



## Life Settlements: A Look into the Future

BY LARRY SIMON

In 2007, the relatively young life settlement industry continued to grow, a trend that is expected to continue in 2008 and beyond as a number of new developments and changes occur in the market.

According to a May 2006 Bernstein Research report titled "Life Insurance — Life Settlement Update — What A Difference a Year Can Make," the life settlement marketplace is expected to grow to an estimated \$160 billion in industry potential in the coming years, outpacing original projections. With the market doubling from \$5 billion transacted in 2004 to \$10 billion transacted in 2005, life settlements have made their mark as one of the fastest growing segments of the life insurance industry.

In addition to continuing growth, we can expect more attention from regulatory bodies, as well as a growing awareness among financial professionals. More financial institutions, distribution firms, and insurance carriers are also likely to enter this market. You'll likely see life settlements playing a greater role in the estate planning of affluent seniors, and investors may flock to them as an important investment tool.

If you are involved in or looking to enter the life settlement marketplace, it is important to know what's in store over the next 12 months

and stay up to date on any existing industry requirements and regulations. By doing so, you will be better prepared to face both the growth and the changes projected for the secondary market.

### The Viatical Settlements Model Act

In order to understand regulatory trends, it is important to become familiar with the proposed amendments to the Viatical Settlements Model Act, which will spur much discussion and changes well into the New Year because of the impact they could have on the marketplace if adopted by individual states.

In June 2007, the National Association of Insurance Commissioners (NAIC) adopted a number of controversial amendments to the existing Model Act, including a five-year ban on settling stranger-originated life insurance policies, also known as STOLIs. While the amendments were created to prevent people from purchasing insurance policies simply so they can sell them on the secondary market, a number of issues have arisen over the new amendments.

Industry organizations such as the Life Insurance Settlement Association (LISA), the Life Insurance Finance Association (LIFA), and the National Conference of Insurance Legislators (NCOIL) have released separate statements

outlining the problems that the changes may cause. These groups have stated that the proposed amendments would negatively affect consumers rather than stopping STOLI practices.

Despite the fact that the Model Act is not a law, it does provide advisory guidelines for legislators dealing with the life settlement industry. In addition, many of the states that regulate life settlements base their laws on the act.

### Provider licensing and compliance

In 2008, states will likely continue paying more attention to the licensing requirements for all parties involved in life settlement transactions. Some states have already enacted provider and insurance licensing requirements for agents and brokers, while others are considering bonding requirements.

This regulatory growth may be due to recent industry activities that have revealed individuals in the life settlement market who avoid provider-licensing requirements by partnering with a non-licensed provider. This practice — often called "renting out" — involves non-licensed providers that negotiate and process cases in the name of a licensed provider.

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You can avoid the complications of dealing with improperly licensed firms — such as exposure to regulatory risks — by conducting due diligence. Gather information on multiple providers and determine the licensing status of the companies in the state where each policy owner lives. Financial professionals can also refer to LISA's Web site ([www.lisassociation.org](http://www.lisassociation.org)) for provider licensing on a state-by-state basis, as well as information on provider compliance departments.

### **Life settlements and estate plans**

As life settlements have grown more popular over the past 12 months, they have also grown more applicable to seniors who apply the transaction's proceeds to their financial planning strategy. More eligible seniors than ever before have been able to use life settlements for a number of reasons, including the purpose of charitable giving and the purchase of more-suitable life insurance coverage. These driving factors will continue to draw more interest to the market as financial professionals realize the benefits of this new financial planning vehicle.

A number of business clients have also benefited from the life settlement market through the sale of company-owned life insurance policies. While this was previously an untapped segment of the life settlement industry, more organizations are beginning to review their policies to determine if the settlement market can provide additional revenue for policies covering key executives who are no longer with the company. This trend is also expected to grow as more firms realize the benefit of using life settlements as an alternative to the often lower cash surrender value on eligible policies.

### **Assets in the marketplace**

Life settlements are generally most suitable for affluent seniors older than 65 and are commonly transacted for males age 72 or older and females age 75 or older. The minimum face value of a policy that will be considered for a life settlement is typically \$250,000, but the average is closer to \$2 million. Additionally, more settlement providers are adding smaller-face-value policies to their roster and will now purchase policies with face values as low as \$50,000. In general, universal life policies are the most common type of policy that is settled; however, survivorship, term, and

whole life also have a place in the market. The volume of variable policies is expected to grow as more broker-dealers open life settlements to their registered representatives.

Other characteristics typically associated with life settlements include:

- Policies being issued from a highly rated insurance carrier, generally with a BB rating or better by Standard & Poor's.
- The remaining life expectancy of the insured must be greater than 25 months to avoid a viatical classification and should not exceed 20 years.
- The insured must be free from any chronic, catastrophic, or terminal illnesses, regardless of their life expectancy.

These qualifications will continue to vary slightly from provider to provider, and it is important to check state regulations as they pertain to life settlements.

