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## M Intelligence

Enhancing understanding of sophisticated planning strategies and their applications.

# Advantages of the U.S. Life Insurance Market for International Clients

### Introduction

Affluent individuals with citizenship and assets in multiple countries often have complex planning needs and must frequently consider the jurisdiction where their assets are held. Due to the importance of life insurance in many estate and business planning transactions, the jurisdiction where the policy is purchased can greatly impact the outcome. For international families with connections to the United States, U.S. domestic life insurance products provide a number of key advantages over products available outside the U.S. market.

### Legal Structure

Sovereign risk, or the risk of drastic regime change or governmental collapse, is a significant concern for affluent individuals with multi-jurisdictional planning needs. The U.S. offers global investors one of the lowest levels of sovereign risk in the world. The legal system in the U.S. offers relative predictability and transparency; legal processes are generally well-defined, and relatively free from bias or outside influence. As a life insurance policy is a contract between the insurer and policyowner, the well-established field of contract law determines disputes with generally predictable outcomes.

U.S. life insurance taxation is well-defined in the U.S. markets and provides a number of favorable tax treatments to policyowners. A properly structured U.S. life insurance policy can accumulate cash value on a tax-deferred basis. Gains within the policy can be accessed through tax-free loans and withdrawals, and the death benefit can be received income tax free. These tax treatments may not be available in all jurisdictions.

The legal structure surrounding U.S. life insurance transactions also affords a relatively high degree of confidentiality and privacy that is unavailable in many other countries.

### Insurance Carrier Environment

The U.S. life insurance market is the world's leading premium-writing country, with a wide variety of substantial competitors. The first life insurance company in America—Presbyterian Ministers Fund for Life Insurance—was chartered in 1759, seven years prior to the nation's Declaration of Independence in 1776. Today, more than 850 U.S. companies are in the industry.

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The U.S. life insurance industry is highly regulated, with oversight from multiple state and federal agencies. The primary source for regulation occurs at the state level—each state’s insurance commissioner has the authority to license insurance companies and agents in their jurisdiction. The National Association of Insurance Commissioners (NAIC) was founded in 1871 and consists of insurance commissioners from all 50 states. The NAIC promulgates model regulations and laws for the industry, which are generally adopted by the state commissioners.

In addition to state regulation, some oversight exists at the federal level. The Securities and Exchange Commission (SEC) regulates the sale of variable life insurance and annuities as securities, and therefore requires compliance with its regulations for companies and agents offering these products. In addition, the Financial Industry Regulatory Authority (FINRA) is a self-regulating organization that is overseen by the SEC and is responsible for enforcing rules for its members. As a result, the U.S. life insurance industry is subject to a wide variety of licensure, product, suitability, and solvency regulation, creating a stable environment for insurance purchasers and policyholders that doesn’t exist in many other international jurisdictions.

U.S. life insurance companies also generally subscribe to independent financial ratings agencies, such as Moody’s, A.M. Best, Standard & Poor’s, and Fitch Ratings. These agencies assess the financial and operational status of participating insurance companies and provide insight into the financial quality of insurers, as well as the quality and liquidity of their underlying assets.

The dollar-denominated nature of U.S. life insurance products increases their attractiveness to foreign buyers, as the currency is subject to a lower degree of inflation volatility and default risk than many other currencies, especially in smaller jurisdictions.

### **Product and Operational Advantages**

The U.S. industry’s scale, duration, and competitive structure has resulted in a wide variety of price-efficient and effective product offerings for affluent individuals. As insurance products rely upon the pooling of risks, a more thorough understanding of risks leads to more transparent and competitive pricing. The thorough understanding of mortality rates in the U.S., along with improvements in mortality in recent decades, has led to lower mortality charges in U.S. life insurance products as compared to other international jurisdictions.

The competitive nature of the U.S. life insurance industry leads to an increased motivation for insurance carriers to pursue product innovation and bring competitive new offerings to the market. Many U.S. life insurance products offer sophisticated and innovative features that are not found in other markets.

The underwriting process, where risks are assessed and categorized by insurers, is well-defined, with sophisticated knowledge and procedures, allowing U.S. life insurers the ability to efficiently and appropriately price risks. This leads to better product pricing for clients and better performing in-force policies. In addition, U.S. life insurance companies are global leaders in implementing technology-based solutions that enhance the underwriting process.

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The U.S. life insurance market offers purchasers and policyholders well-developed, in-force policy service standards, claims payment processes, and dispute resolution options. Eligibility requirements for U.S. products vary across carriers, but often include a combination of financial and physical presence in the U.S.

### Conclusions

The U.S. life insurance market offers a number of compelling purchasing motivators for non-resident individuals with multi-jurisdictional planning needs. As the laws surrounding multi-jurisdictional tax and legal planning structures are complex and case-specific, global investors should consult qualified advisors to determine the most advantageous planning structure for their unique situations.

*This information has been taken from sources we believe to be reliable but there is no guarantee as to its accuracy. Please consult with your attorney or tax advisor, as applicable.*

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