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Life Settlement Producers Come a Long Way; Obstacles Remain

LISA, Agent Media study indicates life settlement activity, optimism have increased, yet education and prospecting remain hot-button issues

BY CHRISTINA PELLETT,
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Life settlements have been around in one form or another since the late 1980s, when they were called viatical settlements and targeted terminally ill policyholders. For years, news of fraudulent transactions and other negative publicity kept both agents and insurers at bay. But increasingly stringent regulation and oversight have cleaned up the industry, said industry insiders, making life settlements a more attractive option for older clients whose life insurance needs have changed since they first bought their policy. As a result, more agents are starting to enter this market, according to a recent survey by Agent Media* and the Life Insurance Settlement Association (LISA).

This 2007 life settlement study reveals that 30 percent of respondents have fully completed a life settlement transaction, and 54 percent plan to do so in the next 12 months. Forty-five percent have discussed life settlements with at least one of their senior clients whose life insurance needs have changed, and 87 percent said they would discuss life settlements

with their clients if they met the requirements — compared with only 60 percent who said they'd do so last year.

But while the number of agents completing life settlement transactions appears to be on the rise, the same obstacles remain. Of those who have never transacted a life settlement, the No. 1 reason given is that respondents — 69 percent of them — simply don't know enough about life settlements. In fact, that number has gone up from last year's 60 percent. And finding qualified prospects continues to be a challenge, with 25 percent of respondents saying that hurdle is one of their biggest, along with 24 percent who said their lack of knowledge is a major obstacle.

So what accounts for the growing popularity of this relatively new market? And, more importantly, what can agents do to position themselves within the life settlement industry and reap the same rewards that their colleagues do?

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

Methodology

In November 2006, Agent Media, in partnership with the Life Insurance Settlement Association (LISA), randomly surveyed licensed life producers nationwide. The names were selected from Agent Media's Life Select Database*. Producers were invited by email to take the survey. The results reflect answers from personal producing agents who have sold at least one life insurance policy in the past 12 months. More than 400 producers completed the survey.

*Editor's note: Agent Media is the publisher of the Agent's Sales Journal and the owner of Target Agent Lists, a proprietary database of financial services professionals that includes 1.2 million licensed life, health, and annuity agents, from which the Life Select List was taken.

The Haves and the Have Nots

Just how much difference is there between those agents who have transacted a settlement vs. those who have not? There are some striking differences when looking at the existing data. For instance, 77 percent of those respondents who have transacted settlements said their 65-plus clients have surrendered a policy, while only 47 percent of those who haven't transacted a settlement see such clients. And of those who have transacted a settlement, 73 percent said there is substantial potential for additional income from life settlements while only 41 percent of the other group agreed.

Agents who have entered the market say 83 percent of their transactions have resulted in the purchase of another product or service with the settlement proceeds, while only 14 percent of the other group have had this cross-selling opportunity. This may indicate that those more experienced agents are more attuned to the opportunities this market presents and are more comfortable with cross-selling.

The knowledge gap is also more narrow for those who have transacted a settlement: 40 percent said they don't know enough about settlements while 70 percent of the other group said their knowledge is limited. Again, more experience seems to be a factor in the activity of individual producers.

And mirroring that statistic is that active settlement producers need less help in the field: 17 percent said they need additional training and education, while 37 percent of the other group said they need the same.

Experience seems to make a mark on the priorities, challenges, and opportunities presented by agents. The more you're out there, the more likely you are to become productive and successful — and, hopefully, the more you'll earn. It's just a matter of getting out there.

"There's such a high percentage of those who say they have policies lapsing," said Ted Pryor, CEO of LifeOptions LCC. "It's a fairly low-hanging fruit. If you have policies that are worth more than \$250,000 in face value, why not enter the market?"

I believe there is a substantial potential for additional income from life settlements.

