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HEADLINE: Life Settlements Enter The Mainstream

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BODY:

The life settlement market has come of age. Regulatory attention has strengthened the secondary market for life insurance policies, and the existence of that market has strengthened life insurers themselves.

A life insurance policy is one of the most valuable assets most Americans will ever own, but, historically, there was only one potential purchaser for a life insurance policy: the issuing insurance company. When you took your policy back to that original seller, the only possible "purchase price" was the policy's cash surrender value, which was set by the insurance company.

Because of that approach, policy owners received little, if any, economic value from policies they no longer wanted, needed or could afford. In fact, many of those policies were simply lapsed. The value of those lapsed policies is enormous because, incredibly, it is estimated that 93% of all policies issued lapse before paying a claim.

Free markets will always eliminate artificial restraints on trade. Thus, the emergence of a secondary market that would give policy owners an alternative to the artificially low cash surrender value repurchase price was a historical inevitability.

The secondary market gives policies liquidity similar to that of more familiar tradable commodities, such as stocks, bonds and residential mortgages.

Now, market forces ensure that a large percentage of life policies are worth significantly more than their cash surrender value. Policy owners can receive anywhere from 1.5 times to 1,000 times the amount of the policy's cash surrender value, depending upon the type of policy owned and the amount of any cash value accrued. In my experience, life settlement providers can pay more than cash surrender value in at least 80% of the cases presented.

The potential size of the life settlement market is extraordinary. Although too few legal or financial advisors know much about life settlements, the estimated face value of policies settled in 2001 was between \$1.8 billion and \$4 billion, according to Conning and Company, Hartford, and the **Viatical** & Life Settlement Association of America, Orlando, Fla. Based on my experience, it is fair to say this number has increased about 20% every year since.

In 1999, the last year for which solid data is available, Conning & Company estimated that the total value of life insurance policies held by senior citizens was over \$490 billion.

Thus, even if it were assumed that there was no growth in the industry since 1999, and only 20% of eligible policies were appropriate for settlement, the potential market would be about \$100 billion. Needless to say, the untapped \$96 billion represents an exceptional opportunity for policyholders to obtain value from unwanted policies.

One reason for the huge increase in the number of settlements has been improvement in life settlement market regulation.

Back in 1990, when settlement companies focused on **viatical** settlements, the settlement industry attracted the same types of bad actors that many emerging industries attract. The damage done to the reputation of the industry by a few unscrupulous people lingers to this day.

Those of us who have been in this industry since its inception, and have always adhered to the highest ethical standards, applaud the industry associations, regulators and legislators who have helped shape the industry into its current state of respectability and accountability.

One factor that has fueled the explosive growth of the industry is the **viatical** and life settlement legislation enacted by many state legislatures and regulations put in place by state authorities, such as insurance and securities departments. Currently, there are about 36 states that regulate **viaticals** (typically, transactions where the insured has less than 24 months to live), life settlements (typically, transactions where the insured is over 65 and has a life expectancy of more than 24 months), or both. Regulation has brought the life settlement market into the mainstream and ensures that owners, insureds, financing entities, settlement brokers and settlement providers all are protected.

The benefits that the settlement industry has brought and continues to bring to policy owners who wish to sell their policies-and to the underlying life insurance market-far outweigh the actions of those who sought to manipulate settlements at the expense of others.

For instance, the widespread emergence of accelerated death benefits would not have come about if seriously ill insureds had not gained a new market for their policies.

The existence of the settlement market also has spurred life insurers to offer many new hybrid products, such as programs that combine long term care insurance, disability insurance and stated disease insurance in a single policy.

Although some life insurers complain that the sale of policies into the secondary market is unfair and hurts profits, as a practical matter, the very existence of the secondary market has increased the value of life insurance, which in turn should increase demand for new policies. The quiet entry of a few life insurers into the life settlement market is a strong statement that even insurers acknowledge the value of this new and exciting market.