hubbis

A practical handbook for Financial Advisors

Guide to HNW Life Insurance

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MASTERING HIGH NET WORTH

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Abstract

Life insurance is an integral part of High Net Worth wealth management. It is a unique tool that can provide true peace of mind, helping HNW individuals to build and safeguard their wealth for generations to come.

This practical handbook is designed to help provide Financial Advisors with a general understanding of the key dimensions of HNW life insurance and how to apply it in practice. It is brought to you by Hubbis and Transamerica Life Bermuda's Mastering High Net Worth programme.

Foreword

Chirag Rathod
CEO
Transamerica Life (Bermuda) Ltd.

Dear Readers,

I am very pleased to be introducing this newly updated edition of the Hubbis' ***"Guide to HNW Insurance – a Practical Handbook for Financial Advisors (2022)"*** (the "Guide"), sponsored by Transamerica Life (Bermuda) Ltd.'s (TLB) Mastering High Net Worth (MHNW) program. This is our third year partnering with Hubbis to produce the Guide, and I'm delighted to be continuing our partnership with them as this resource remains highly relevant and needed today.

As the anxiety around COVID waned in 2021 across the world, buoyant stock market returns and rising real estate values boosted wealth creation. According to a recent Capgemini study, in 2021 the global HNW population and global wealth grew by 7.8% and 8% respectively. North America led the way in growth, with the European and Asia-Pacific regions following in second and third place respectively.

In 2022 however, we see a more mixed and challenging situation unfolding. With many new COVID variants continuing to emerge and the impact of the war in Ukraine reverberating across the world, resurgent economic activity is being replaced by increased economic volatility and geopolitical risks. Exacerbated by the rise in oil, gas, food prices and supply-side challenges from pandemic lockdowns, inflation is running at levels not seen since the early 1980s. In response, central banks around the world are now embarking on a course of rapid tightening in monetary policy. The resulting higher interest rates, as well as continuing geopolitical and macroeconomic uncertainty, have driven equity markets lower, with real estate prices also starting to moderate in some countries following years of rapid appreciation.

However, despite the macroeconomic and geopolitical turmoil, we at TLB, remain very positive about the prospects for HNW life insurance growth in 2022 and beyond. With an ever-changing and unpredictable environment comes the desire for more certainty – and life insurance remains a perfect vehicle to provide that certainty, as well as peace of mind.

Moreover, high net worth individuals (HNWIs) are showing vibrant interest in new financial solutions, presenting new opportunities for innovation in both products and services. According to Capgemini, globally 55% of HNWIs say investing in causes with positive environment, social and political (ESG) impact is a key wealth management objective for them. HNWIs are also seeking greater personalization and convenience in their wealth planning through relevant digital tools and support solutions, continuing the healthy pressure on our industry to digitally evolve.

With this updated Guide, we aim to provide readers an overview of the key dimensions of HNW life insurance and its practical applications. Starting with the needs of HNW customers, it also covers a discussion of the types of life insurance products available and how these can be utilised to meet the different HNWIs' requirements. We sincerely hope that this easy-to-read Guide will serve as a valuable reference tool for our partners and other financial professionals.

We look forward to collaborating with our valued partners and providing utmost support to them as we work together to "safeguard our customers' wealth for generations to come".

Sincerely,

Chirag Rathod
CEO, Transamerica Life (Bermuda) Ltd.

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Introduction

Life insurance incorporates two fundamental capabilities. The ability to manage mortality and associated longevity risk, combined with the ability to utilise an array of unique investment characteristics intrinsic to life insurance contracts.

Life insurance itself has applications to all client segments in the wealth management industry, with many similarities over different segments. Nevertheless, the requirements of High Net Worth (HNW) clients and families are further enhanced by their more demanding family, business and asset class needs.

The aim of this Guide is to provide the HNW advisor with an overview of some of the key considerations with respect to the utilisation of insurance. While the definition of a HNW client varies around the world, generally they are individuals with minimum investable assets of USD 1 million or the equivalent.

To achieve this, we focus on the following key areas of understanding, which include:

Understanding the needs of HNW clients including personal protection requirements, business related protection requirements, retirement focused needs and societal opportunities.

Understanding the application of different products as solutions to different needs or problems.

Understanding the types of insurance products available.

There are three key messages you should take away when you read this Guide to HNW Insurance:

Life insurance is a solution to what could be a problem in your clients' lives or in the lives of their dependants. The best time to talk about mortality, and manage associated risks, is when your clients are alive. A client's passing will already bring a high level of distress to the ones they leave behind. Adding financial worries to the emotional situation can bring significant additional hardship to a client's loved ones. As an advisor, you are well positioned to help your clients think about the financial consequences of their departure and ways to mitigate these consequences.

Your clients should always fully understand how a particular life insurance policy will fit their needs before committing. Your role as an advisor is to help them understand this as well as potential alternatives.

Your clients are looking for competent and ethical advice, from a professional and regulated advisor.

It is recommended that HNW clients review their life insurance every year, to ensure that the policy still provides the best solution for the issues that they envisaged at the time they started the insurance. A regular policy review also should capture any changes in the client's circumstances that may require new or different insurance coverage.

Many HNW individuals already know that life insurance is an essential part of a good financial plan. But there remain those who do not realise the consequences of failing to plan effectively. No one has a crystal ball to know what time their life ends. Life insurance brings a client the certainty of knowing a defined amount of money will pass to their beneficiaries at the time it is needed, without delay.

Insurance Planning

The fundamental precept of life insurance is the ability to both mitigate identifiable risks and to utilise the investment related advantages of the products within this universe. Insurance planning requires a thorough understanding of a HNW client's financial and family circumstances in order to identify specific goals to be supported, as well as risks to be mitigated.

Once an initial need for an insurance solution is identified, a suitable product selection can be achieved. The prospective policy owner will also need to define who should be the policyholder (e.g. a trust, a company, the client or multiple owners), the insured person(s) and the designated beneficiaries to whom the death benefits are paid after the last insured passes away.

A careful consideration of multiple factors needs to be considered to arrive at the optimum conclusion.

Just as important, the HNW client will need to decide the life insurance amount that is needed to achieve his or her goals. One of the key differentiators of HNW insurance solutions is the ability to access substantial Sums Assured should the associated risk be deemed to be insurable. Total death benefits in excess of USD100 million are achievable when working with the right insurance and re-insurance companies.

For many HNW individuals, life insurance is one of the key components to provide for their financial legacy.

UNDERSTANDING THE NEEDS OF HNW INDIVIDUALS IN RELATION TO INSURANCE

Life insurance is an unsurpassed tool to help your clients and their dependants, loved ones and business partners mitigate two key risks: Dying too soon or living too long. Both can both have catastrophic impacts on the wealth they have striven hard to build. Insurance companies have a wide range of products and services to help HNW individuals' dependants, or others who they may wish to benefit from their wealth, from suffering negative outcomes from either of these two events.

The insurance industry uses the following terms to categorise these Key Risks as either:

- Mortality Risk (Premature death)
- Longevity Risk

In addition to mitigating these Key Risks, life insurance solutions can provide the following Key Benefits*:

- Wealth accumulation
- No probate issues
- Protection from creditors
- Protection from ill-intentioned heirs
- Flexibility of withdrawal
- Tax free death benefit
- Tax deferred growth

In this Guide we will examine four key protection needs of HNW individuals and how they are addressed by high value life insurance.

This will protect the needs of the:

- Family
- The business
- Retirement
- Income generation and giving back to society

There are other protection needs that face HNW individuals that should be considered, such as:

- Critical Illness
- Medical and Hospitalisation Insurance
- Long Term Care

Additionally, HNW individuals will often seek a broad range of general and personal protection insurance including:

- Fine Art and Jewellery Insurance
- Kidnap, Ransom and Extortion Insurance
- Liability Insurance

These areas will not be addressed within this Guide.

*The actual position on matters such as probate, protection from creditors/others and tax treatment are dependent, amongst other things, on jurisdictional requirements. Obtaining specific professional legal and tax advice relevant to a client particular circumstances is recommended.

Chapter 1

Personal Protection Needs

FAMILY PROTECTION: TO PROVIDE FINANCIAL SECURITY FOR DEPENDANTS

The most common purpose of a life insurance is to pay out a benefit to dependants such as a spouse and children. Family security is relative to each individual's financial standing. HNW individuals will likely hold sufficient wealth independent of life insurance to provide family security. On the other hand, despite their wealth, they may have obligations or an illiquid asset mix which may result in income and asset/liability mismatches – risks that should be addressed.

For a client to determine the appropriate amount they wish to insure, it is important to think through the financial consequences in case they depart unexpectedly.

There are three key financial consequences. Clients may consider multiple policies to cater for different financial obligations or needs.

Existing obligations

These are the expenses which must be immediately paid once the client is no longer here. In order of timeliness of payment, their family and / or their estate will need to address:

- Funeral expenses.
- Medical bills.
- Taxes, which may need to be paid before the estate can be released.
- Clearing any unpaid personal or business debts.

Ongoing costs of living

To be able to continue their lifestyles, dependants need to be able to pay for their cost of living, including things like a mortgage, healthcare expenses, membership fees, hiring of helpers or chauffeurs, etc. They will need to decide whether their departure will have a negative effect on their dependants' standard of living, and consider especially:

- To what extent will their dependants' ability to continue their lives be financially affected by their demise?
- How much time they wish to give their dependants to sort out their lives and get back on their feet financially.
- In the case of young children, clients should aim to provide more time than when their children are mature and have finished their formal education.

Future expenses

Which future expenses can already be anticipated?

- Education for children, including tuition and undergraduate or even post-graduate courses.
- Retirement income for a spouse.
- Leaving behind a legacy they always hoped to provide for those less fortunate.
- Personal and business projects for which they are already committed, and which may create a liability to dependants on their demise.

INCOME REPLACEMENT: TO PROVIDE FOR A GUARANTEED INCOME WHEN A REGULAR AMOUNT IS REQUIRED FOR DEPENDANTS

Ensuring that all family members have sufficient income to maintain their standard of living is a classic aim for HNW individuals. This is particularly true of younger HNW individuals who are still in the accumulation phase of wealth building but wish to consider creating an alternate source of income to meet future liabilities, should they unexpectedly pass away.

When a HNW client has calculated how much they want to prepare for living expenses, you can present different financial solutions to guarantee that income payment.

Often the regular income can be paid for the lifetime of a dependant/group of dependants, which may provide even greater peace of mind.

Life insurance policies can be set up to pay benefits in different ways, for example with:

A regular income payment continuing to be paid to one's spouse.

Or a lump-sum payout to beneficiaries upon one's final passing.

Funding a life insurance policy with available cash, either in a single payment or by contributing annually over a period of years, can build and provide a significant future income stream for the HNW individual and their family.

Commonly used products:

Whole of Life Insurance

Universal Life

Indexed Universal Life

Variable Universal Life

PORTFOLIO DIVERSIFICATION: TO HEDGE AGAINST MARKET RISK

Equity and bond investments can be volatile, as can be structured products and hedge fund investments.

Life Insurance Cash Value is designed to be non-market correlated.

A non-correlated asset is less impacted by market swings and therefore provides the opportunity for HNW individuals to secure a more stable income stream and guaranteed payouts.

A major benefit of having a portion of one's investment portfolio held within life insurance is that the Cash Value of accumulation type life insurance will receive a competitive return, with less of the risk of capital loss versus other asset classes.

As long as a policy remains in force, and holds a positive Cash Value, its Sum Assured remains guaranteed. A HNW individual who holds a significant death benefit policy, can be reassured that even if their total wealth has taken a significant downturn, and they pass away, the insurance policy would still pay out the death benefit.

Overall, what this means to the risk versus return ratio of an investment portfolio, is that the efficient investment frontier, due to the lower volatility of life insurance returns when compared to typical investment portfolios, is increased by the incorporation of insurance. Hence a HNW individual may consider assuming additional investment risk when their portfolio incorporates life insurance, than when their portfolio does not hold life insurance.

A life insurance policy may not necessarily be an exciting investment, but, when most needed, in worst-case scenarios, life insurance may be the best investment decision ever made.

DEBT PROTECTION PLANNING AND MORTGAGE PAYOUT

HNW individuals know that debt can have a large impact on family members, particularly if they are unable to repay or continue to service the debt. This is particularly so given that many HNW individuals are heavily exposed to illiquid assets such as real estate and business holdings, which can exacerbate the debt issue on their unexpected demise.

If family members are unable to refinance an outstanding debt, the financial institution has the right to call the debt, possibly leading to beneficiaries being forced to sell the asset at a not ideal price.

HNW life insurance is able to give a secure method to assist with payment of outstanding debts.

Life insurance, when paid, is paid on a timely basis, when most needed, and provides immediate financial liquidity to beneficiaries. The monies can be used to clear debts, provide security to financial institutions on callable debts or provide the ability to service debts.

Should the HNW individual hold a single mortgage on the family home, and/or multiple mortgages on investment properties in joint names, they and their partner will probably have co-signed as either Joint Tenancy or Tenancy in Common to provide surety on the mortgage/s. In the event of unexpected departure, the surviving partner will assume responsibility for the mortgage/s and will be required to either refinance the mortgage/s or payout the mortgage/s. High value life insurance can provide full certainty of sufficient liquidity to payout the mortgage/s, so the family can continue to reside in its home, and continue to hold the investment property portfolio.

Commonly used products:

Term Life

ESTATE TRANSFER PLANNING: TO DEFER, REDUCE AND PAY TAX LIABILITIES

Few things are more certain than taxes. Upon death, all outstanding tax liabilities must be paid, prior to the distribution of an estate to beneficiaries.

