hubbis

A Practical Handbook for Financial Advisors

Guide to HNW Life Insurance

2024

Sponsored By:

TRANSAMERICA® LIFE BERMUDA LTD

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 Financial Advisors understand 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 program.

Foreword

Chirag Rathod
CEO
Transamerica Life (Bermuda) Ltd.

Dear Readers,

I am very pleased to introduce this newly updated edition of the Hubbis' ***"Guide to HNW Insurance – a Practical Handbook for Financial Advisors (2024)"*** (the "Guide"), sponsored by Transamerica Life (Bermuda) Ltd.'s (TLB's) Mastering High Net Worth (MHNW) program. This marks our fourth year of collaboration with Hubbis to produce the Guide, and we are pleased to continue our partnership with them, recognizing the ongoing relevance and importance of this resource in today's landscape.

In 2023, a positive economic outlook glimmered at the start of the year, driven by the services sector as global mobility returned to pre-pandemic levels. Consumption of services and manufacturing activities in China started to rebound as the authorities jettisoned their strict lockdown policies. The fight against inflation is however ongoing as geopolitical tensions continue to drive up the cost of food and fuel, which in turn is causing central banks to tighten fiscal policy, sending negative ripple effects for global trade and growth.

However, despite the macroeconomic and geopolitical turmoil, we remain optimistic about the prospects for high net worth (HNW) life insurance growth in 2024 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 41% of HNWIs rate investing for environment, social and political (ESG) as a top priority. 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.

We sincerely hope that this easy-to-read Guide will serve as a valuable reference tool for our partners and other financial professionals, and 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

Dear Readers,

It is our honor to present to you the 2024 version of Hubbis' "***Guide to HNW Insurance – a Practical Handbook for Financial Advisors***" (the "Guide"). Aiming to provide readers, including our partners and financial professionals, with a comprehensive reference tool on the key dimensions of HNW life insurance and its practical applications, we have enriched and refreshed its content to give you the latest information reflecting the evolving changes in markets.

Starting with the desires and needs of HNW customers, this Guide covers a discussion of the types of life insurance products available and how these can be utilized to meet the different HNWIs' requirements. Our objective is to provide you with a resource that you can tap into depending on the circumstances and types of solutions that are aimed to be realized.

To help you assess, understand and get key takeaways among the information and scenarios presented, we have partnered with Hubbis to develop an online course which is available on Hubbis' interactive online learning platform with accreditation, so that you can have convenient access to the right sections of this reference tool at time and places fitting your needs.

What's more, please stay tuned for the continued development of our Mastering High Net Worth (MHNW) program to better support our partners and financial professionals in making use of insurance to serve the diverse wealth management needs of HNWIs given the organic market environment.

Thank you and we do hope you will find the Guide useful and insightful.

Sincerely,

Jeremy Young
Chief Commercial Officer, Transamerica Life (Bermuda) Ltd.

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

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

The aim of this Guide is to provide the those who are part of the advisory process with an overview of some of the key considerations with respect to the utilization of insurance. While the definition of a HNWI 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 HNWIs and families including personal protection requirements, business related protection requirements, retirement focused needs and societal opportunities.

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

Understanding the types of insurance products available to achieve the objective.

There are three key messages:

Life insurance is a solution to what could be a problem in HNWIs' financial lives or in the lives of their dependents. The best time to talk about mortality, and manage associated risks, is when they are alive. Their 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 an individual's loved ones. As part of their advisory team, you are well positioned to help them think about the financial consequences of their departure and ways to mitigate these consequences.

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

HNWIs and their families are looking for competent and ethical advice (with their interests in mind), from a professional and regulated advisor.

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

It is recommended that HNWIs review their plan and life insurance regularly, to ensure that the policy still provides the best solution for the issues that they envisaged at the time they established the insurance. A regular review also should capture any changes in their circumstances that may require new or different insurance coverage.

Insurance Planning

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

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

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

Just as important, the HNWI and advisory team will need to determine the life insurance amount that is needed to achieve their 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 where appropriate when working with the right insurance and re-insurance companies.

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

UNDERSTANDING THE NEEDS OF HNWIS IN RELATION TO INSURANCE

Life insurance is an unsurpassed tool to help HNWIs and their dependents, 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 HNWIs' dependents, 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 categorize 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*:

- Savings and investment
- Reduce probate issues
- Protection for the estate from creditors
- Protection from ill-intentioned heirs
- Flexibility of withdrawal
- Death benefit without tax implications
- Tax deferred growth

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

- Suffering from critical Illness
- Medical and Hospitalization Insurance
- Long Term Care

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

- Fine Art and Jewelry 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 an individual particular circumstances is recommended.

Chapter 1

Personal Protection Needs

FAMILY PROTECTION: PROVIDING FINANCIAL SECURITY FOR DEPENDENTS

The most common purpose of a life insurance is to provide a financial benefit to dependents such as a spouse and children. Family security is relative to each individual's financial standing. Ultra-High Net Worth (UHNW) Individuals and HNWIs will likely hold sufficient wealth independent of life insurance to provide family security. On the other hand, many HNWIs, despite their wealth, may have obligations or an illiquid asset mix which may result in income and asset/liability mismatches – a risk that should be addressed.

To determine the appropriate amount of insurance, it is important to think through the financial consequences in case a claim arises.

There are three key financial consequences that may result in the need for multiple policies to cater to different financial obligations or needs.

Existing obligations

These are the liabilities and expenses which must be paid if the assured is no longer here. There are various considerations the family and / or estate will need to address:

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

Ongoing costs of living

Depending on the situation, in order to continue their lifestyles, dependents need to pay for their current cost of living, including things like healthcare expenses, membership fees, hiring of support, etc. One will need to decide whether their departure will have a negative effect on their dependents' standard of living, and consider especially:

- To what extent will their dependents' ability to continue their lives be financially affected by their demise?
- How much time they wish to give their dependents to sort out their lives and get back on their feet financially.
- In the case of young children, individuals should aim to provide for a longer period if their children are mature and have finished their formal education.

