

The Life Settlement Education Gap

By Christina Pellett



Exclusive study reveals that what agents know — and what brokers and providers teach them — can be a huge factor in determining their involvement in the life settlement industry

Life settlements can be an attractive and viable option for senior clients whose insurance needs have changed over the years. Often, a policy purchased years ago no longer supports a client's needs as they grow older. It may be outdated. The policyowner may need extra income for medical expenses, other emergencies, or more appropriate insurance products, such as long term care insurance or final expense.

Unfortunately, life settlements seem so new to many in the industry that many agents and most carriers shy away from offering the option to clients who need it. It's a growing industry, one that's increasingly regulated, with scores of experienced brokers and providers that can guide insurance professionals through the tricky terrain of the secondary life insurance market. But still, only 18 percent of agents recently surveyed by the Agent's Sales Journal, Insurance Marketing magazine's sister publication, have transacted a life settlement. (See Chart 1)

It may seem puzzling that fewer than one in five agents have transacted a life settlement, considering that more than eight in 10 express an interest in the market: Of the more than 600 agents surveyed nationwide, 87 percent say they are open to the idea of discussing the life settlement option with their clients.

But only 52 percent have done so, and 82 percent have never completed a life settlement transaction. (See Chart 1) Seventy-three percent say they don't plan to in the next 12 months, either, despite evidence that their clients would benefit from life settlements. (See Chart 2) More than two-thirds of respondents said they've had clients whose insurance needs have changed over the years. (See Chart 3a) And almost half of the agents surveyed said their clients have actually surrendered a policy — and in surrendering a policy, consumers generally receive far less than a life settlement would fetch in the

secondary life insurance market. (Chart 3b)

The need is there, and so is the interest. So what's holding agents back, and what do they need to confidently enter this growing industry? And of those who have already entered it, how can settlement companies, as well as insurance marketing organizations involved in this industry, make agents' experience a better one?

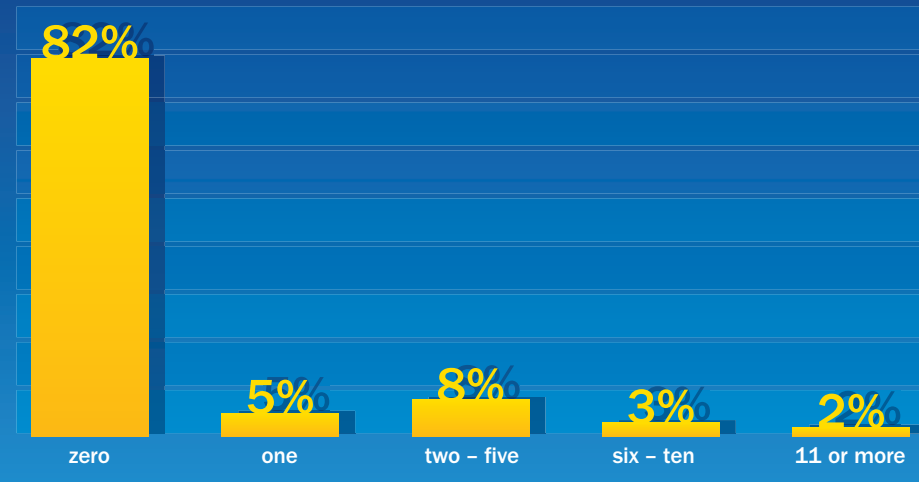
Knowledge is power

Agents are fully aware of the advantages of life settlements: Those in the industry say the biggest advantage of offering a life settlement is that they can provide clients with an additional tool to meet their financial planning needs (62 percent). Only 6 percent said commissions were a driving factor, indicating that brokers and providers who position themselves as consumer champions would fare better than those who promote high commissions. (See Chart 4)

