

## Life Settlements Poised for Growth

The results of an exclusive Agent's Sales Journal survey revealed some facts that might surprise industry observers: More agents would offer life settlements if they had a better understanding of the product.

By NANCY MALINE, Editor

Life settlements are not currently a household term, but the results of our survey indicate that this product is on the brink of exploding onto the mainstream insurance scene. Currently, fewer than two in 10 agents (18%) have ever performed a life settlement transaction, but they are intrigued. More than one-quarter (27%) say they are likely to perform a life settlement transaction in the next year. (Charts 1 and 2) And it's no wonder.

More and more of respondents' senior clients no longer have the same needs they did when they originally purchased their life insurance policies. Agents say that about seven in every 10 of their clients' life insurance needs have changed. Nearly half of their senior clients (46%) have, in fact, surrendered a life policy. The main reason agents say

their clients engage in life settlements is, indeed, that their insurance needs have changed or no longer exist (43%). (Charts 3a, 3b, and 4)

Insiders say 2006 is the year we'll start to see life settlements become a true force in the industry. "The life settlement industry is in for a huge growth spurt in the next few years," says M. Bryan Freeman, president of Atlanta-based Habersham Funding LLC, who is in his fourth term as president of the Life Insurance Settlement Association (LISA), the life settlement industry's most prominent trade association. Freeman attributes the growth to "the changing demographics of the population and a fundamental paradigm shift in the thinking of consumers. Consumers now require maximum value for the assets

they pay for," and he sees life settlements as a way to maximize the value of life insurance.

According to our survey, however, 73 percent of agents say they do not anticipate offering life settlements in the foreseeable future. Why? The primary issue keeping them from presenting life settlements is lack of information. Six in 10 agents simply do not feel they know enough about life settlements. Another quarter (23%) do not consider life settlements to be an appropriate alternative for their clients. And while 22 percent have a negative perception of life settlements or think they are a bad idea, only 3 percent say they have actually had a bad experience with the product. (Chart 5)

Most industry insiders consider the negativity associated with life settle-

ments a thing of the past. "Through careful regulation, the life settlement industry is gaining mainstream momentum," says Robert Meyer, vice president and general counsel for Jenkintown, PA-based Rumson Capital, an independent life settlement company. Thanks to the increasing number of states that are regulating the transactions, he says, "the [life settlement] industry is increasingly viewed as a more respected financial option and accepted addition to a larger number of portfolios."

Agents who have offered a life settlement before see its major advantage as an additional planning tool (62%) or a springboard for cross-selling other products (25%). (Chart 6) Even

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Chart 1

Number of Life Settlement Transactions Completed



Chart 2

Expect to Perform a Life Settlement Within the Next 12 Months



Chart 3a

Change in Clients' Needs?



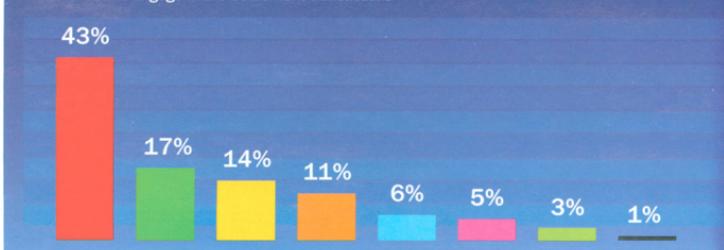
Chart 3b

Clients Surrendered Policy?



Chart 4

## Reason Clients Engage In Life Settlement Transactions



- Insurance needs have changed or no longer exist
- Cash or income needs have changed
- Policyowner needs cash for medical care or other emergency expenses
- Policyowner can no longer afford premiums
- Business status has changed
- Policyowner needs cash to fund other insurance purchase
- Other
- Policyowner desires cash to fund other investments

Chart 5

## Reasons For Not Planning a Life Settlement Transaction

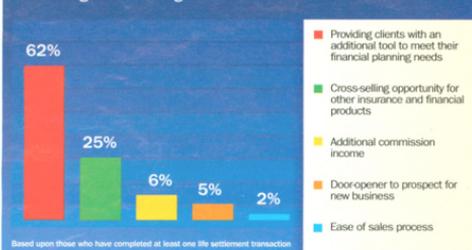


Based on respondents who do not plan to complete a life settlement transaction within the next 12 months.