What we can be certain of is change - and that what we see/believe/know/have/want will change over time. In 10-, 15- or 20-years' time we will be living in a different ecosystem of needs, priorities and aspirations. Life insurance provides a degree of certainty in an increasingly uncertain world.

Many successful individuals will utilise life insurance solutions to mitigate those uncertainties as follows.

First, due to the unique liquidity creation feature of life insurance, it can ensure that sufficient funds immediately available to pay any estate and inheritance tax - increasing the wealth inherited by beneficiaries.

Second, life insurance has notably favourable tax treatment in many international jurisdictions, with accumulation either tax-deferred or non-taxable. This can help to improve cash value growth over the life of the policy.

Life insurance proceeds can be either:

Policy loans

- Commonly income-tax free.
- Don't necessarily need to be repaid, as they can be deducted from the future death benefit.

Death benefits

- Payouts are typically non-taxable or taxed at a low rate.
- Insurance proceeds can be paid directly to named beneficiaries.
- Utilising a trust to manage to distribute the life insurance death benefit can provide more control as to how the proceeds are distributed and spent.

Tax planning is a complex area, where implications vary depending on jurisdiction of the payor of the premium and the policy owner, as well as the beneficiary who receives the proceeds of the policy. Professional tax advice is recommended for all HNW individuals.

1 Securing high value insurance on behalf of your children and/or grandchildren

2 By gifting, one can transfer ownership of an allocated sum to the next generations

3 Provide enhanced financial security via the Sum Assured

4 Life insurance is a valuable asset.

LEGACY PLANNING: TO PROVIDE FOR ONE'S ESTATE

A well-structured life insurance portfolio will greatly enhance the financial and legacy benefits to one's estate.

By professionally developing an estate plan and combining the right types of life insurance, HNW individuals can assure the livelihood of their loved ones even when they have passed on.

There are a number of options to fund one's estate utilising life insurance, including:

Gifting

- Securing high value insurance on behalf of your children and/or grandchildren
- By gifting, one can transfer ownership of an allocated sum to the next generations
- You also provide enhanced financial security via the Sum Assured

Funding your Trust

- Life insurance is a valuable asset. In fact, the leverage effect of life insurance can act to greatly enhance the potential value of an overall estate
- By utilising a trust structure, a HNW individual can ensure confidential distribution of assets and can make special provisions for selected beneficiaries
- Using life insurance to fund your trust is a simple, effective, efficient and flexible method to pass assets to beneficiaries
- Note that specific jurisdictional requirements, such as the insurable interest requirements in Hong Kong and Singapore, could result in restrictions

In summary, utilising life insurance to fund an estate offers key benefits for HNW individuals and their families, including privacy, the ability to provide for children, particularly minor and special needs children, being able to control distributions and support particular beneficiaries, and most importantly, providing a pool of liquidity for heirs and to settle an estate.

Commonly used products:

Whole of Life Insurance

Universal Life

Indexed Universal Life

Variable Universal Life

Estate equalisation is the active balancing of the distribution of an estate so that each heir receives a fair share.

ESTATE EQUALISATION

When HNW individuals develop an estate plan, deciding what to leave their heirs is always an important consideration. Preservation of family harmony and prevention of possible family disputes is key.

Estate equalisation is the active balancing of the distribution of an estate so that each heir receives a fair share.

Some recent high-profile cases of wealthy family strife over estate distribution are good examples of where unintended consequences of decisions relating to the estate, created major family disruption. Each child will want to receive an equitable distribution, which has both financial and emotional value.

While parents want to be fair to each of their children, it is not uncommon to have insufficient liquid assets to leave each child a desired inheritance, especially when a significant share of the parents' wealth is tied up in an operating business. Fixed and illiquid assets, including the family home, holiday properties, investment properties, antiques, jewellery and collections can all cause challenges when developing an estate plan. These assets are not easily divided between individual family members. They may be difficult to sell and liquidate, they may have fluctuating values, and they may be subject to estate and inheritance tax. Frequently, HNW individuals will hold heirloom assets, which they want to remain within the family. For these fixed assets, the implementation of a sound wealth transfer plan is critical.

The first step is for the HNW individual to envision their estate distribution. Professional planning and open discussion with family members and other Advisors including real estate professionals, business professionals, expert valuers, lawyers, accountants, or tax Advisors will help to ensure a fair and equitable distribution of their estate.

As a way to equalise inheritance and preserve family harmony, parents can purchase high value life insurance for their children's benefit. By combining the life insurance with a trust, parents can provide detailed instructions to the trustee for the distribution of their assets, taking into account the asset values at the time, and distributing the life insurance proceeds so that all children are treated fairly and equitably.

SPECIAL SITUATION PLANNING: DIVORCE AND SECOND FAMILY PLANNING

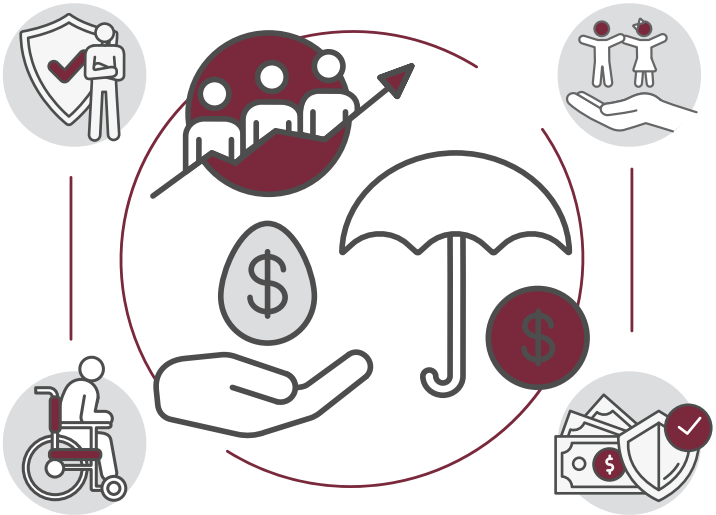
As family structures change over time, it is important to ensure insurance planning remains relevant and up to date. Clients will want to be sure to take care of their spouse or partner, children, and potentially extended family members. It's important to help clients work out the details now, or risk the family being torn apart by discourse after they are gone.

As all families are unique, an estate plan must be tailored to their particular needs. The first step is to have an honest conversation with the client and their spouse or partner about their goals for the future, finances, and how they would like their assets to be distributed.

Family members will often raise concerns. For example:

- **Children from a previous marriage will need to be included in your plans**
- **Spendthrift children may be unable to manage their finances**
- **Children's marriages and partners may require special attention**
- **How will the estate plan take into account future children and grandchildren?**
- **How can it be guaranteed that estate plans will not be changed when the client is no longer around?**

One should recognise that estate planning is a fluid process, as the plans made today will need to be revised over time to account for changes within one's family unit.



There are a range of elements HNW individuals should put in place when it comes to estate planning. These include:

A Will

- Providing clear instructions on how a client wishes his or her property (estate) to be distributed after their death and which person (executor) is to manage the property until its final distribution. Also specifies who should care for minor children

Advanced Medical Directive / Medical Power of Attorney

- Nominating a trusted family member and / or physician to make medical decisions on the client's behalf should they be unable to do so themselves
- Also an opportunity to discuss funeral arrangements; organ donation and end of life care arrangements

Life Insurance

- May be utilised to provide financially for all family members
- Can provide a guarantee that each member will receive the amount you decide
- Can ensure that all family members are fairly treated and family harmony is maintained
- Can be utilised to guarantee child support and alimony income
- Can provide an emergency pool of funds to provide for the children's immediate needs after one's demise

Trusts

- The use of a Trust provides the flexibility to name beneficiaries and designate income to beneficiaries, both during one's life and after they are gone
- A Trust can provide the planning opportunity, for example, of providing for one's spouse during their life, and passing the assets to their children from previous marriages post a spouse's passing

Lasting Power of Attorney / Enduring Power of Attorney

- Nominating a trusted family member to manage a client's financial affairs and make legal decisions should they become unable to do so through mental incapacity

Beneficiary Nomination

- Nominating individual beneficiaries to life insurance policies
- If nominating a minor child, they will require a guardian to manage the assets until the child comes of age

Provide oversight for Asset Management of the trust assets

Protect the trust assets from potential litigation and creditors

Create a succession plan for the assets to provide for their child

SPECIAL NEEDS PLANNING

Parents planning for the financial well-being of a special needs child may face several challenges when designing their estate plan. These challenges include:

- **Ensuring the child is securely provided for when parents are no longer present**
- **Placing siblings in positions of authority and responsibility when they are ill-prepared, unable or unwilling to assume responsibility**
- **Having to reallocate financial resources from other children to ensure adequate care for the special needs child**
- **Continuing eligibility for government benefits and support post insurance payout**

Families with special needs are planning for two generations, both the parents and the child, as the children may be unable to earn income and support themselves.

A common approach utilised by HNW individuals is to fund a special needs trust via permanent life insurance. By utilising permanent life insurance, one can guarantee that there will be a source of funding for the trust, even if their financial situation changes in the future.

Assets from the trust can be directly distributed to the service providers taking care of the child, including housing, health care, education, and rehabilitation providers.

Assets from the trust can be directly distributed to the service providers taking care of the child, including housing, health care, education, and rehabilitation providers.

The special needs trust enables one to:

- **Provide oversight for Asset Management of the trust assets**
- **Protect the trust assets from potential litigation and creditors**
- **Create a succession plan for the assets to provide for their child and also provide for future asset succession when required**

The trust will become the Policyholder and the Beneficiary of the life insurance policy. The child will become the beneficiary of the trust.

The Trustee is responsible for oversight of the nominated Asset Manager. The Asset Manager will continue to manage the trust assets in accordance with the client's written directions.

Choice of Trustee is an important consideration, in order to be sure that one's wishes are carried out, no matter what the circumstances of other family members at the time. A regulated professional trustee should be considered with this regard. A regulated professional Trustee will be able to act independent of the family and objectively carry out the special provisions made within the trust and with full consideration of the law.

Chapter 2

Business Protection Needs

BUSINESS RISK MITIGATION: TO DEFER, REDUCE AND NEGATE BUSINESS RISK

A sound business succession plan will ensure that the business can be efficiently and effectively transferred upon the demise of the current owner/s.

Small-to-medium size business owners ("SMEs"), are generally very aware of the need to secure their financial future, but unfortunately often do not have any plans on how to achieve this. Many business owners have no concrete plans in place to deal with the complexities resulting from the demise or critical illness of a key person. Businesses may be holding sizeable corporate debt, but with little to no formal insurance to back the debt should something happen. All business owners are recommended to conduct a business risk assessment together with a professional risk assessor and / or wealth planner.

Key challenges for SMEs include sufficient cash flow, financing and manpower issues, which include hiring, developing and retaining key staff.

High value life insurance is a simple and effective tool to effectively manage business risk and business succession. Proceeds from a life insurance policy can be used to provide a business with working capital for a range of immediate uses, including:

Key Person Executive Planning

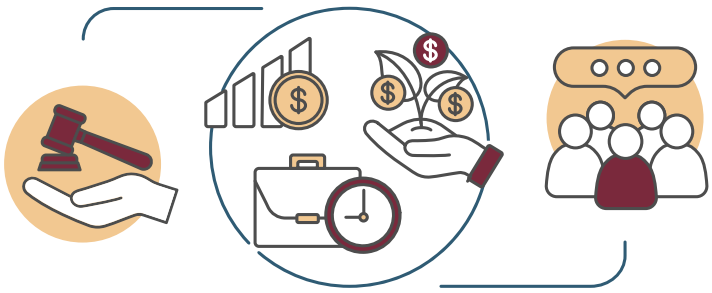
- Life insurance proceeds can be used to employ or develop a qualified replacement and offset revenue loss thus negating the possible worst-case scenario effects to the business, from the loss of a key employee.
- Life insurance proceeds can be added to an executive remuneration package to attract and retaining talent.

Business Debt and Loan Protection

- Business loan protection is one of the most important areas of business risk mitigation. All types of business, from sole proprietorships and partnerships to limited companies and listed companies are recommended to initiate a debt risk management plan.
- Often a loan contract will provide for loan review should the company ownership and/or certain key executives including the CEO, CFO, and other key talents pass away.

Personal Guarantee/s

- To prevent individual and family assets being liquidated to settle personal guarantees.



Business Partnership, Shareholder Protection and Buy-Sell Agreement Planning

- If a business owner passes away, the life insurance proceeds may be paid to the family in settlement of their ownership share of the business. Or, the policy could pay direct to the other owner/s for them to use to buy-out the deceased's share, possibly leaving enough surplus to hire someone to replace the knowledge and skills lost.
- The efficient ownership transfer allows the business to continue operating, with no effect on cash flows and no forced asset sales.
- The legal document utilised is called a Buy-Sell Agreement.
- A Buy-Sell Agreement is a legally binding contract between two or more business owners, detailing how the equity in a business will be divided if an owner dies.
- Business owners will purchase life insurance on each other in order to mitigate risk. In the event of an untimely death of an owner, the death proceeds from their life insurance generates a cash payment. The payment is made to the deceased's beneficiaries in exchange for the transfer of the deceased's business share to the remaining business owners.

In summary, business protection is about maintaining the continuity and viability of the business. HNW individuals often desire to maintain control of the business by their business partners and / or family, and as such, business protection planning must be a key area of focus for all business owners' estate planning.

Key challenges for SMEs include ensuring they have sufficient cash flow, financing and manpower issues, which include hiring, developing and retaining key staff.

KEY PERSON EXECUTIVE PLANNING

Key Person insurance acts to protect the business against the impacts of the demise of a key employee.

