Life Settlement Industry Predicts Good Year, Welcomes New Regulators

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Company leaders and trade groups in the life settlement industry predict a return this year of capital and interest in this secondary market for life insurance -- an industry that they say is maturing as its state-by-state regulation becomes more complete.

Since 2008, the industry had been struggling, said Nate Evans, president and chief executive officer of Bethesda, Md.,-based companies Maple Life Financial Inc. and MLF LexServ,a life settlement servicing firm. Just in Evans' area -- providers -- he said he's seen the active market drop from 30 to 40 companies to about six or seven. "There are a lot of people kind of on the sidelines right now waiting for capital to come back," Evans said. Besides the recession, it's faced other difficulties, including prior pricing that "has created some unrealistic expectations," he said.

But Evans sees the flow of policies "continuing to increase from this point." Because the Baby Boomers are coming into the age where they might be interested in monetizing these assets, "the demographics are in our favor," Evans said.

Scott Hawkins, a vice president and analyst at Conning Research & Consulting, agrees that with the general retreat of capital, the pendulum has swung into the buyers' favor again. "You have more people perhaps willing to settle than there are people willing to buy."

Industry confidence has also been boosted by February's life settlement trade mission in Europe, in which company and association representatives met with interested investors and tried to educate the potential players on industry movements. The mission -- stopping in London, Luxembourg and Zurich -- was sponsored by the Life Insurance Settlement Association and the European Life Settlement Association.

Evans, who said his companies had representatives at the mission, said, "I'm expecting the end of this year to be very strong."

Brian Smith, president of the Life Settlements Institute, said countries that have double-tax treaties with the United States are forming new fund structures. "Currently, Ireland and Luxembourg are the leading locations to do that," he said, noting "We're clearly seeing interest from types of institutions that previously have not looked at making direct investments, and that includes pension funds."

One lower-cost source of capital that -- according to Smith -- could benefit both consumers and the industry would be securitizing settlements, though he said "it's not going to happen overnight."

In recent years, there had been a great deal of talk about Wall Street swooping down on life settlements and creating a securities market much like it had for subprime mortgages. And there has been some preliminary action, but some serious impediments. "This market is not necessarily big enough to support a high degree of securitization," Hawkins said, summing up a primary roadblock. A diverse pool of several hundred individual policies would be needed for a rated security. "It's extremely difficult to assemble that size of a portfolio," he said.

At most, Hawkins said, life settlements represent a $160 billion market, and major companies have turned away because of its relatively small scale. It's a tiny fraction of the overall life market. According to 2008 statistics reported by LIMRA, it's less than 2% of the more than $10 trillion in face value of individual U.S. life insurance.

Evans treats the securitization buzz with some skepticism. "I keep hearing of the securitizations that are right around the corner -- and have been for the last five years," he said, noting he knows of a "number of people" now working on it.

The prediction from Smith, who is also CEO of Life Equity LLC: "Securitization will come, but it will be a small number of transactions that are done in any given year."

Not everybody favors the bundling of these settlements into securities. Walter Welsh, ACLI's executive vice president for taxes and retirement security, said in a recent interview that ACLI's concern is stranger-originated life insurance, and that "it is going to be hard for investors ... to identify what is STOLI and what isn't." So his organization has asked the U.S. Securities and Exchange Commission to ban securitization of the settlements. Though he said that shouldn't impede people's right to sell policies. "People do want to settle their policies. There is a market for that."

ACLI's push for federal intervention hits an industry that has seen a tremendous -- and, by some, welcomed -- increase in regulatory activity.

"There are fewer and fewer unregulated states," said Evans. He sees increased regulation as a good trend, because the unregulated industry created "an environment for nonfriendly consumer activity. Having regulation is far better than not having regulation."

Smith said that as California, New York and Illinois become effective in their regulation, more than 85% of the U.S. population will live in states where life settlements are regulated. "That's a very positive event," said Smith.

As for federal regulation, some in the industry see it as possible, but not likely any time soon. Hawkins pointed out that there have been congressional hearings and a requested Government

Accountability Office analysis of life settlements. "I think this is a bubbling little pot, and it will be interesting over the next year to see what comes out," he said.

But others don't yet see the realistic possibility of results from Capitol Hill. "It's hard to see insurance regulation going federal," Evans said. "We'll see."

ACLI's resistance on securitization isn't the only push-back the life settlement industry has received from life insurers. Hawkins said life insurers have "legitimate reasons" for trepidation. He said a growing life settlement market could impact their industry's rates, and they also fear a potential loss of tax deferment for life policies if they become more akin to investments. Debates rage on the state level, Hawkins said, on issues like the nonforfeiture period on selling policies and on notification to those with policies about to lapse that they have the settlement option. "That's been going on at the state level, and that battle keeps on going," Hawkins said.

"Life insurance executives have frequently communicated that they're not against life settlements, but their actions have been different than that," Smith said.

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