Future expenses

In addition to living costs, there should be considerations of which future expenses can already be anticipated:

- Education for children, including tertiary degree courses.
- Retirement income for a spouse.
- Leaving behind a legacy for those less fortunate, as they always hoped.
- Personal and business projects for which they are already committed, and which may create a liability to dependents on their demise and or lead to a future income stream

INCOME REPLACEMENT: PROVIDING FOR A GUARANTEED INCOME WHEN A REGULAR AMOUNT IS REQUIRED FOR DEPENDENTS

Ensuring that all family members and dependents have sufficient income to maintain their standard of living is a standard aim for HNWIs. This is particularly true of younger HNWIs who are still in the accumulation phase of wealth building but wish to consider creating an alternate source of income to meet future liabilities on their unexpected demise.

When it has been 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 dependent / group of dependents, which may provide a client even greater peace of mind. This can be achieved through the return achieved from a lump sum or a regular payment benefit.

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

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

A lump-sum payout provided 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 HNWIs and their family.

Commonly used products:

Whole of Life Insurance	Universal Life	Indexed Universal Life	Variable Universal Life

PORTFOLIO DIVERSIFICATION: HEDGING AGAINST MARKET RISK

Equity and bond investments can be volatile in the yield they provide, as can be structured products and hedge fund investments.

In life insurance, the Cash Value is designed to be non-market correlated.

This means a non-market correlated asset is less impacted by market swings and therefore provides the opportunity for HNWIs 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 HNWI 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 and achieve the originally established objectives.

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, if insurance can help balance a position that has risker assets, a HNWI may consider assuming additional investment risk.

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

HNWIs 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 most HNWIs are exposed to illiquid assets in the form of real estate and their operating businesses, which can exacerbate the debt issue on their unexpected demise, especially where debt has been used to fund the asset.

If family members are unable to refinance the outstanding debt, the financial institution has the right to call the debt, possibly leading to beneficiaries being forced to sell the asset at a lower than desired price.

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 debt, provide security to financial institutions on callable debt or provide the ability to service debt.

Should the HNWIs 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 including inheritance or gifting tax must be paid, prior to the distribution of the estate to beneficiaries.

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

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

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

Life insurance has notably favorable 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 and helps ensure the benefit amount is fully received by the beneficiaries as was planned.

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.

Utilizing 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 HNWIs.

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

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

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

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

Gifting

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

3 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 utilizing a trust structure, a HNWIs 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 in certain jurisdictions, requirements such as insurable interest could result in restrictions**

4 Life insurance is a valuable asset

In summary, utilizing life insurance to fund an estate offers key benefits for HNWIs 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 equalization is the active balancing of the distribution of an estate so that each heir receives a fair share.

ESTATE EQUALIZATION

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

Estate equalization is the active balancing of the distribution of an estate so that each heir receives a share as desired by them.

Some recent high-profile cases of wealthy family feuds 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, jewelry 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 (and may not want to), they may have fluctuating values, and they may be subject to estate and inheritance tax. Frequently, HNWIs 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 HNWIs 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 equalize 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.

Additionally, ensuring a regular review takes place so the plan remains current and appropriately funded is a key element. Estate planning is not 'one and done'.

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. HNWIs will want to be sure to take care of their spouse or partner, children, and potentially extended family members. It's important to help them 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 HNWIs and their spouse or partner about their goals for the future, finances, and how they would like your assets to be distributed.

Family members will often raise concerns for consideration. 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 individual is no longer around?**

One should recognize 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 HNWIs should put in place when it comes to estate planning. These include:

A Will

- Providing clear instructions on how the individual 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 individual's behalf should they be unable to do so themselves
- This is also an opportunity to discuss funeral arrangements; organ donation and end of life care arrangements

Life Insurance

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

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

Lasting Power of Attorney / Enduring Power of Attorney

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

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 partner during their life, and passing the assets to their children from previous marriages post a partner's passing
- The nature of a trust and to protect wealth across generations

The special needs trust enables one to:

Provide oversight for Asset Management of the trust assets

Protect the trust assets from potential litigation, creditors and predators

Create a succession plan for the assets to provide for their child and also provide for future asset succession when required

PLANNING FOR A SPECIAL NEEDS SITUATION

Planning for the financial well-being of a special needs child may face several challenges when designing an 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 (if applicable) post insurance payout**

Families with a special need child are planning for two generations, both for the surviving parent and the child, as the children may be unable to earn an income and support themselves.

A common approach utilized by HNWIs is to fund a special needs trust via permanent life insurance. With 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, creditors and predators**
- **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 and 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 and Medium Enterprises 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. As a result, many business owners have no concrete plans in place to deal with the complexities resulting from the demise or critical illness of them or a key person. Businesses may be holding sizeable corporate debt, but with little to no formal insurance to back the debt should something happen. This is recommended that all business owners conduct a business risk assessment together with a professional risk assessor and / or wealth planner.

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

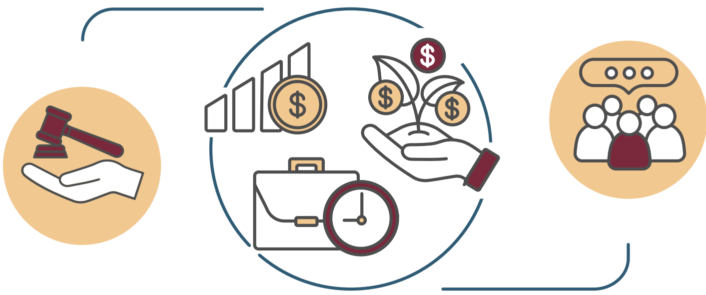
High value life insurance is a simple and effective tool to effectively manage business risk and business succession. Proceeds from a life insurance policy can be used to provide a business with working capital for a range of immediate uses, including:

Business Debt, Loan Protection and Personal Guarantee/s

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

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 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 utilized 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. HNWIs 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. We examine in further detail the key areas of business protection planning below.