A Key Person is an individual whose knowledge, creativity, inspiration, reputation and skills are critical to the viability and growth of a business, and whose loss may cripple it. Examples of key persons include:

C Suite

- The executive team of each business are the key individuals driving the business.

Project leader

- The effective Project Leader binds the business team together.

Precision engineer, scientist, software engineer, fashion designer

- These key people often provide the unique intellectual property characteristics which determine the success or otherwise of the business. Without their contribution, the business would face difficulties in continuing.

Top sales professional

- Often top salespeople hold very strong, deep relationships with customers, a relationship of trust, which has been built over many years, thus bringing a sizeable percentage of total revenue to the business.

Technical expert

- The technical expert will usually have developed the differentiating core business knowledge, procedures and processes, and have intimate know-how of how the business operates to produce the products or services.

In addition to the examples above, the effects of losing a Key Person include:

- **Loss of profits**
- **Loss of confidence in the business**
- **Loss of competitive edge**
- **Major projects delayed or not completed**
- **Withdrawal of credit facilities**
- **Monies will be required to recruit and train a replacement**
- **The worst-case scenario can include business insolvency and closure with liability remaining for outstanding debt**

Life insurance can provide the business with financial compensation for loss of the Key Person.

How to determine the financial compensation needed?

In general, there are three approaches. It should be applied according to different business cycle and experience. They are not all required or mutually exclusive.

Business Profit

- How much profit the business will miss before a replacement is found and settled to perform

Capital Injection

- How much capital was injected by the demised Key Person

Renumeration Replacement

- How long the business will need to hire a consultant temporarily before recruiting a suitable long-term replacement. The more specialised and unique the skills, the higher this cost may be

When establishing a Key Person insurance plan, the structure is typically:

- **Key Person is the life insured**
- **Business owns the insurance plan**
- **Business is the beneficiary of the insurance plan proceeds**

Depending on the requirement imposed in the relevant tax jurisdictions, life insurance specific tax relief may be available in respect of premium paid when the following conditions are met:

- **Insured person must be a Key Person of the business**
- **The insurance protects against loss of profits**
- **The Sum Assured is directly related to the profits attributable to the Key Person**
- **The insured is not an owner of the business**
- **The insurance has no Cash Value**

Should tax relief be claimed, the proceeds will typically be taxable as a trading receipt. If the intent is a tax-free payout, then the business cannot own or claim the premium tax relief. Clients should be sure to seek professional tax advice specific to their jurisdiction.

In summary, whilst it is common for business owners to insure their property, plant and equipment, it remains less common for business owners to insure their human assets, even though the potential consequences of not doing so can be devastating to the business' survival.

Commonly used products:

Term Life

Universal Life

Indexed Universal Life

In all instances, business loan insurance structuring is simple, with the Policyholder being the business, the guarantor being the life insured, and the business paying the insurance premium.

BUSINESS DEBT, LOAN PROTECTION AND PERSONAL GUARANTEE

Loan protection shields the business against the risk of a business loan needing to be repaid immediately, in the event of the death of a loan guarantor.

Some lenders will require that loan protection cover be in place, prior to advancing the loan. Other lenders will take security over fixed assets, such as business property, or the family home. Particularly in these instances, there is the need to protect the loan guarantor, where in the event of loan default due to death, the assets would otherwise be claimed and sold by the financial institution to pay the debt.

Another common source of business finance comes from Directors' loans to the business. Directors' loans are often made on an unsecured basis. As such, there is the need to ensure the loan can be repaid upon the loss of the Director. Otherwise, the business may be forced to liquidate assets and strain finances to repay the Directors' loan from working capital.

Other businesses obtain finance via Personal Guarantees. The Director gives a guarantee that in the event of insufficient funds being available in the business, that they will cover the remainder. Upon loss of the Director, the family would have to find funds should the loan be recalled.

In all instances, business loan insurance structuring is simple, with the Policyholder being the business, the guarantor being the life insured, and the business paying the insurance premium.

Commonly used products:

Term Life

BUSINESS PARTNERSHIP, SHAREHOLDER PROTECTION AND BUY-SELL AGREEMENT PLANNING

Business partnership and shareholder protection involves putting in place a strategy to protect the surviving business partners and shareholders. Shareholders include those who are active in the business and those who are silent and can include family and non-family members.

Business partnership and shareholder protection ensures that when a business owner passes on, the remaining partners are able to continue the business, whilst maintaining control, without unnecessary financial strain. The business will have access to immediate liquid funds to be able to payout the deceased partner's family.

To calculate the amount of insurance cover required, each partner should agree the value of his or her individual shareholding. The valuation can be determined by:

For Partnership

- Estimate the value of partnership shares
- Account for goodwill
- Can include undistributed profits

For Company

- Value the individual shareholding
- Consider the company accounts
- Obtain the view of the company accountant

Life insurance is utilised to fund share redemption for the purpose of providing liquid cash distributions to beneficiaries.

Buy-Sell Agreement planning consists of the life insurance plan and an underlying legal agreement. It involves agreeing to transfer the business to participating children and/or business partners who will succeed as owners of the business, enjoying complete ownership and control.

The estate executors will sell the business share to the surviving shareholders. The estate executors utilise the Buy-Sell Agreement to oblige participating children and/or business partners to buy, and the estate to sell the interest in the business, which is funded using the life insurance proceeds. The deceased business owner's family members and estate receive the sale proceeds.

Participating children and/or business partners are now freed from having to share ownership or having to provide future payments to siblings and/or the family of the deceased partner.

The insurance payout is not contingent on the future liquidity of the business. This means that the non-participating children and/or business partners receive a quick cash settlement.

The advantages of a properly designed Buy-Sell Agreement include:

- Guarantees a buyer for the business interest at an agreed value
- Prevents external parties from gaining a share in the business
- Provides liquidity to make a fair and proper payment to the family of the deceased
- Improves business stability by ensuring business succession
- Assists business longevity

Commonly used products:

Term Life

Universal Life

Indexed Universal Life

BUSINESS SUCCESSION PLANNING

Business Succession Planning using life insurance is ideal for business owners who plan to pass wealth equally to their children. The challenge is to account for those children who are active in the business and who have contributed more to the running of the business than siblings who have low, or no, involvement in the business.

High value life insurance is able to ensure that business assets can be fairly distributed. The life insurance payout will pass an equivalent amount of cash to those beneficiaries who are not active and do not participate in the business. The business assets can pass to those beneficiaries who are active and express a desire to continue the business.

Business succession, and particularly family business succession, requires careful consideration and professional advice. Research has shown that many family businesses fail within a decade of transfer. Family conflict and sibling rivalry can strain relationships where a business is passed down. Some retired business owners create retirement income plans independent from receiving income from their business. Should the business activities and operating environment change, and resultant revenues fall, it can put whole family relationships, and even a comfortable retirement, at risk. Particularly when the retiree is unable or unwilling to re-enter the business to assist.

The success of a business succession plan can be improved through long-term planning. Commencing the business succession process 10 years or more in advance can greatly reduce transfer risks.

Commonly used products:

Whole of Life Insurance

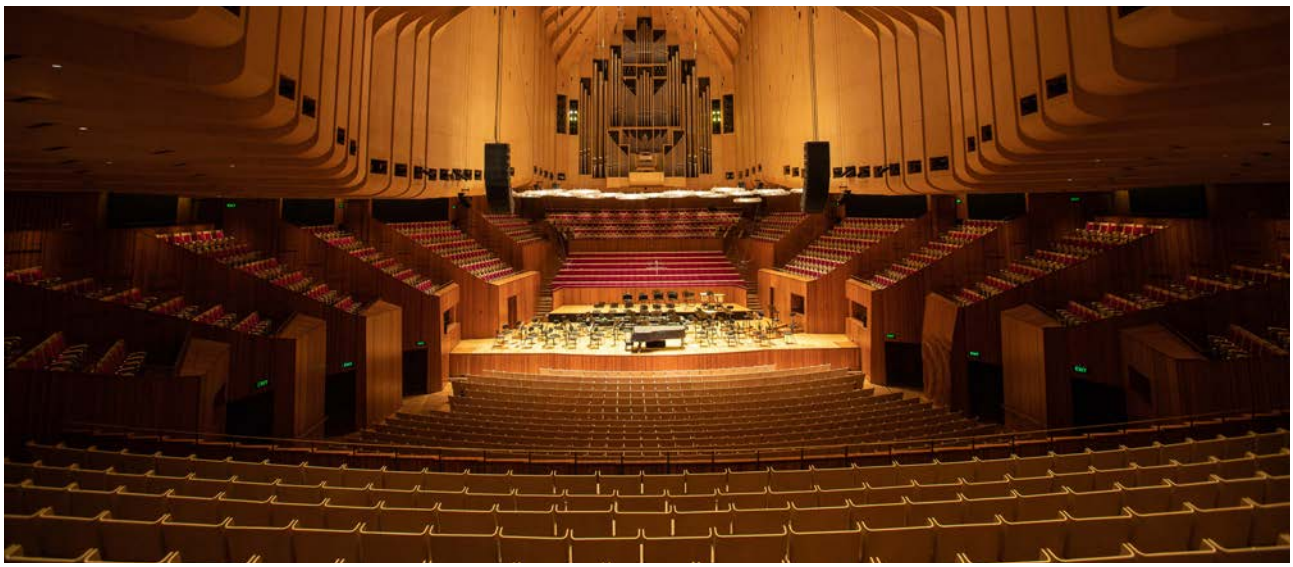
Universal Life

Indexed Universal Life

Term Life

Chapter 3

Retirement



Whilst retirement may not be top of mind for HNW and UHNW individuals, to ensure the comprehensive nature of this Guide, the retirement journey remains a material component for some HNW individuals.

The successful transition from working to a comfortable retirement is the result of careful, and robust planning. For high performing successful individuals, the process of transitioning from full time work to retirement is not always easy, as this major life milestone changes many things. Full time leisure is not an activity that can be taken for granted, particularly when you are used to running a complex business operation day to day. The best retirement plans are those that take a longer-term view, and provide transitioning years, when one reduces work time and assumes other activities in the place of work. In this way, by staggering the move from work to leisure, one can be sure of an active and happy retirement.

For HNW individuals, retirement is a time to be enjoyed, doing things they have always wanted to do. Those who can find the middle ground, of being challenged but not stressed, are often the happiest in retirement. Finding activities that help others and the community often provide HNW retirees with the highest level of happiness and fulfilment.

Absolutely critical to a successful retirement is a sound financial plan. Being protected in the knowledge that one's income will continue, assets are sheltered from major market fluctuations and family and business relationships are sound, will bring a feeling of well-being and tranquillity to retirement.

The best retirement plans are those that take a longer-term view, and provide transitioning years, when one reduces work time and assumes other activities in the place of work.

INCOME PLANNING

High value life insurance can provide significant value and benefits as an integral part of a sound retirement income plan. Ensuring the correct type of life insurance and the appropriate amount of life insurance coverage in retirement can produce multiple benefits. Possible benefits include:

- **Assisting to protect income**
- **Improving overall portfolio return whilst at the same time managing investment risk**
- **Providing tax-efficient cash flow and accumulation (depending on jurisdiction)**
- **Providing overall retirement peace of mind**

Leading up towards retirement is essential to insure both spouses. Should one spouse unexpectedly depart, the surviving spouse may end up with less retirement income than expected.

It is for this reason that life insurance is crucial to assist with achieving retirement accumulation goals.

As a general rule, HNW individuals should expect to require 50 to 70% of their pre-retirement annual income to be able to maintain current living standards into retirement. Be sure to base retirement income needs on the rate of estimated inflation, so that living standards can be maintained as costs change.

It is recommended that that clients prepare a high-level budget to assist in this regard, breaking down expenses into two categories:

Fixed expenses

- Housing expenses
- Debt payments
- Living expenses

Variable expenses

- Essential living expenses
- Non-essential living expenses

Both fixed expenses and variable expenses can be managed in a way that helps bring more peace to a financial plan in retirement. By identifying the difference between the fixed expenses and variable expenses, one can better create a strategy that reduces stress levels and increases financial stability.

Some pre-retirees may realise fixed assets in order to build up the passive income producing retirement asset portfolio. For example, empty nesters may sell the large family home and re-size to a residence that provides additional flexibility and is more suited to their needs, thereby freeing up capital for investment.

Planning for big-ticket items in retirement may also require some thought. Should a HNW individual purchase holiday homes, new vehicles for the family, kick-start business ventures for their children and grandchildren, all these types of expenses will require funding from their portfolio. The best method of planning is to stress test the assumptions and account for big-ticket purchases before one retires, not after.

> It's important to be sure that elderly parents maintain their hospitalisation insurance, if available.

When planning a HNW retirement it is always prudent to consider adult children's potential income needs. This can be a difficult topic for some HNW retirees, particularly when their adult children may not be as financially successful as they were themselves. Should the children be used to receiving support, either from lump sum monies or regular income support to supplement their own incomes, the HNW client should be mindful that this support might continue throughout their retirement. From a financial perspective, the client should have routine conversations with their children to agree on the level of financial support that is feasible.

Similarly, surviving elderly parents may continue to need support. It's important to be sure that elderly parents maintain their hospitalisation insurance, if available. It is always best that hospitalisation insurance is put in place many years prior to the time of need, as with better standards of care, they will likely live longer, so the costs will be much higher.

The integration of the HNW client's retirement plan and estate plan is a key success factor to a happy retirement and maintenance of good family relations. The timing of income, timing of asset transfer, tax considerations and ownership considerations are all areas that will be required to plan.