Haves: 73%
Have Nots: 41%

83%

of respondents have clients whose life insurance needs have changed since they purchased their policy

Growing awareness

"This is a very exciting time to be in this marketplace," said Doug Head, LISA's executive director. "Change is the biggie, and this is changing the public's view of the value of their insurance. For me, that's a good thing."

Indeed, Eric Lund, senior vice president of sales and marketing for provider Maple Life Financial, said he's noticed an upward trend in life settlement activity among agents. Four years ago, he said, he held a presentation for high-end insurance producers where the youngest producer had about 30 years' experience in the field. Yet not one of the attendees had even heard of a life settlement.

"That wouldn't happen today," he said. "The level of awareness about the concept that one could receive more than the cash surrender value has resulted in more people marketing and talking about it."

That awareness comes from a variety of sources, said Larry Simon, president and founder of life settlement provider Life Settlement Solutions Inc. For example, conferences and tradeshows are now packed with life settlement providers and brokers. And the press has a hand in this growing awareness, too. Insurance trade publications are

running more life settlement articles than ever before. And whether it's good or bad news, Simon said, such prestigious sources as the New York Times and the Wall Street Journal (as well as smaller mass media venues) are covering the industry at a rapid pace — and the term "life settlements" is continually popping up in regulatory circles.

Time also plays a factor, said Kristian Armstrong, CEO of life settlement provider Milestone Managers & Providers. The more something stays around, the more popular it tends to become — and life settlements have certainly paid their dues. "I think you reach a comfort level among agents, clients, and companies. I think they're realizing [life settlements are] not just a flash in the pan — they'll be here for quite some time."

How far have they really come?

Despite the growing number of life settlement transactions, current statistics still reveal a gap between knowledge and action. Though the number of transactions is up from last year, it still reflects the trepidation with which insurance agents approach this industry. This year, while 83 percent said their clients' needs have changed and 56 percent said their client has surrendered a policy, only 44 percent said they talk about it with some percentage of their clients.

"They perceive the needs, they have the situation, but they're just not talking about it," said Ted Pryor, CEO of life settlement brokerage LifeOptions LLC.

It's also striking that 70 percent of agents still haven't transacted even one

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Now and then

In 2006, Agent Media, publisher of the Agent's Sales Journal, conducted its first-ever life settlement study. The survey found that producers were lukewarm about the market — many hadn't conducted a life settlement transaction though it seemed they had clients who would benefit from such a service, and most didn't expect to settle a life insurance policy in the near future.

This year, that's changed. Let's take a look at some year-to-year comparisons to see just how much producers have warmed up to the life settlement market.

I believe there is a substantial potential for additional income from life settlements

2006: 28%
2007: 51%

Do you have clients over age 65 whose life insurance needs have changed since they purchased their policy?

2006: Yes – 70 percent
2007: Yes – 83 percent

Do you have clients over age 65 who have surrendered a life insurance policy?

2006: Yes – 46 percent
2007: Yes – 56 percent

If you had clients who met the requirements, would you discuss life settlements with them?

2006: Yes – 60 percent
2007: Yes – 88 percent

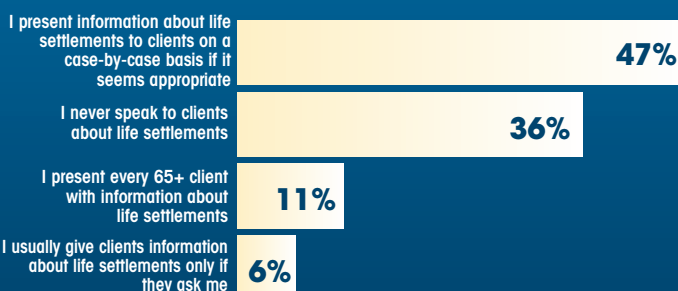
Approximately how many life settlement transactions have you completed?

2006: One or more – 18 percent
2007: One or more – 30 percent

Under what circumstances do you present your 65+ clients with information about life settlements?