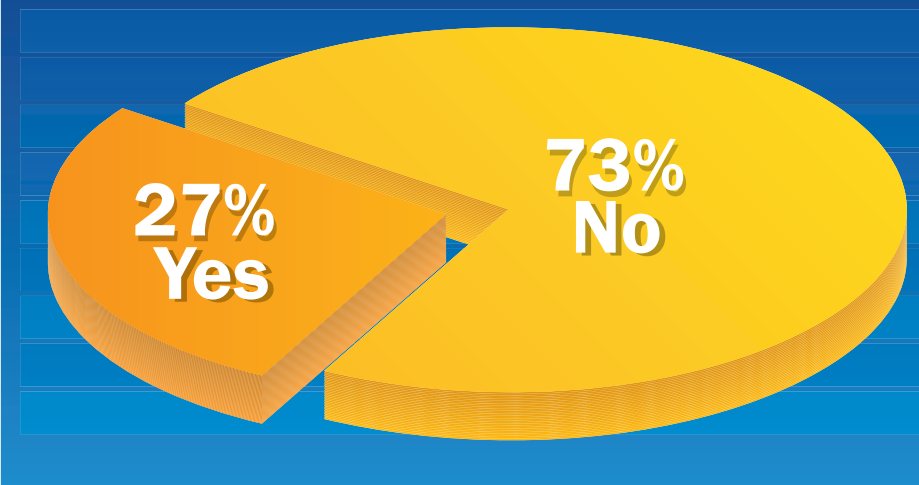
And even those who have not transacted a settlement say the aspect of offering more financial options to clients is important to them (71 percent). So why the gap between those who think life settlements are a good idea and those who have actually transacted them?

Not surprising to most industry leaders, inadequate training and education is the key obstacle holding agents back from the life settlement market. Six in 10 agents say the reason they've never completed a life settlement transaction is because they don't know enough about them. (See Chart 5) Twenty-nine percent say this lack of knowledge is the biggest challenge they face in offering life settlements to their clients. (See Chart 6) And three-quarters don't even know the regulations that govern the transaction of life settlements in their own state.

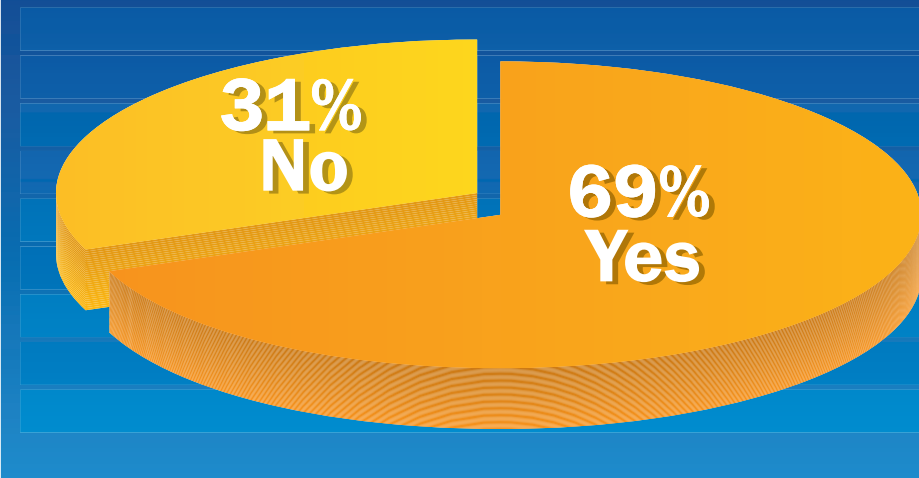
Number of Life Settlement Transactions Completed ▶ Chart 1



Expect to Perform a Life Settlement Within the Next 12 Months ▶ Chart 2



Change in Clients' Needs? ▶ Chart 3a



"Obviously, (this is) a signal to the life settlement industry that they need to take the time to do seminars or mailings or, better yet, do one-on-one presentations to teach agents about this option," said B. Andrew Plant of Habersham Funding, an Atlanta-based life settlement provider.

M. Bryan Freeman, Habersham's president, agreed, but acknowledged there are obstacles. In the end, however, he said they are worth it. "It costs a lot of money. It takes a lot of time and a lot of resources. Not everybody's going to be able to do it, but those that do will be winners in the market," said Freeman, who is in his fourth term as president of the Life Insurance Settlement Association, the life settlement industry's most prominent trade association.

But life settlements can be tricky to navigate. Gregory Schmitt, executive vice president and chief operations officer of Life Settlement Solutions in San Diego, said that because there are so many parties involved in the life settlement transaction – attorneys, trust companies, investors, and, of course, clients – that agents must be well-versed when recommending life settlements to clients.

Agents should also have a broad knowledge of the other aspects of life settlements, such as how the client can use their payout once the transaction is complete. Knowing about more appropriate and modern insurance policies, annuities, long term care, and other insurance products can help the agent not only guide their client toward an appropriate decision, but also help them sell other products using the money from a life settlement.

