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## **Life Settlements Checklist: What To Look For (And Look Out For) In A Life Settlement Company**

Life settlements are a relatively recent and rapidly growing strategy used when a person no longer needs or wants (or can no longer afford) his life insurance policy. An agent works through a life settlement company or broker to sell the policy on the secondary market for more than the policy's cash surrender value.

Evolving from viatical settlements (terminally-ill insureds with less than two years to live), life settlements involve seniors generally over the age of 70 with life expectancies between three and 15 years. The typical life settlement client is a 76-year old high-net worth senior who approaches the transaction as a business decision.

There are numerous reasons why a client may want to sell his insurance policy. For example, insurance needs or estate planning goals may have changed; premiums may have become unaffordable or cash may be needed to fund a different (better performing) life insurance policy; a change in business owners or key persons may have occurred; funds may be needed for long-term health care; or funds may be needed as a source of cash for charitable giving.

The life settlement industry has doubled over the past five years. Not surprisingly, this rapid growth has spawned a plethora of individuals and companies proposing to negotiate life settlements on a client's behalf. Beware, this is not a business that one can just jump into. It is imperative that you seek out a reputable and experienced life settlement company/broker to work with – they are the liaison between you and life settlement funding companies (organizations licensed by the state department of insurance to purchase life insurance policies are known as “providers”)

The following is a list of qualifications to consider when choosing a life settlement company/broker:

- Is the company operating within the regulations of your state? The National Association of Insurance Commissioners (NAIC) developed the Viatical Settlements Model Act and accompanying Model Regulations to encourage states to adopt uniform standards for regulating the life-settlement industry. Although life settlements are legal in all 50 states, regulations vary from state-to-state. Some have detailed, strict regulations and others have none at all. The entire transaction is at risk if an agent works with an unlicensed company in a state that requires licensing. All reputable companies and providers should be well versed in the regulations from state-to-state.
- How long has the company been in business? The rules and regulations pertaining to life settlements are complicated. The longer the company has been in business, the better prepared they are to deal with this tricky regulatory environment. Agents should steer clear of start-up companies.
- What is the company's reputation? Be sure to ask for a list of referrals from the company. Are life settlements a core competency or merely a side business. Also look at the company's past history – what were they doing prior to entering the life settlement market.
- Does the company have an anti-fraud policy? Several states have anti-fraud requirements and most main-stream settlement companies should have an anti-fraud policy. It is imperative that the insured's privacy be maintained and his information kept confidential in order to prevent fraud and identity theft. In this regard it is important that the company work only with institutional investors as private investors are not subject to privacy rules. This is a very serious issue.

- How many providers does the company work with? Agents who want the highest possible offer for their clients' policies will want to work with an established broker who has direct contracts with many providers. A good broker will diligently seek out and negotiate the highest offer. Be sure and find out how many providers the broker has a direct contract with and how many of those will be used in the process of obtaining an offer.
- Does the company work with providers who are doing business with A.M. Best-rated issuers. Receiving an Issuer Credit Rating (ICR) from A.M. Best is a rigorous process and provides a reliable source for ascertaining which companies not only meet but exceed the state and industry requirements. In January 2004, A.M. Best issued its first ratings on securities collateralized by life settlements. On September 1, 2005, A.M. Best released its revised methodology for rating securities backed by life settlements, Life Settlement Securitization, which describes the criteria for rating securities backed by life settlements.
- Does the company have E&O coverage? Life settlements are unique – agents should only work with companies that have E&O insurance that covers everyone involved, including the agent and his client. In addition, agents working directly with a provider should be sure they are covered under the provider's E&O insurance.
- What is the commission schedule? Agents should only work with companies that have a fixed commission schedule. Be very wary of companies that do not have a set commission schedule.
- Is the company a member of the Viatical and Life Settlement Association of America (VLSAA)? Founded in 1995 as a non-profit trade association for members of the viatical and life settlement industry, the VLSAA is the industry's governing body. The VLSAA complies fully with all applicable laws, anti-trust laws, federal, state and local laws and all trade regulation and legal requirements. Another example of self-regulation is the Life Settlement Institute, a non-profit trade group made up of six of the major institutionally funded life settlement providers. The Life Settlement Institute works with government regulatory agencies, legislators and the life insurance industry to promote strict regulations and comprehensive standards and practices for life settlement. In 1992, the Life Settlement Institute started an anti-fraud database for companies to share information of suspicious or fraudulent activity.

Agents looking to expand their business into the life-settlement marketplace should definitely take the time to ensure they are working with a bona fide, reputable and experienced life settlement company – it can mean the difference between success and failure.