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Invigorate Your Book With Life Settlements

More Agents Offering Option as Secondary Market Evolves

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The secondary market for life insurance policies continues to evolve rapidly, presenting both challenges and opportunities for professionals who advise clients about life insurance. Increasingly in step with that evolution is a cadre of forward-thinking advisors who embrace this secondary market, realizing the benefits it brings to them and to their clients.

Many insurance professionals just want to understand the process better; they don't necessarily have any real inclination to recommend settlements at first. Still others realize they may occasionally want to assist a client with this service. Indeed, they are beginning to see a fiduciary responsibility to their client in including an understanding of the secondary market.

New interest in life settlements

Let's look at how and why the secondary market for life insurance policies is evolving. In general, the same forces that drive all other insurance and financial services are driving the rapid growth of the secondary market for life insurance. For instance, the aging population means there are simply more people at an age at which life settlements are an applicable tool. Then, there's the financial management philosophy of our economy, which increasingly focuses us all on asset management, meaning we

When could a life settlement be appropriate?

- A policy is in danger of lapsing.
- A policy simply is not performing as desired or needed.
- The need for the policy has been obviated.
- Escalating premiums make the policy unaffordable, or at least not the best investment in this instance.
- The insured or owner could benefit from a different type of coverage — perhaps a newer “model” policy.
- The insured or owner could benefit from owning or holding the policy in a different way.
- There has been a change in the insured's health.
- There has been a change in personal circumstances, such as divorce or retirement.
- There has been a change in business circumstances, like the sale or purchase of a business, bankruptcy, or a key-person policy that is no longer needed.
- There has been a change in prevailing estate law or tax codes.

have more choices and a greater need for solutions like settlements.

Likewise, we will all eventually face asset consumption, asset disposition or some of both, so the need for the reallocation of life insurance assets is more likely than ever. Ultimately, simple economics have brought change: Free markets naturally eliminate artificial restraints on trade, and the limited options of lapsing or surrendering a policy or handing it over for minimal cash value are certainly unsatisfactory.

The life settlement industry has matured to the point where regulation has had time to develop. And, while that regulation is not consistent and not always entirely positive, it does provide a comfort level. As a result, many “bad apples” have exited the business.

Those of us who have been in this industry since its inception and have always adhered to the highest ethical standards applaud the regulators and

continued...

As seen in 

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legislators who have helped shape the industry into its current state of respectability and accountability.

In fact, the life settlement concept is so mainstream now that consumers are asking their advisors about the option. So, it behooves advisors to learn enough about the secondary market for life insurance to provide guidance.

A majority of agents and advisors likely already have clients in their book of business who could benefit from a life settlement. Thus, it is beneficial to take a fresh look at your clients; many advisors even systematize these policy reviews, doing them quarterly, for example.

In general, look for clients who have made or are planning on making major life changes. Most settlement providers (that is, the entities that actually purchase life policies in a settlement transaction) can provide sample case qualifications to help you identify prospects.

What are some general guidelines?

All policy types are considered, although better than 90 percent of settled policies are permanent; fewer are term policies. There is no maximum face amount and arguably no minimum, but most policies sold on the secondary market are \$250,000 (face) and up. Salable policies must be issued by companies rated B or better, and must be past the contestable period.

Most prospects are 65 or older; fully three-quarters of successful cases seen by the industry's larger settlement providers are 70 or older. The majority of policies insure the lives of men. Life expectancy varies, though half or more settlements are for life expectancies of five to 10 years.

Many states don't require a separate license for you to foster life settlement transactions; for some, you only have to be licensed to sell life insurance. Still, you want to be in compliance, so learn what may be required before you proceed. Largely, agents who want to be part of the secondary market for life insurance simply take the initiative. It can be useful to find a mentor, either another agent who is already seasoned in life settlements or a strong, credible settlement company.

Being able to advise clients about life settlements enables you to extend your services. Being at least minimally versed in the secondary market also ensures your professional obligation is met to provide the best and broadest advice to your clients.

Life settlements affect your bottom line as you bring both existing clients and new prospects an option they may not have considered. You gain additional revenue based on new policy sales, renewals, conversions, and referrals. If you do nothing more than source cases for a settlement company,

you'll make a nice commission. The primary consumer benefit is the ability to offload an underperforming product and potentially take on a better-suited product, all without a considerable loss on the investment already made in a life policy. According to a 2002 study by The Wharton School, life settlement payouts exceeded the cash surrender value (CSV) of life policies by more than 3½ times. More striking contrasts between CSV and settlement amounts are commonly seen.

Agents are well rewarded when a life settlement is the right solution for the client. And, whether or not you plan to regularly advise clients about the secondary market for life insurance, the ability to offer them settlement guidance as part of a complete arsenal of advisory tools is invaluable and will surely distinguish you from your competitors.

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