

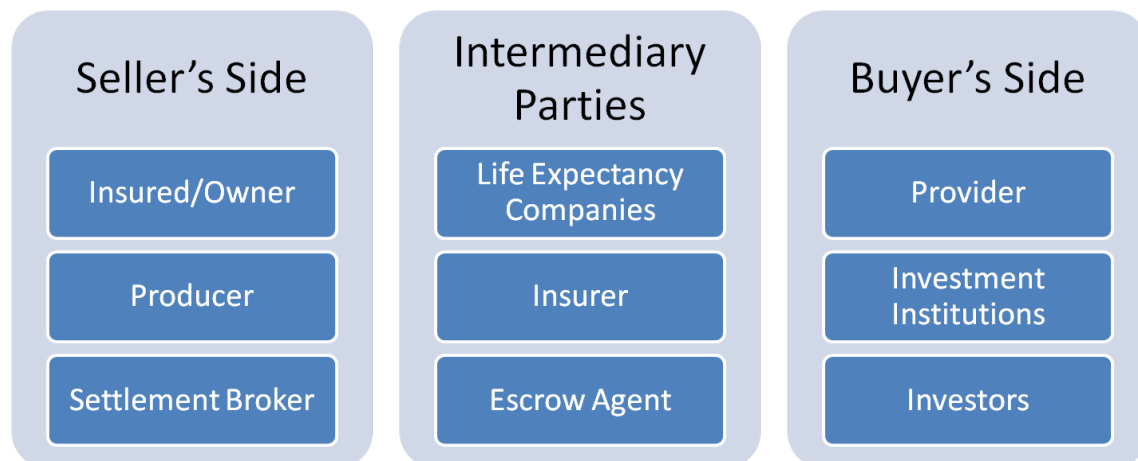
# Robin & Peter on LIFE SETTLEMENTS



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## You Can't Tell the Players Without a Scorecard

A life settlement is a very complex, highly-regulated transaction that involves lots of due diligence, loads of paperwork and, as a result, takes a long time. Some of the mystery can be taken out of the process by knowing who the players are and their roles.



The functions performed by the seller's side parties are familiar to most of you, but the roles of the intermediaries and the buyer's side parties are sometimes less clear. The key players on the buyer's side of the transaction are the provider, the investment institutions and the actual

investors.

The provider acts as a buyer's broker and is the primary contact for us, the seller's settlement broker. The provider acts as an aggregator of policies on behalf of one or more investment institutions. Providers acquire policies under several different arrangements. Frequently, the provider has an agreement with an investment institution to acquire policies that meet certain parameters. Other times, the provider identifies attractive policies for purchase and presents them to institutions that are looking to acquire policies. Additionally, much like a builder constructing a home "on spec," a provider might acquire an attractive policy on its own with the hope of reselling it to an investment institution at a future time. Finally, some providers may acquire policies for their own account.

The investment institution might be a bank, investment bank, mutual fund, pension fund, hedge fund, etc. Although the investment institution may be buying on its own behalf, frequently it is representing a group of investors like the shareholders of a mutual fund.

It was once common to use the term "funder" interchangeably to describe either or both the provider and the investment institution. There was a time when the relationship between the two was so close that it felt like they were the same entity. But as the market has matured, the roles of the provider and the investment institution have become more distinct and can no longer be treated as a single party.

Although the provider does comprehensive due diligence on any policy it has contracted to purchase, it is now customary for the investment institution to do its own separate review of the policy. This review is done only after the provider has signed off and sometimes additional issues get raised even though the provider has approved the transaction and everybody else thinks it is a "done deal."

The intermediaries also play significant roles in the transaction. Life expectancy companies are independent third parties comprised of doctors, actuaries, and underwriters that give appraisals of an insured's life expectancy. Investment institutions frequently require at least two of these independent appraisals before they will allow a provider to offer on a policy. Just to get most providers to look at a policy usually requires that we, the seller's broker, provide and pay for two life expectancy reports.

A life settlement is typically, but not always, transacted using the services of an escrow agent (a bank, trust company, or other entity) that holds the policy and the sales proceeds while the closing takes place. Although it is not typically done, there are times that the escrow agent performs due diligence as well, adding even more time to the process.

The other intermediary, the insurance company, is asked to confirm various details about the policy and its values using a form called a V.O.C. (verification of coverage). Next, the insurance company is asked to provide confirmation that the ownership and beneficiary of the policy have been changed. These final steps can take several days to a few weeks, and once completed, the

escrow company finally releases the proceeds to the seller.

All in all many hands play a part in the transaction, which makes it complex and time-consuming. But these steps are important and, in many states, required by law to protect the interests of investors, policy owners and insureds.

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