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

In all instances, business loan protection via 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, while 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 connection to 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 resulting in a financial loss to the estate and business.

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. This could also have broader impact to other directors.

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

KEY PERSON EXECUTIVE PLANNING

Now the business debt has been managed, consideration and assessment of the Key People should take place. Key Person protection acts to protect the business against the impacts of the demise or departure of a key member of the team.

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, 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.

Key sales professionals

- 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 and implications 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 and loans being called early
- Monies 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.

Loss of business profits:

- How much profit the business will miss before a replacement is found and settled to perform
- Returning to the estate and capital loaned or retained by the company owing to the Key Person

Cost of Replacement

- How long the business will need to hire a temporary consultant before recruiting a suitable long-term replacement and what will this cost? The more specialized and unique the skills, the higher this cost may be
- How much capital was injected by the demised Key Person

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

- **The Key Person is the life insured**
- **The business owns the insurance plan**
- **The 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 contribution of the Key Person**
- **The insured is not an owner of the business**
- **The insurance has no Cash Value**

Should tax relief be claimed, then 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. Businesses 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 given the people operate and guide the business.

Commonly used products:

Term Life

Universal Life

Indexed Universal Life

BUSINESS PARTNERSHIP, SHAREHOLDER PROTECTION AND BUY-SELL AGREEMENT PLANNING

Business partnership and shareholder protection involves putting in place a strategy to ensure the smooth transfer and ownership of a business 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 and lengthy negotiations regarding the business. The business will have access to immediate liquid funds to be able to payout the deceased partner's family at a value that has been agreed prior, providing certainty for all.

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

For a Company

- Value of the business
- Value the individual shareholding
- Multiples of similar business or industry
- Obtain the view of the company accountant

For a Partnership

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

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.

When a shareholder or partner dies unexpectedly, the surviving shareholder(s) have four main options to fund share transfer: (1) using cash, (2) selling assets, (3) obtaining a loan, and (4) utilizing life insurance.

Life insurance is utilized to fund share redemption for the purpose of providing liquid cash distributions to beneficiaries which is facilitated through a buy/sell agreement completed when all is well.

The estate executors will sell the business share to the surviving shareholders. The estate executors utilize 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
- Provides liquidity to make a fair and proper payment to the family of the deceased
- Improves business stability by ensuring business succession
- Prevents external parties from gaining a share in the business
- 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 their total 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 and non-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. 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.

Some retired business owners create retirement income plans independent from receiving income from their business. This can exacerbate the issue if 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 UHNWIs, to ensure the comprehensive nature of this Guide, the retirement journey remains a material component for some HNWIs.

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, or that comes easily 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 HNWIs, retirement is a time to be enjoyed, doing things they have always wanted to do outside of their normal business life. 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 tranquility to retirement. Additionally, knowing that they can enjoy retirement spending and have a legacy can be an important aspect to consider.

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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 it is essential to consider all appropriate partners. Should one partner unexpectedly depart, the surviving partner may end up with less retirement income than expected. It is for this reason that life insurance is crucial to guarantee that retirement accumulation goals are achieved.

As a general rule, HNWIs should expect to need 50 to 70% of their pre-retirement annual income to maintain their current living standards in retirement. Thus, depending on desired term of the retirement income needs to allow for 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:

It is recommended that that individuals 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 sell 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 HNWIs 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 hospitalization 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, HNWIs should be mindful that this support might continue throughout their retirement. From a financial perspective, the individual 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 hospitalization insurance, if available. It is always best that hospitalization 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 HNWIs' 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 HNWIs 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. However, 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 and enjoyable 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 HNWIs. 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 HNWIs. 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, HNWIs should plan to be around at age 85 years.

A trusted advisor plays a crucial role in helping HNWIs 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 recognize 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, HNWIs 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 centers, 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 organizations 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 HNWI is interested in philanthropic planning, there are two important questions to consider:

- **What is it that you want? - To see the betterment for those less fortunate**
- **How do you wish to be remembered? - for a donation or leaving a legacy**

Philanthropy is often utilized 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 a cause one finds dear or important**
- **Philanthropy affords a position of guidance over the activities of the chosen charitable endeavor**
- **Philanthropy provides the freedom and ability to witness the bona fide impact and outcome to the lives of other people**

Many HNWIs 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 utilizing 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 within the structure, with the asset income being utilized to provide for grants and expenses**
- **Enables one to establish and fund a large sum at a single time, whilst maintaining the ability to guide and 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 favorable long-term return with less risk, than a portfolio without life insurance. It also provides for leaving a legacy that will last into future generations.

Gifting is the charitable activity of designating items of value to charitable organizations. 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 organizations. 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 which may have been expressed. 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 optimization and legacy planning**

Prior to embarking on a charitable journey, an Advisor should help the individual 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 favorite charity. Utilizing life insurance is the favored approach of many HNWIs, 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 organizations can also incorporate tax efficiency planning, as in some jurisdictions 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 utilizes 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 organization 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 organization. Alternatively, the non-profit organization 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 organization to whom they are gifting.

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

- **Simply feeling good that one is able to exercise their personal choice to leave a financial legacy to a favored 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**

FURTHER UNDERSTANDING AND CONSIDERATIONS

How HNW protection needs are typically met

HNWIs normally aim to maximize return on investment, aligned to meet their objectives and according to their risk appetite. Whilst the maximum insurable amount will determine the premium payable, as an Advisor, you can help your HNW clients to calculate the right amount of coverage available to them.

Premium contributions to life insurance act to provide substantial financial benefits to both the Policy Holder, during their lifetime, and the beneficiaries, upon payout. As the potential for premium top-ups are limited at times and controlled by the insurer depending on market conditions, as an Advisor, you will want to be aware of these limits and advise one's clients accordingly.

How HNWIs understand their life insurance needs

HNWIs will typically seek professional advice to understand their protection needs.

