



The Life Settlement Market: Fewer Agents, More Volume?

'Irrational exuberance' settles down as secondary market continues to mature

BY CHRISTINA PELLETT

In 2006, Agent Media's first-ever life settlement survey of producers indicated that, while only 18 percent of agents at that time had ever completed a life settlement transaction, more agents would have been willing to explore the option if they were better educated on the process.

Today, that number has nearly doubled, with 35 percent of agents having transacted a life settlement in their career, representing a steady climb since 2006, according to the third annual Life Settlement Study, conducted by Agent Media in partnership with the Life Insurance Settlement Association (LISA). (See Chart 1)

But while more agents this year than ever indicate that they've at least explored the secondary life market, the study shows that, even though producer optimism spiked between 2006 and 2007, some producers are beginning to back off. When asked if they would discuss life settlements with clients who met the requirements, 79 percent of producers this year said yes, down from a high of 88 percent

last year. (See Chart 2) Forty-three percent of producers this year also said they expected to perform a life settlement transaction within the next 12 months, down slightly from 54 percent in 2007. (See Chart 3)

According to Doug Head, president of LISA, however, these numbers do not necessarily represent less activity overall in the life settlement market activity overall. In fact, he said, his association has seen more activity in the past few years, and it's only growing. The difference, he said, is that more casual life settlement producers are exiting the market after having experimented with the transactions, while those who remain are creating more volume.

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Methodology

In November 2007, 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 300 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.

62%

Agents who did not discuss the life settlement option with any of their clients who have surrendered a life insurance policy

CHART 1

Agents who have completed at least one life settlement transaction in their career

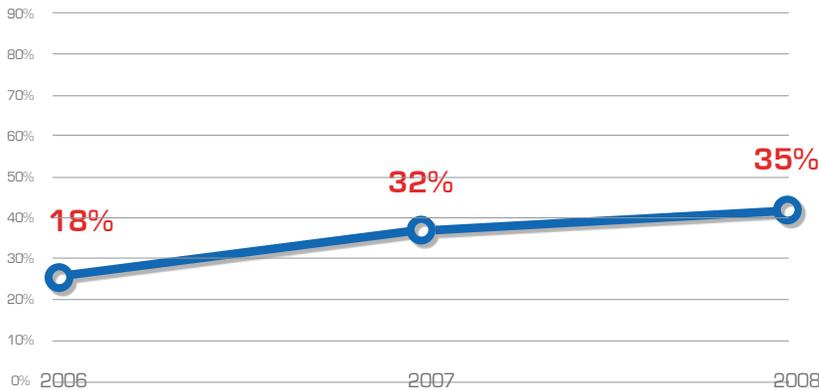


CHART 2

Agents who would discuss life settlements with clients who met the requirements

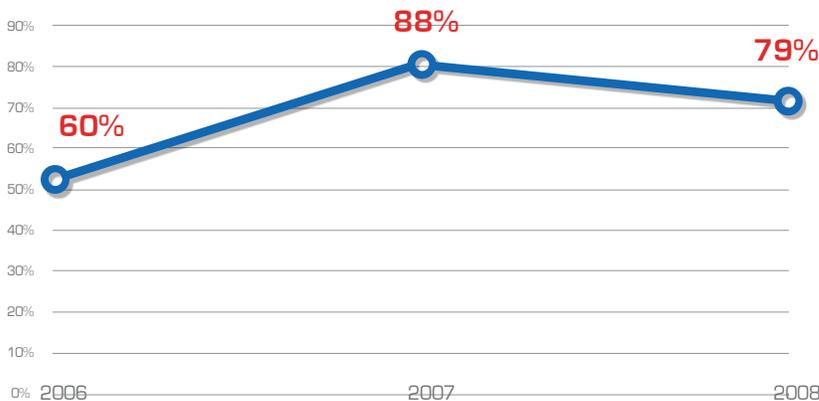
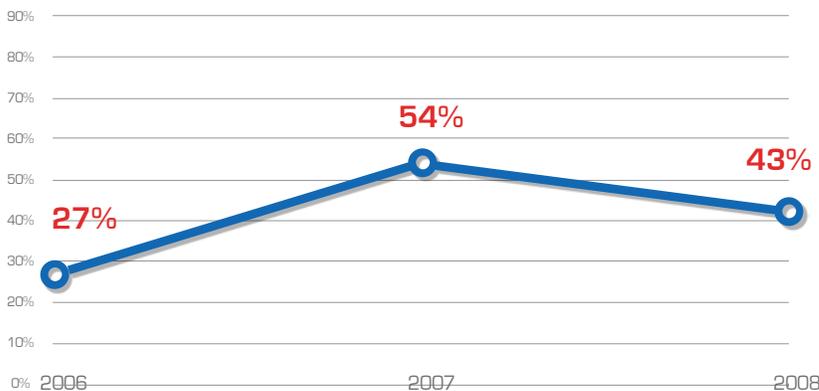


