

Small-Face Life Insurance Policies Now Being 'Settled'



Russel Dorsett, pioneer in opening the secondary market for small-face life insurance policies, is the new president of the Life Insurance Settlement Association. He is a principal in Veris Settlement Partners, Northport (LI) and Rockville, MD.

The secondary market for life insurance, heretofore practical only for policies with face values of \$500,000 and up, is now opening up for smaller-face policies of between \$100,000 and \$500,000.

Veris Settlement Partners of Northport (LI) and Rockville, MD, and Life Settlement Leads (LSL) of Parsippany, NJ – in conjunction licensed life settlement providers – have teamed up to simplify a normally complex process for professionals and consumers.

Normally, a life settlement – the sale of an unneeded or unwanted life insurance policy to a third party who then becomes the beneficiary – involves getting five years of medical records, buying life expectancy studies, finding potential buyers, taking it to market, negotiating a settlement and closing the transaction.

“This process can take three to six months from start to finish and involves a lot of expense,” said Russel Dorsett, a Veris principal and president of the Life Insurance Settlement Association. “By eliminating much of this expense, we can fix it so more money stays with the policyholder, thus making the transaction worthwhile.”

How do they do this?

“Rather than getting medical records and ordering commercial life expectancies, we’re using the internet and phone interviews to do this underwriting,” Dorsett explained. “This provides an outlet for policies that otherwise would have no market. There are a lot of people with \$100,000 policies they don’t need who would rather have the cash. ‘Till now, they were locked out of the secondary market,” Dorsett said.

A key element of the new program is LSL’s technology, which evaluates small policies for institutional buyers and providers.

Rob Gatti, CEO of LSL, noted that seniors – the principal prospects for the small face program – are “particularly vulnerable. It’s critical for any company serving seniors to provide a safe, simple transaction that encourages input from their adult children and other advisors. Our joint program is designed with smaller margins that translate to significantly lower fees and simplified documents. (Thus), seniors and their advisors are given a much easier financial option to evaluate,” Gatti said.

Part of reducing the expense of settling small-face policies is seeking just one offer rather than shopping it to multiple potential buyers. A widely-accepted formula is used to generate the offer, which is usually acceptable. Still, it’s pretty much a “take-it-or-leave-it” for the policyholder – unless the life expectancy is viable and the policy is big enough to attract a market. Then it would be put through the normal process, which is spending the money to go out and shop it.

Dorsett was asked why a buyer of (investor in) life insurance policies would want to bother with a policy as small as \$100,000.

“Look at it from a portfolio standpoint,” he said. “If I’m taking mortality risks, I’d rather have a bunch of \$100,000 policies than one \$10 million policy.” **FA**

Parameters For The Small Face Program

- Policies must have a face amount of between \$100,000 and \$500,000.
- Policies that will be considered: Universal Life, Convertible Term Life and Survivorship Universal Life (with one insured deceased).
- Premium can be no more than 6% of face amount.
- Carrier must have A.M. Best rating of B++ or higher.
- Insured should be a male over age 70 or a female over age 75 with a life expectancy of 3 to 9 years.

‘STOLI’ Not a Factor

As word spreads that small face policies can be settled, will this trigger opposition from the insurance industry and the threat of new regulation?

No, said Russel Dorsett, “so long as the transactions are done fairly, transparently and are of value to the consumer, said Russell Dorsett. “Obviously, there is concern about seniors being exploited and our industry shares that concern.”

Largely because the insurance companies have changed some of their underwriting and other practices, “the economic incentives to buy a policy that’s only a couple of years old aren’t there anymore,” Dorsett said. “Besides, if you’re going to do STOLI, which reputable life settlement companies won’t do, you’re not going to do it for a \$100,000 policy.”

STOLI (stranger-owned life insurance) refers to life insurance policies sold with the sole intention of selling them in the secondary market within a short time.

Veris Settlement Partners can be reached at (631) 239-6655.