What a Difference a Day Makes!

Market Changes Favoring the Sale of Private Placement Life Insurance (PPLI) by Financial Advisors and Life Insurance Agents

My first introduction to private placement insurance products came in 1996 when I met a husband and wife team that were involved in the first iteration of Scottish Annuity and Life Insurance (SALI). When I went to work for Deloitte and Touche, I did freelance work for them writing fiduciary due diligence reports for life insurance trusts. During this time, I became better acquainted with private placement insurance products. I had an opportunity to go to work in the private placement life insurance (PPLI) marketplace on a full-time basis in 1999 when I went to work with Mass Mutual.

From there, I worked for Marsh McLennan on PPLI in the offshore and international PPLI. The focus here was how foreign individuals could use these products in various foreign jurisdictions – the EU, Japan et al. I then worked for a PPLI carrier for a year focused on institutional solutions using the private placement group variable deferred annuity contract for tax solutions – unrelated business taxable income (UBTI) and FIRTPA/ECI.

In my various capacities, I have worked as a home office employee twice. I have worked for a large insurance broker focused on offshore and international solutions. I then worked as a broker where I was able to place a number of high net worth and institutional cases. I have worked as an attorney structuring the tax and estate planning and insurance documents for clients. I have frequently joked that "Nowotny knows Squat" because of my fondness for weightlifting. I feel comfortable saying the same about PPLI. Based on my experience in various capacities over the last twenty years, I can say with confidence that the current time is the best time for life insurance agents and financial advisors to be involved in PPLI sales. Enough said!

This article traces some of the obstacles slowing the growth and acceptance of PPLI and recent changes signaling a reason to insurance producers to revisit PPLI products once again for their clients.

PPLI – "The Great White Hope"

The play T*he Great White Hope* is a play written in 1967 by Howard Sackler about the former heavyweight champion Jack Johnson and his wife. Jack Johnson was an African American. While the theme of the play is largely thought to be about racism, the playwright has said, "*What interested me was not the topicality but the combination of circumstances, the destiny of a man pitted against society. It's a metaphor of struggle between man and the outside world. Some people spoke of the play as if it were a cliché of white liberalism, but I kept to the line straight through, of showing that it wasn't a case of blacks being good and whites being bad. I was appalled at the first reaction*."

The PPLI industry has been on the verge of breaking through several times in my view. Unfortunately, it has yet to happen. Yes, some people have made a decent living, but it has not attracted and held the attention of the biggest life insurance producers. The biggest problem for the PPLI industry is that it suffers is the lack of committed distribution in my view.

During my time in the industry (1999-Present), the industry would be hard pressed to show more twenty distributors who spent more than fifty percent of the professional time on the PPLI marketplace. That number has not changed much during the same time period. As a consequence, most distribution was accomplished through direct marketing by carrier. In most cases, it was the principals of the carriers prospecting and closing the business. In most cases, these principals have been excellent producers, but the PPLI industry cannot regard itself as an industry with only twenty committed independent agents.

If you begin with the problem that life insurance is a relatively complex and misunderstood product, the selling proposition becomes exponentially larger and harder. A second problem is the fact that most clients were primarily focused on positioning or selling assets to the policy that would create the income tax problem of investor control. However, the truth be told, most high-end producers avoided PPLI because the product's compensation would asset based similar to investment products.

In a nutshell, why would a producer spend so much time trying to convince a wealthy prospect to purchase PPLI, a product that heretofore did not compensate the producer very well or at least not quickly enough while creating a potential legal liability if the policy "blew up" due to investor control problems.

What a difference a day makes or say twenty years! The PPLI industry has finally resolved that problem but producers do not know that yet. High end producers are more comfortable selling retail life insurance policies where a combination of the first-year commission and expense reimbursement allowance would equal to 90-120 percent of the policy's target premium. The PPLI industry has changed for the better except most producers have yet to receive the memorandum about these changes.

Life insurance producers can now receive traditional first year commissions in the sale of PPLI selling life policies of companies that the producer already sell as the underlying reinsurance for the PPLI policy. It also allows the life producer to dodge the bullet that the life producer did not realize was headed in his direction. In the domestic marketplace, the producer's broker-dealer must have a Selling Agreement with the life insurer. Many broker-dealers cannot be bothered with approving a Selling

Agreement for a niche product with perceived risks. It is just not worth it to the broker-dealer. The life producer who is registered but sells an offshore PPLI policy has probably violated FINRA's rules for "selling away". The producer will be fined and face a permanent ban from FINRA.

Finally, the life insurance agent who likes PPLI as a solution for his client but cannot find a way to be compensated and solved that problem. The real money so to speak is in the sale of the underlying coverage for the reinsurance of the policy death benefit. Most likely this will be a guaranteed universal life insurance policy that is more efficient than the carrier's rates under their reinsurance treaty over the life of the policy.

Summary

It is a new day for life insurance agents and financial advisors who have avoided PPLI not because it was bad for their clients but because the producer could not make any money. All of that is in the past. The sale of retail life insurance as the underlying reinsurance for the PPLI policy is a significant financial opportunity for the producer and a significant planning opportunity for the producer's client to match tax efficient investments within a tax-advantaged structure, i.e. a life insurance policy.

The life producer who is registered with a major life insurer and obligated to be registered with the company's broker-dealer no longer has to worry about the compliance police. In this case, no one gets in trouble and no one goes to jail.

Where do I come in? We have previously established that I do know "squat", but I also know PPLI. As the attorney, I work with the life insurance producer in implementing the planning and placement of the PPLI policy for the client. It is a moment time, to reposition investment assets while markets are depressed and come roaring back. If you would like to understand the market opportunity or discuss a case, I can be reach at:

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