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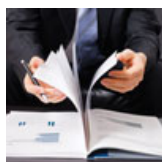
Life Settlement Market Overview

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Published 10/1/2009

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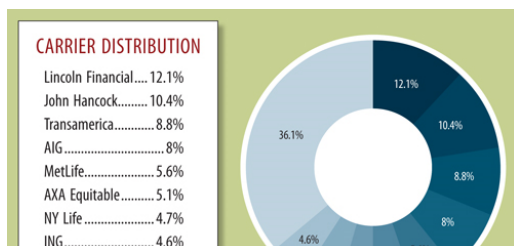
Life settlements offer senior insureds an alternate to surrendering their policies for cash value. However, as a fairly new option in a financial advisor's toolbox, settlements have yet to reach widespread distribution.

Life Policy Dynamics LLC, a Peninsula Group Company, provides services to firms involved in life settlements. This includes a comprehensive biannual research report surveying trends and statistics in settlement transactions. Our basic methodology involves collecting data on real settlement transactions from industry partners willing to participate. Over the past few years, not only has the data sample grown exponentially, but much effort has also been put in to refining our research material. The 2008 installment was created with the cooperation of nearly two dozen contributing partners. With the total dataset accounting for \$2.36 billion in policy face value representing over 1,000 policies, we are delighted to be providing a research study of increasing robustness and validity. In this article, we present an overview of findings relevant to all those on the primary side of the insurance market.

Life insurance carriers

Although rarely considered very rigorously outside of the primary life insurance market, the subject of life insurance carriers is a notable one to bear in mind. As the originators of the life insurance, it is interesting to see which carriers are dominant in the settlement marketplace and what information this may divulge.

Out of the 57 carriers in our analysis, we have seen a strong presence of a "big four" group, the top carriers by settlement transaction volume: Lincoln Financial, John Hancock, Transamerica and AIG. Overall, these four carriers account for almost 40% of all policies traded, with a significant gap between them and the next largest with AIG's 8% stake being much larger than MetLife's 5.6% share. Furthermore, the top 10 carriers account for two-thirds of the total dataset. It would be interesting to compare this with the prevalence of specific carriers in the overall settlement marketplace. That way, we could estimate the closing ratio for each carrier and then establish whether the settlement transaction volumes we observe are representative of the market or if certain carriers are indeed more "settlement-friendly." Confirming this would also require a thorough analysis of each carrier's array of products.



Another observation we can make on this data is by dividing the transaction volume by quarter. Phoenix Life, which experienced a downgrade towards the end of Q3'08, saw a steady market share of around 3.7% over Q1'08-Q3'08, with a significant drop to 1.7% in Q4'08. Similarly, the

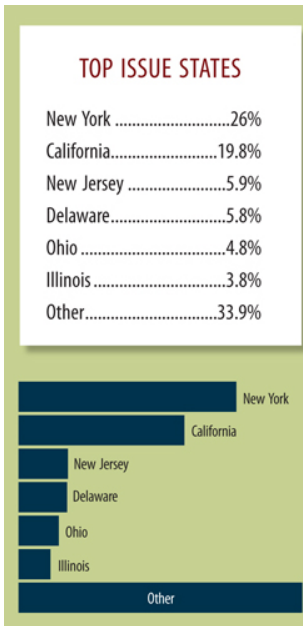


news surrounding AIG did not help its case either, as AIG also saw a sharp decline in market prevalence, going

from an average of 8.9% over Q1'08-Q3'08 to 5.5% in Q4'08.

We can also analyze carrier market share by face value. Although we'd expect this to closely mirror the gross counts, there are several outliers. For example, while MetLife ranked fifth by volume, it was down to ninth by total face value, telling us that settlements involving MetLife products are usually of lower face value. On the other hand, Phoenix Life and ING have a much larger market share when looking at dollar amounts. It is also noteworthy to mention that half of Phoenix Life issuances amount to \$4.5 million or more in face value. Conversely, several carriers were more prevalent among smaller policies, notably Aviva and Mutual of Omaha.