CHART 3

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



Producer Compensation: What do Clients Need to Know?

Among several regulators' proposals to help rein in what some see as an unwieldy life settlement market is the push toward commission disclosure and standardization, with much being made of a handful of agents earning astronomical commission on their clients' settlements.

While such a move seems logical, most industry insiders have come down strongly against disclosure in particular, with parallels being drawn between life insurance agents and other salespeople. The idea, said Head, is that the more information clients have, the more transparent the transaction will be and the better it will be for the consumer. Some information, though, is simply not relevant, he believes.

"They don't disclose compensation at a car lot," said Head. "Will it help sales to know? No. Insurers are advocating for compensation disclosure in the secondary market and avoiding it in the primary marketplace. Disclosure does not help consumers. It's just a way to say they've done what they need to do."

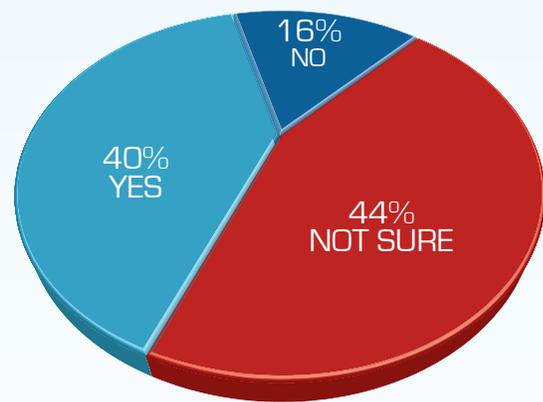
Robin Weinberger, national director of accounts for the brokerage firm Advanced Planning Services Inc., agrees.

"Sometimes the bad guys make the rules for the good guys," she said. "But compensation disclosure is opening a can of worms for the insurance industry."

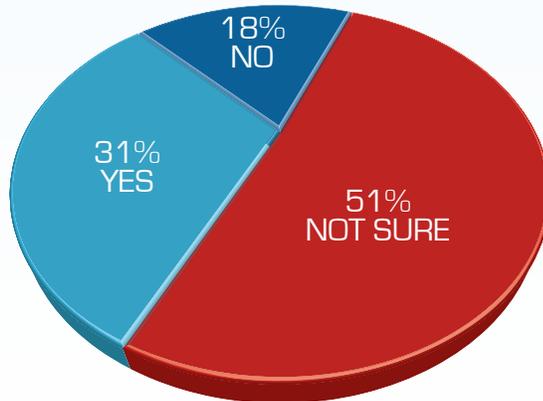
Similarly, Head feels standard compensation is not an adequate solution, either.

"We feel that standardization of commissions has not been a tradition in the life industry or most other industries, where competition has allowed for various modes of compensation to bring maximum value to the markets and to consumers who can compare when shopping," he said. "Outside of a few singular states, where the market benefit is not clear, this is not familiar territory to insurers or producers. The concept assumes some approaches to markets that do not seem comfortable within the concept of a free market."

Are you in support of full commission disclosure with regard to life settlement transactions?



Are you in support of commission standardization?



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“There was a little bit of irrational exuberance last year, and maybe this year we’re seeing some of the fluff being boiled out of the market,” said Head.

Nonetheless, he said, the numbers are still not as high as his organization would like them to be.

“It’s evident to me after seeing life insurance professionals in the legislative arenas that a lot of them aren’t getting it,” said Head. “It’s amazing how many people still don’t recognize (that life settlements) can bring value to a consumer. It’s an ongoing challenge.”

