

What a wrapper is

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A life insurance wrapper is a life insurance contract, usually concluded against a single premium, whose value depends on the performance of assets allocated to the policy. The insurer acquires and holds these assets in its own name, since the policyholder transfers the premium to the insurer and receives in exchange a contractual claim. On the death of the insured person, the insurer pays the value of the allocated assets, often increased by a small additional amount that represents the insured risk. On surrender, the insurer pays the value of the assets, less any charges. During the term of the policy, the assets are managed according to an investment strategy agreed when the policy is concluded.¹

Three versions of the instrument can be distinguished. The first is the retail unit-linked policy, in which the premiums are invested in a selection of public investment funds that the insurer offers to all its clients. The second is the policy with an internal fund, in which the insurer creates a pool of assets for a group of policyholders and manages it according to a defined strategy. The third is private placement life insurance in the narrow sense, in which the insurer creates a fund dedicated to a single policy or to a family. That dedicated fund may contain listed securities, bonds, units of hedge funds and private equity funds, structured products and, in some jurisdictions and within limits, unlisted assets.²

The minimum premium for private placement policies is usually high. Insurers active in this segment often require one or several million euros or francs, because the cost of creating and administering a dedicated fund, of examining the origin of the assets and of handling the tax requirements of several countries does not fall in proportion to the premium. The costs consist of an administration fee charged by the insurer, the fees of the custodian bank and the asset manager, and the cost of the insurance cover. For policies of several million, the insurance charges are typically expressed as a fraction of a per cent of the policy value per year.³

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The attraction of the instrument rests on the legal effects of the insurance contract under the law of the policyholder's residence. Where a country taxes the income and gains of insurance policies only on payment, the policyholder obtains a deferral of tax during the term. Where a country exempts death benefits from income tax or treats them favourably for inheritance tax, the wrapper reduces the tax burden on the next generation. Where the law protects designated beneficiaries against the policyholder's creditors, the policy becomes an instrument of asset protection. Each of these effects depends on national law and, in particular, on whether the contract is recognised as insurance. The instrument has no inherent advantages of its own.

1 Notes

1. On the legal structure of unit-linked life insurance under Swiss law, see the commentaries on the Insurance Contract Act (VVG/ICA) and the provisions on unit-linked life insurance in the Insurance Supervision Ordinance (AVO/ISO). To be verified. ↩
2. The terminology varies between markets: "private placement life insurance" (PPLI) is common in the United States and the Anglo-Saxon literature, "assurance-vie luxembourgeoise" or "contrat sur mesure" in French-speaking markets, and "Lebensversicherung mit Vermögensverwaltung" or "Insurance Wrapper" in German-speaking practice. To be verified. ↩
3. Figures on minimum premiums and costs vary by insurer and market and are drawn from product documentation and practitioner surveys. Figures to be verified. ↩

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