

More Investors Come to the Life-Settlement Marketplace

by Larry Simon

More investors are realizing the benefits of investing in life settlements as part of an effective overall investment program. Life settlements may already provide a way for many financial professionals on the distribution front to help senior clients with financial planning, while helping build and expand business practices. A number of new players are entering the market including broker-dealers, CPA networks, insurance carriers, and estate planners. These new players have helped fuel significant growth in the industry, which has resulted in a considerable rise in interest from institutional investors.

Those working with life settlements can look forward to a greater push for education, regulations, uniform standards, and more opportunities as the life-settlement industry continues to attract attention from the insurance industry and as more investors begin to enter the marketplace.

Investors and Life Settlements

Life settlements offer institutional investors a rare opportunity to get involved in an expanding industry that provides a significant supply on assets in which to invest, providing the fundamentals of a valuable long-term investment program. Life settlements make up a non-correlated asset class compared to equity investments. They provide low volatility and minimal gap risk. In addition, the transactions generate returns independent from stock market forces, which have fueled attention from institutional investors, pension plans, private equity funds, banks, hedge funds, and other key financial institutions.

There are risks in investing in life settlements including mortality and longevity risk. But the benefits have attracted more investors to the marketplace. Investors are looking to capitalize on a multitude of benefits, such as a competitive rate of return and the opportunity to include a non-correlated, long-term investment into their portfolio mix.

Furthermore, the securitization of the asset class is expected to occur within the next year along with an increase in available policies and investment options. Securitization is likely to attract more institutional investors since it will provide an avenue for additional exit strategies and liquidity. This will give investors varying time horizons to participate in this market. Securitization will also bring more institutional investment capital to the industry. Life settlements will become more important in the financial realm.

Investor Opportunities

Proper portfolio construction is critical for institutional investors to achieve their investment goals. Key factors must be balanced including face-value amount, number of lives, financial strength rating of the insurance carriers, policy type, and the life expectancy, age, and gender of the insured.

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common assets in policy portfolios. They illustrate some investment options that will be available as the market grows. Standard policies, which characterize the mainstream marketplace, usually range from \$250,000 to \$10 million. Jumbo policies, which exceed \$20 million in face value, are usually purchased by institutional investors that want to invest large amounts of money in a short time.

Institutional investment capital is critical for the life settlements industry to remain a valuable alternative for policy owners who want options to surrendering a policy. Institutional investment will also be critical in fueling growth in the life-settlement industry since it provides the financial resources to purchase policies from the owners.

The Industry Affect

The life-settlement industry has quickly expanded, with more than an estimated \$10 billion transacted in 2006 and an industry potential of \$161 billion expected to be reached over the next several, according to a May 2006 Bernstein Research report. What's more, it is estimated that 47% of people over 65 hold life insurance policies for a total of \$416 billion in face value. This amount is expected to increase to more than \$800 billion in face value in about two decades. This potential growth, combined with increased market penetration for life settlements, is whetting the appetite of institutional investors. In addition, the growing strength of the industry, coupled with an aging population, has allowed life settlements to provide more opportunities for investors and those working with affluent senior clients. The increase in investor interest and involvement can significantly affect the marketplace, aiding the push for securitization, education, and a more uniformed industry.

To learn more about life settlements, and the opportunities they can provide for clients, financial professionals can visit www.ncoil.org, www.naic.org, and www.lisassociation.org. Financial professionals can also participate in industry events, such as Life Settlement Awareness Month and state-certified continuing education courses, and they can stay up to date with industry happenings by reading well-known trade publications. □

Larry Simon is director, chief executive officer and president of Life Settlement Solutions Inc., based in San Diego. Life Settlement Solution Inc. and its management have purchased life-insurance policies with several billion dollars in aggregate face value to date. Life Settlement Solution Inc. founded Life Settlement Awareness Month to provide valuable training on life settlements for financial professionals and the opportunity to earn CE course credit. This annual event offers marketing support, training, and industry expertise to improve producer sales activities. For information, visit www.lss-corp.com or call 858-576-8067.