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wealth management (life settlements)

Banks Weigh in on Growing **Baby Boomer Market**

The last few years have seen the rise of the life-settlement market, and with an aging populace and coming securitizations, the field is poised for further growth. What does this mean for banks?

As the Baby Boomers continue to age, the life-settlement market is expected to thrive. According to a recent Bernstein Investment Research and Management report, the $13 billion business is projected to mushroom to $160 billion of insurance face value by 2030.

And according to Larry Simon, CEO and president of San Diego, CA-based insurance policy originator Life Settlement Solutions, banks are beginning to get in on the action. "Some of them are holding [settlements] as an internal investment—and knowing that they're only getting three [percent] or four percent on their money now, hoping to get returns in the double digits and not being able to put all the money that they want out in the marketplace, they [still] feel it's a good investment," he says. "Others are buying them for their own accounts and are trading them to hedge funds. We've got one client that buys pools of the assets and then will sell them off in blocks."

A life settlement is the sale of one's insurance death benefit to a third-party company, and unlike the viatical settlement market of the 1980s—largely driven by the AIDS epidemic and patients' desperate need for money to buy medicine—life-settlement participants are often high-net-worth individuals who no longer want or need their policies and prefer to use the funds for other investments.

Banks in or considering the market include Citibank, Credit Suisse First Boston, UBS, Morgan Stanley, Deutsche Bank, Dresdner Bank, DZ Bank, Abbey, WestLB, KBC Bank and Fubon Bank. "All the major banks—I assure you, every one of the major banks, and I'm talking investment banks and others—are in this asset or looking at the asset and following it very closely," Simon says. "They feel the yields will be higher than they get in most other places in the market. The non-correlated returns, which of course are everybody's concern today—[banks] don't want it tied into the stock market."

So if banks are buying, who is settling? According to the Bernstein report, more than 96 percent of those selling their benefits are older than 65 and have a life expectancy of four to 10 years more; this segment of the population is expected to increase more than three times as fast as the overall U.S. population. Furthermore, Simon says the worth of his company's average policy is $2 million. "Typically, the policies are issued based upon net worth, so you get a $2 million or a $10 million or a $30 million policy—people who have a lot more money than the viatical people, who are $100,000 policies," he says. "These are high-net-worth individuals, and these are policies that are taken out for business reasons, [and then] the company's sold and there's no longer a need for the policy; they're second-to-die policies where their financial-planning needs change and they just don't need the policy anymore."

Another factor driving the industry's growth is regulatory pressure and its resulting strengthening of fiduciary responsibility, the report stated—advisors may want to include life settlements as part of a complete financial planning package. However, Simon doesn't see the market as becoming mainstream for another three or four years, at which point he believes securitizations will prompt ratings which will, in turn, result in more asset efficiency, higher prices and lower yields. For now, "most of the business in this market is done privately by hedge funds and just unreported transactions—or by settlement companies like us," he says.

Doug Moore, head of estate and charitable planning and managing director of Citi-group private banking, says while the bank has talked with its customers about life settlements, the majority of clients remain interested in traditional policy arrangements. Is there a future for further exploration? "I think it really depends on the perception as to whether or not the insured or whoever owns the policy is really going to benefit and not be exploited," he says. "If there's a modernization or a securitization of [the industry], I think how it is structured will depend upon whether it takes off or not. It's certainly a possibility—I wouldn't negate that."

—Sally Law

Larry Simon is director, chief executive officer and president of Life Settlement Solutions, Inc., based in San Diego. Life Settlement Solutions, Inc. and its management have an established, proven industry record, having purchased life insurance policies in excess of $1 billion aggregate face value to date. For further information regarding Life Settlement Solutions, Inc., visit www.lss-corp.com.