2006: I never speak to clients about life settlements – 54 percent
2007: I never speak to clients about life settlements – 36 percent

Under what circumstances do you present your 65+ clients with information about life settlements?



I expect to perform a life settlement transaction within the next 12 months

2006: 27%
2007: 54%

life settlement, said Pryor. While that's down from 83 percent last year, it represents a large chunk of agents who aren't experienced enough in the market.

Obstacles yet to overcome

Practically mirroring last year's statistic of 26 percent, 25 percent this year have noted that they still don't know enough about life settlements to approach the market. "The general awareness and interest has risen dramatically, but the excuses are exactly the same," Pryor said.

Part of the education gap also appears when respondents are questioned about their state regulations: whether they're sufficient, too harsh, etc. Sixty-two percent say they don't even know their state's regulations, showing another striking gap in their knowledge base.

So if you're interested in life settlements but just don't feel you know enough about them, how can you overcome this hurdle?

Armstrong and others said the Internet is a good first step in learning more about life settlements. He suggests agents first turn to LISA's Web site — www.lisassociation.org — to learn all they can about life settlements. The next best places, he said, are the Web sites of brokers that offer the option to transact a life settlement as well as the sites of providers. Clients should also contact well-known providers and brokers to get a sense of what it takes to enter the life settlement market.

"I really want people to call providers and talk to them about life settlements. Pick two or three and compare the information you're getting rather than relying on anecdotal advice," suggested Pryor.

Another good way to educate yourself

about life settlements is to make use of the material available through providers. In fact, 30 percent of agents who had never completed a settlement transaction said marketing and point-of-sale tools would be the greatest help in assisting them with the life settlement process, while 26 percent of those who have completed a transaction agreed. In addition, 66 percent of all agents said they'd like to learn more about selling tools.

"I think that agents should be going to their umbrella organizations and asking for education," Pryor said. "Broker-dealers, marketing organizations, wholesalers, etc. should put more effort into marketing to their client base. We as an industry are happy to provide support; it's just a matter of putting it on the agenda."

The prospecting game

Prospecting continues to stymie a large portion of agents when it comes to life settlements. It doesn't have to be so hard, though, and there are a number of ways to go about it. You might want to approach your MGA for "ghost" life insurance policies (those that currently have no agent assigned due to the original agent retiring or leaving the case) and ask if you can call on those who are 65 or older, said Simon.

Trolling places where high-net-worth people socialize is also a good way to find candidates for life settlements — country clubs, marinas, resorts, etc. You may also want to try holding seminars and advertising in upscale publications that target those who would qualify for large life settlement cases.

Steven H. Applegate, vice president of policy acquisitions for life settlement provider Habersham Funding Inc., said your existing book of business is one of the best ways to prospect for qualified seniors.

"Learn the signs and scenarios that may signal a life settlement, review your portfolio, and I'll bet you'll find clients whose circumstances may have changed, those who are headed toward a lapse, those who would benefit from a policy conversion and settlement, and so on."

And Lund suggested annual policy reviews for all products and services, life insurance included.

56%

of respondents have clients over age 65 who have surrendered a life insurance policy

"If you're not sitting down annually and reviewing where the client is at, where they want to be, and where they need to be, you're not doing your job well," he said.

And insiders agree that developing partnerships with other professionals can up your referral rate and better your reputation in the marketplace.

Broker vs. provider

As far as transactions go, agents have the choice of working through a life settlement broker or going straight to the provider, or funding source. Simon said those just entering the life settlement market may want to work through a broker for a while since it entails less work on the producer's end. Brokers will shop for bids from various providers, and in some states, agents aren't required to hold a license if they work through a broker.

Going straight to a provider, however, can leave more commission for the agent, as a broker would take a cut of whatever compensation the agent earned. It does require licensing and filling out multiple forms for multiple bids, however, tasks that the broker would handle in such a transaction, so newer agents may want

to work through a broker until they decide how much time and energy they want to devote to life settlements.