Taking a long-term investment horizon view can significantly assist portfolio planning

Taking an incremental approach to the overall portfolio

Making decisions based on smaller percentages of the total portfolio

ASSET PRESERVATION

The insurance needs of HNW individuals are unquestionably different than for the average net worth individual.

Poor investment management, particularly when leading into retirement can greatly affect one's total wealth. At worst, investment decision errors could potentially threaten one's financial security. Hedge funds, private equity and venture capital type investments are all common investments made by the HNW. But it is these very investments that provide the greatest potential performance risk. With the changing interest rate returns of bank deposits and bonds, it has become increasingly difficult for one to secure retirement income certainty, without assuming additional portfolio risk. The risk of holding bonds to produce retirement income increases as the interest rate cycle changes and interest rates may rise.

The avoidance of investment extremes is a necessary HNW investment strategy, as being too conservative or too aggressive can be a costly mistake, particularly when planning for a secure retirement. Taking a long-term investment horizon view can significantly assist portfolio planning, as it helps remove market event fluctuation from projections. Taking an incremental approach to the overall portfolio is a sound method for most HNW individuals. Making decisions based on smaller percentages of the total portfolio can help one retain control and exercise investment action when necessary.

RISK DIVERSIFICATION

There are many factors that can destroy financial comfort for HNW individuals. These risks include:

- **Outliving assets**
- **Withdrawing funds too quickly**
- **An unplanned large financial surprise**
- **Underestimating the amount of retirement income needed**
- **Severe market fluctuations**

Too much focus upon wealth accumulation and insufficient focus upon wealth maintenance can cause unnecessary retirement stress. As one can only estimate one's lifespan, focusing upon wealth maintenance and wealth longevity will greatly improve one's retirement. At a minimum, HNW individuals should plan to be around at age 85 years.

A trusted advisor plays a crucial role in helping HNW individuals to make sound investment decisions and guide and assist them through the process. Risk diversification is an established practice for professional investment managers. The diversification benefit arises from the difference in risk drivers across different risk types, with the aim being intra-risk diversification. Intra-risk diversification is based on the assumptions of independence of the underlying risks. Considering a more holistic approach allows for the generation of less correlated asset scenarios across the investment portfolio. Being able to recognise diversification benefits will act to reduce overall risk and improve financial security.

The use of different insurance product solutions can enable the construction of a risk-diversified portfolio, which provides significant flexibility for changing needs. With this strategy, HNW individuals allocate across two or more insurance product types with varying durations. The benefits include:

- **Each insurance product has different features and benefits which complement one other**
- **Holding multiple insurance solutions will assist to maintain a level of protection, even if one policy should expire**
- **Different solutions will pay differently; for example, there are fixed rate, index rate, variable rate solutions**
- **A diversified protection portfolio acts to complement the broader overall financial portfolio**

Chapter 4

Society

PHILANTHROPIC PLANNING

Philanthropy is an unselfish desire to help others. Above all, the philanthropist shows a deep kindness, humanity and love for fellow mankind.

Philanthropy is shown via donations to causes, assistance to those less fortunate than oneself, endowments to institutions including schools and universities, hospitals and care centres, and by kindness to socially useful causes.

Philanthropy is giving on a much larger scale than gifting a charitable donation. Genuine philanthropy involves the true intention to improve human well-being. Large-scale philanthropy is undertaken by wealthy individuals via organisations established for specific purpose, often via a foundation.

Philanthropic planning involves incorporating philanthropic purpose in one's overall financial plan. The individual may incorporate charitable activities made both during their lifetime and via their legacy planning.

When a HNW client is interested in philanthropic planning, there are two important questions an Advisor should ask:

- **What is it that you want in life?**
- **How do you wish to be remembered?**

Philanthropy is often utilised to create genuine family values and preserve family harmony. Philanthropy has a number of benefits above that of gifting:

- **Philanthropy provides continuity, promotes involvement and is an authentic commitment to one's cause**
- **Philanthropy affords control over the activities of the chosen charitable endeavour**
- **Philanthropy provides the freedom and ability to witness the bona fide outcome to the lives of other people**

Many HNW individuals will formally structure their philanthropic activities. Depending on the jurisdiction, they will establish structures, which in addition to charitable foundations and private foundations, may include donor advised funds and charitable trusts.

The advantages of utilising a philanthropic structure include:

- **Flexibility to decide whether the structure will operate in perpetuity or be resolved within a set timeframe**
- **Grants the ability to initiate wealth preservation, with the asset income being utilised to provide for grants and expenses**
- **Enables one to establish and fund a large sum at a single time, whilst maintaining the ability to direct the activities and receive the gratification of continued philanthropic efforts over a designated period**

In a family succession-planning framework, a foundation is a versatile tool, used notably to ensure that the relevant members of the family remain involved in the family's affairs without being directly involved in core business activities. When establishing a philanthropic structure, it is essential to provide for financial and legal governance. For this reason, all philanthropists will engage professionals to assist with establishing and overseeing their structure.

The use of life insurance in philanthropy is becoming increasingly more common. A life insurance policy can provide asset diversification within the overall asset portfolio designated to be held within the philanthropic structure. Life insurance complements traditional investments and can be used to significantly leverage current cash flows into substantial endowments. The use of permanent life insurance can produce a favourable long-term return with less risk, than a portfolio without life insurance.

Gifting is the charitable activity of designating items of value to charitable organisations. Charitable gifting is readily accessible and can be a relatively simple process to undertake.

GIFTING

Gifting is the charitable activity of designating items of value to charitable organisations. Charitable gifting is readily accessible and can be a relatively simple process to undertake.

Individuals can have multiple reasons for choosing to gift to a charitable cause. These can include:

- **Continuing one's beliefs by means of a constructive contribution**
- **Individual feeling of compassion for those less fortunate**
- **Personal enlightenment and civil awareness**
- **Recognition of one's achievements from family, friends and the larger community**
- **Estate optimisation and legacy planning**

Prior to embarking on a charitable journey, an Advisor should help the client to consider the following three points:

- **Particular goals and objectives for making a gift**
- **The size of gift that would be appropriate**
- **The effect of making the gift on family and loved ones, if any, and on estate and legacy planning**

Life insurance can be a straightforward arrangement to provide for one's favourite charity. Utilising life insurance is the favoured approach of many HNW individuals, as it is a flexible and cost-effective method of ensuring a financial legacy is shaped. The gifting of life insurance to non-profit charitable organisations can also incorporate tax efficiency planning, as in some jurisdictions significant tax benefits can be available for both living donation and legacy donation.

Particular goals and objectives for making a gift

The size of gift that would be appropriate

The effect of making the gift on family and loved ones

Often the donor will consider either of two gifting strategies:

- The donor gifts cash during their lifetime and utilises the life insurance to replace the gifted cash in their estate proceeds to beneficiaries
- The donor gifts the life insurance policy during their lifetime, and the policy payout will pass to the charitable organisation after they are gone

Life insurance can be gifted via an irrevocable gift of either a new or existing policy, whereby ownership of the policy is transferred to the non-profit organisation. Alternatively, the non-profit organisation can be named as the beneficiary of the policy. Both options can have different tax effects depending on jurisdiction. It's recommended to seek specific tax advice to select the option that best suits an individual's circumstances and the charitable organisation to whom they are gifting.

In summary, the benefits of utilising life insurance for gifting include:

- Simply feeling good that one is able to exercise their personal choice to leave a financial legacy to a favoured cause
- Use of life insurance magnifies the contribution, as the premium paid will be lower than the ultimate proceeds gifted
- Life insurance provides flexibility of gifting, with the option to either gift during one's lifetime or alternatively as part of legacy planning
- The charitable cause will receive a guaranteed gift, which when paid can be immediately put to good use
- Finally, tax benefits may be available as a direct result of making a life insurance gift

Chapter 5

Life Insurance - Structural Considerations

POLICY OWNERSHIP

Deciding who will own the high value life insurance policy is an important decision, which should be determined based on the client's objectives.

There are a variety of ownership options available. For policies owned on a personal basis these include:

Individual ownership

- Occurs where the life insured owns their policy themselves
- The individual owner has full control over the policy
- The individual has the right to the policy proceeds via withdrawal or surrender
- The individual can nominate beneficiaries and change beneficiaries providers

Joint ownership

- A couple or business partners will collectively hold ownership of their life policy
- Should one owner pass away, the ownership will automatically pass to the survivor
- Joint ownership is often combined with a 'Last to die' option (see below)

Cross ownership

- Each individual owns and controls the life policy over that of their spouse or partner
- Commonly used for business insurance, and for estate tax planning purposes

For planning purposes, one may choose to have the policy owned by a company, a company held within a trust, or owned directly by a trust. When considering structuring your life insurance, it is prudent to consider the client's specific circumstances, how the proposed structure will benefit them and their heirs, the efficiency of the proposed structure for setup, upkeep and maintenance, and ultimately the cost effectiveness of the overall proposition.

HNW individuals will often select a trust structure to own their life insurance policy for the following reasons:

Control

- As with individual policy ownership, they retain control over the policy during their lifetime
- Post passing, via a trust letter of wishes, the client is able to designate how and when the proceeds can be utilised and when they will become available to beneficiaries

Legacy

- Having the high value life insurance pay into a trust will provide a large pool of financial assets which can be made available to multiple generations of heirs
- Grandparents can provide for grandchildren and effectively pass down their wealth inter-generationally, similarly as with individually held life insurance

Asset Protection

- A policy held in trust can benefit from a higher degree of protection from creditors than a directly held policy, as creditors of the HNW individual will be unable to seize it in his / her hands, the policy being owned by the trust or its underlying company.

SINGLE LIFE INSURED OR JOINT LIFE INSURED

Life insurance taken out on a single life is the most common form of life insurance undertaken by HNW individuals. The single life policy insures one person only and will payout the Sum Assured if the life insured passes away during the policy term.

A life insurance policy that insures two people is called Joint Life. Joint life insurance comes in two forms:

First to die

- **The policy will pay out to the surviving spouse after the first passes on**
- **After the policy has paid out, the policy ends and there is no life cover for the surviving spouse**
- **First to die policies are especially suitable where one insured depends on the income of the other**

Second / Last to die

- **Sometimes termed 'survivorship life insurance'**
- **This policy will pay the death benefit to the named beneficiary/s after all insured lives are departed**
- **Second to die policies are especially suitable where the payout is required for situations triggered by both deaths, such as legacy planning, estate tax payments, care for a special needs child or philanthropic giving**

An additional advantage of a joint life policy is that there are cost savings available when compared to taking out two separate policies. The cost savings can be greater when the second to die option is selected.

A key advantage of joint life policies is that when one spouse is in poor health, they may still be able to receive life cover, via taking the joint life option together with their spouse.

The drawback with the second to die selection is that the surviving spouse does not receive any payout upon the first passing. To work around this, one may consider taking separate term policies for both spouses, which have lower premiums than permanent policies. The additional policy will provide a guaranteed payout during the insured term to the beneficiary, so that the surviving spouse is sufficiently financially protected. One must bear in mind that there would be no payout for the remaining spouse if the first spouse outlives their policy. Hence for this reason, permanent life insurance may be the preferred option.

Other considerations when selecting between a single or joint life policy are:

Premium investment versus amount of life cover

- Whilst joint life policies are more cost effective, you are effectively purchasing a lower amount of cover than if you were to select two single life policies

Beneficiary of the policy

- Joint life policies on a first to die basis are a sound option where there is no need to nominate children as the beneficiary and the main aim is to protect the surviving spouse

Amount of cover

- Do both spouses have exactly the same insurance needs?
- By selecting single life policies, one is able to tailor the amount of protection to their individual needs

Future proofing

- Should a relationship end, it may not be possible to divide the policy Cash Value, without ending the life insurance policy
- As one's health changes, it may be challenging to take up a new policy, or premium investment required may be substantially higher

In summary, always consider the client's individual and joint family needs when helping them to make a decision between single life and joint life insurance.

The key purpose of life insurance is to provide for the nominated beneficiary/s. Whilst this selection may seem relatively straight forward, it is important to stop and consider the available options and the pros and cons of each.

BENEFICIARY NOMINATION

The key purpose of life insurance is to provide for the nominated beneficiary/s. Whilst this selection may seem relatively straight forward, it is important to stop and consider the available options and the pros and cons of each.

Each jurisdiction has its own legal code on insurance beneficiaries. This section should not be seen to be insurance advice or be misinterpreted to be legal advice. Some countries also have no legislative framework for a trust. Because of the complexities, HNW clients are encouraged to speak with a professional Advisor prior to purchasing any insurance policy.

Individual/s beneficiary nomination*

- **Once it's decided who should benefit from the proceeds of a life insurance policy, naming individual beneficiaries is a simple and cost efficient process, otherwise the death benefit will likely fall into the estate of the owner and likely be subject to the probate process if there is a Will or the intestacy law of the relevant country if no Will is in place**
- **Upon the passing of the life insured, the payout goes to the nominated beneficiaries**
- **When there are multiple individual beneficiaries, the payout is equally shared between each beneficiary, unless percentages are specified within the nomination**
- **Should the nominated beneficiary pass away prior to the life insured, unless there is a new beneficiary nomination, the payout is either shared amongst the surviving beneficiaries, or is paid directly to the life insured's estate as described above**
- **If the beneficiary is a minor child, a guardian will be responsible for oversight of the life insurance proceeds when paid out**
- **Once the beneficiary receives the payout, they are welcome to do as they wish with the proceeds. The deceased has no control over how the money is used**
- **In some jurisdictions, once one purchases a policy and names one's spouse and/or child as the beneficiary, this nomination is irrevocable. Most jurisdictions will provide you the choice to select either a revocable or irrevocable beneficiary nomination**
- **Other jurisdictions have regulations that create a Statutory Trust if one names one's spouse and / or children as beneficiaries**

The key purpose of life insurance is to provide for the nominated beneficiary. Whilst this selection may seem relatively straight forward, it is important to stop and consider the available options and the pros and cons of each.