Market opportunities

The market is ripe for life settlements — transactions by which life policyholders sell their policies to institutional funders for a sum greater than the cash surrender value but less than the death benefit. As an alternative for consumers with a life policy that’s no longer serving them as originally intended or that they can no longer afford, settlements can offer them more money than if they surrendered or simply lapsed their policy. When the original policy owner dies, the funder (rather than the original beneficiaries) collects the death benefit from the insurer.

Seventy-five percent of agents have clients age 65 or older whose life insurance needs have changed since they purchased their policy. It’s these clients’ policies that funders are most interested in — the ideal policyholder is older than 65 and in less-than-ideal health, with a policy value greater than \$500,000 (though more providers are now beginning to specialize in smaller-face-amount policies).

Sixty-two percent of agents, however, never even discussed the life settlement option with their clients who surrendered policies.

“If (the agents) are deliberately not speaking to them, that’s a bad thing,” said Head. “Maybe they’re threatened by their company or they feel there is some risk, but whatever the case, they’re not understanding the risk of not talking about it.”

An inside look at life settlement activity

The greatest reason why clients have engaged in a life settlement transaction, according to 35 percent of those agents who have transacted a settlement, is that their insurance needs have changed or no longer exist. Other reasons include a change in cash or income needs (17 percent), unaffordable premiums (16 percent) and a desire for cash to fund other investments (11 percent).

Thirty-eight percent of agents who have transacted a life settlement say they have sold

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CHART 4

If you do not expect to perform a life settlement transaction within the next 12 months, why not?

