Robin & Peter on LIFE SETTLEMENTS

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Insurers Behaving Badly?

As life settlement brokers, we are frequently asked by disgruntled policy owners to review policies that they no longer wish to keep. Sometimes, however, even a policy from a poorly performing company can still be uniquely valuable property. The decision to sell or terminate a policy should be based on present needs and circumstances and how the policy looks going forward, not how poorly it has performed in the past or how poorly the insurance company is servicing the policy.

Life insurance policy owners have a lot to gripe about:

· Interest rate declines mean policies bought on current assumptions when rates were higher are requiring much larger premium outlays than they had expected to stay in force.

· Some companies, to offset the bath they are taking on guaranteed interest rates, are further aggravating the problem by raising mortality charges, which also will require larger premium outlays than expected.

But now, policy owners have yet another reason to be unhappy. Some companies are unable or unwilling to provide their policy owners with comprehensive in force ledgers based on current assumptions.

The current economic environment has made it difficult for some life insurers to turn a profit on individual life insurance, prompting a number of them to exit the business. Existing policy owners of these companies, and even some companies that haven't left the business, are sometimes treated as unloved, unprofitable step-children. Particularly for some aggressively priced policies, life insurance companies would be glad to have this business off the books.

Quite naturally, having to service a block of business deemed unprofitable can be distasteful to a business seeking to be a profitable enterprise. And so these policy owners may receive sub-par service, which could lead to policy terminations that benefit the insurance company and not the policy owner.

When a policy owner is considering terminating a policy due to policy performance or bad company behavior, it is important to evaluate whether keeping the policy could still be a better alternative than ditching it.

A recent case highlights this kind of situation. A trust-owned policy bought more than 25 years ago had been purchased and funded based upon current assumptions. Accordingly, every few years, in addition to the current annual statement, the trustee requested an updated in force ledger.

This year, however, the insurance company, one that incidentally has left the individual life insurance business, responded that they no longer felt they were required by NAIC rules to provide in force ledgers based on current assumptions and sent a ledger based only on policy guarantees, which were unattractive and unaffordable. After much cajoling the company offered an additional in force illustration reflecting how the policy's secondary guarantees could maintain the policy more favorably than the primary guarantees. By this time, however, the trustee and policy owner were so frustrated by the company's unwillingness to provide current assumption projections, they were strongly considering dumping the policy.

When they got us involved, we could see that the secondary guarantees provided a very favorable premium structure, albeit probably not as favorable as current assumptions. So even without current assumption projections, which we are still hoping to receive, it was clear that funding based on the secondary guarantees made the policy well-worth keeping. It's no wonder the company wasn't enthusiastic about revealing this information. While the policy could make an attractive life settlement buy for a prospective investor, it may be more beneficial for a policy owner to keep it, despite the challenges presented by the insurance company's conduct.

Don't let the very natural emotional response to companies' bad behavior outweigh the objective financial analysis necessary to determine whether or not to keep a policy. Or to put it another way: **don't reward an insurance company's bad behavior with a lapse.** Continuing a policy or selling it in a life settlement could very well be in your client's best interest.

As situations come up, please be sure to contact us. Our "secret weapon" and our competitive advantage are our vast experience and extensive knowledge of life insurance. We understand the products, the illustrations, and speak the language of life insurance.

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