

The New Frontier: Bringing Life Settlements to Small Face Policy Owners



Steve Shorrock

By Steve Shorrock, ChFC, CLTC, FLMI

So far, the life settlement marketplace has not enabled senior owners of small face amount policies (\$100,000 to \$500,000) to effectively access the consumer benefits of a vibrant secondary market. Although it has been possible in the past to settle policies of this size, these policies have never been the focus of the marketplace and activity has lagged that of larger policies.

But why? The devil is in the details. Despite a maturing of the marketplace, life settlements remain a complex transaction. They require many steps to be executed efficiently by numerous parties for the transaction to be completed in a proper and compliant manner. This process typically takes 90-120 days, from application to funding the policy owner. Time is money. That, along with significant upfront fees for medical records and third party life expectancy reports, have made buying policies of this size unprofitable for most life settlement providers (policy purchasers).

So the market has continued to focus on larger face policies. According to the 2008 Life Policy Dynamics 2008 Market Analysis, the median policy face amount for the third straight year was \$1 million with the mean face amount growing to more than over \$2 million. But what is the size of the majority of the policies in the marketplace? The answer...much less.

According to LIMRA, only 3% of all universal life and 7% of term sales were for policies with face amounts of

more than \$500,000. Conversely, 37% of universal life and 72% of term sales have face amounts between \$100,000 and \$500,000. The rest of the market is less than \$100,000. The numbers are staggering and the life settlement market needs to develop new strategies and methodologies so they can efficiently provide the majority of life insurance policy owners an attractive alternative to policy lapse or surrender.

How do we get there?

The most time consuming and costly aspects of the current life settlement transaction process are the front-end underwriting methods and the back-end processing of the closing documents. Only through a new, streamlined and simplified approach to these two key elements of the process can life settlements truly move into the small face market.

Can the need for complete medical records and multiple third-party life expectancy reports be removed from the process while still retaining underwriting integrity? I believe so. With a more detailed medical and lifestyle questionnaire at application, and the implementation of tele-underwriting interviews, accurate life expectancies for insureds on small policies can be obtained. And as the policy inventory and amount of lives covered grow under a successful program, the stress on the portfolio's performance tied to mortality estimates will be mitigated.

The closing process can be addressed only by the buyers. Closing

a life settlement in today's market is complicated by ever-expanding document requirements and delayed by multi-level review and approval processes at providers and their underlying funding sources. For the small face transactions to be streamlined, a purchasing source with direct control of funding needs to commit to the market. They need to simplify the documents and accelerate the review process. The implementation of third-party closing specialists, as with mortgages, would bring even greater value to the process for policy owners and their advisors.

In today's economic environment, it is more important than ever for these hurdles to be addressed and cleared, so more seniors can explore the potential benefits of tapping the true economic value of their unneeded, unwanted or underperforming life insurance assets. We are working hard to make this a reality. Please reference our advertisement (page 11) that details our new, exclusive small face program. **FB**

Steve Shorrock is President of LifeVentures Corp, which designs new life insurance products and develops marketing concepts for agents and Director of Veris Settlement Partners, a life settlement firm that brokers seniors' unwanted or unneeded life insurance policies. You can reach him at his Northport, Long Island office at 631-239-6655 or steve@lifeventurescorp.com