Putting market prevalence aside, we can also look at how the carriers are distributed by issue state. In the overall sample, policies issued in New York and California account for 23.9% and 18% of all cases, with New Jersey a distant third at 6.53%. Revisiting the "big four" carriers, we see some notable differences from the overall sample. Lincoln Financial policies were much more evenly distributed by issue state than other carriers, with states such as Illinois and Ohio accounting for almost 10% each of Lincoln-issued policies. Lincoln Financial was also one of the few carriers, along with Transamerica, where California-issued policies outnumbered New York-issued policies. Quite conversely, John Hancock and AIG policies were heavily concentrated in the two major states, with a third of their policies having been issued in New York.



Despite the massive downgrades that ambushed the financial markets in the second half of 2008, the distribution of carrier ratings remained relatively consistent with previous years' results. Certainly, the diversity of carriers helped minimize the effects of the downgrades on the industry as a whole. Thus, compared to the rest of the universe of financial instruments, the underlying credit rating of a portfolio of life settlements would have been minimally affected by the decrease in credit quality.

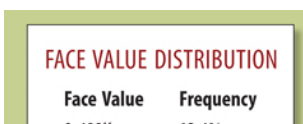
The events during the latter stages of 2008 have illustrated one of the advantages of investing in cash life settlements over synthetics: The absence of counterparty credit risk. Despite being marketed by many as an "uncorrelated asset," any synthetic swap is still subject to counterparty risk and in order to properly value any longevity swap, even one that is index-based, it is imperative to model default probabilities and correlations in addition to any longevity modeling.

However, an investor who holds life insurance policies on his balance sheet really need only be concerned

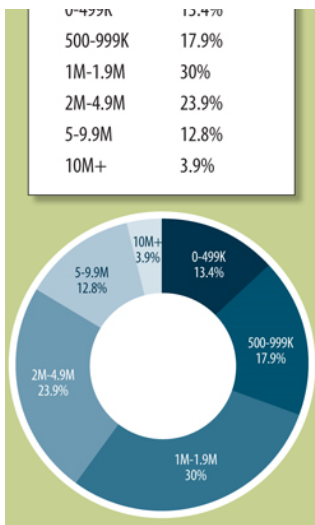
with the longevity of the risk. An investor in a life settlement fund, while minimally subjected to the credit risk of the underlying instruments, must also concern himself with the solvency of the fund. This goes without saying, however, as any qualified investor should be expected to perform due diligence before investing.

Policy face values in life settlement transactions

In these times of financial strain, it is not only interesting, but also pertinent to analyze trends in trade volume related to policy face amount. For 2008, the average face value per policy (\$2,240,500) was fairly consistent with the previous observations. However, this sample was also subject to greater skew in the distribution due to a number of jumbo policies over \$10 million. Accordingly, the median face value becomes a more significant indicator of the market, consistently remaining around the \$1 million mark for all years. In fact, the proportion of policies transacted in the middle-market segment (\$1 million-\$5 million) has increased from 45% to 54% between 2007 and 2008.



As more policies are being transacted in the middle market, volume in the micro-market (less than \$500,000) has continued to erode. In 2006, one-quarter of all policies had a face value of less than \$500,000,



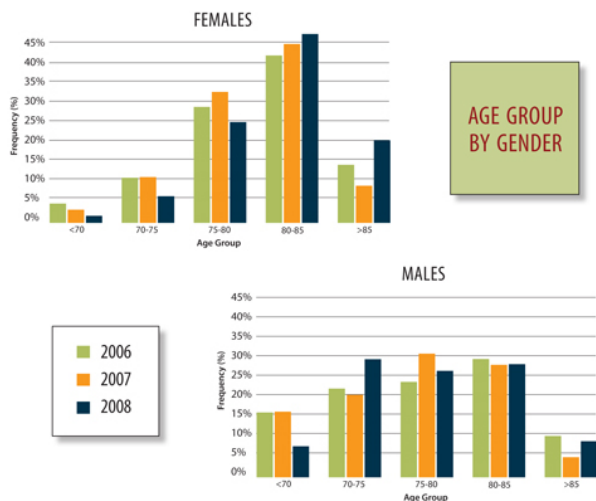
but this dropped to 17% in 2007 and 14% in 2008. The first quartile of the face value distribution shifted from \$500,000 in 2006 and 2007 to \$653,500 in 2008. We also saw that when overall transaction volume began to decline in Q3'08, micro-policies became even less desirable to brokers and providers. This is a result of the common practice in adopting variable revenue structure. The economics of the situation would reveal that brokers and providers might avoid micro-policies when the volume of the market is in decline. Looking forward though, new niche markets for micro-market transactions may result from constraints in liquidity.