- I do not know enough about life settlements
- Life settlements would not be appropriate for my current clients
- I have heard negative things about life settlements
- I think life settlements are a bad idea
- Other
- Prohibited by company or broker-dealer affiliation
- I had a negative experience with life settlements

Chart 6

## Advantages of Offering Life Settlements



Based upon those who have completed at least one life settlement transaction.

- Providing clients with an additional tool to meet their financial planning needs
- Cross-selling opportunity for other insurance and financial products
- Additional commission income
- Door-opener to prospect for new business
- Ease of sales process

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agents who have never performed a life settlement transaction agree that it would benefit clients as an additional financial planning tool (71%).

## Life settlement companies

Is it better to work with a life settlement broker or directly with a life settlement provider? According to the survey, each has its advantages. About a third of agents (31%) like working with a broker because of the broker's vast experience with life settlements.

By the same token, a quarter of respondents say they like working directly with life settlement providers (often called funders) for the same reason. Of those who prefer to work directly with a provider, a similar number (24%) have a high comfort level working directly with a known entity, while nearly two in 10 (18%) say they would rather not deal with a middleman. Meanwhile, nearly a third of the agents who are fans of brokers say they like the ability to obtain multiple bids in an effort to get their client the best return on their surrendered policy (30%). (Charts 7a and 7b)

Those who have worked with brokers in the past are generally positive about the experience. Nearly six in 10 (58%) rated their experience as "excellent" or "good." Only 17 percent said they had a "poor" (8%) or "very poor" (9%) experience. The vast majority of agents who prefer to perform a life settlement transaction on their own typically seek bids from three or fewer providers (88%). (Chart 8) But are they getting the best possible price? Their clients are likely to receive more competitive offers when advisors seek a higher number of bids or work through a broker whose job it is to attract offers.

## Marketing and presentation

Agents encounter two main challenges when they think about presenting life settlements to clients. Three in 10 respondents (29%) say they don't fully understand life settlements, making the product presentation seem like a formidable task. More than a quarter of respondents (26%) say that merely finding prospects is the biggest challenge. (Chart 9) Other barriers to

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## Methodology

In December 2005, the Agent's Sales Journal conducted a nationwide survey of 25,000 licensed insurance agents via an email blast with a link to an online survey. The agents who were issued the survey came from a combination of Agent Media's national database of licensed life and health producers and ASJ subscribers who sell life insurance. As a response incentive, a random drawing was held for a BlackBerry. Over 600 professionals completed the survey. To participate in future ASJ surveys, send an email to ASJResearch@AgentMediaCorp.com.

offering life settlements include making certain that clients don't surrender a needed policy, selecting the right life settlement partner, and the perception that it's a complicated process.

Because life settlements are relatively new and unfamiliar to both agents and consumers and may require more detailed explanation than conventional products, it's not surprising to learn that advisors find face-to-face presentations (87%) the most effective means for marketing the product. Other marketing methods such as seminars, newsletters, and direct mail are far less effective, they say.

The obstacles that currently stand in the way of agents offering life settlements can certainly be overcome. Nearly half the agents (48%) who have never offered life settlements say that they would need additional training and education before they would feel comfortable enough to offer the product. Nate Evans, president and CEO of Atlanta-based provider Maple Life Financial, couldn't agree more. "Education and training will continue to be important in attracting more advisors to the life settlement industry," says Evans.

Agents who already offer life settlements would appreciate additional support from the providers and brokers they work with. More than a third (36%) said that effective marketing and point-of-sale materials would be a big help to them in explaining the product to clients. (Chart 7a)

Indeed, there is little doubt that increased consumer awareness would make the sales process much easier. Two in 10 respondents who offer life settlements would like to see better consumer education, and a third of those who do not work with life settlements say they would also like to see heightened understanding among consumers.

