

'Stranger-originated' Policies Sold Despite ACLI Opposition.

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Best's Review, 1 January 2007

Just how big a problem stranger-originated/investor-initiated life insurance is for U.S. life insurers is a matter of debate. As answers are sought, some say life insurers likely are knowingly selling these controversial policies, even as the trade group representing them vehemently lobbies for stricter regulations to halt such investor-initiated transactions.

Stranger-originated and investor-originated life insurance is a fast-growing and huge piece of the overall life settlement market, said North Dakota Insurance Commissioner Jim Poolman, chairman of the National Association of Insurance Commissioners' Life Insurance and Annuities Committee.

Why? "Because it's easier to go out and get somebody to buy a policy that they can turn around and settle in a few years, rather than going out and finding people that want to settle their policies," he said.

Life insurers don't have a problem with the legitimate life settlement market, Poolman said. "But it's those policies that are ginned up specifically to settle that's gaming the system," he said, noting this may run against state insurable interest laws. Under an amendment Poolman proposed to the NAIC's model law on viatical settlements, life settlement transactions would be barred within five years after the issuance of a policy. Specifically targeted: stranger-originated transactions.

The American Council of Life Insurers sees stranger-originated business as "a big problem" and is looking to address it through the NAIC and the states, said ACLI spokesman Whit Cornman.

But Doug Head, executive director of the Life Insurance Settlement Association, said his organization opposes what he called "stranger-initiated" life insurance.

"There is not a major factor of growth in the secondary market for life insurance originating with speculator-induced life insurance," Head said, adding there are no data on stranger-initiated transactions. "There isn't even good data on how many policies are sold that are totally appropriate."

The chief of a new life settlement company says the life settlement market is growing rapidly, but not because of stranger-initiated transactions.

Seniors hold \$500 billion of life insurance already in force, said Leonard H. Goodman, chief executive officer of First Equity Benefits of America Inc., a life settlement company launched recently. "Would that not be a more logical source of life settlement business than trying to sell new insurance?" he said. First Equity Benefits doesn't condone stranger-originated life insurance, or STOLI. "We feel it undermines the very fundamental purpose for buying life insurance," Goodman said.

Conning Research & Consulting estimated the life settlement market grew to \$5.5 billion in face amount in 2005, according to George P. McKeon, senior life analyst with Conning.

Parties Involved In a Life Settlement Transaction

A proposal before the National Association of Insurance Commissioners would bar life settlement transactions until a policy had been in effect for five years.

Insured

With in-force life insurance policy that no longer is needed/wanted/ affordable

Financial Adviser Life Settlement Broker

Provides link to L.S. Provider

Internet Exchange

Facilities online auction of policy

Underwriting Firm

Estimates life expectancy used to select risks and determine amount paid to insured

Life Settlement Provider

Entity that will arrange for policy purchase

Investor

Individual or institutional source of funding. Recipient of death benefit

Life Settlement Industry Infrastructure

Provides support services

Trust Company

Provides escrow services at transfer Holds reserves for premium payment

Administrative Services Company

Tracks survival of insured Overseas ongoing premium payments Collect/disburse death benefit

Legal Services Company

Provides legal support Coordinates regulatory requirements

Actuarial Consultants

Provide expertise for mortality estimates, offer pricing, timing of premium payments, etc.

Source: Conning Research & Consulting Inc.