Producers themselves agree that training and education is key: Of those who have been holding back, a full 48 percent say training and education would be the biggest help in completing a life settlement transaction. And of agents who have already entered the industry, 20 percent say more effective training would help them do their jobs better.

Agents believe consumers need education, as well. Agents from both in and outside the industry say increased consumer awareness of life settlements would be a big help in making them more comfortable with the industry – 20 percent of those who have not completed a transaction and 33 percent of those who have. (See Charts 7a and 7b, respectively)

Freeman agreed that consumer awareness is essential, mainly because if clients know more about life settlements,

they'll become more comfortable with the process and may seek more information from their advisors.

"Increased consumer awareness would help everybody," Freeman said. "But increased consumer awareness is coming. We're on the precipice of something bigger than it's ever been."

Negative impressions linger

Another reason why agents have never transacted a life settlement is due to negative impressions: When asked for the No. 1 reason why they've never completed a life settlement, one-quarter of producers surveyed said either they think life settlements are a bad idea (10 percent), they have heard negative things about life settlements (12 percent), or they have had negative experiences themselves (3 percent). (See Chart 5)

Life settlements evolved from viatical settlements, which were introduced around 1989. Viaticals were originally offered to AIDS and HIV patients who, because of their short life expectancy, had life insurance policies that could be put to better use. In the 1990s, however, some took advantage of the market and of policyholders, tainting settlements even a decade and a half later.

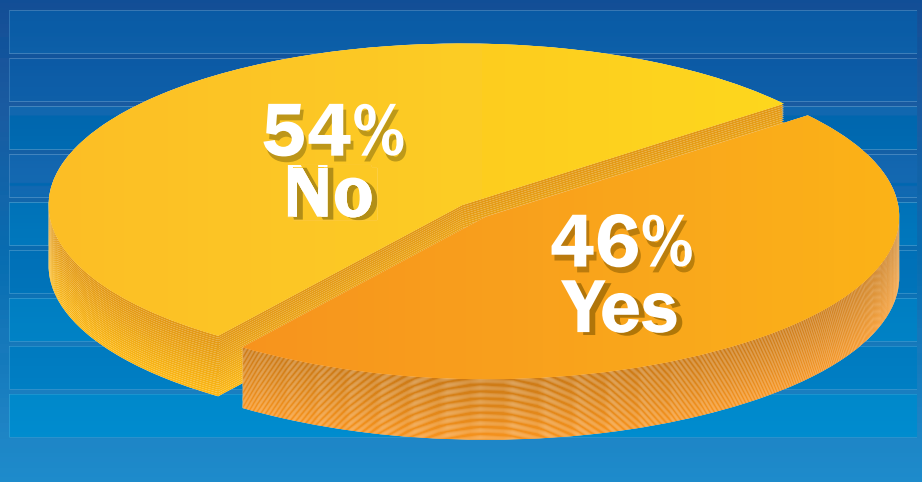
"Unfortunately in the old viatical days, we had some problems as an industry, and those needed to be cleaned up, and they have been," said Freeman. Misinformation has scared agents away from life settlements, he said, and only with proper training and education can these negative impressions be dispersed.

A handful of agents (6 percent) also indicated that their broker-dealer prohibits them from transacting life settlements. (See Chart 5) "A lapse is profitable," said Doug Head, executive director of LISA, referring to the insurance company's perspective. "Surrender is profitable. A settlement means that the policy stays in force." That, said Head, is not profitable since a death benefit costs so much more than a lapse or surrender.