There are three common providers of advice when it comes to HNW insurance:

Insurance Brokers

- **Represent the client to provide protection advice on a wide range of insurance solutions, and act to facilitate insurance from a broad selection of insurance company providers**

Financial Advisors

- **Provide financial guidance based on a client's needs and goals, providing financial solutions from various insurance and investment companies**

Insurance Agents

- **Representing one insurance company to negotiate and offer products on its behalf.**

HNWIs will expect to receive personalized consultation and advice, tailored to their individual needs – not a one-size fits all approach. This should be presented and documented in writing for the client, with insurance part of a Financial Plan.

As an Advisor, the Financial Plan you present the client should:

- **Include a summary of the client's goals, identifying what is important for them to achieve**
- **Describe how your advice will assist the client and associated costs**
- **Provide an agreed strategy as to how the plan will achieve their stated goals**

When considering the client's protection needs, it is prudent to help them to:

- **Ask "What if" questions, helping the client to reflect on their relationships and potential financial concerns regarding each relationship**
- **Quantify their concerns in order to have a solid idea of the amount of coverage which will provide full peace of mind**
- **Review the liquidity of other assets, particularly in the event of an untimely demise. What funds would be available if something were to happen to them?**

When the client is happy with and agrees with the Financial Plan, as an Advisor, the next step is to help them to implement the plan and associated insurance product solutions.

It's important to meet regularly with your clients to review their plans, to ensure their strategies continue to achieve their desired goal. You also will want to take the opportunity to see if the plans should be enhanced or altered to provide financial peace of mind into the future.

WHY DO INDIVIDUALS CHOOSE CERTAIN TYPES OF PRODUCTS?

Key drivers for HNWIs to purchase insurance are:

Personal Characteristics

- One will make decisions based upon one's singular character. Often due to the additional risks HNWIs 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
- HNWIs may be inspired by others' experiences, realizing they have similar concerns and needs

Quality

- HNWIs 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

- HNWIs 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.

HOW HNWIS SELECT AN INSURANCE COMPANY

HNWIs 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 HNWIs and is it experienced in underwriting the lifestyles, and sometimes complex structuring needs, of HNWIs?

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
- Other factors can play a role, such as the solvency ratio

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

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 personalized 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.
- HNWIs may want to know about a company's claims payment track record.

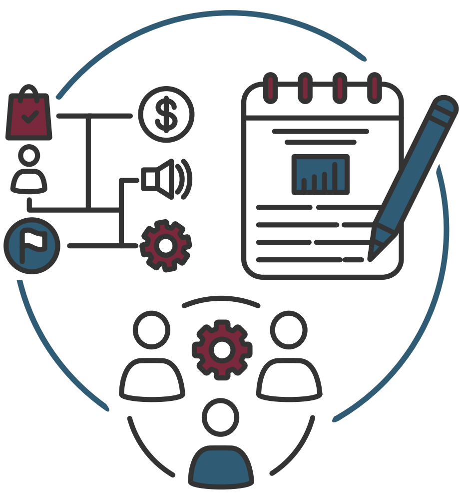
Cost and Value

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

HNWIs 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.



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 individual's objectives.

INDIVIDUAL OWNERSHIP OPTIONS

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 partner or partner
- Commonly used for business insurance, and for estate tax planning purposes

STRUCTURE AND ENTITY OPTIONS

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 life insurance, it is prudent to consider the individual'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.

HNWIs 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 utilized 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 (and predators) than a directly held policy, as creditors of the HNWIs will be unable to seize the policy and thus the benefits 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 HNWIs. 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 partner 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 as the benefit can only ever be paid once.

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

The drawback with the second to die selection is that the surviving partner does not receive any payout upon the first passing. To work around this, one may consider taking separate smaller policies for both partners, which can 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 partner is sufficiently financially protected. Term is often used, however. One must bear in mind that there would be no payout for the remaining partner if the first partner outlives their policy, and 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 total 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 partner

Amount of cover

- Do both partners 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 and other considerations

- 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 individual's greater 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.

Each jurisdiction has its own legal code

HNWIs are encouraged to speak with a professional advisor

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, HNWIs are encouraged to speak with a professional Advisor prior to purchasing any insurance policy. For example, some countries have no legislative framework for a trust.

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 partner 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 partner 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 where there is a 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 realized**
- **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 discussed earlier)**
- **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 can be established to manage 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 individual particular circumstances is recommended.

PREMIUM FINANCING AND POLICY LENDING

When HNWIs purchase an insurance solution, a key consideration is how the premium will be funded.

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

Premium financing and policy lending are different funding options.

Premium financing is where the individual borrows the policy premium (or part thereof) from a financing institution and subsequently utilizing part of the policy proceeds to clear the loan.

Policy lending is where the individual pledges 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 utilized for reinvestment purposes with the lending institution.

Should HNWIs 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 utilized 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 his individual beneficiary nomination, thereby making the policy pay to the estate and hence 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 individual 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.

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 Life Insurance	Endowment Insurance	Whole of Life Insurance	Universal Life Insurance	Indexed Universal Life Insurance	Variable Universal Life Insurance	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

Application of Different Types of Insurance

Applications	Term Life Insurance	Endowment Insurance	Whole of Life Insurance	Universal Life Insurance	Indexed Universal Life Insurance	Variable Universal Life	Private Placement Life Ins.
Family Protection	✓	✓	✓	✓	✓	✓	✓
Business Protection	✓						
Education Funding		✓		✓	✓	✓	
Retirement Planning		✓		✓	✓	✓	
Wealth Transfer and Legacy Planning			✓	✓	✓	✓	✓
Providing for a favorite charitable cause				✓	✓	✓	✓
Diversification					✓	✓	
Growth-oriented Investment Plans						✓	
Healthcare and Long-Term Care					✓		
Tax Planning							✓
Consolidation and Simplification							✓

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 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.

