WealthBriefing

EXCLUSIVE: Why Insurance Should Be In Every Wealth Manager's Toolbox

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As the business of wealth planning becomes more challenging when revenue-hungry governments shut down tax-mitigation channels, the usefulness of the insurance toolkit can be forgotten. We have written about what is called the private placement insurance industry – a sector that continues to thrive in jurisdictions as varied as parts of Asia and the US.

More recently, we spoke to Grayson Dufrene, who is managing director at Vie International Financial Services, a London-headquartered business operating in this insurance/wealth management space. (Vie is French, of course, for "life".) Dufrene is a veteran of the field, and is keen to raise the profile of what insurance can do for wealth managers in all parts of the world.

Vie was set up in 2003 by Dufrene to provide cross-border wealth transfer and wealth accumulation services to high net worth and ultra high net worth clients. Dufrene is a Chartered Life Underwriter, a Chartered Financial Consultant and a Trust and Estate Practitioner. In the UK, he is a qualified financial advisor and holds the Diploma in Financial Planning.

Dufrene says Vie has become known in London and among the community serving non-domiciled residents as "the main provider of these services" in London. It gets referrals from other professional advisors across the globe; the team has seven members, including Dufrene, another director and five other staff who provide sales and administration services. As far as targets are concerned, its annual goal is around $100 million of new assets into private placement and new pension assets. In addition, for new life insurance sales it has a target of $650 million of life insurance death benefits for traditional life insurance (Universal Life and Term Life Cover). Compared to some of the big hitters of wealth management, this is modest, but not to be dismissed, either. This publication asked Dufrene to outline the main ways insurance can be an important part of wealth management and wealth protection. Private placement insurance is one such channel; there are also insurance solutions for non-doms and the remittance basis issue.

"Private placement life insurance can be used to provide a number of solutions for individuals who require gross roll up or tax deferral within a portfolio," he said. In the area of pre-immigration planning to the US and other jurisdictions, he said, Vie uses private placement products to help clients shelter against income tax charges if they are moving from one country to another. "This is normally over a period of five- to seven years but in some cases we assist clients with permanent moves to their chosen destination," Dufrene said.

In trust planning, he said that private placement can be used to shelter trust assets from current income; particularly where there are beneficiaries who live in different countries.

"This strategy can be very effective for non-US trusts that have US beneficiaries as the tax rates for this type of arrangement can reach up to 100 per cent. There are many other applications for trust planning within various countries," he said.

Finally, in the case of wealth accumulation planning, Dufrene said some countries such as the US and the UK require that their taxpayers use certain types of collective investment vehicles to achieve the lower tax rates associated with dividends and capital gains. "For individuals who would prefer to invest in collective investment vehicles which do not provide the reporting that is required, and subsequently have a higher income tax rates as a result, they can use private placement to assist with deferring taxation on the portfolio and avoid the higher tax rates," he continued.

The use of what are called universal life policies and term life cover is experiencing a big uptick in demand, he said. Recent legislative changes in the UK which make it much more difficult for consumers to avoid inheritance taxes have led to a strong demand for pure death benefit policies to settle IHT in the UK. In addition, such cover can be used to cover death duties in countries like the US and France.

"Non-domiciled individuals who are resident in the UK and on a remittance tax basis can greatly benefit from looking at purchasing their life insurance in jurisdictions such as the US and Bermuda. The US provides significant cost savings benefits compared to other markets for its size and economies of scale. However, the guidance of an expert financial and legal professional is required to take out life cover in that market. Sum assureds of up to $100 million are available for ultra-affluent clients who have complex needs," he said.

"Bermuda is another good jurisdiction for the purchase of these types of products. We find it easier for clients to obtain policies from Bermuda than the US but on the downsize the cost tends to be higher as Bermuda does not have as big a life insurance market as the US," Dufrene continued.

Local differences

A noticeable feature is that there are significant differences in how the wealth and insurance industries operate in Switzerland, Asia and North America. Dufrene said that in Europe, insurance companies are mostly associated with providing insurance products that are heavy in investment assets and low in risk death benefit. They are often referred to as wrappers and are mainly used to protect portfolios form current income taxation.

"In North America and Asia, consumers tend to associate life insurance products as a product that transfers risk to an insurance company and that pay a death benefit that is a multiple of the premiums paid. Thus, the perception of life insurance can vary from region to region," he said.

"I believe that wealth managers in [continental] Europe and the UK are well aware of the benefits of using private placement products as an income tax shelter for assets that they manage for clients," he said.

"The UK and France are probably the leaders in terms of structuring portfolios with private placement. Please keep in mind that the term private placement is more of a US term and that the UK market refers to the offering as an investment bond and the French market as an Assurance Vie. One area of planning in Europe and the UK that is not well understood is the use of US-compliant private placement solutions. There are very few wealth managers who understand this market and this is an area for which we are looking to provide more education in the marketplace," he said.

Dufrene argues that there must be more stress on educating wealth managers and other providers of financial services about what insurance structures can offer. "It would be helpful if media outlets and life companies did a better job of creating awareness on the use of life products. If this happened, we would see more professional advisors enter the marketplace," he said.

Unwanted attention?

Does he think that some firms fear that raising the profile of insurance might bring in unwanted and misguided attention from the regulators and others? "I don't this would be the case," he replied. "My perception is that regulators are very much aware of the use of life insurance products in the market place. The planning is simple in terms of regulation as life insurance is almost universally understood to be an accepted planning tool," he said.

The kind of players in the wealth protection/insurance market includes Lombard, IOMA, Philadelphia Financial, Crown Global, Argus Life, Swiss Life and Swiss Partners. Dufrene says there are others but the ones listed seem to have the most visibility.

"I believe that there will continue to be strong growth in markets such as the UK and France where this type of planning is widely accepted. The US market is the most interesting one as there are many US taxpayer issues that private placement has good applications around the world but the offering is still not very well understood. I think this market has the most upside potential for growth but we are still waiting for this to take off," he continued.

Working out if or when the European market reaches critical mass in terms of growth is hard, he said. "This is very difficult to answer as the markets and the various tax laws seem to be changing quite often. I believe that there is a trend to use this type of planning more and more and we want to continue to work with clients and their professional advisors to serve this market," he said.

"Family offices, wealth managers and trustees are the groups that could benefit the most from using insurance. Many of these groups, if using insurance, would be able to provide additional services that their clients need and also gather more assets under management as a result," said Dufrene.