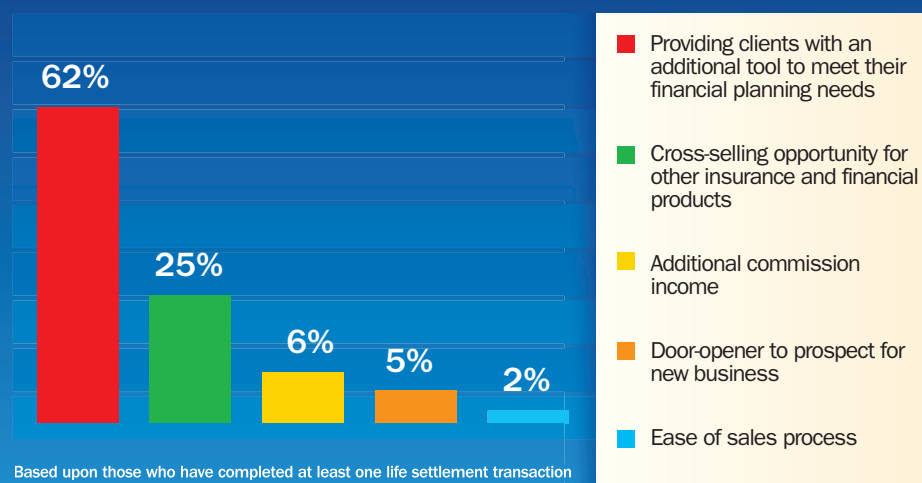
But Kurt Gillhaus, vice president of marketing for Life Settlement Solutions, said insurance companies and life settlement providers and brokers actually have more in common than some may think – in fact, the insurance industry can benefit greatly from the existence of a secondary market.

"The transaction (of life settlements) enhances the value of that product if consumers know they have more options

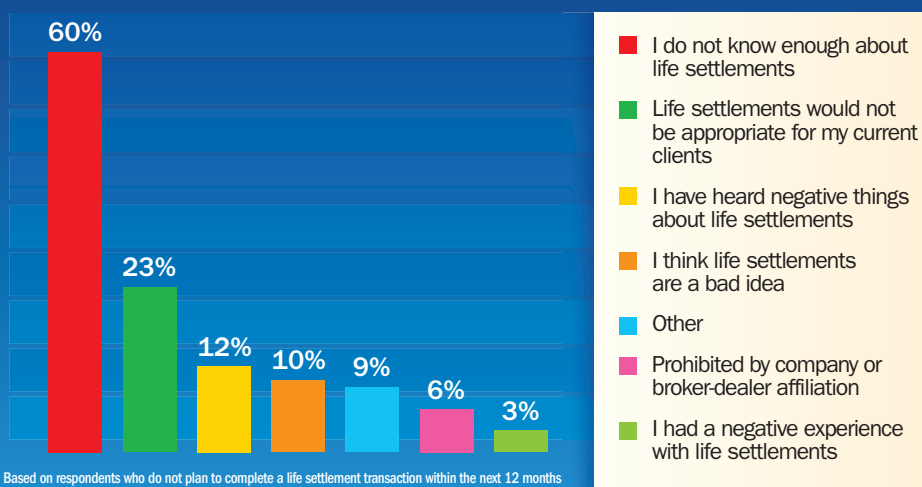
Clients Surrendered Policy? ▶ Chart 3b



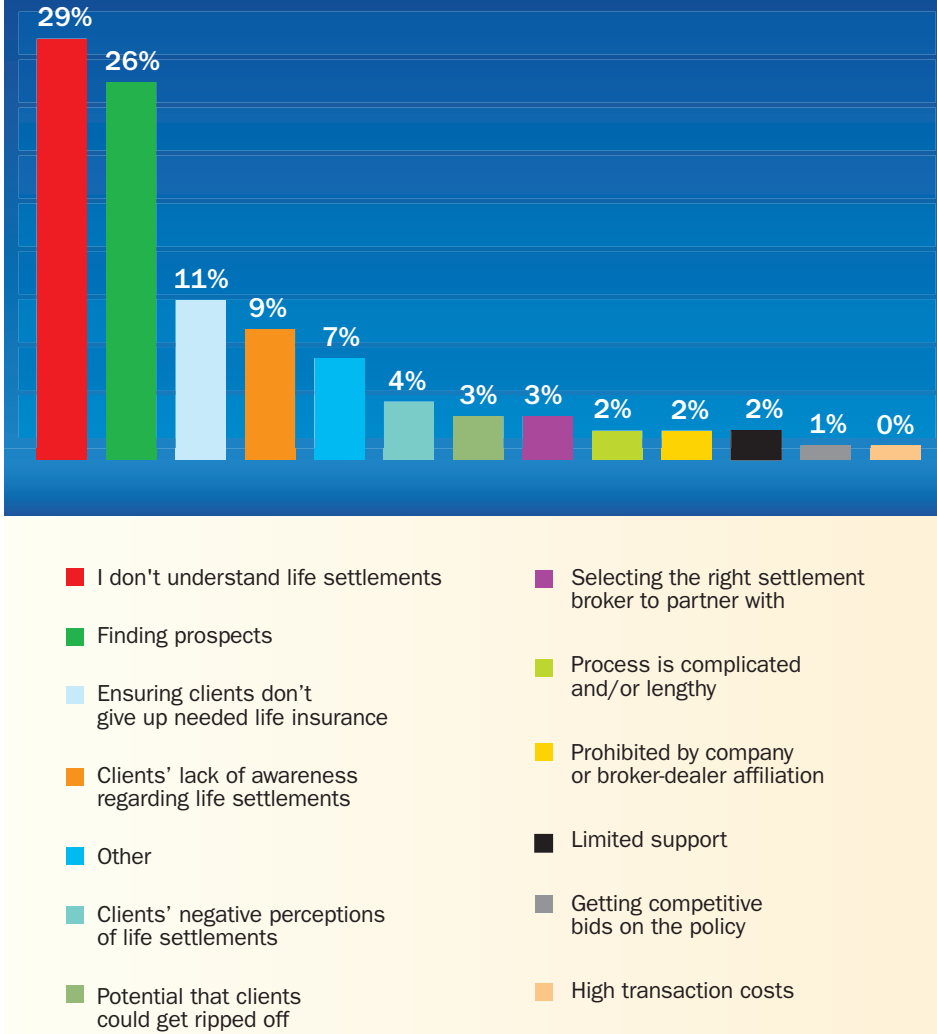
Advantages of Offering Life Settlements ▶ Chart 4