Term is usually a 'pay as you go' insurance, meaning it requires annual premium payments or will cease to remain in force.

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 and renewability option is not exercised, 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 period 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.**

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. Individuals can choose as per his/her needs.**
- **Accessing cash whenever the individuals prefer: Endowment insurance provides individuals the flexibility in cash access, they can withdraw money from their policies or surrender the policies whenever they need. The life coverage is usually low compared to the cash value (i.e., the cash rate plus 1-5%).**

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:

- Individuals 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 break even 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 minimize the outflowing funds through lower guaranteed cash value available for policy holders withdrawal in the beginning years. And so, they may not be suitable for Individuals who are planning to use the funds in the short-term, say within 10 years.

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

offer a predetermined amount on a fixed date

risk-free which helps young HNW individuals build a foundation for retirement

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 individual grow his/her legacy.

Types of Whole of Life 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 HNWIs who either are (1) cash rich and don't want to increase their liabilities so pay upfront 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 maximizes the accumulated returns over time.
- **Regular Premium:** Appeals to HNWIs who prefer to pay for their insurance through monthly income or bonuses. Please note that the premium payment term does not offer much flexibility to change once initiated.

Characteristics of Whole of Life insurance

Since insurance is meant to serve for a lifetime, there are sometimes additional flexibilities available in some plans.

- **Increase or decrease sum assured: When individual 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 individual's wealth, a good investment opportunity requiring cash, etc. Please note that there may be limitations on the amount of change.**
- **Change of policy ownership: The an individual may elect to transfer their wealth partially to their family members across time when he/she is still alive. This flexibility allows individual to pass his/her asset to planned owner once he/she is capable to manage it.**

UNIVERSAL LIFE

What is Universal Life?

Universal Life (UL) provides saving and protection benefits throughout an individual'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) transparent on investment strategies, interests and charges, (2) more liquid to serve an individual's evolving financial needs** and **(3) flexible to meet various individual's conditions over time**.

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

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 individuals. 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 rate. 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 individual more upside growth potential, but with the security of downside guarantees.
- **Variable Universal Life:** Most insurers offer a broad range of investment choices. The individual 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 and Whole of Life 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. Individuals 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 a new premium, a charge will be applied. The remaining net premium will be added to account value and starts to accumulate.

Policy expense charge:

- This 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

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

Surrender charge

- This is a charge applied to policy when individual 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. The individual 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. Individuals can leverage it by premium financing to amplify his/her protection or wealth accumulation. Individuals can also request for a business operating loan by assigning the policy to bank to expand his/her business.

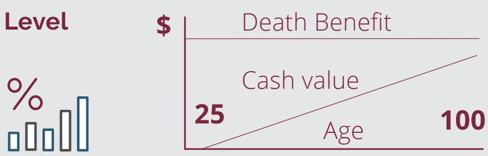
Flexibility

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

Universal Life offers two types of death benefits:

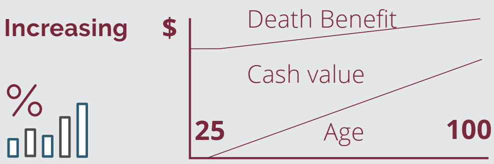
- **Level death benefit:** Guarantees a fixed amount of wealth transferred to individual's beneficiary in case of any untimely passing. There is a chance that the death benefit will be greater than guaranteed if the future crediting interest rates are higher than the one initially illustrated at the policy inception.

Level



- **Increasing death benefit:** Provides a minimum amount of wealth transferred to individual's beneficiary in case of any untimely passing. The death benefit will be increased over time along with the accumulated cash value.

Increasing



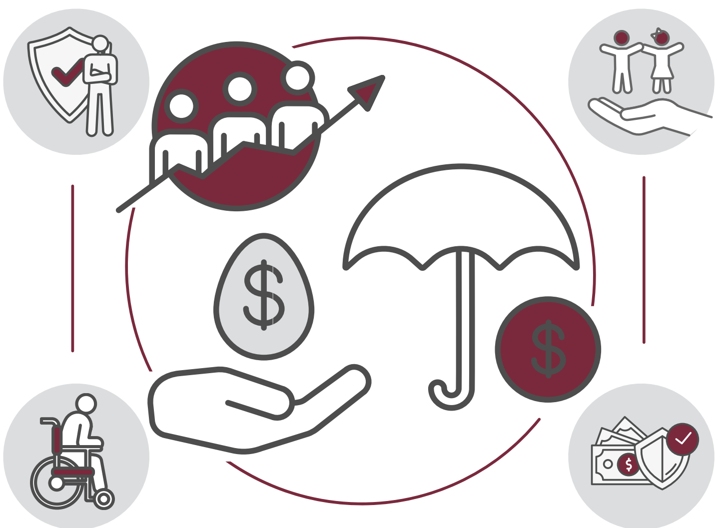
- **Individuals can also choose the premium contribution style.** Usually, single premium and periodic premiums or a combination are available. Some plans allow unscheduled premium contribution but may have a certain limitation.

ADDITIONAL FEATURES THAT CAN BE FOUND

- **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 individual did not pay the full premium or according to the schedule. If individual prefers to enhance certainty of his death benefit guarantee, he/she may choose a plan with an 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 individual elects to fully surrender the policy within the beginning policy years. This can provide a short-term benefit to the individual 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 individual, 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 individuals to accommodate personnel movements.
- **Change of Sum Assured:** Some plans offer flexibility to increase or decrease the Sum Assured according to the change of individual's preferences, liabilities and wealth status.

Traditional Universal Life

This is a fixed account solution with more predictable return with one account. The Traditional Universal Life is the foundation for the other types of Universal Life.



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 traditional Universal Life, IUL 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.

IUL 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, that track index performance. It does not have direct participation in any stock or equity investments.

IUL is suitable for HNW individuals who seek cash accumulation and are willing to take some risk of market volatility to maximize 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 IUL

IUL 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 individual. After the annual maturity, the individual 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 policy 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:

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

Automated rebalancing:

- Individuals 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.

