Why Life Insurance and Settlement Companies Should Work Together


Steve Shorrock

By Steve Shorrock, ChFC, CLTC, FLMI

As a former life company CEO, I clearly see the value of life settlements to consumers who own policies that are no longer needed or wanted or have become unaffordable.

They allow your clients to receive fair market value for their policies rather than surrendering them back to the carrier. I wish that many of my colleagues at life insurance carriers would feel the same. Policy owners working with Veris Settlement Partners since our inception in 2006 have received $45 million more than the surrender value through life settlements. Also, a leading actuarial firm, Milliman and Robertson, found that 88% of all Universal Life policies never result in a death claim.

For the past several years, the ACLI (life insurance industry's principal trade association) has tried to equate all life settlements with STOLI (Stranger-Originated Life Insurance). STOLI was indeed a problem in the middle of the past decade when a huge "bubble" of liquidity, coupled with a view (based on commercially-purchased life expectancy reports) that the life carriers had underpriced policies on older insureds.

Accordingly, investors were willing to purchase even newly issued life policies on seniors either directly or via "stealth" programs, which utilized specially created trusts and/or premium financing.

These programs were problematic both because they ignored the vitally important principal of insurable interest and were often associated with fraudulent activities, such as misstating the proposed insured's net worth and/or medical status.

Moreover, STOLI was a bad financial bet. In the fall of 2008, all the major life expectancy (LE) providers instituted a "table change." The upshot was that LEs increased by roughly 30%, which dramatically impacted the pricing of policies. The vast majority of STOLI policies wound up either in distressed portfolios or lapsed. LISA, the Life Insurance Settlement Association, has worked diligently to combat STOLI while preserving the legitimate life settlement option. Through its efforts, STOLI is largely a thing of the past. Ninety (90) percent of the American population now live in states where life settlement regulation strictly prohibits STOLI practices.

On the positive side, the existence of a life settlement option for older policy holders who experience a decline in health has helped to increase awareness of the true value of life insurance. For one of the few areas of consistent growth in new policy sales has been in the 65+ market. While much of this is driven by the demographics of an aging population, there is no question that the secondary market has enhanced the value of life insurance in the eyes on consumers.

I look forward to the day when insurance executives more fully embrace the concept of life settlements – not only to provide living benefits, but also to allow their policyholders to monetize their insurability if they chose to do so. FA D

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