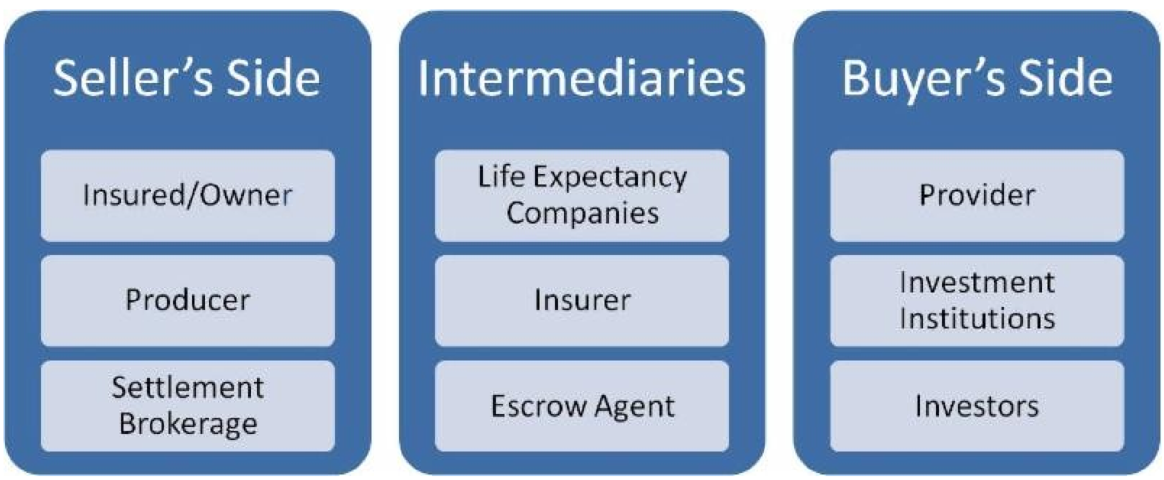
Robin & Peter on LIFE SETTLEMENTS

March 4, 2015

Who Does What in a Life Settlement Transaction?

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 does what.

The parties to the transaction can be divided into three groups: seller's side, buyer's side and intermediaries.



In most states, settlement brokers, producers, providers and, occasionally, life expectancy companies are required to be licensed. Of course, insurance companies and escrow agents, like banks for example, are usually licensed independently of life settlement regulations.

The seller's side, naturally, begins with a policy owner that no longer wants, needs, or can afford a life insurance policy. Where the policy owner and insured are not the same, as in a business owned or trust owned arrangement, both must agree to and be parties to the transaction.

The producer is typically the policy owner's life insurance agent. Unlike many life insurance transactions, the producer represents the policy owner and only the policy owner, is legally considered a life settlement broker, and acts in a fiduciary capacity.

Since life insurance producers typically don't handle life settlements on a regular basis, they will call on the services of a life settlement brokerage that has expertise in life settlement transactions to find buyers for the policy. Like the producer, a life settlement brokerage, is a fiduciary and acts solely on behalf of the policy owner. By using the experience and expertise of a life settlement brokerage, producers can fulfill their fiduciary duty to properly shop the policy and maximize the price for the seller.

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 the seller's settlement broker. Unlike the settlement brokerage, the provider acts solely on behalf of the buyer with the mission to obtain policies as cheaply as possible.

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, insurance company, 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.

Although the provider does comprehensive due diligence on any policy it has contracted to purchase, it is also 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.

Intermediaries also play significant roles in the transaction. Life expectancy companies are independent third parties comprised of doctors, nurses, actuaries, and underwriters that give appraisals of an insured's life expectancy. Investment institutions frequently require at least one or two of these independent appraisals before they will allow a provider to offer on a policy.

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.

The other intermediary, the insurance company, is asked to confirm various details about the policy, often including premium and ownership history. Policy values and other details are obtained from the insurer 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 when completed, the escrow company finally releases the proceeds to the seller.

All in all, many hands play a part in the transaction, which can make it sometimes tedious and time-consuming. But these steps are important and regulated in 42 of the 50 states, which have enacted life settlement laws, to protect the interests of policy owners, insureds and investors. Finally, once the policy owner receives the funds, for a policy they were about to lapse or surrender for much less value, this all becomes quite worthwhile.

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