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, HNWIs can decide on their own investment strategy according to their individual risk tolerance. Given its investment profile, VUL offers higher long-term return potential than other permanent life Insurance products.

Characteristics of Variable Universal Life

With VUL, 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.

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

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

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

Type of Insurance	Traditional Universal Life Insurance	Indexed Universal Life Insurance	Variable Universal Life Insurance
Individuals need			
Family protection	✓	✓	✓
Retirement		✓	✓
Asset diversification	✓	✓	✓
Wealth accumulation		✓	✓
Legacy planning	✓	✓	✓
Keyman protection	✓		
Business continuity	✓		
Individuals 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 customized form of insurance utilized for specialized wealth structuring. Generally, PPLI is offered only to accredited professional investors, and available for premium amounts of typically USD1 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 utilized where the characteristics of the policy comply with the tax situation of the individual to provide either or both tax deferral and/or tax-free death benefits. The individual is therefore utilizing the tax treatment of these types of policies in their jurisdiction of tax residence to optimize the after-tax returns of the policy.

There may not be a high value Sum Assured available with PPLI, as the Sum Assured is usually capped at a low value giving flexibility.

The premium payment can be made in cash or assets in-kind. The individual 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 HNWI 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.

HELPING HNWIS TO SELECT A HIGH SUM ASSURED INSURANCE PLAN

HNWIs seek competent, ethical and personalized 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 HNWIs 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 HNWIs to make the right choices:

Ask the right questions to understand the HNWIs' needs and establish trust

- Listen and understand the individual'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 individual's needs
- Show how different solutions can achieve the individual's goals
- Provide clear presentations and illustrations, highlighting pros and cons of alternatives

Be sure the individual 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 summarize how the High Sum Assured life insurance plan will meet their unique needs.

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Let the Future of Your Clients' Legacy Take Shape

With a heritage of providing high net worth (HNW) insurance solutions for 120 years, we understand your clients are looking for flexible and reliable financial solutions to help them navigate today's uncertainties, seize wealth accumulation opportunities, and build their family legacy.

Genesis II and Genesis+ Indexed Universal Life insurance plans are designed to better empower your HNW clients with:

- **flexibilities** to manage their finances in a continually evolving and dynamic environment
- **wealth maximization opportunities** through a wide choice of index account options
- **protection** for their families and businesses for generations

Transamerica Life Bermuda

Safeguarding Generations of Wealth

Find out more:

Genesis II Product Summary (Singapore)

Genesis+ Product Summary (Bermuda)

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Chapter 7

Case Studies

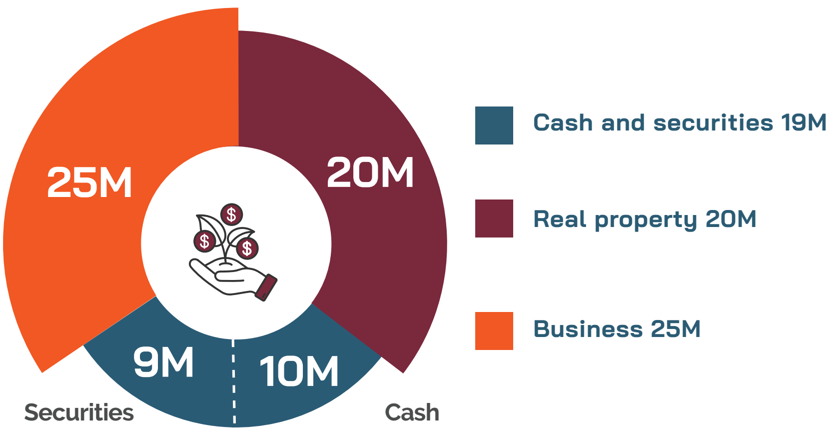
Case Studies

CASE STUDY 1: AN EQUITABLE TRANSFER OF WEALTH

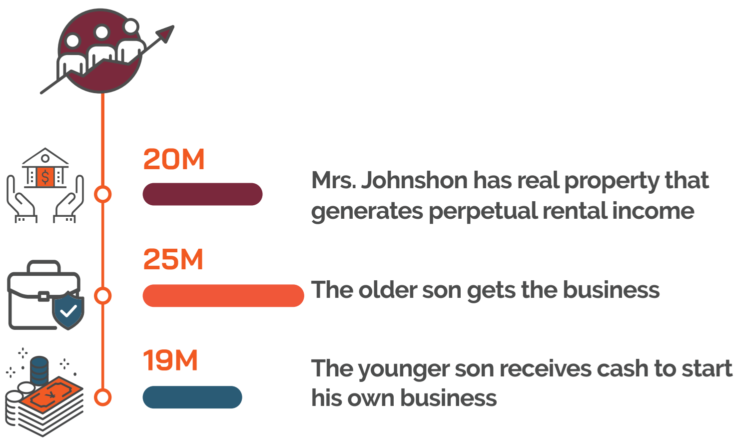
Mr. Johnshon, aged 55, runs his own business and is married with two sons. Mrs. Smith is a housewife and is not interested in running the family business; his older son has participated in the family business for a few years and has demonstrated both capability and enthusiasm for taking on the business;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

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

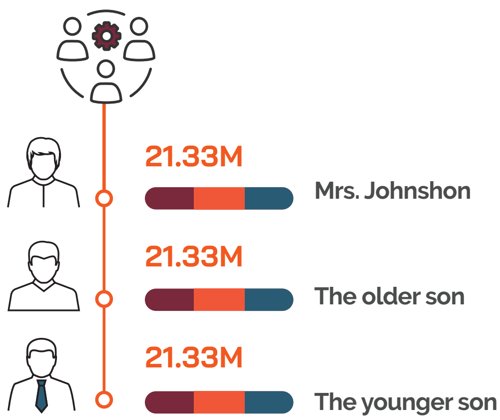
Mr. Johnshon's asset composition = USD64M



