be aligned to other structures, such as alongside a trust, the PPLI can own a PIC (Private Investment Company, i.e., a BVI, or other offshore company), and a PPLI can be easily combined with the Singapore VCC, or Variable Capital Company.

In an increasingly complex world, with CRS (Common Reporting Standard), FATCA (Foreign Account Tax Compliance Act), AEOI (Automatic Exchange of Information) and so forth, there are considerable advantages in a combination of structures. For example, a trust can be ideal for holding the client's PPLI and thereby boosting succession planning efficacy, and then the PPLI owning a Private Investment Company (PIC) and the total structure helps with tax optimisation, as well as achieving greater privacy and enhanced asset protection.



Popular combinations

The most popular combination is a Trust holding a PPLI. Many Asian families already have trusts set-up. They know and understand their structure, however over the years, the trust may have lost some of their initial benefits such as privacy, asset protection, tax optimisation due to the introduction of CRS and CFC rules. Roger explained: "We can easily solve the problem by sliding a PPLI between the Trust and the underlying assets".

There is sometimes a combination of the PPLI holding the shares of a Singapore VCC, which is increasingly popular. However, one less robust aspect of the VCC is that the shares of the VCC are not asset protected and are subject to creditor claims if something were to go wrong. Roger explained that the PPLI solves this issue because once the shares of the VCC are placed into the PPLI it becomes ring-fenced from creditors.

Solving key issues for most major markets in Asia

He then highlighted some advantages for different types of clients, noting that mainland Chinese clients are very important for 1291, which can propose some excellent solutions. He explained how in Chinese law it is incredibly difficult and also disadvantageous from a business perspective for citizens to cut their residence in China – manifested by the 'hukou' or official householder address – but that PPLI can solve such issues as it offers clients true privacy on the assets it houses for such clients and can shelter overseas income or gains for those offshore assets for those types of clients.

Roger briefly ran through some of the key advantages of PPLI for specific clients in different Asian countries, such as Taiwan, Thailand, Indonesia, Malaysia and others.

Portable and eminently sensible, especially for pre-immigration planning

He drew his talk towards a close his remarks by pointing to the portability of PPLI, noting that it is ideal for tax sheltering and deferral for those Asian clients who might be emigrating for various reasons to high-tax countries such as Australia, the UK, US or European countries.

Finally, he told delegates that if they hear their clients speak about any of their needs relating to any of these issues – protection, reporting, regulation, privacy, tax optimisation, estate planning and so forth- they should consider giving Roger and PPLI team members a call. "We work very closely with bankers, advisors, RMs, lawyers, estate planners, trustees, and specialists in the wealth management community, and we are here to work with you on behalf of your clients," he concluded. ■

About 1291 Group

Roger oversees the development of the Singapore office and has extensive experience working with HNW clients, UHNW families and family offices across Asia and the Middle East advising on cross-border investments, succession planning, taxation, family governance, and private equity for over 20 years.

He explained to delegates that 1291 Group Ltd is a global financial services group offering tailor-made wealth protection plans to private individuals and investment professionals. The "1291" name refers to the historical year of birth of Switzerland as a nation.

A team of genuine experts

The 1291 team comprises mainly tax lawyers, wealth planners from private banks, insurance specialists, and trustees with many years of experience in wealth protection, international tax, legal and compliance issues, as well as the use of insurance in wealth and legacy planning.

Their private clients are HNW/UHNW families from all over the world, and the firm is licensed in over 36 countries, has compliant solutions for over 45 countries and works with over 48 insurance carriers in 15 jurisdictions. The firm has 14 offices around the world, including the headquarters in Zurich, as well as significant presence in Dubai, Hong Kong and Singapore.

1291 is today the number one PPLI broker and VUL broker around the world. In addition, it also offers a wide range of other solutions including traditional high-death benefit policies such as UL and Whole of Life. From the Singapore office in which Roger operates, the business is split roughly half related to traditional life products and half structuring and more complicated PPLI structures.