Estate nomination*

- Nomination of the estate is also a simple process, as it is a default to the lack of nomination of any specified person
- Once the proceeds are received by the estate, it is a pre-requisite for the Executors of a Will to settle any estate and inheritance tax and payout all debt, often before they have the estate valued and realised
- It is important to note that if the insurance proceeds are paid to the estate, they are subject to probate. Note that the precise rules are dependent on jurisdiction
- Probate takes time, is public, and can be costly, particularly should the total estate be large and complicated and include multiple jurisdictions

Trust nomination*

- The proceeds are paid directly to the nominated trust structure
- This can avoid probate (as noted above)
- The trustee is responsible to oversee the trust assets and make payments to beneficiaries according to the trust deed and letter of wishes
- Channelling life insurance proceeds through a trust may allow the avoidance of probate, and a more detailed succession plan to be created with the proceeds

* The actual position on matters such as probate, protection from creditors/others and tax treatment are dependent, amongst other things, on jurisdictional requirements. Obtaining specific professional legal and tax advice relevant to a client particular circumstances is recommended.

PREMIUM FINANCING AND POLICY LENDING

When HNW individuals purchase an insurance solution, a key consideration is how it will be funded.

Will the client be paying for the policy in cash, through either regular payments or by making a single premium payment? Will they pay the premium with assets-in-kind? Will they borrow to pay part of the premium, known as premium financing?

Premium financing and policy lending are different funding options.

Premium financing comprises borrowing the policy premium from a financing institution and subsequently utilising part of the policy proceeds to clear the loan.

Policy lending is effected by pledging the policy to the financial institution and then drawing a line of credit against the policy's Cash Value. Usually the line of credit must be utilised for reinvestment purposes with the lending institution.

Should the HNW client decide to borrow, they should consider the following:

Financing the insurance policy

- **How does the bank view the insurance company and the product for lending?**
- **When borrowing, policy rights are assigned to the bank. This may divert the policy from the original purpose of liquidity planning, as the policy proceeds will be utilised to repay any outstanding loan prior to any surplus being available for disbursement.**
- **By pledging the policy, the lender, or provisions of the law, may require the client to cancel the individual beneficiary nomination, thereby making the policy pay to the estate and hence may be subject to probate, so that premium financing can be perceived as defeating succession planning benefits of life insurance.**
- **As a future consideration, it is possible that the bank may change its risk appetite or operations that may change the ability to rollover the loan – it is a short-term loan against a long-term liability.**

Other considerations include:

Interest rates

- **What will be the effect of interest rate changes over time?**
- **Will the policy continue to pay returns above that of the cost of borrowing?**
- **Does the client intend to service the interest cost or capitalise the interest cost?**
- **Will they pay down the loan principle over time, or clear the loan in one sum at a future date?**

In summary, when considering how to fund the policy, either by cash or by borrowing, the important factor is to consider the client's ability to continue to maintain the policy over the long term, so that the reason they purchased the policy in the first place is achieved.

Chapter 6

Types of Insurance Products & Application to HNW Needs

TERM LIFE INSURANCE

What is Term Life insurance?

Term life insurance provides a guaranteed death benefit (i.e., the Sum Assured) for a chosen policy duration (i.e., the Term). This is typically **10-, 20- or 30-years**, or up to certain defined age, depending on the duration of the risk it is designed to mitigate. Sum Assureds of HNW Life Insurance can be high, even up to amounts of **USD100** million or more.

Types of Term Life insurance

There are two types of Term Life plans:

Term Life

- That provides pure protection - a guaranteed death benefit - to the insured's family or beneficiary in case of the insured's demise within the policy period. If the insured survives after the policy period, the policy is terminated without any payout.

Return of Premium Term Life

- A policy where total premiums paid will be returned to policyholder at the end of policy as a survival benefit, in case the insured survives the term coverage period.

Characteristics of Term life insurance

- **Ability to secure a large death benefit at relatively inexpensive premium: Term life insurance provides a death benefit with a simple cost structure that is linked with pure mortality risk. It is easy to have coverage of as much as 30 times the total premium paid. The multiple will vary by residency, by age and by a person's health.**
- **Renewable to meet evolving needs: Some Term life policies provide guaranteed renewability, which provides additional peace of mind, as the insurer will honour a new coverage term under a new policy, even if the client's health status has changed.**
- **Conversion to meet future legacy needs: Some Term products offer an option for the client to convert to a permanent insurance policy lasting to age 100 or lifetime. The conversion may be guaranteed or require simple underwriting.**

Applications of Term Life insurance

- **Personal debt protection planning and mortgage payout: A cost effective way to secure funds to repay loans and clear debts.**
- **Key person executive planning: This can minimise the financial impact to business due to the loss of a key person, for example, a loss to sales volume, a cost of hiring a short-term consultant, etc. Business can also offer high value life insurance benefits to attract and retain talent. It can provide additional cushion to the key person's family to settle a mortgage or to support a living for a while in case of any unfortunates happened.**
- **Business debt, loan protection and personal guarantee: Term life insurance is a simple way to tackle the creditors' concern in repayment. By assigning the Term life insurance to creditors, it provides a guarantee of loan repayment in the event of the insured's death.**
- **Business succession planning: Term life insurance is also a simple tool in securing funds to buy back business shares without the need to raise funds from third party or public, which may lead to a change of company's management structure.**

ENDOWMENT INSURANCE

What is Endowment insurance?

An Endowment insurance is a policy that combines wealth accumulation and life protection elements for a specific period of time. Once it matures after a fixed period of time, a lump sum amount will be paid out (i.e. maturity benefit). It aims to serve the financial goals during the person's life, for example, children's education expenses, retirement fund, etc. or to leave a legacy in the event of death.

Types of Endowment insurance

There are two types of Endowment insurance policies.

- **Non-participating policies,** with fixed or guaranteed benefits across the insured period and;
- **Participating policies**, with both guaranteed and non-guaranteed benefits. The premiums received from this type of policy will be collectively pooled in a fund which is invested by insurer. The policyholders will share the surplus profits from the invested fund. In general, the insurer will announce the entitlement of returns to policyholder annually called bonuses or dividends.

Characteristics of Endowment insurance

- **Providing flexibility to achieve different goals: It is typical to find endowment plans structured in various timeframes to meet short-, medium- and long-term financial goals. They are in fixed terms from 5 years, 10 years, 15 years and more. Clients can choose as per his/her needs.**
- **Accessing cash whenever the client prefers: Endowment insurance provides clients the flexibility in cash access, they can withdraw money from their policies or surrender the policies whenever they need.**

An Endowment insurance is a policy that combines wealth accumulation and life protection elements for a specific period of time.

There are a few characteristics to be aware of:

- Clients may not be able to get back their premium if they withdraw or surrender their policies in the beginning years. In general, non-participating policies will breakeven faster than participating policies.
- Withdrawal from policies may affect the accumulation of the remaining funds.
- Withdrawals may incur the reduction of death benefits, generally by proportion.
- Participating policies may offer greater potential upside benefits from the insurer's investment fund. In contrast, insurers will minimise the outflowing funds through lower guaranteed cash value available for client's withdrawal in the beginning years. And so, they may not be suitable for clients who are planning to use the funds in the short-term, say within 10 years.

Endowment insurance provides clients the flexibility in cash access, they can withdraw money from their policies or surrender the policies whenever they need.

Applications of Endowment insurance

- **Child development fund: With the guaranteed cash value feature, Endowments can offer an predetermined amount on a fixed date which can easily tie with the need of child development, for example, funds for university tuition, a start-up fund for child running business, a down payment for a child's first property, etc. Some plans may be further tailored to client's needs by providing special bonuses at those critical or specific milestones.**
- **Retirement living fund: Endowment insurance is almost risk-free which helps young HNW clients build a foundation for retirement. And so it may be recommended to add an Endowment policy to a client's retirement portfolio. Once the policy matures, if the client doesn't have immediate cash needs, he/she can choose to re-invest the fund in another short-term Endowment insurance.**

WHOLE OF LIFE INSURANCE

What is Whole of Life insurance?

Whole of Life insurance provides guaranteed coverage for the entirety of the insured's life. Whole of Life policies also have cash accumulation which helps the client grow his/her legacy.

Types of Whole of Life insurance

As with Endowment insurance, there are two types of policies, participating and non-participating. Participating policies are eligible to receive dividend payments from the life insurance company. Non-participating policies do not pay dividends.

Whole of Life policies also have different premium modes:

- **Single Premium:** This type of insurance is usually chosen by HNW clients who either are (1) cash rich and don't want to increase their liabilities or (2) prefer financing premium to earn the greatest leverage of out-of-pocket money to cash value or death benefit. By funding the policy one-off at inception, it maximises the accumulated returns over time.
- **Regular Premium:** Appeals to HNW clients who prefer to pay for their insurance through monthly income or bonuses.

Characteristics of Whole of Life insurance

Since insurance is meant to serve for a lifetime, it is common to find additional flexibilities available in some plans.

- **Increase or decrease sum assured: When client reviews their planning over time, they may consider to increase or decrease benefits for their designated beneficiaries due to factors such as a change of the mix of wealth allocations between family members, a growth of client's wealth, a good investment opportunity requiring cash, etc.**
- **Change of policy ownership: The client may elect to transfer their wealth partially to their family members across time when he/she is still alive. This flexibility allows client to pass his/her asset to planned owner once he/she is capable to manage it.**

Applications of Whole of Life insurance

- **Multiple generations legacy planning: Client can name a child or grandchild as the life insured, with the parent or grandparent retaining the policy ownership and control over the cash value accumulation. Once the planned owner reaches a designated age, client can transfer the ownership to him/her, thus removing the policy from estate.**
- **Gifting: Whole of life insurance policy is a simple tool to donate a huge fund by gifting. Client can simply elect or nominate his/her favourite charity, organisation or association as policy's beneficiary. The proceeds will be given without complicated document process.**

UNIVERSAL LIFE

What is Universal Life?

Universal Life (UL) provides saving and protection benefits throughout a client's life as long as premium(s) is (are) paid or accumulated cash value in policy exceeds the maintenance cost of the policy. Unlike whole of life insurance, Universal Life is with **(1) great transparency on investment strategies, interests and charges, (2) high liquidity to serve client's evolving financial needs** and **(3) large flexibility to meet various client's conditions over time**.

It forms a unique component in the estate planning or business succession planning of HNW clients.

Types of Universal Life

There are three typical types of Universal Life.

- **Traditional Universal Life:** The underlying assets of traditional Universal Life are primarily invested in bonds. The insurer manages the asset allocation and declares the return which is called crediting interest rate to clients. It is also typical to find that insurer offers a certain level of downside protection by minimum guaranteed returns or maximum guaranteed charges.
- **Indexed Universal Life:** Indexed Universal Life is linked to the performance of a variety of indices, collared by a cap and/or a floor. In general, there are two accounts in the policy, a Fixed Account and an Index Account tied to equity index/set of indices. This design allows the client more upside growth potential, but with the security of downside guarantees.
- **Variable Universal Life:** Most insurers offer a broad range of investment choices. The client can select his/her choice of underlying investments, such as mutual funds, equities and bonds. In some plans, client can nominate an asset manager to manage investments on his/her behalf.

Characteristics of Universal Life

This section outlines the characteristics and benefits that are commonly found in the family of Universal Life products. Specific attributes for each type of Universal Life are elaborated under each respective plan. Products offered vary across jurisdictions; therefore the content below gives a general structure overview of Universal Life.

Transparency

The charges of Term Life, Endowment insurance and Whole of Life insurance are embedded in the premiums and account values across the policy lifetime. The dividends of Participating policies are declared and credited back to the policy account after each policy year. Universal Life is a unique product which provides high visibility on the future returns and charges. Any changes of interest or charges will be communicated at a timely basis before execution. Clients are able to manage their wealth planning according to their needs at different life stages.

Charges: There are 4 common charges, **(1) premium charge, (2) policy expense charge, (3) insurance charge or cost of insurance ("COI")** and **(4) surrender charge. The charges are listed in policy documents. Some are fixed and some are capped at a guaranteed amount.**

Premium charge

- Once there is inflow of new premium, a charge will be applied. The remaining net premium will be added to account value and starts to accumulate.

Policy expense charge:

- It is an administration charge to the policy which will be deducted from account value at a regular basis. Some plans charge it for a fixed period of time, say in the first 10 policy years and some plans charge it for policy lifetime.

Insurance charge or COI

- It is the expense linked to client's mortality risk and so it will be varied by age, gender, underwriting risk class and residency. It will increase with client's age. Some plans cease this charge after client's age 100.

Surrender charge

- It is a charge applied to policy when client withdraws cash from the policy or ask to terminate the policy within a certain period of time, say the first 15 years of policy.

Crediting interest rates: The insurer declares the effective crediting interest rates over time for traditional Universal Life and Fixed Account of Indexed Universal Life or Variable Universal Life. There are 3 types of crediting rates, **(1) lock-in crediting interest rate, (2) general crediting interest rate and (3) guaranteed or minimum crediting interest rate.**

Lock-in crediting interest rate:

- It is typical for insurers to guarantee a crediting interest rate for a certain period of time at the inception of the policy.

Guaranteed or minimum crediting interest rate:

- This is structured to provide a safety net by guaranteeing the general crediting interest rate will never go under a minimum crediting interest rate.