If Mr. Johnshon distributes his assets so that:



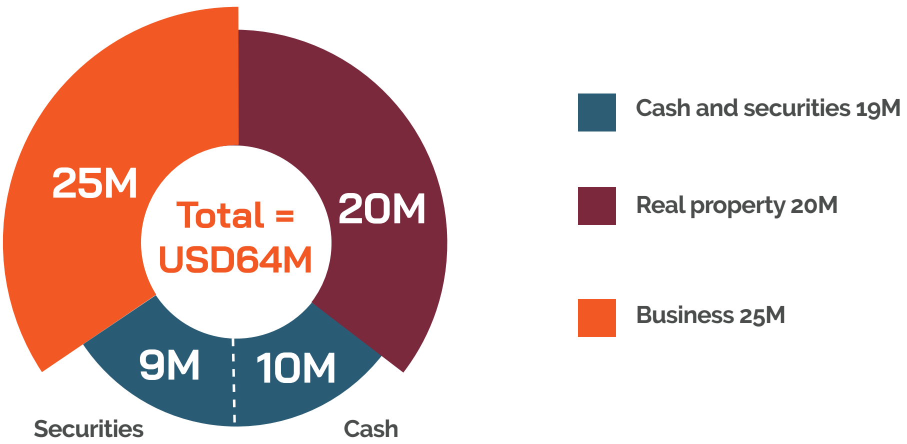
If Mr. Johnshon distributes his assets by equally dividing each category of assets:



HOW COULD MR. JOHNSHON MAKE USE OF A LIFE INSURANCE PLAN TO ENHANCE HIS PARTICULAR SITUATION?

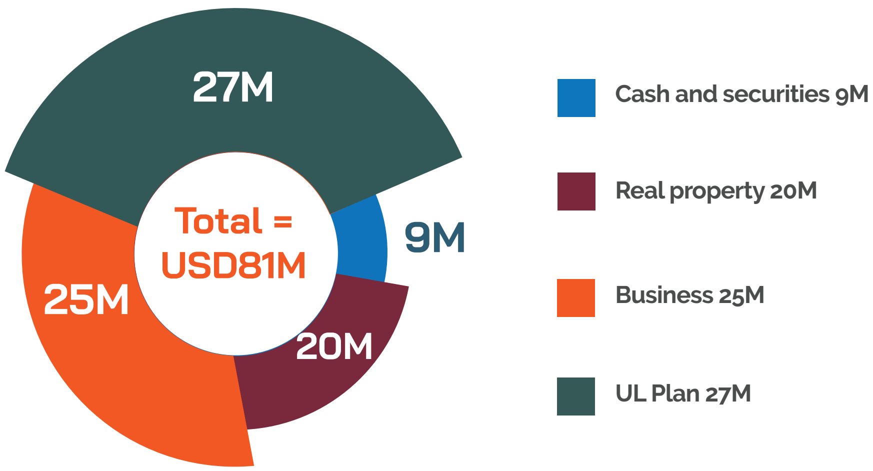
Universal Life presents a good option.

Mr. Johnshon's original asset composition



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

Mr. Johnshon's asset composition after purchasing a UL plan

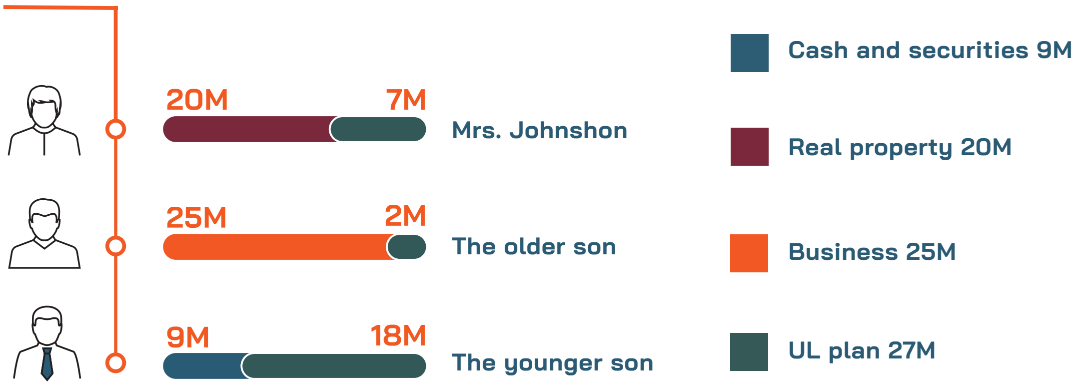


*Assuming the UL plan remains in force when Mr. Johnshon passes away. Changes to the crediting interest rate or policy charges may result in additional premium payments to keep the plan in force.

HOW COULD MR. JOHNSHON MAKE USE OF AN INSURANCE PLAN TO ENHANCE HIS PARTICULAR SITUATION?

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

Mr. Johnshon's asset composition after purchasing a UL plan



Mr. Johnshon'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. Johnshon 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. Johnshon to make better arrangements for legacy planning.

