An Investor's Perspective on Life Settlements


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A life settlement provides a policyowner with the ability to monetize the economic value of an insurance contract at a value potentially greater than such traditional exit strategies as:

• Surrendering it to the insurance carrier for the cash surrender value, or . . .

• Letting the policy lapse and thereby lose the value of any premiums paid to date.

During the past five years, our company, Veris Settlement Partners, has helped policy owners receive $42 million over the cash surrender value in life settlements.

We asked Vincent Pellegrino, Director of Longevity Markets at Credit Suisse, to speak at the recent Life Settlement Master Class and discuss why investors are interested in this asset class.

"There is a perception that life settlements, an asset class that experienced challenges over the past three years from regulatory scrutiny, life expectancy extensions and bad press, is a buying opportunity once again," he said.

"This view has gained credibility as a number of large institutional investors have devoted resources to the market. Life settlements are seen as an attractive investment because longevity risk is generally considered to be uncorrelated to most other asset classes and offers high diversification characteristics," he added.

There is strong demand in 2011 for secondary and tertiary policies. Approximately $7 billion of Death Benefit has been traded since last October in the tertiary market. Tertiary policies are popular because of the reduced ramp-up risk and greater diversification while secondary policies have increased control through due diligence standards and the ability to build a tailor-made portfolio. Currently, investors' demand exceeds the number of good quality policies in the tertiary market.

Mr. Pellegrino went on to discuss that the market has been "going back to the basics" in seeking corporately-owned policies and older policies -- especially those in which there has been a change in health of the insured. The recent court decision on the Kramer appeal has caused investors to take another look at premium financed policies. There are buyers once again, but the policies must be "clean", i.e. have a well-recognized lender and financing which was fully disclosed in the insurance application. It is also important that there be a clear insurable interest at inception plus full documentation and premium history.

Although the life settlement marketplace continues to improve, it is more important than ever for prospective cases be properly evaluated and packaged. The files should be "scrubbed" in advance to avoid surprises in the closing process. Investors these days are very concerned about clean origination and getting the file complete, properly packaged and submitted to the right prospective buyers. This can often make the difference between a quick transaction and a case that languishes for months.

In general, investors favor convertible term, universal life or survivorship universal life with one insured deceased. Although parameters are gradually expanding, the principal market is for life expectancies of less than 12 years, which implies that the insured will either be in the mid-seventies with some health impairments or 80 and up for healthy seniors.

A number of states are either considering (or have already enacted) the new National Conference of Insurance Legislators (NCOIL) model disclosure, which mandates that policy owners surrendering their policy must be notified that life settlement may be an option. Greater awareness of the life settlement option on the part of seniors can only serve to increase the supply of policies available for settlement. FA

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