General crediting interest rate:

- It is the crediting interest rate that will be applied to the policy after the lock-in period. This will be changed and announced by insurers over time. Client will receive notification from insurer. Usually, the insurer also shares its crediting interest rate history for reference.

Liquidity

- Universal Life typically has a high cash value from the first day of inception and allows policyholders to access its cash value as needed, subject to applicable surrender charges.
- With its high cash value, Universal Life can serve as a collateral or guarantee to bankers and creditors. Clients can leverage it by premium financing to amplify his/her protection or wealth accumulation. Clients can also request for a business operating loan by assigning the policy to bank to expand his/her business.

Flexibility

- **Tailored plan:** Universal Life offers choices in both premium contribution and death benefit. Based on clients' preferences of protection, wealth preservation and accumulation, insurance consultants can help client tailor their own plans.

Universal Life offers two types of death benefits:

- **Level death benefit:** Guarantees a fixed amount of wealth transferred to client's beneficiary in case of any untimely passing. There is a chance that the death benefit will be greater than guaranteed if the future crediting interest rates are higher than the one initially illustrated at the policy inception.
- **Increasing death benefit:** Provides a minimum amount of wealth transferred to client's beneficiary in case of any untimely passing. The death benefit will be increased over time along with the accumulated cash value.
- **Clients can also choose the premium contribution style.** Usually, single premium and periodic premiums are available. Some plans allow unscheduled premium contribution but may have a certain limitation.

- **No Lapse Guarantee (NLG):** Universal Life policies will lapse if the accumulated cash value is not sufficient to pay the respective expenses or charges of the policy. This can happen when crediting interest rates are persistently lower than initially illustrated at policy inception or client did not pay the full premium or according to the schedule. If client prefers to enhance certainty of his death benefit guarantee, he/she may choose a plan with a NLG option for an additional premium. The NLG provides an explicit guarantee that the policy will never lapse, even if the underlying cash value of the policy drops to nil.
- **Cash value enhancement:** Some plans offer cash value enhancement features which reduce the surrender charges if the client elects to fully surrender the policy within the beginning policy years. This can provide a short-term benefit to the client especially in the case of premium financing as the cash value will be boosted up due to the reduction of surrender charge.
- **Change of insured person:** This is more important to business client, especially if they use Universal Life for key person executive planning or business continuity planning. Since key persons or shareholders may change due to many reasons such as change of business strategy, business line closure or resignation, it gives flexibility for business clients to accommodate personnel movements.
- **Change of Sum Assured:** Some plans offer flexibility to increase or decrease the Sum Assured according to the change of client's preferences, liabilities and wealth status.

Applications of Universal Life

Wealth transfer or legacy planning

Funding retirement income using Universal Life's cash value

Guaranteeing one's lifestyle when no longer drawing regular income

Further education for children and grandchildren

Funding special purchases and interests

Providing for a favourite charitable cause

Giving loved ones a head start in starting a business or property investing

Business insurance needs utilised in key person, shareholder protection and Buy-Sell planning.

INDEXED UNIVERSAL LIFE

What is Indexed Universal Life?

Indexed Universal Life (IUL) is a flexible premium permanent life insurance policy that contains both an insurance component and an investment component.

As a variation on Universal Life, Indexed Universal Life can be viewed as a hybrid type of permanent life insurance, as it provides the benefits of traditional Universal Life combined with the upside opportunity of Variable Universal Life without the downside risk.

Indexed Universals Life premiums are allocated to either a Fixed Account or an Index Account - or a mix between the two options. Cash value growth is based on the performance of the indices, collared by a cap and a floor. Indexed Universal Life may be linked to a variety of indices, for example, the S&P 500 Index, the Hang Seng Index and MSCI Index. It does not have direct participation in any stock or equity investments.

Indexed Universal Life is suitable for HNW individuals who seek cash accumulation and are willing to take some risk of market volatility to maximise the growth potential, while enjoying downside protection.

A key benefit of Indexed Universal Life is that it provides a greater opportunity to generate policy earnings above that of traditional Universal Life and Whole of Life insurance at a lower premium.

Characteristics of Indexed Universal Life

Indexed Universal Life is structured by a combination of Fixed and Index Account. After deduction of premium charges, net premiums are allocated to these two accounts as per client's instruction.

Fixed Account:

- Similar to traditional Universal Life, interest compounds at a declared rate. The current interest rate is usually guaranteed for the first policy year and may increase or decrease thereafter.

Index Account:

- Premiums earn interest linked to the performance of the benchmark indices. The allocation of indices within the Index Account may be fixed and blended by insurer or directed by the client. After the maturity, the client may allocate the fund to the Fixed Account or new Index Account segment or both.
- A cap rate, a maximum interest rate, applies to the Index Account, which is declared from time to time by insurer.
- The upside limit is compensated by a floor rate, which is guaranteed and is typically not less than 0%. This protects from the downside of market loss.

Some plans also provide a cumulative rate of interest, which is guaranteed by insurer. At the time of full surrender, if the total policy value of both accounts is below the cumulative guarantee, the client will receive the proceeds generated from cumulative rate of interest. This is seen to be a form of capital preservation.

Some Indexed Universal Life products also offer automated transfers and automated balancing features to help policy owners to manage policy in line with their preferred exposure to market volatility without hassle.

Automated transfers:

- Clients can elect a specific amount of policy value transferred from the Fixed Account to Index Account periodically.

Automated rebalancing:

- Client can pre-set the proportion of policy value allocation between Fixed Account and Index Account or between Fixed Account and indices in Index Account. The policy value will be re-balanced periodically according to the pre-set allocation.

Applications of Indexed Universal Life

The cash accumulated in an Indexed Universal Life policy can be used for a variety of needs:

- **Retirement income funding**
- **Asset and risk diversification**
- **Asset preservation**
- **Long term care expenses**
- **Funds for children's or grandchildren's education**

The protection element of Indexed Universal Life also can support:

- **Wealth transfer or legacy planning**
- **Family income and lifestyle protection**
- **Funding special purchases and interests**
- **Providing for a favourite charitable cause**
- **Business insurance needs utilised in key person, shareholder protection and Buy-Sell planning**

VARIABLE UNIVERSAL LIFE

What is Variable Universal Life?

Variable Universal Life (VUL) is a permanent life insurance, which combines the benefits of a high value Sum Assured with the opportunity to allocate cash value to a variety of self-selected and self-managed investment options. With VUL, HNW individuals can decide on their own investment strategy according to their individual risk tolerance. Given its investment profile, Variable Universal Life offers higher long-term return potential than other permanent life insurance products.

Characteristics of Variable Universal Life

With Variable Universal Life, premiums are allocated to the cash account after the deduction of premium charges. A fund operating expense may be charged to the investment funds as well.

HNW clients typically seek to fund the premiums sufficiently in the early years of the policy, so that sufficient earnings can accumulate at a greater rate than cost of insurance. This ensures that the Variable Universal Life policy remains in-force for their lifetime.

HNW clients typically seek to fund the premiums sufficiently in the early years of the policy, so that sufficient earnings can accumulate at a greater rate than cost of insurance. This ensures that the Variable Universal Life policy remains in-force for their lifetime.

Flexibility is a key benefit of Variable Universal Life. Clients can make further premium contributions or can make withdrawals over time depending on their needs. Additionally, one has the flexibility to select his/her choice of underlying investments, such as mutual funds, equities and bonds. Most plans allow a broad range of possible investment choices. Clients may even be able to nominate an asset manager to manage the investments on his/her behalf. It is worth noting that the investments selected are risk and liquidity limited. For example, hedge funds or private equity funds might not be eligible.

The performance of a Variable Universal Life will ultimately be determined by the performance of its investment selections. By investing prudently and with good market performance, a Variable Universal Life can produce significant returns, even after insurance charges are paid.

It is this potential for higher returns that is the key reason why HNW clients with seasoned investment experience looking for wealth accumulation product will choose Variable Universal Life over traditional Universal Life and Whole of Life insurance. Unlike Indexed Universal Life, there is no cap to the investment performance with Variable Universal Life. If the performance is sufficiently high, client may be able to make withdrawals and maintain a high Sum Assured life cover. However, Variable Universal Life also lacks the downside guarantees of Indexed Universal Life, traditional Universal Life and Whole of Life insurance.

Applications of Variable Universal Life

The cash accumulated in a Variable Universal Life policy can be used for a variety of needs:

- Growth oriented investment plans supported by higher returns
- Funding a retirement nest egg
- Asset and risk diversification
- Flexible funding of a variety of goals over one's life
- Special purchases and interests
- Funds for children's or grandchildren's education

The protection element of Variable Universal Life also can support:

- Wealth transfer or legacy planning
- Family income and lifestyle protection
- Providing for a favourite charitable cause
- Business insurance needs utilised in key person, shareholder protection and Buy-Sell planning

Summary table of traditional Universal Life, indexed Universal Life and variable Universal Life

	Traditional Universal Life	Indexed Universal Life	Variable Universal Life
Client's need			
Family protection	✓	✓	✓
Retirement		✓	✓
Asset diversification	✓	✓	✓
Wealth accumulation		✓	✓
Legacy planning	✓	✓	✓
Keyman protection	✓		
Business continuity	✓		
Client's preference			
Expected term	Long term	Medium to long term	Long term
Guarantees	High	Medium	Low
Potential earnings	Low	Medium	High
Risk tolerance	Low	Medium	High
Product nature			
Underlying assets	100% bonds	Indices	Mutual funds, bonds, equities (as per the availability from the plan)
Investment risk borne by	Insurer	Insurer	Policyholder
Size of premium	High	Medium	Low
Policy maintenance expense	Low	Low	Medium

PRIVATE PLACEMENT LIFE INSURANCE

What is Private Placement Life Insurance?

Private Placement Life Insurance (PPLI) is a customised form of insurance utilised for specialised wealth structuring. Generally, PPLI is offered only to accredited professional investors, and available for premium amounts of typically USD 1 million and above.

The structure of PPLI is relatively simple, with the life company providing the legal structure of the life insurance policy. The policyholder pays the assets into the policy and is responsible for selecting the ongoing management and oversight decisions of those assets. This would usually involve the appointment of a private bank or independent asset manager to manage the underlying assets which would be held at a custodian of the policy owner's choice (subject to the approval of the insurance company).

Characteristics of Private Placement Life Insurance

PPLI is typically utilised where the characteristics of the policy comply with the tax situation of the client to provide either or both tax deferral and/or tax-free death benefits. The client is therefore utilising the tax treatment of these types of policies in their jurisdiction of tax residence to optimise the after-tax returns of the policy.

There is no high value Sum Assured available with PPLI, as the Sum Assured is usually capped at a low value.

The premium payment can be made in cash or assets in-kind. The client therefore has the flexibility to transfer assets to the policy without liquidation, although this may be deemed to be a taxable event. With PPLI, the policyholder bears the investment risk.

A PPLI policy can be combined with a trust structure by designating the trust as the beneficiary of the policy. This further structuring provides an additional layer of asset protection.

PPLI can be surrendered in full or partially at any time. The assets held in the policy will be transferred to the Policyholder, or in case of death to the named beneficiaries.

It is important for a HNW client to obtain professional advice including tax advice when deciding to pursue a PPLI solution for their wealth structuring needs. Wealth structuring can become complex as laws and taxes differ between jurisdictions.

Applications of Private Placement Life Insurance

- **Wealth holding and structuring solution for Ultra HNW individuals, often used as an alternative or complement to a private trust**
- **Legacy and Succession Planning with privacy and confidentiality, as the assets are held in the insurance policy and pass to named beneficiaries outside of probate, dependent on jurisdiction**
- **Enabling full flexibility and control for the policyowner over the management of the assets which are transferred to the PPLI**
- **Consolidating different investments to simplify reporting to regulators. All the investments and assets within the policy can be reported under CRS as a single investment**
- **Providing asset protection as policy investments are owned by the insurance company, and hence are ring-fenced from potential creditors and the estate**

WHY DO INDIVIDUALS CHOOSE CERTAIN TYPES OF PRODUCTS?

Key drivers for HNW individuals to purchase insurance are:

Personal Characteristics

- One will make decisions based upon one's singular character. Often due to the additional risks HNW individuals face, such as investment market risk and business risk, the rational step is to recalibrate overall assumed risk and relocate certain risks to specialist firms
- Having achieved financial success, the next step is to lock-in this success by reinforcing and insuring one's financial foundation

Value

- The assessment of worth, whilst difficult, is the practical solution to putting a market price on the personal need and desire for risk mitigation
- One may ask oneself, "How much is my peace of mind worth?"
- Comparison of pricing against product features and benefits

Individual Experience

- Unexpected events can and will occur, hence it is always prudent to be prepared
- A sound protection portfolio, when implemented, will provide a solid financial buffer for even the worst-case scenarios

Community Connectivity

- Often when relatives, friends or business associates have purchased HNW insurance, they will talk about their experience
- HNW individuals may be inspired by others' experiences, realising they have similar concerns and needs

Quality

- HNW individuals demand the best possible protection, and are prepared to meet the premium costs required to ensure they too, have the best possible insurance cover available in the market today
- Smooth and responsive service, polished underwriting and simple plan language documentation are indicators of a quality protection solution

Need

- HNW individuals will be attracted to insurance products which meet their core needs and desires
- These needs may include securing their family's future security, ensuring family lifestyle continuity, enabling successful business succession planning, or financially insuring a cause they feel strongly about

HELPING HNW INDIVIDUALS TO SELECT A HIGH SUM ASSURED INSURANCE PLAN

HNW individuals seek competent, ethical and personalised advice to make the right choices that address their unique circumstances, meet their objectives and are aligned with their risk appetites and values.