Indeed, the upper end of the market also saw a decline in volume in 2008, as the number of policies with a face value greater than \$5 million dropped from 20% in 2007 to 15% in 2008. With the limitations on capital, it is more difficult for funders to achieve diversity by purchasing

large face policies. Likewise, the revenue-driving principles have shifted providers' attentions away from smaller face policies. Both these factors seem to have contributed to the expansion of the middle-market segment.

Insured demographics

Our findings over the past three studies corroborate the general assumption that the market is two-thirds male and one-third female. In 2008, 65.7% of our sample was male, while 34.3% of the population was female. This has been very consistent throughout the history of our research.



Breaking down the separate genders by age group for frequency analysis, we see a much more significant growth in the number of females as age increases than we do for males. Looking first at the male sample, the age distribution is relatively symmetric and slightly less peaked than a normal distribution, with a 2008 average age of 76.8 years and a standard deviation of 5.7 years. The sample of the females in our study differed greatly as the distribution was skewed left

and more peaked around the mean. The average female age was 81.1 years with a standard deviation of 4.7 years. A closer look at the histogram shows us that nearly half of the females in the sample were in the 80-85 range. The fact that these distribution trends show consistency over the three years indicates a level of significance behind it. One reason behind this may be because of the higher risk in female settlements as a result of higher general life expectancy and lower experience. Consequently, female cases that do reach settlement tend to be of higher ages than their males counterparts.

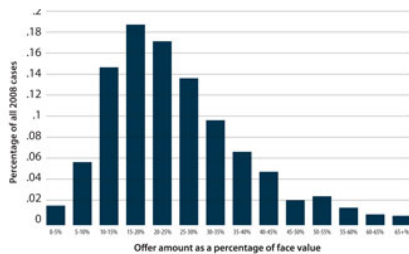
Economics of a life settlement transaction

Of most interest to an insurance agent is the dollar amount that can be offered to a senior who is considering settling his or her life insurance policy. Offers between 10-25% account for over half of the transaction volume in our 2008 sample. As this is strongly dependent on both life expectancy reports and the financial makeup of the life insurance policy, it cannot be generally expected that a life settlement will fall within this range of offering.



To estimate the amount of value created to the general

0-5%	1.68%
5-10%	5.52%
10-15%	14.99%
15-20%	18.84%
20-25%	17.36%
25-30%	13.61%
30-35%	9.47%
35-40%	6.80%
40-45%	4.73%
45-50%	1.97%
50-55%	2.27%
55-60%	1.28%
60-65%	0.79%
65%+	0.69%



consumer, we looked at the difference between offer to broker and the cash surrender value of the policy. Although this inherently includes varying layers of fees, it can be used to give an approximation of the consumer value created by the life settlement

transactions. With an average offer of 24.41% of face amount, and an average cash surrender value of 4.09% of face amount, the average value created to the consumer lies at 20.33%. With this in mind, we take great satisfaction in being a part of an industry that creates substantial economic value for America's senior insureds, while making the primary insurance market more valuable. Together, we enjoy the rare opportunity to do well as an industry while providing financial opportunities for senior insureds — a winning combination for sustainable success.

Please visit www.lifepolicydynamics.com to learn more about Life Policy Dynamics. Once there, you may request a complimentary copy of the 2008 Market Analysis or subscribe to future editions of the report. As always, LPD is looking to expand on the depth as well as the breadth of its analysis for the betterment of the industry and would gladly welcome your dialogue in suggesting new avenues of research.

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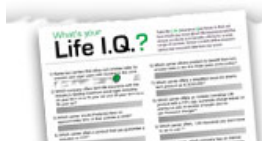
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