Reasons for Not Planning a Life Settlement Transaction ▶ Chart 5



Biggest Challenges of Presenting Life Settlements ▶ Chart 6



down the road,” said Gillhaus, suggesting that clients may be more apt to purchase life insurance policies in the first place if they know there’s an option for them in the future.

The importance of marketing

For those producers who are already active in the life settlement industry, the No. 1 thing producers said would help them do their jobs better is effective marketing materials and point-of-sale tools (36 percent). (See Chart 7 a and b) Marlene Frith, marketing director of Advanced Settlements in Orlando, FL, said marketing tools are essential when the agent is in the field. Her firm, like others, provides agents with case summaries that can help them discern when a life settlement would be appropriate for the client. It both educates them, she said, and helps them explain to a client why they should choose life settlements over surrendering the policy or allowing it to lapse.

Gillhaus agreed, saying that marketing materials and point of sale tools serve a dual purpose. “Agents are always looking for pre-built, pre-approved materials,” he said. “It shows them an optimal approach to use with customers, and once you determine it’s appropriate, you have presentations designed to make clients comfortable with all aspects of the transaction.”

“Also, a lot of them get a hold of these materials and use them as educational materials for themselves,” he continued. “It really gives them an idea of case studies and lets them get comfortable until they can get a real comfort and feel for settlement transactions.”

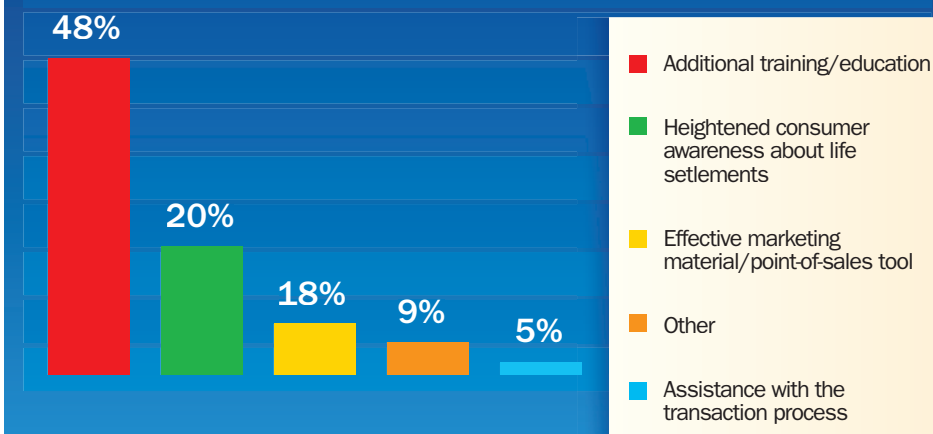
Broker or provider?

As for whether agents in the industry go with a broker or a provider it appears to be a personal choice, one driven by circumstance and knowledge, according to Head. He likened it to choosing between selling a house by owner or through a broker. “Brokers have an understanding of the marketplace that can be helpful,” Head said. “If you go directly to a provider, you may cut out the broker fee and make out better.”

