1291 Group Chairman on the Value of PPLI as the Most Effective Wealth Planning Tool Available Today

Marc-André Sola, Founder & Chairman of the 1291 Group, gave delegates a lively and informative presentation at the Hubbis Wealth Solutions Forum in Dubai on September 20. His thesis was simple - in today's world UHNW families are exposed to many challenges that potentially destroy their wealth and need a robust, well-devised wealth protection plan. Moreover, the wealth management advisory community need to offer clients solutions that are sound from a regulatory and reputational perspective. And he explained why the answer to today's many wealth planning challenges for HNW and UHNW clients comes in the form of Private Placement Life Insurance (PPLI).

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Marc-André Sola
1291 Group

Private bankers and wealth professionals can significantly enhance their client relationships

Sola introduced himself and explained that his talk was designed to help wealth industry professionals strengthen and lengthen their client relationships, as well as increase both the size and quality of their AUM by switching from advisory to discretionary, at the same time as reducing their own risks and exposures.

Every client and every family situation are unique, but five key themes pervade each

Sola told delegates how every individual and family is unique but in his 30 years of experience working in life and wealth solutions, there are five key themes to consider, summarised under the acronym PATEC.

PATEC stands for: Privacy protection through a compliant structure; Asset protection by law; Tax Savings, higher net returns and simplified reporting; Estate planning separate from ordinary estate; and Cash to ensure sufficient liquidity at the time of a death. And clients today need asset protection with a strong layer of legal protection, so those assets are free from external interference and bankruptcy.

Tax, he said, is his favourite topic, noting that there is a global race to tax every nook and cranny of endeavour, even today in Dubai, due to mounting international pressure. "With widespread and increasing taxes on income, gains, investments, passive income and even at death, people need to find ways to grow their wealth either tax deferred or tax free, so that they can pass on more, if possible with no or reduced estate taxes, if possible."

families, most of their wealth is not liquid, they might have it in real estate, or in businesses and so forth. Taxes might need to be paid almost immediately after a death, and liquidity is essential.

Looking beyond the 'old' solutions

He then highlighted some of the typical vehicles to hold and protect assets, such as companies, trusts, funds, and foundations. But he said that all of them need to be transparent, and therefore offer little genuine privacy. Beneficial owners are fairly plain to see nowadays, and complex structures are looked at with increasing suspicion by the authorities around the globe. And he added that while trusts are excellent vehicles, including for tax mitigation, they require control to be given up.

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As to estate planning, he noted that when his mother passed away, it took some two years to get access to the money in her accounts after she passed away. For some people in some situations, such a wait could be immensely stressful and financially devastating potentially.

And regarding liquidity at the time of death, or cash in the PATEC formula, he said any wealth protection plan is no good if it does not give you access to liquidity during your lifetime. Life changes, people change, family situations change, and you need liquidity during your life and at the point of death for the beneficiaries. He noted that even the wealthiest

PPLI offers a compelling array of answers for private clients and wealth management advisors

With that, Sola turned his focus to Private Placement Life Insurance (PPLI), explaining that it is an investment-linked insurance policy with cash value, and insurance component, separate segregated accounts, and individualised investing strategies. It materialises in the form of a PPLI, a variable universal life policy or a private placement.

He told delegates that the structure means the insurance company holds the assets and the investment portfolio can be managed inside the private bank that might have initiated the PPLI discussions with one of its clients. If the person dies or when the person dies, there will be a payout to the beneficiaries.

The risk element is flexible, meaning, for example, that the PPLI policy might have USD10 million invested and a tiny USD100,000 benefit on top, or the same policy might have a USD50 million benefit cover on death. In short, the amount of life cover that the client decides on can be tailored to their own situation and needs.

Distance, privacy, protection

As to the key advantages, he reported that as the insurance company owns the assets, there is genuine distance and privacy. The assets can include any and all assets, from liquid market investments to shares in private companies, real estate, art, and collectibles and so forth. For the bankers, he explained, this allows them access to the full scope of a client's real wealth, as all assets can be wrapped into the PPLI.

As to asset protection, Sola explained that as those assets are then owned by an insurance company, the clients are essentially immune from asset seizures, and assuming the PPLI is created in the right jurisdiction, the policy will be fully protected by law, it cannot be included in bankruptcy, it cannot be seized. He noted that the insurance industry in every country is one of the biggest investors and has for many years been considered as immune from political interference, as the industry also forms the core of most countries' pensions systems and therefore individuals' peace of mind for their futures.

Protected from potential financial woes at the insurers via segregated accounts

Moreover, if the insurance company is facing a financial crisis, the assets are fully segregated, therefore ring fenced from the actual assets of the insurance company. In that way, he explained, the individuals' assets in a PPLI cannot be attacked or compromised in the situation of the demise of any insurer.

Sola then delved into the tax aspects, noting that the PPLI structure achieves tax preferred growth, reduced or no withholding tax, VAT optimisation on banking/ asset management fees, usually zero or reduced estate tax (and no US estate tax) and at the same time the structure allows for additional liquidity to pay any estate taxes that might later fall due. For clients, there is usually zero or very much reduced reporting – massively useful in the new world of CRS – and for the banks/asset managers themselves, there is no country specific tax reporting required.

Flexible and unique

Additionally, clients can combine the PPLI with other or existing holding structures, he reported. For example, a PPLI can be owned by, or own a Private Investment Company, a trust could own a PPLI or be the beneficiary of a PPLI, and A PPLI can own a fund that invests in Private Equity.

Sola concluded his presentation by remarking that PPLI is a compelling solution for private clients and for their private bankers and asset management experts. In short, he stated, PPLI is the most rounded wealth planning tool available. ■