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

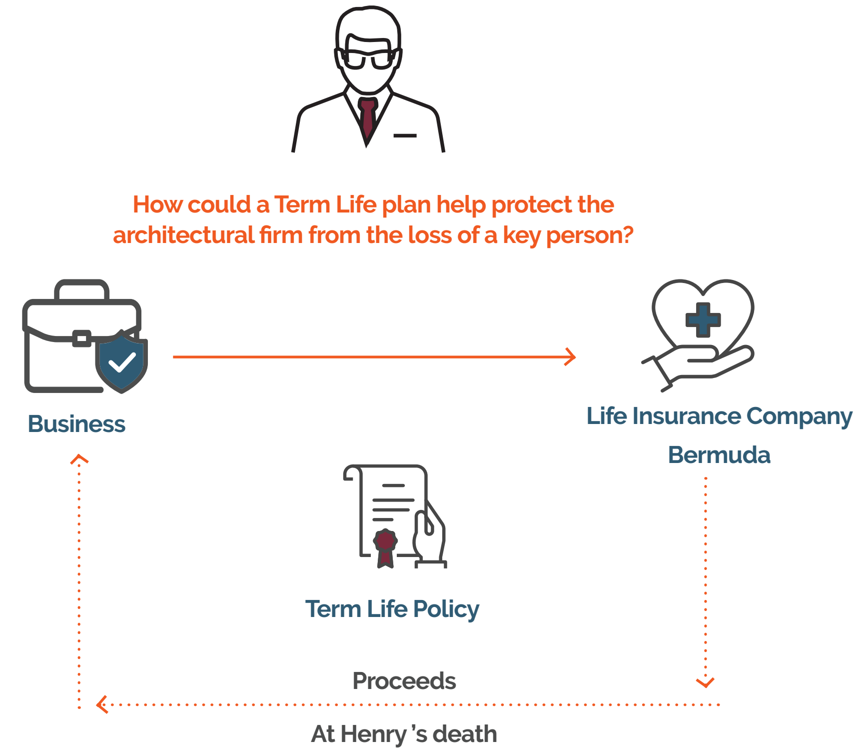
CASE STUDY 2: BUSINESS CONTINUITY – KEY PERSON PROTECTION

A renowned architectural firm employs several architects. Among these architects, Henry makes a significant impact due to his specialist ESG skill and 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 Henry.

Henry

Should any misfortune happen

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



Should Henry 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 specialized 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 Henry 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.

Mrs. Sanchez

- Mrs. Sanchez has several overseas properties
- Mrs. Sanchez has stocks and cash in bank accounts
- Capital injection in certain businesses
- Mortgage payment for investment properties

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 individual 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.

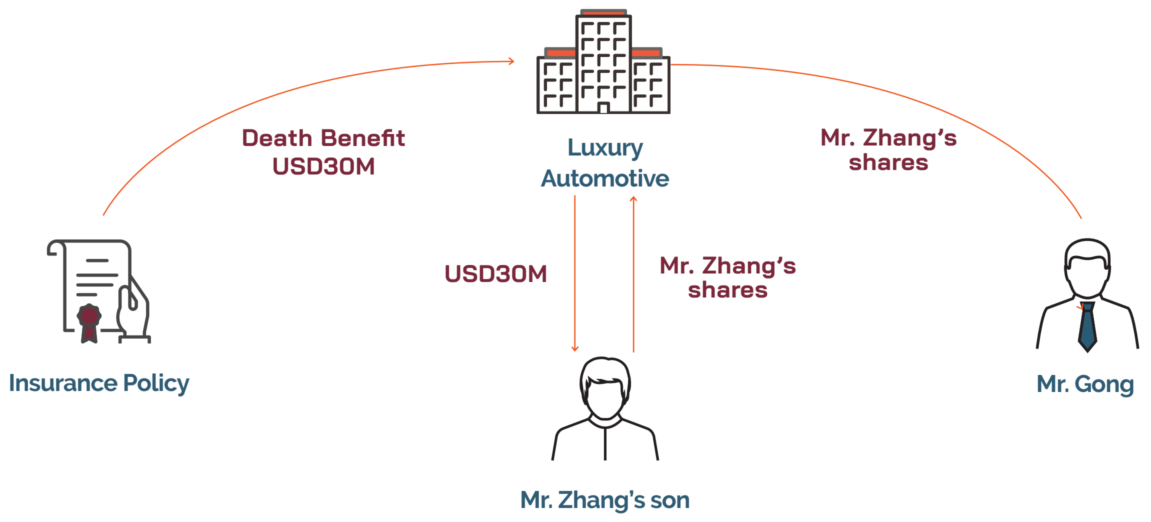
- Mr. Zhang holds 60% of shares of Luxury Automotive and Mr. Gong holds 40%.
- The business value of Luxury Automotive, as assessed by an independent agent, is USD50M.

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.

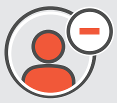
Buy-Sell Agreement



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 individual's 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 realizes 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.

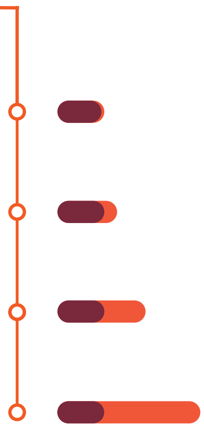
Ms. Thompson decides to pay by annual premium over 10 years, which acts as a form of Dollar Cost Averaging (DCA) to help smooth out market volatility. The policy's floor rate of 0% provides her with downside protection.

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.

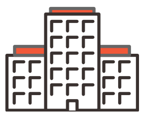
CASE STUDY 6: PERSONAL PROTECTION – TAX PLANNING

Mr. Hewitt, aged 55, is a UK national and he is now working and residing in HK with his family. His daughter has a job opportunity in London and will move back to the UK after her graduation.

Mr. Hewitt is planning to transfer his property in London (market price at GBP 1,250,000) to his daughter as a graduation gift and at the same time, he is aware of the inheritance tax on lifetime gifts* (i.e., 40% after tax allowance) which would be applied to his daughter if he unfortunately passed away within seven years after the property transfer.

Mr. Hewitt

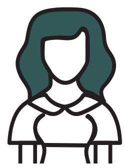
aged 55 | UK national | working and residing in Hong Kong



property in London

GBP 1,250,000)

↓



His daughter

has a job opportunity in London | will move back to UK after her graduation

Solution:

Mr. Hewitt acquires a 7-year term life plan as it is the most cost-effective way to cover the inheritance tax in case of his premature death:

- **Insured: Mr. Hewitt**
- **Beneficiary: His daughter**
- **Coverage period: 7 years**
- **Sum assured: USD 500,000**

References

*It is reference from Worldwide Personal Tax and Immigration Guide 2022-23, Ernst & Young. This is an illustration only. For details, please consult the tax advisor. Clean health conditions declared in health questionnaire.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