Of agents who use a broker, they also say the broker’s experience and expertise are the most important factors in their decision (31 percent). Plus, a broker can obtain multiple bids, giving the policy-owner the most competitive prices for their

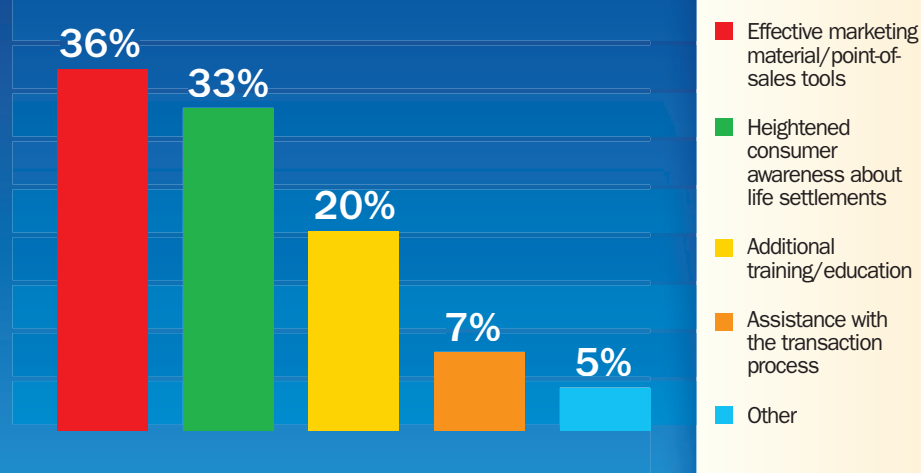
Biggest Help in the Completion of a Life Settlement ▶ Chart 7a

Based upon those who have not completed life settlement transactions



Biggest Help in the Completion of Life Settlement Transactions ▶ Chart 7b

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



policy (30 percent). (See Chart 8a)

Agents say the biggest advantage that providers offer is experience and expertise (25 percent), along with the ability to work directly with a known provider (24 percent). They also say providers take out the middleman, giving them higher commissions overall (18 percent). (See Chart 8b)

But as much as they appreciate the expertise of their broker or provider, only 12 percent say the life settlement industry is the most helpful source of information on life settlements, and 6 percent say their insurance wholesaler or broker is their best source. Yet 48 percent say trade publications are their best source, highlighting the need for more industry exposure in this area. (See Chart 9)

“With an open mind”

In the end, those who take the time to properly educate agents on life settlements will be the ones who encourage the most agents to enter the marketplace. Though a combination of factors has so far led many agents to eschew the secondary market for life insurance, those factors all tie back to one common denominator: education.

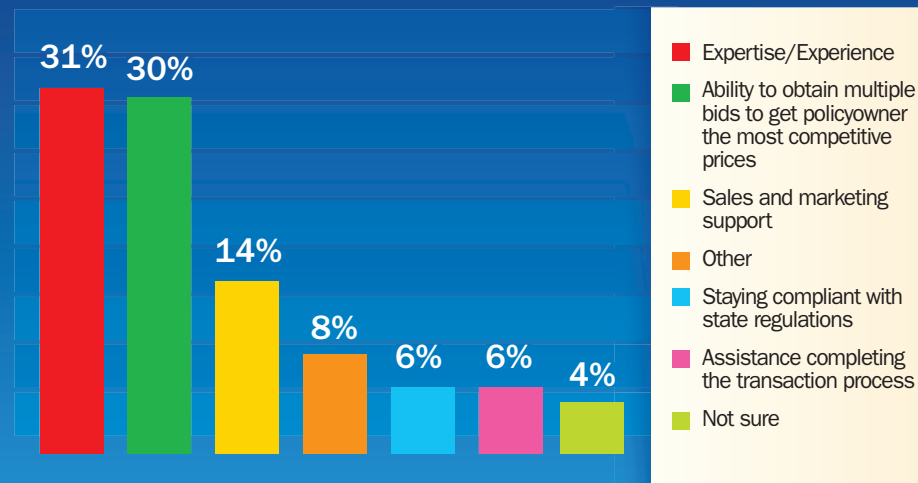
“The education of life settlements ... is really what’s going to need to take place to move the industry forward,” said Frith.

