What Is Money?

Fungibility Is Key to PPLI

At the center of a Private Placement Life Insurance (PPLI) structure is fungibility. For PPLI this means in essence taking assets in a taxable environment into one that is tax-free. According to the Merriam-Webster dictionary, fungibility derives from the Latin verb fungi meaning "to perform (no relation to the noun "fungus" or the plural "fungi.")

If something is fungible it is mutually exchangeable like an ounce of gold, or in other circumstances, as we will read further on in our article, the U.S. dollar held in the form of $100 bills.

This mutual exchange for a taxable environment for one that is tax-free is accomplished in PPLI by using life insurance. Perhaps a fungible transaction is not quite the right analogy.

Life insurance in the structure functions more like a membrane, where once the assets are properly structured inside the PPLI policy, the assets become recharacterized into a solution that has both outstanding tax benefits as well as enhanced privacy. Clients also can permeate this membrane for tax-free distributions on the income from the assets.

Worldwide life insurance has a tax-favored status, and this exchange from taxable to non-taxable can be accomplished with the creation of a PPLI structure that takes into account these key elements in a wealthy family's situation:

- Nationality of the family members;
- Country of residence(s);
- Location and type of assets;
- Laws pertaining to trusts, life insurance, and other entities to be used;
- Aims and goals of planning.

Once these elements are researched and analyzed, a tailor-made structure can be created for the family. *Wealthy international families* are drawn to PPLI structures, in part, because of the legitimate enhanced privacy that can be accomplish inside this structure.

Governments and their tax authorities are in place, in the highest form, to secure the public good through the collection of taxes. Their citizens also have rights to privacy and, within the realm of law, to protect their private property from harm. Therefore, there is a built-in tension between these two aims.

Another built-in tension can occur in the financial world. What happens when a country's institutions don't support a traditional banking system? One occurrence is that new systems are created to support the unique circumstances. Let us take the extreme example of Somaliland.

For this example teaches us one of the underlying properties of what we call money: a means to facilitate a transaction. We are thankful to Matina Stevis-Gridneff in a recent *Wall Street Journal* article for these excerpts.

"An Isolated Country Runs on Mobile Money"

"HARGEISA, Somaliland—Hyperinflation and economic isolation have pushed this poor, breakaway republic closer to a virtual milestone than most other countries in the world: a cashless economy.

The continent, home to many of the world's frontier economies, has come closest to skipping, or "leapfrogging" as it's often called, traditional brick-and-mortar banks and going straight to heavily using phones as wallets.

And nowhere are the benefits of mobile money more apparent than in Somaliland, where the extreme economic and financial conditions have allowed Zaad, a service from the main local telecom, Telesom, to catalyze commerce in one of the most isolated parts of the world.

Once a week, Abdulahi Abdirahman hauls two bulky, heavy sacks of shillings from his gas station across Hargeisa to the money-exchange area downtown and, several hours later, returns with just a few dollar notes in his back pocket and his Zaad wallet loaded up.

Clients pay Mr. Abdirahman in Somaliland shillings. He needs to pay suppliers in dollars. Using Zaad, he gets half the payments in mobile money, meaning the cumbersome ritual has become more manageable in these times of high inflation."

Money in Action Using PPLI

Now, again courtesy of *The Wall Street Journal*, by Joe Craven McGinty, we find another example of how money works in the real world.

"Cash Flow or Cash Stash? How Money Moves Around"

A record level of U.S. cash is circulating, but Americans aren't spending the bulk of it.

So, where's the money?

Up to two-thirds—or as much as $1.07 trillion—is held abroad. About $80 billion is held domestically by depository institutions. And the rest—as little as $453 billion—is in the hands of domestic businesses and individuals.

Last year, according to figures published by the Fed, $1.6 trillion was in circulation, including $1.3 trillion in $100 bills, or 80% of the total. In 1997, $458 billion circulated, including $291 billion in $100s, or 64% of the total.

The circulating currency held abroad could range from one-half to two-thirds of the total, the Fed estimates, or a range of $800 billion to $1.07 trillion.

Wealthy families *worldwide* have the option of creating their own unique structures using PPLI. These structures can become, in effect, private banks. By uniting PPLI with family assets and a bespoke banking relationship, much is achieved that cannot be accomplish in any other way. Please let us know how we can assist you in this endeavor. We welcome your questions and comments.

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