A trusted advisor and life insurance specialist can be an invaluable resource to help HNW individuals select an insurance solution that meets their individual goals. As described in this Guide to HNW Life Insurance, there are a great range of products available to meet diverse client needs.

Below are ways Financial Advisors can help HNW individuals to make the right choices:

Ask the right questions to understand the HNW individual's needs and establish trust

- Listen and understand the client's circumstances
- Identify their goals and objectives
- Probe to uncover values that may shape their plans
- Understand their risk appetite and time horizon
- Get to know their stakeholders, e.g., family, business partners
- Be reliable, accountable and proactive

Be informed

- Understand the market, the HNW life insurance companies, merits of available product solutions
- Stay up to date on relevant regulations

Understand the budget and payment plans

- What are the budget and sources of funding?
- Is premium financing a desired option?

Provide appropriate options

- Make informed recommendations based on the client's needs
- Show how different solutions can achieve the client's goals
- Provide clear presentations and illustrations, highlighting pros and cons of alternatives

Be sure the client understands what they are buying and why

- How the selected solutions meet their objectives
- How the products work
- What guarantees, projections and assumptions are involved
- What flexibility and options they have in case their circumstances change
- Review and summarise how the High Sum Assured life insurance plan will meet their unique needs.

HOW HNW INDIVIDUALS SELECT AN INSURANCE COMPANY

HNW individuals will have high demands in selecting an insurer, as they are consigning their trust in that the company to be there to meet their obligations in the long run.

Key risks and considerations include:

HNW coverage availability

- Is the company a specialist in HNW products?
- Is the company able to provide high value Sum Assured in the tens of millions of dollars?
- Does the company understand the requirements of HNW individuals and is it experienced in underwriting the lifestyles, and sometimes complex structuring needs, of HNW individuals?

Financial Stability

- The insurance company's financial rating and solvency
- There are insurance rating agencies, for example, S&P, AM Best, Moody's and Fitch, which can provide indicators to the company's financial stability and claims paying ability

Regulation and Licensing

- Insurance companies are licensed, and their products are regulated
- Complaints or regulator actions against a life company
- The company's reputation and track record in the market
- The location of the insurance company. Where the insurance company is licensed and where they can provide local service

Key risks and considerations include:

Service

While HNW policy owners do not often contact their life insurance company, when they do it is important the company can provide prompt, efficient and courteous and personalised service.

Servicing needs may include:

- Premium payment, top-up, withdrawals and surrenders
- Beneficiary or Policy Owner changes
- Other policy changes
- Questions about the policy's benefits or terms and conditions
- Ability to provide support through multiple channels, including online, via mobile apps or by phone

Claims Handling

- The moment of truth for insurance is at the point of a claim. It is important that the life company has a strong history of paying claims on a timely and efficient basis
- HNW clients may want to know about a company's claims payment track record

Cost and Value

Costs of high value insurance policies can vary widely.

There are a number of factors that will affect the premium levels. These include:

- Cost of Insurance rates charged
- Guarantees provided
- Scope of coverage
- Underwriting classification of the life insured
- HNW clients will want to understand the cost differences between different options and quotations in terms of trade-offs between features and benefits, with an eye on their individual needs and priorities. HNW clients typically seek value more than the cheapest price

HNW INSURANCE PRODUCTS SUMMARY

Ways that different types of insurance help individuals and families meet their different protection needs and specific needs addressed

Type of insurance	Term	Endowment	Whole of Life	Universal life	Indexed Universal Life	Variable Universal Life	Private Placement Life Insurance
Nature of protection	Pure protection	Protection with guaranteed return	Protection with savings elements	Protection with savings elements	Protection with savings elements	Protection with investment elements	Customised form of insurance with wrapped private investments
Duration of insurance	Short to medium term	Medium to long-term (endow at certain age)	Long-term (lifetime coverage)	Long-term	Long term	Long term	Customised
Premium level	Low	Medium to high	High	Medium to High	Medium to high	Medium to high	High
Premium payment term	Single / Regular	Single / Regular	Single	Single / Regular / Unscheduled	Single / Regular / Unscheduled	Single / Unscheduled	Single
Death benefit	Level	Low level of protection	Level / Increasing sum assured	Level / Increasing sum assured	Level / Increasing sum assured	Level / Increasing sum assured	Low level of protection
Savings / investment elements	No cash value	Guaranteed return	Declared dividends / bonus from yields of equity and fixed income assets	Declared crediting interest rate from yields of fixed income assets	Declared credit interest rate and / index interest rate from yields of fixed income assets / growth of index options	Growth of selected investment options	Growth of personally selected investment assets
Risk Appetite	-	Low	Low to medium	Low	Medium	High	High
Investment risk borne by	-	Insurer	Insurer	Insurer	Insurer	Policyholder	Policyholder
Applicable to clients looking for	Insurance for fixed term with relatively low premium	Insurance for a defined period with guaranteed investment return	Guaranteed lifetime coverage with potential upside cash accumulation	Lifetime coverage with potential upside cash accumulation and flexibility to adjust premiums and death benefit	Lifetime coverage with higher potential investment upside than UL and downside protection	Lifetime coverage with higher potential upside from their selected investment options	Coverage with privacy and confidentiality, full flexibility and control over the management of the assets and tax advantages
Typical uses	-Family protection - Buy-Sell Agreement - Key Person - Loan protection	-Wealth accumulation - Targeted savings goals, e.g., education funding, retirement	-Family protection -Estate and legacy planning	-Family protection -Estate and legacy planning -Business continuity	-Family protection -Estate and legacy planning -Wealth accumulation -Diversification	-Family protection -Estate and legacy planning -Wealth accumulation -Diversification	-Wealth Accumulation - Tax planning

Chapter 7

Case Studies

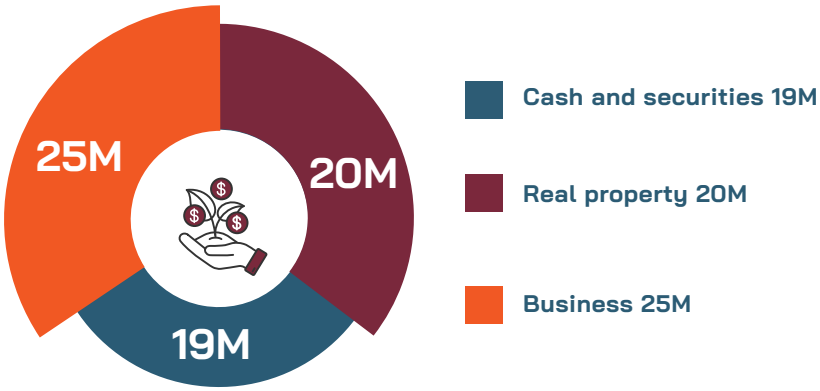
Case Studies

CASE STUDY 1: AN EQUITABLE TRANSFER OF WEALTH

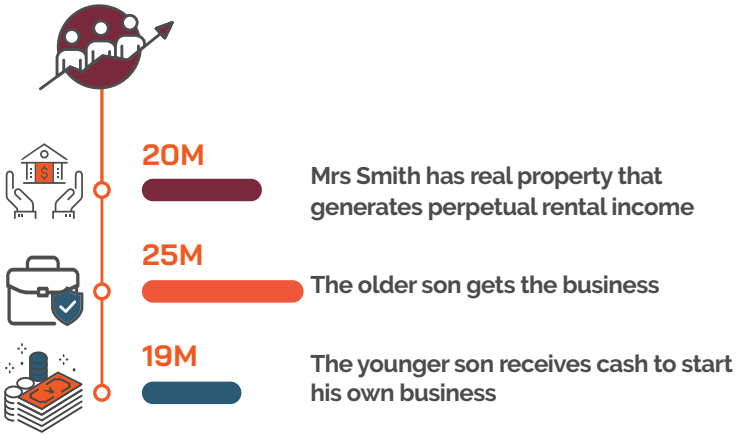
Mr Smith, aged 55, runs his own business and is married with two sons. Mrs Smith is a housewife and is not interested in running the family business; his older son has participated in the family business for a few years and has demonstrated both capability and enthusiasm for taking on the business; his younger son has other ambitions.

Mr Smith would like to distribute his assets fairly. The scenarios below show how Mr Smith's assets might be distributed when he passes away.

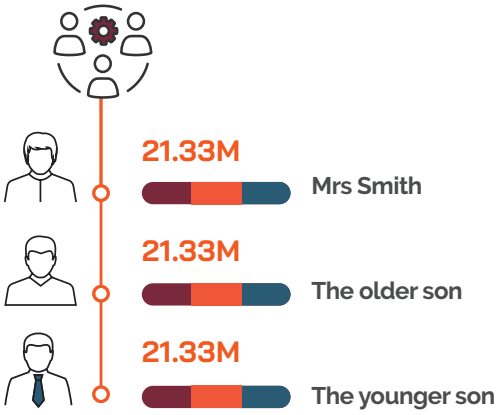
Mr Smith's asset composition = USD64M



If Mr Smith distributes his assets so that:

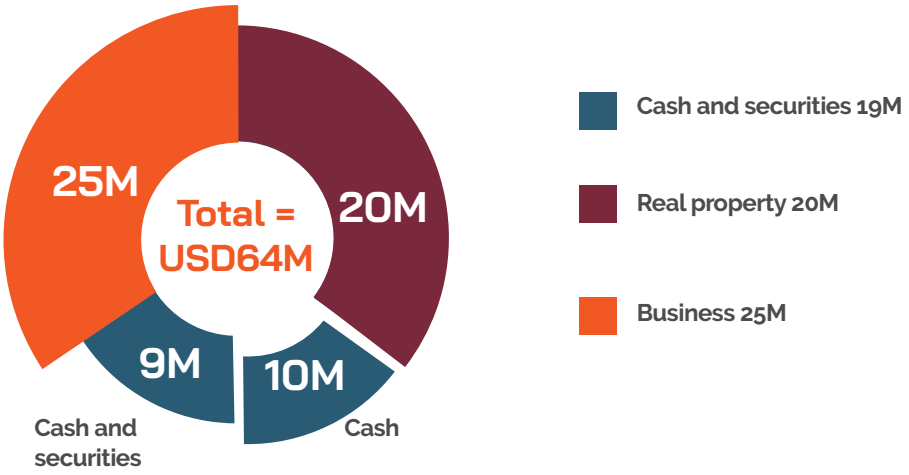


If Mr Smith distributes his assets by equally dividing each category of assets:



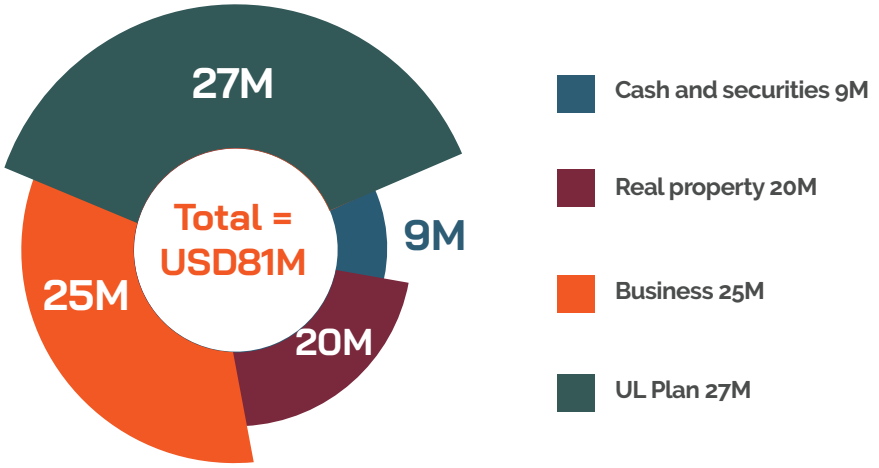
HOW COULD MR SMITH MAKE USE OF A UNIVERSAL LIFE (UL) PLAN FOR HIS PARTICULAR SITUATION?

Mr Smith's original asset composition



Mr Smith uses USD10M to purchase a USD27M UL plan which increases his total assets from USD64M to USD81M*.

Mr Smith's asset composition after purchasing a UL plan

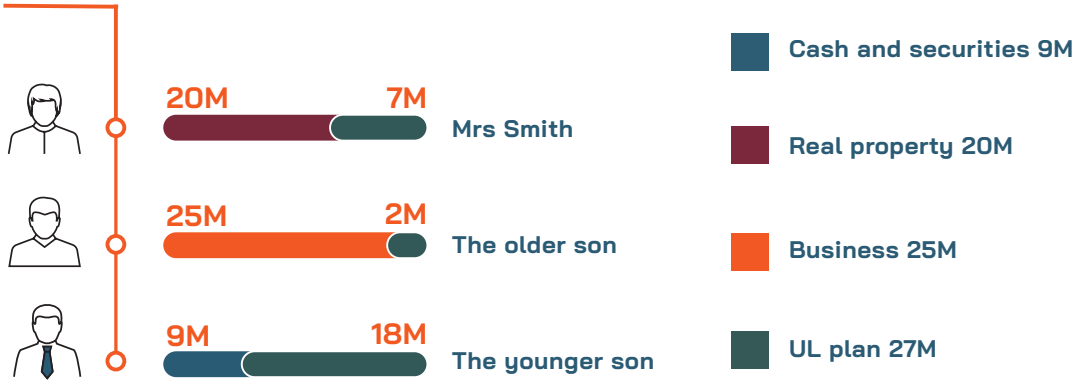


*Assuming the UL plan remains in force when Mr Smith passes away. Changes to the crediting interest rate or policy charges may result in additional premium payments to keep the plan in force.

HOW COULD MR SMITH MAKE USE OF A UL PLAN FOR HIS PARTICULAR SITUATION?