Whichever way you go, a good indication of the right partner is who else deals with them, so asking colleagues and other associates can get you far, said M. Bryan Freeman, Habersham Funding's founder and president. Also, make sure to do your homework. Find out about the credentials of the firm and ensure that they're licensed where required.

What to look for

Once you've chosen a broker or provider and gotten a number of bids, there's the matter of choosing the right one. While agents should and would likely choose the bid that nets the most money for their client, the dollar amount is not the only thing to take into consideration — and agents should be upfront with their clients about this fact, said Larry Simon. For example, one major factor is where the money comes from, he said.

"Is the company properly licensed and regulated? Also, there are privacy issues, both federal and state, that we need to comply with. It's your private information out there, and you don't want that spread around," he said. Choosing a reputable provider can make the client more comfortable with whoever owns their policy. Other factors agents should keep in mind are how quickly the provider can close the

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44%

of respondents have discussed life settlements with at least some of their clients

Which of the following has prohibited you from transacting a life settlement?



case and whether the money is really there for them to actually close the transaction.

Agents should also be aware of how to calculate the fair market value of a policy. "If you don't have an appraised value for their policy, it's hard to make an intelligent presentation to the client," said Lund. "You need to have an awareness of the value before presenting the transaction."

A fringe benefit

Cross-selling also turned out to be a major advantage of transacting life settlements, with 25 percent saying they've diverted the life settlement proceeds to an alternative investment. This represents a great opportunity to earn commission not only off the life settlement transaction but also off the ancillary purchase. But what investment opportunities are best for their clients? Agents should look at the big picture rather than focusing on the obvious opportunity to sell a replacement life insurance policy, said some experts.

"Agents should also think about whether the client should buy an annuity with the proceeds or additional long term care insurance or a supplemental health policy," Pryor said. "These are all alternatives to selling another life policy or telling them to hold on to their current policy."

Life insurance vs. life settlements

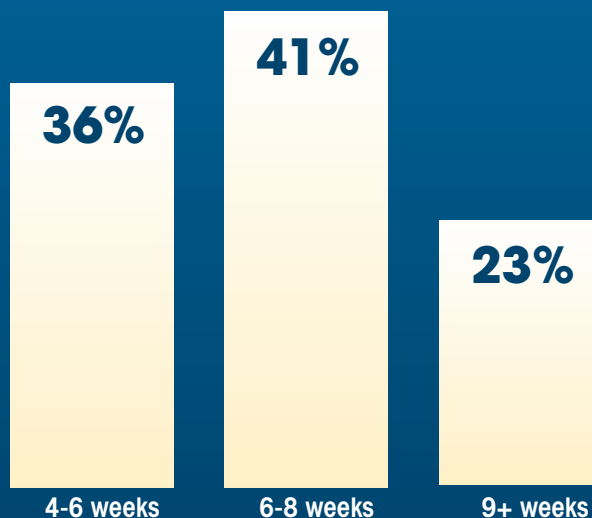
All in all, the life settlement industry is a lucrative alternative to the lapsing or surrendering of unwanted policies.

Agents shouldn't be reticent about working this market since transacting a life settlement is typically far less complicated than selling a life insurance policy, Pryor said. It may take 10 years to become an accomplished life insurance salesperson but only one to three years to excel at transacting life settlements, he said. This is true for two reasons: One, while still complicated, life settlements are conceptually easier to sell because you're offering your clients cash instead of having them turn over a check to purchase something they don't already have. Also, transacting a life settlement simply involves the sale of an asset for a dollar amount.

"It's such a huge opportunity that it would be a shame to miss out on it, and at what point do you have a liability for not making them aware of it? If you missed the opportunity to at least make them aware of the market, it's at least a shame if not a lapse," Pryor said.

Christina Pellett is managing editor of the Agent's Sales Journal. For more information on this and other studies, please contact ASJeditor@AgentMediaCorp.com or call 800-933-9449.

How long does a typical transaction take with your primary provider or brokerage?



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