

# The Secondary Market

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## Market Forecast for Life Settlements in 2014 and Beyond

As we enter 2014, the life settlement market continues to strengthen and the future looks quite promising.

Last month, Conning, Inc. released their 2013 report on life settlements. The report offers a wealth of information for the industry.

**Three things stand out in the report. First, Conning reaffirms that the size of the potential market for secondary transactions is large.** Conning estimates an average face value Net Market Potential (NMP) of \$122 billion for the next ten years. Conning defined NMP as the total face value of policies that meet investor criteria and whose owners would consider selling their policies. That should put to rest concerns about supply.

**Second, attracting investment capital remains a challenge according to Conning:** "Liquidity appears to be the largest hindrance to a strong return of capital to life settlements." The set of investors willing to commit capital for 8 to 10 years without an "effective tertiary market where already settled policies can be sold" will remain limited until this issue can be addressed. A robust market for policies with shorter life expectancies attached would increase the supply of short duration policies and, in turn, offset liquidity concerns, thus improving the environment for growth of investment capital. Conning concludes that "a shift toward nursing home care may help reduce the liquidity risk created by holding policies with longer life expectancies."

**Third, Conning reports a favorable view of the life settlement market's entry into the long-term care sector:** "As elderly individuals, and their families, look for ways to pay for LTC, life settlements offer an additional source of LTC funding. This creates a new opportunity for life settlement investors." In estimating the size of market, Conning presents several approaches for investors to consider. In one analysis, Conning suggested that there may be more than \$40 billion of death benefit that could be sold by policy-owners seeking to finance their long-term care needs. The opportunity for life settlement growth of smaller face policies of shorter duration is significant and will require changes in business plans and strategies of market participants, says Conning. Relying on intermediaries to originate policies and the complexity of the life settlement transaction will be factors that could limit the profitability in small face transactions. Time from submission to closing will have to be reduced and the transaction process streamlined. Marketing and awareness will require innovation and creativity.

Professor Lauren Cohen, author of the Harvard Business School case study about life settlements, concludes there is every reason why the life settlement industry will thrive and grow, and at the same time there is every reason why the industry will need to make significant changes. The Conning Report confirms the view of Professor Cohen. **If there's a major theme in the report, it's that the future is now.**

***Now is the time to review your block of business for potential life settlements. Give Veris Settlement Partners a call at 631-239-6655 to discuss the market viability of your cases.***