Mr Smith uses USD10M to purchase a USD27M Universal Life (UL) plan which increases his total assets from USD64M to USD81M*:

Mr Smith's asset composition after purchasing a UL plan



Mr Smith's legacy can be allocated as follows: The proceeds from the UL plan can be divided among Mrs Smith and the two sons so that:

- Mrs Smith receives rental income and adequate cash for a comfortable living.
- The older son takes on the entire family business with extra liquidity in case he needs capital for business expansion.
- The younger son has ample capital to start his own business.

A UL plan can help Mr Smith to make better arrangements for legacy planning.

* Assuming the UL plan remains in force when Mr Smith passes away. Changes to the crediting interest rate or policy charges may result in additional premium payments to keep the plan in force.

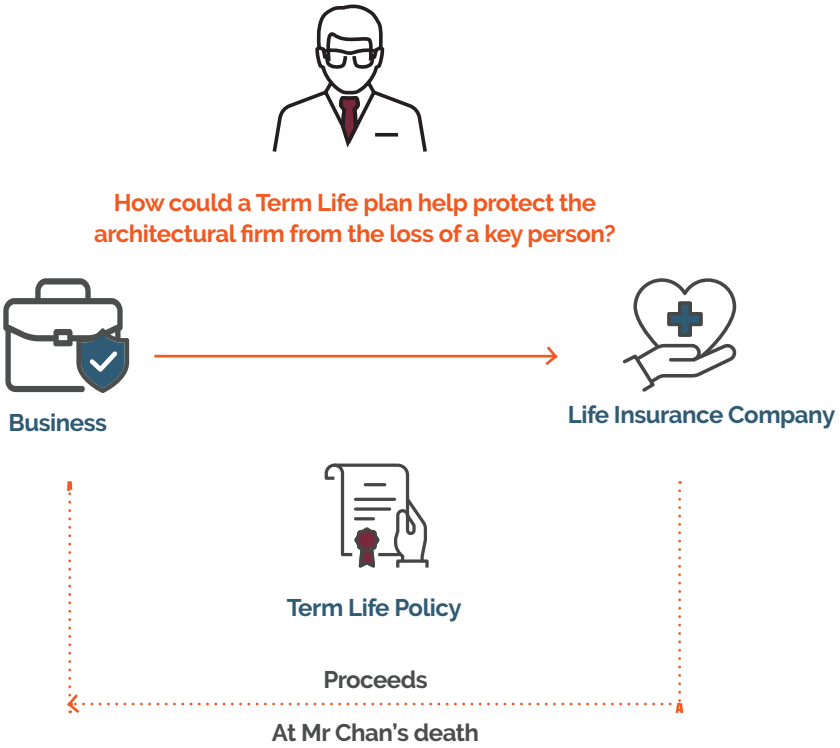
CASE STUDY 2: BUSINESS CONTINUITY – KEY PERSON PROTECTION

A renowned architectural firm employs several architects. Among these architects, Mr Chan is the most promising, and his work contributes to a majority of the business revenue. It would seriously impact the firm financially should any misfortune happen to Mr Chan.

Mr Chan

Should any misfortune happen

Mr Chan has received several internationally renowned industry awards	→	Loss of Mr Chan's unique design style
Mr Chan is popular among property developers	→	Customers lose interest. Loss of customers and sales
Mr Chan contributes the majority of business revenue	→	The firm's profits drop substantially
The architectural firm has signed contracts with several property developers for Mr Chan's designs over the coming few years	→	Contract terms cannot be fulfilled and the firm needs to pay compensation



Should Mr Chan pass away while in service...

With the coverage provided by a Term Life policy**, the firm does not have to worry about financial / operational difficulties. The firm can also cover the cost of identifying and providing development opportunities for other talented architects.

Offsets the loss of future profits

- Due to loss of sales, the delay or cancellation of business projects, or the loss of opportunities.

Covers the cost of finding and training a replacement

- And mitigates negative effects on the business due to the loss of specialised skills and knowledge.

Provides immediate cash

- To keep the firm afloat in case the bank recalls loans and cover the expenses of the firm.

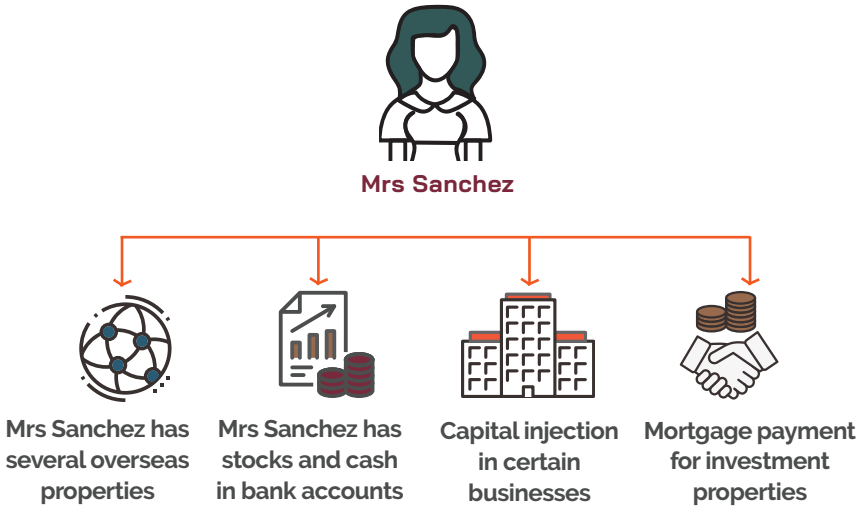
Flexibility

- In addition, Term Life insurance also provides flexibility in meeting the needs of the business through withdrawals, the taking of loans, termination of policy for cash, or changes of policy ownership.

**Assuming the Term Life plan remains in force when Mr Chan passes away. Changes to the crediting interest rate or policy charges may result in additional premium payments to keep the plan in force.

CASE STUDY 3: LIQUIDITY PROTECTION

Mrs Sanchez is a sophisticated global investor, and would like to pass on all her assets to her husband when she passes away. Although Mrs Sanchez will bequeath a huge legacy, Mr Sanchez may still encounter liquidity risk.



It takes time and perhaps money to transfer ownership of the properties to Mr Sanchez

- Even though Mrs Sanchez will leave her estate to Mr Sanchez, he may not have access to the assets immediately

Foreclosure of properties may result in financial loss

May encounter operational difficulties or closure in a worst case scenario

- There are also certain commitments that Mrs Sanchez has already made

Mr Sanchez can only gain access to these assets after obtaining probate. There may be costs involved

How could a Whole of Life plan help Mr Sanchez maintain liquidity?

Mrs Sanchez has bought a Whole of Life plan with Mr Sanchez as the beneficiary. Should Mrs Sanchez pass away, Mr Sanchez can make use of the policy proceeds* to settle mortgage payments due on the investment properties and maintain normal operation of the business while the transfer of ownership of Mrs Sanchez's assets is in progress.

Liquidity

Insurance claims payment may help beneficiary meet short-term financial needs and obligations.

*Assuming the Whole of Life plan remains in force when Mrs Sanchez passes away. Changes to the crediting interest rate or policy charges may result in additional premium payments to keep the plan in force.

CASE STUDY 4: BUSINESS CONTINUITY – PARTNERSHIP INSURANCE

Mr. Zhang is the founder of Luxury Automotive, which imports luxury cars from overseas to China. He built a successful business empire which presently has 200 employees. Mr. Gong joined Luxury Automotive as a partner in 2002. He brought his expertise and his network in sports car trading that has helped further accelerate Luxury Automotive's business and expand its client base.

Mr. Zhang is now 55 years old. His sons are studying medicine and architecture and are not interested in succeeding him in the business. Mr. Zhang's assets are nearly all connected to Luxury Automotive. Therefore, he would like to sell his share and leave the money as a legacy to his sons upon his passing.

Solution:

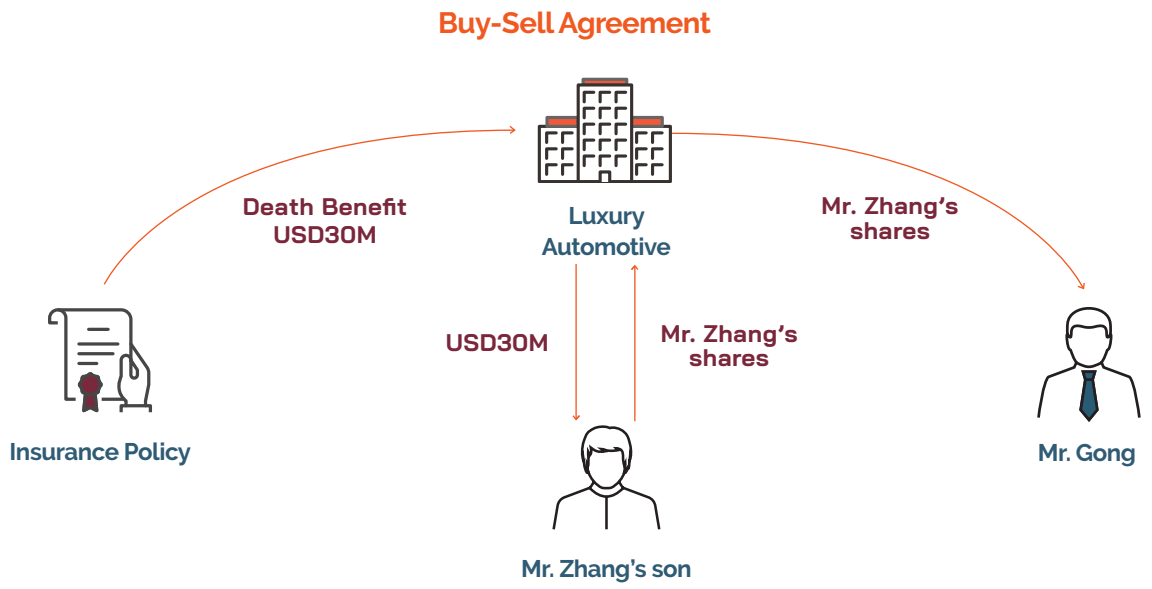
Mr. Zhang and Mr. Gong enter into a Buy-Sell Agreement. To provide liquidity to buy out Mr. Zhang's share, Luxury Automotive takes out a Universal Life insurance policy, providing a source of funds to purchase Mr. Zhang's shares upon his death.

- Mr. Zhang holds 60% of shares of Luxury Automotive and Mr. Gong holds 40%.
- The business value of Luxury Automotive, as assessed by an independent agent, is USD50M.

Below are the details for Luxury Automotive's Universal Life insurance policy for Mr. Zhang:

- Policyholder: Luxury Automotive
- Insured person: Mr. Zhang
- Beneficiary: Luxury Automotive
- Sum assured: Business value (USD50M) x Mr. Zhang's share (60%) = USD30M

Upon Mr. Zhang's departure, the policy will pay the USD30M death benefit to Luxury Automotive, which will then be used to redeem Mr. Zhang's share in the company. This allows Mr. Zhang to be able to seamlessly transfer his legacy of USD30M to his sons. And Mr. Zhang's shares will be redistributed to Mr. Gong.



Partnership insurance assures a simple and smooth business transition using life insurance.

Tips:

- **Periodic evaluation of the business value and its shares may be necessary to secure adequate protection.**

- **Sometimes a business' operations may become disrupted, not only by a partner's unexpected departure, but also due to the onset of a serious illness in a primary company officer. Depending on business' needs, it may consider purchasing a life insurance with a critical illness advance payment benefit.**

- **A Universal Life insurance is not the only solution that may be used for business continuity. The appropriate solution for a particular case will vary and depend on the client's individual circumstances, requirements, and the availability of different products in their jurisdiction.**

CASE STUDY 5: PERSONAL PROTECTION – FAMILY COVERAGE AND WEALTH ACCUMULATION WITH DOWNSIDE PROTECTION

Ms. Thompson

Entrepreneur

Age: 45 years old (Standard Non-Smoker)

Family: Single parent, 2 children

Ms. Thompson is a successful entrepreneur, aged 45 with two children. As a single parent, Ms. Thompson wants to purchase life insurance to provide for her children's development in the event of her untimely passing.

To take advantage of her good health, she realises that it would be better to purchase a life insurance policy sooner rather than later to secure a better premium rate from a lower underwriting risk class. She seeks a life insurance product that allows flexible premium payments, as well as cash accumulation potential to support her future lifestyle needs.

Solution:

Ms. Thompson decides to take out an Indexed Universal Life insurance policy with a sum assured of USD10M. In addition to the death benefit, the policy offers attractive cash value growth potential through an Index Account tied to major international stock indices.

Ms. Thompson decides to pay by annual premium over 10 years, which acts as a form of Dollar Cost Averaging (DCA) to help smooth out market volatility. The policy's floor rate of 0% provides her with downside protection.

Below is an example of how Ms. Thompson's Indexed Universal Life policy values may build over time. She may access her policy's cash value through withdrawals or loans to fund her retirement income, children's university tuition or other needs.

Cash Value (Non-guaranteed basis)

Sum Assured: USD10M; Total Premiums paid in 10 years: USD1,833,730; Index Account: 100%; Illustrative rate of 5.5% p.a.

Total Premiums paid

Cash Value (Non-guaranteed basis)

Age 58 (Breakeven year)	**1,868,409 (102% of total premiums paid)**
Age 65	**2,500,039 (136% of total premiums paid)**
Age 75	**4,068,268 (222% of total premiums paid)**
Age 85	**6,016,522 (328% of total premiums paid)**

Ms. Thompson can access her policy cash values, either by yearly withdrawal or lump sum, either to supplement her retirement income or her children.

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