

HEADLINE:

Institutions Reshape Life Settlement Market

Institutional investors are reshaping the U.S. viatical and life settlement markets.

Viatical settlement brokers created the modern secondary market, or resale market, for in-force life insurance policies in the 1980s. Back then, most of the sellers were insureds with life expectancies of less than 2 years. Most of the investors were individuals who were willing to put money in a new, untested investment vehicle.

Now, the market is becoming "totally institutionally funded," according to Moritz Roever, an analyst with Scope Group, Berlin, a German fund rating agency.

For money managers, a portfolio of life settlements is "a great asset class because it diversifies investments," Roever says.

Medical advances that improve insureds' lifespans can and do hurt life settlement portfolio returns. But life settlement returns are almost completely independent of the fluctuations in interest rates, inflation rates and other economic factors that drive returns on most other investments, Roever says.

German closed-end funds contributed about \$650 million of the \$2.5 billion in capital that flowed into the U.S. life settlement market in 2003, Roever estimates.

Scope has reacted to the shift in life settlement funding sources by starting a program that rates the German and U.S. life settlement companies that attract the most capital from German closed-end mutual funds.

Many executives in the life insurance industry say selling a life insurance policy is usually a bad strategy for most insureds.

One traditional argument against the practice is that giving an investor an interest in rooting for the death of an insured is a bad idea.

Another argument has been that the prices insureds get for their policies are too low.

But for life insurance agents and brokers who believe that selling unneeded life insurance policies is a valid option for at least some of their clients, the shift means that the type of client who ought to hear about the concept has changed, life settlement advocates say.

When institutional investors buy life settlement portfolios, about 80% of the policies are universal life policies, the average age of the seller is 75 to 77, the contracts are issued by carriers rated AA or better, and the average yield on each contract is 15% to 17%, Roever says.

Greater institutional involvement eventually should lead to greater standardization in the viatical and life settlement market, says **Carole Fiedler**, owner of *Innovative Settlement Solutions*, San Rafael, Calif.

Fiedler has been a broker in the viatical and life settlement market for the past 12 years.

Fiedler says differences and conflicts between state laws and regulations, the Internal Revenue Code, and the major viatical and life settlement model acts and regulations can make it difficult for agents to negotiate the sale of life insurance policies.

Until the industry becomes more standardized, agents will continue to need to work with brokers who specialize in viatical and life settlements, *Fiedler* says.

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GRAPHIC: GRAPHIC
Forecast Life Settlement Deal Volume
Total Policy Face Value
2003 \$6 billion
2004* \$6 billion to \$8 billion
2010* \$15 billion
* Projected Source: Scope Group, Berlin