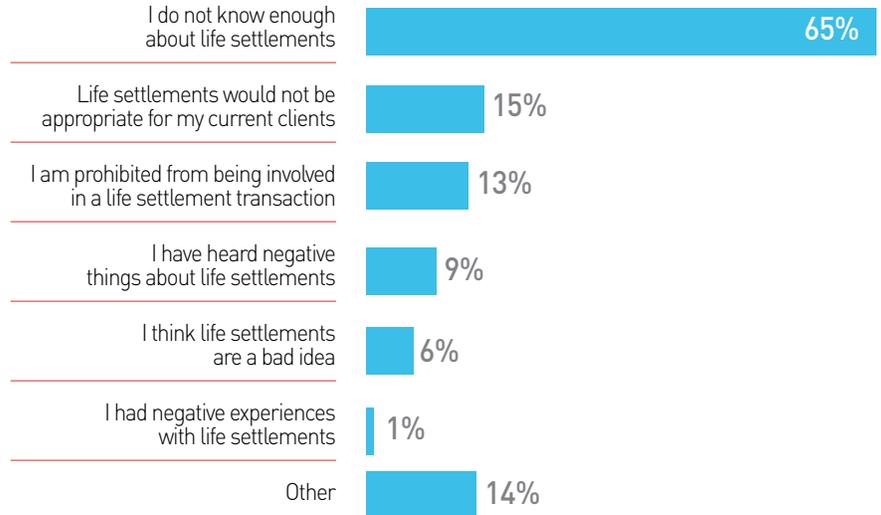


CHART 5

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

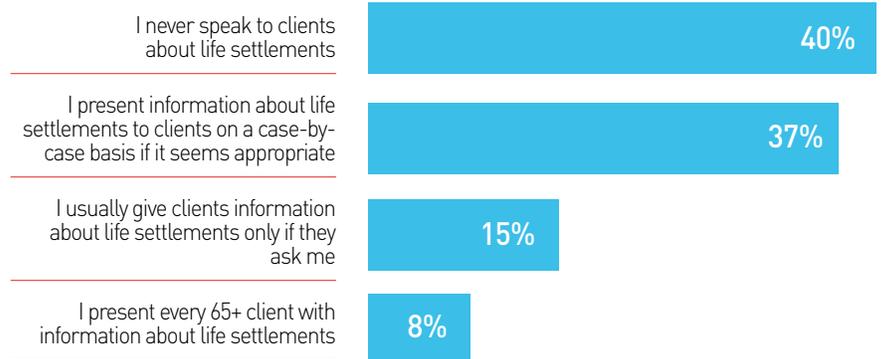
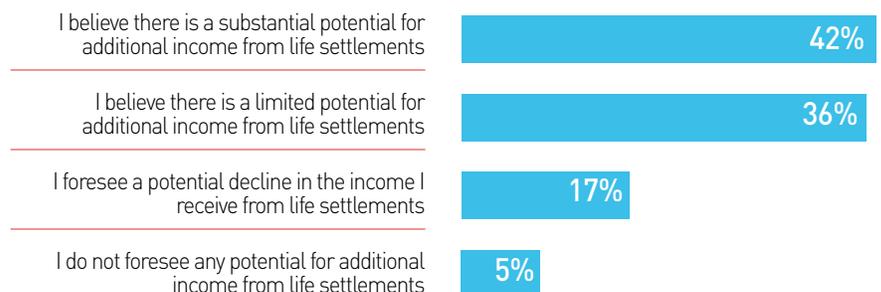
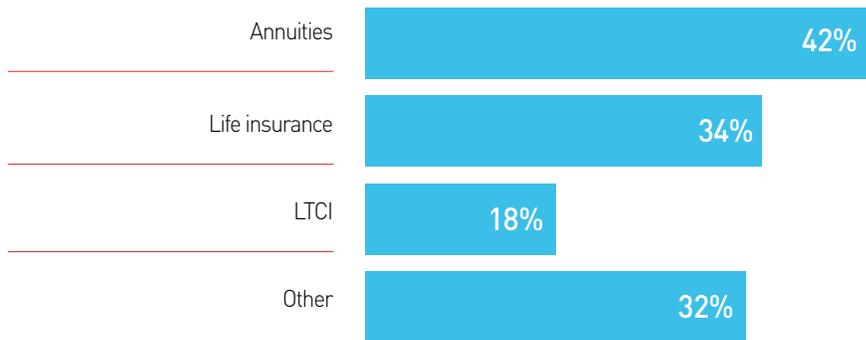


CHART 6

How do you perceive the potential impact of life settlements on your business?



What additional products have you sold as a result of a life settlement transaction?



ASSOCIATION PROFILE: Life Insurance Settlement Association

Founded in 1995, the Life Insurance Settlement Association represents the life settlement industry as a whole, participating in legislative and regulatory matters in all 50 states, Puerto Rico, and Canada.

Composed of more than 175 member companies in North America, Europe, and Australia, LISA serves as a source of information for consumers, member companies, regulators, legislators, and all other interested parties.

Since its inception, LISA has strived to promote responsible legislation and regulation of the life settlement industry. To that end, LISA's mission is to promote the development, integrity, and reputation of the life settlement industry and to promote a competitive market for the people it serves.

In order to gain membership to LISA, a company must have spent time, money, and effort in order to comply with government and public standards. LISA members are kept abreast of the latest activity in the areas of insurance and securities, legislation, and regulation affecting the life settlement industry.

LISA members have access to a Web site containing exclusive information pertinent to the life settlement industry. Members also have additional access to information critical to agents' business interests, including the latest movements of state and federal legislative bodies, proposed and enacted state and federal laws, emerging industry regulatory developments, breaking news, important legal information, industry research, and marketing and promotional materials.

In addition, members may post the LISA logo on their company's Web site for advertisement purposes. LISA's Web site offers the public access to member companies' information, including a live link to the company's main Web page.

LISA members may also participate in weekly conference calls that offer members a forum in which to discuss timely industry topics and legislative issues, as well as the opportunity to voice their own concerns to LISA executives and other members. Conference agendas are posted on the member-only portion of the Web site for real-time access during the call. Prior to the call, members are encouraged to suggest discussion topics.

The organization's bi-annual conferences provide members with a forum in which they can address the most important issues and developments facing today's life settlement industry. LISA also offers members-only summits and other special events.

LISA members are professionals who are held to the highest ethical standards in their business practices, and these members pledge to improve public information and awareness that they hope will result in a healthy industry, strong individual businesses, and better consumer service.

For more information, visit www.lisassociation.org

at least one other insurance or financial product as a result. Annuities (42 percent), life insurance (34 percent), and long term care insurance (18 percent) were the three most popular cross-sold products.

Nearly half the agents surveyed (42 percent) said that, aside from financial or insurance products, their clients typically use their life settlement proceeds to cover living expenses.

As in past years, the study shows that the vast majority of agents who do not intend to transact a life settlement in the next 12 months are shying away because they do not know enough about life settlements (65 percent). (See Chart 4)

And, once again, most agents (29 percent) say their biggest challenge by far is that they need a better understanding of life settlements, highlighting the need for brokers, providers, and organizations to provide better education for their producers on this market.