### **Life settlements as an investment opportunity**

Life settlements grew as an investment opportunity in 2007 and will continue to attract interested investors to the marketplace in the months to come. More investors are beginning to understand the opportunities of working with life settlements, including a competitive rate of return and the fact that the asset class is not correlated with traditional equity investments. Additionally, the securitization of the asset class is expected to occur within the next year, resulting in more market efficiency and liquidity to investors. Securitization will attract an even greater amount of institutional investment capital into the marketplace, further positioning life settlements as an important long-term investment option. As the demographic trends of the senior population and the market trends within the insurance industry continue to help expand the life settlement market, the benefits of investing in the secondary market will draw more interest and involvement in the investment opportunities that life settlements provide.

### **Consumer and agent awareness**

Those actively working with life settlements and presenting them as an effective planning tool for

eligible senior clients have helped pave the way for greater consumer awareness, thus affecting the amount of available information on entering the market and transacting settlements. This will likely continue, specifically with the attention being placed on financial professionals who are carefully considering their options concerning broker and provider partnerships.

### **More players entering the marketplace**

The expected growth of life settlements in the near future will likely be accompanied by a surge in the number of financial professionals interested in working in this market. The next 12 months should see a number of new players entering the market, including non-traditional entities such as broker-dealers, CPAs, estate and financial planners, insurance carriers, and institutional investors.

According to a 2008 study conducted by Agent Media\* and LISA, 65 percent of agents had never transacted a settlement, yet more than 42 percent stated that they believe life settlements could provide substantial revenue to their practice. This interest in life settlements is expected to increase and facilitate the push for more of an industry focus on educational efforts.

### **The education focus**

While many financial professionals are aware of life settlements, they may still be unsure about how to get involved. For those interested in the secondary market, becoming educated about life settlements and their benefits may be one of the most effective ways to approaching such transactions. In fact, according to the Agent Media/LISA study, 21 percent of respondents said more education would most help them when conducting a life settlement transaction. Additionally, 78 percent said they are interested in continuing education courses on life settlements. As a result of this rise in the need for education, financial professionals can look forward to an increase in the development of reliable educational resources and information made available about life settlements.

If you would like to learn more about life settlements, you can start by visiting a number of Web sites about the secondary market, such

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as NCOIL ([www.ncoil.org](http://www.ncoil.org)) and NAIC ([www.naic.org](http://www.naic.org)). You may also want to get involved in industry resources and events, such as Life Settlement Awareness Month, webinars, and state-certified continuing education courses. Education and training are essential in this market to ensure your clients are looking at the most suitable options, as well as to keep your practice out of regulatory trouble. Expect a thriving market in the next year, but above all, be prepared.

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*\*Agent Media is the publisher of the Agent's Sales Journal.*

## Life Settlement Educational Resources

Life Settlement Awareness Month Web site – [www.lifesettlementawarenessmonth.com](http://www.lifesettlementawarenessmonth.com)

Life Insurance Settlement Association (LISA) – [www.lisassociation.org](http://www.lisassociation.org)

National Conference of Insurance Legislators (NCOIL) – [www.ncoil.org](http://www.ncoil.org)

National Association of Insurance Commissioners (NAIC) – [www.naic.org](http://www.naic.org)

# Life Settlement Awareness Month

As continued growth attracts more financial professionals to the secondary life insurance market, the need for quality sources of information is also increasing. As such, this push for sources of expert knowledge is helping bring forth the education and training that are so sorely needed by agents currently in or contemplating entering the life settlement market.

As part of this effort to meet growing demand and create a better-educated sales force, June 2008 will mark the third annual Life Settlement Awareness Month, an event dedicated to providing comprehensive educational sources and timely, relevant information on the secondary life market.

The life settlement industry has reached new heights over the past few years, with much of the marketplace's growth stemming from the increased interest of financial professionals looking to expand their business and provide eligible senior clients with more financial planning options. As more agents, brokers, CPAs, financial planners, and investors enter this expanding marketplace, the availability of educational sources continues to be an important focus for those working with life settlements.

Although many financial professionals have already begun reaping the benefits of life settlement transactions, a lack of market knowledge and lack of access to sources of education and training have kept many producers from entering this industry. In fact, according to several studies conducted over the past few years by Agent Media\* and the Life Insurance Settlement Association (LISA), many financial professionals are interested in life settlements but have not yet begun working with them. These studies have repeatedly cited inadequate education as one of the key reasons professionals have not entered this market. For those interested in life settlements, access to quality education cannot only boost revenue, but also offer agents the opportunity to better understand the life settlement process.

This year, Life Settlement Awareness Month will feature a number of webinars, including "Life Settlements — The Fundamentals," a two-part series covering "Life Settlements — Advanced Topics," and an investor-focused webinar. During June, event participants will also have access to panels featuring industry experts.

"Life Settlements — The Fundamentals" will focus on the basics of life settlements and will be geared toward new life settlement agents or those who would simply like to learn more about the topic. Topics covered in this webinar will include an overview of the market, life settlements versus viatical settlements, case studies, and a rundown of the benefits that life settlements can bring to both agents and clients.

"Life Settlements — Advanced Topics" will be broken into two sessions and is designed to provide a deeper look into life settlements with regulatory updates and marketplace trends. The first advanced course will focus on regulatory issues and market trends. The second session will cover detailed case studies, including charitable giving, term conversions, premium financing, and restructured life insurance.

Life Settlement Awareness Month was founded by the life settlement provider Life Settlement Solutions.

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