Perhaps if carriers knew that life settlements could actually encourage clients to purchase policies in the first place, said Gillhaus, they wouldn’t be so quick to discourage agents from conducting life settlements. Or if agents were trained in the regulations and technicalities of life settlements, they wouldn’t be hesitant to enter a marketplace where their knowledge level is so low.

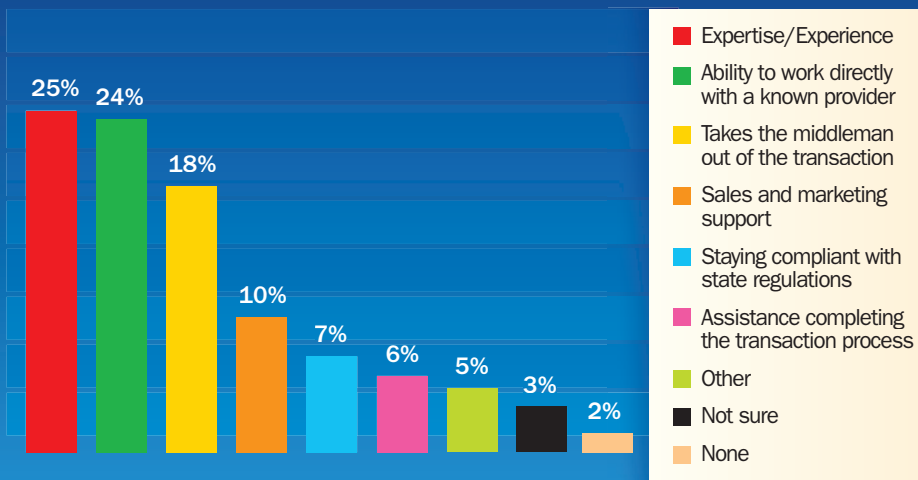
And negative impressions can be quelled as agents learn how the industry is increasingly regulated today and what their options are for legal and compliance backup. It may be viewed as an emerging industry to many, said Gilhaus, but it’s anything but. The life settlement industry has matured, he said, and agents need to know this to be encouraged to enter the marketplace.

Freeman agreed. “I think when agents look at this with an open mind and an educated mind and look at what’s really going on, they’ll see that (life settlements are) a good thing, and it’s something their

Perceived Advantage of Working with a Settlement Broker ▶ Chart 8a

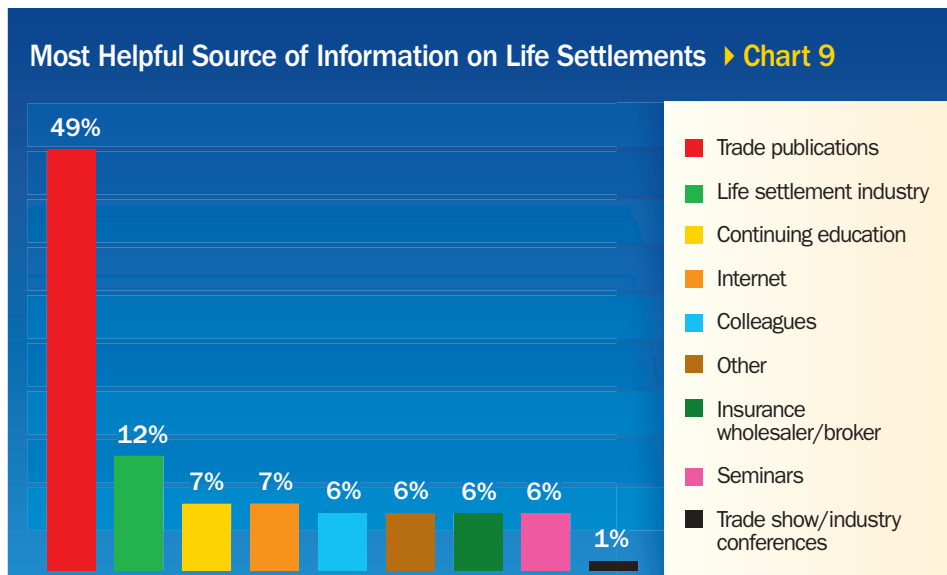


Perceived Advantage of Working with a Settlement Provider ▶ Chart 8b



client deserves to know about," Freeman said. "It can be argued that they owe their client a fiduciary duty to do this."

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