Respondents say the most useful source of information on life settlements is trade magazines (49%) including the Agent's Sales Journal, with the life settlement industry coming in a distant second at 12 percent. (Chart 11) "The industry must continue to write about settlements in the trade press and the popular press," says Freeman. "Agents really need to know how settlements can make their job easier when a client qualifies for both a

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Chart 7a

## Perceived Advantage of Working With a Settlement Broker

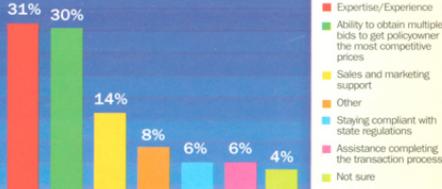
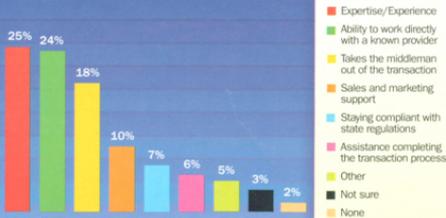


Chart 7b

## Perceived Advantage of Working With a Settlement Provider



# Who's Behind Your Offer?

## Life Settlements

If it isn't LIFE EQUITY—  
you need a new broker.

Only select brokers  
have access to  
the best funds  
through LIFE EQUITY.



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Chart 8

## Number of Companies Seek Bids From

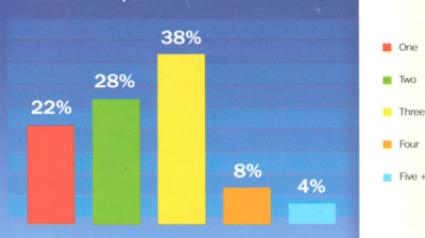


Chart 9

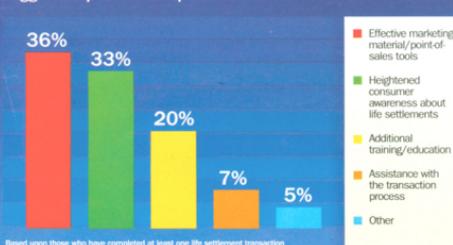
## Biggest Challenges of Presenting Life Settlements



- I don't understand life settlements
- Finding prospects
- Ensuring clients don't give up needed life insurance
- Clients' lack of awareness regarding life settlements
- Other
- Clients' negative perceptions of life settlements
- Potential that clients could get ripped off
- Selecting the right settlement broker to partner with
- Process is complicated and/or lengthy
- Prohibited by company or broker-dealer affiliation
- Limited support
- Getting competitive bids on the policy
- High transaction costs

Chart 10

## Biggest Help in the Completion of Life Settlement Transactions



Based upon those who have completed at least one life settlement transaction

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settlement and a new, more modern life insurance policy."

Meanwhile, respondents say that continuing education, the Internet, colleagues, and other industry sources provide only limited information.

## Summary

The majority of respondents (61%) think there is significant potential for additional income from life settlements. Another 61 percent say they are open to discussing life settlements with the appropriate clients. If six in 10 agents see value in offering life settlements, why are fewer than two in 10 including the product in their portfolio? The answer is lack of information.

Agents and planners are craving more information about life settlements. The industry has surely seen an increased presence of life settlement providers and brokers on the insurance landscape. This means that agents have more resources today than ever before, including this issue of the Agent's Sales Journal.

On the pages that follow, the Agent's Sales Journal Guide to Life Settlements provides comprehensive information on life settlement transactions, including pitfalls to avoid, identifying the right settlement partners, determining when a life settlement is appropriate, regulatory and tax information, prospecting tips, and more.

Advisors who are willing to do their homework, learn about the market, and partner with a reputable firm will uncover a cache of clients whose financial needs would be well served by a life settlement. Chances are good that many clients currently in the agent's book of business would be appropriate life settlement prospects.

Once agents are armed with the knowledge and support they need, our research indicates that the potential for life settlement transactions is nearly limitless. As Evans notes, "While the industry will continue to market its many benefits to raise awareness, perhaps the greatest rise in awareness will continue to come as advisors and consumers who have experience with life settlements enthusiastically spread the word."

*The Agent's Sales Journal would like to thank the following industry experts for providing their input in developing the life settlement survey:*

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Chart 11

## Most Helpful Source of Information on Life Settlements