Interestingly, prospecting seems to have become less of a challenge for producers, with only 12 percent naming it as their most significant challenge this year (as opposed to 24 percent last year). Head believes that this shift shows that consumers are more aware of life settlements and, if they're not the first to bring it up with their advisors, they may at least be more receptive to the idea when presented with it.

Brokers and providers

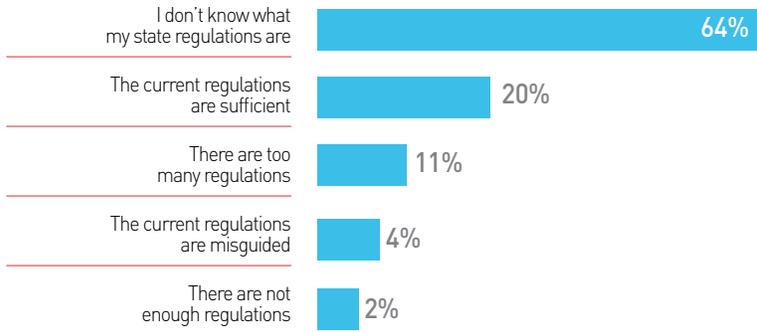
Twenty-two percent of respondents have worked directly with a life settlement provider; of those, 36 percent typically seek bids from only one provider. Twenty-six percent seek bids from two, 20 percent use three, and 4 percent use four — yet 14 percent typically seek bids from six or more providers. Head said that, when working directly with a provider, producers should be working with more than one; only one provider means only one bid, and agents who go this route could be unknowingly cheating their clients out of a better offer from another provider. When working through a broker, however, Head said, agents would do best to only use one.

Twenty-eight percent of respondents have worked with a broker, and 22 percent said the biggest advantage of doing so is the ability to obtain multiple bids to get the policy owner the most competitive price. Nearly half (49 percent), however, said they don't know the major advantage of working directly with a settlement broker — and fifty-two percent said they don't know the advantage of working with a provider, either.

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CHART 8

What is your opinion of your state's current regulations regarding the life settlement business?



When seeking a provider, the study indicates that compliance (93 percent) is an “absolute must-have,” which is good news to Head. “Agents are beginning to understand the significance of compliance in this area. Out of all other things, one of the fundamentals you need is compliance,” he said.

The future of the market

Brokers and other industry experts see the settlement market charging ahead in upcoming years as awareness and the life industry in general continue to grow. Rick Johnson, president of the brokerage firm Policy Options, said he expects more consolidation in the life settlement industry, with several mergers, acquisitions, and consolidation of brokers and providers, and a more streamlined process.

Evolving technology will also likely play a role in the future of the industry, with networked computer systems allowing producers, brokers, providers, and funders to interact more efficiently, Johnson predicted. “I think agents have got to realize that in some cases — but not all — life settlements are a great financial planning tool and that there is a fiduciary responsibility to the client to make them aware of this opportunity,” said Life Settlement Solutions CEO Larry Simon of the future of the industry. “It’s not for everybody, but agents should become more educated in this product as they do any other product. It’s still a high-profit item to them and does provide benefits to the client.”

Christina Pellett is managing editor of the Agent’s Sales Journal. For more information on this and other studies, call 800-933-9449 ext. 226 or email ASJEditor@AgentMediaCorp.com.

State-by-State Life Settlement Regulations

State	Regulation of all settlements	Regulation of settlements involving terminally/chronically ill insured	No regulations
AL			✓
AK	✓		
AZ			✓
AR	✓		
CA		✓	
CO	✓		
CT	✓		
DE		✓	
FL	✓		
GA	✓		
HI			✓
ID			✓
IL		✓	
IN	✓		
IA	✓		
KS	✓		
KY	✓		
LA	✓		
ME	✓		
MD	✓		
MA		✓	
MI		✓	
MN		✓	
MS	✓		
MO			✓
MT	✓		
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NJ	✓		
NM		✓	
NY		✓	
NC	✓		
ND	✓		
OH	✓		
OK	✓		
OR		✓	
PA	✓		
RI			✓
SC			✓
SD			✓
TN	✓		
TX	✓		
UT	✓		
VT		✓	
VA	✓		
WA		✓	
WV			✓
WI		✓	
WY			✓

Source: Life Insurance Settlement Association