LIFE SETTLEMENT
Review

The Need for Change in the Media's Portrayal of Life Settlements

I have struggled over the years to understand the source of the media's negative portrayal of the life settlement industry. Why has it contrasted so sharply with the positive characterization of annuity products, social security methodologies or pension fund financial projections?

By Meir Eliav

Our industry brings tremendous financial value to the consumer. This is a proven fact, considering the significant amounts paid to consumers above their policies' cash surrender value.

The media has largely remained silent in highlighting this value-add. Instead, it has focused on the negative connotations pegged to the industry, which are now, by and large, behind us. A good example of the media's take on life settlements is Business Week's July 2007 article, "Profiting From Mortality," which received attention from investors and consumers alike. The article presented the industry and its benefits to both consumers and investors in a balanced manner. However, the illustration appearing on the magazine cover and accompanying the article showed the investor dressed as a grim reaper. In a not so subtle manner, the article continued to perpetuate the myth that life settlements are somehow morbid emphasizing that the investor profits from a death and instilling fear in policy owners who sell policies on their lives.

Another example is the September 2009 article in the New York Times, which incorrectly lumped the potential impact of life settlement transactions and life settlement securitizations in the same category as subprime mortgages, the assets that are largely responsible for crippling the U.S. economy.

I have struggled over the years to understand the source of the media's negative portrayal of the life settlement industry. Why has it contrasted so sharply with the positive characterization of annuity products, social security methodologies or pension fund financial projections? Profits for each of these products and benefits increase when there is an early death. By the same token, a life settlement is conceptually similar to the reverse mortgage transaction, which the federal government has endorsed. Nevertheless, the media has failed to grasp this parallel when characterizing life settlements. Life settlements are significantly less risky than reverse mortgages from the investor's standpoint. There is generally no risk of loss that the policy face value will drop, as opposed to the possible decline of home values secured by the mortgage. Nevertheless, the media's portrayal of life settlements has consistently been derogatory.

It is likely that some of the negative perception stems from the early viatical days, when there was minimal regulation and a few bad actors clouded the industry's reputation as a whole. Those days, however, are long gone. While generally, new markets take a long time to develop, the life settlement marketplace has enjoyed a rapid expansion of both investment capital and policy supply. More importantly, new laws have recently been enacted in most states, including California, Illinois and New York. Negatively perceived industry-related practices (e.g. STOLI) have been eradicated by most of the recent statutes and regulations. Extensive disclosure language is now also required in most transactions, ensuring that consumers are informed of the details concerning the transaction, possible alternatives to life settlements and benefits that may be lost upon the completion of a transaction. Higher standards of business conduct are demanded from the various participants in the transaction – brokers and providers alike.

While the industry is still relatively small in size, its growth trajectory is significant. This growth has occurred even with the awareness of only a small number of eligible seniors of the life settlement as a

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viable alternative. The insurance industry has voiced its discomfort with the life settlement industry's existence, in spite of the fact that it is a far superior alternative to policy lapse or surrender, perhaps another reason for the media's negative portrayal of life settlements. Insurers have historically relied on high policy lapse rates in their underwriting. The advent of life settlements somewhat alters these assumptions, as purchasers of the policies maintain them and keep them in force until the insured's death Nevertheless, premiums are paid until the policies mature, benefitting the insurer. Moreover, despite the expansion of the industry, only a small fraction of the life insurance policies that are issued by insurers are sold in the course of life settlement transactions. Thus, to the extent that these transactions throw off underwriting assumptions, the impact on insurers' bottom lines is small.

Regardless of the media's negative portrayal of the industry, I am optimistic about the future of life settlements.

Recent regulation has ensured this industry is here to stay. Moreover, a handful of states have enacted laws that specifically require insurance companies to advise policy owners about life settlements as an alternative to policy lapse.

Consumers' awareness of the product and their potential access to previously untapped liquidity is expanding. Capital from the world's largest institutions is driving the policy purchasing effort. This, in turn, further enhances the quality of participation in the industry, as well as industry reputation as a whole. LISA has played a major role in educating legislators and brings the voice of the industry to the public. Therefore, its members need to continue to support the organization and its regulatory initiatives.

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In order to address ongoing misrepresentation about the life settlement industry in the media, the industry must become proactive in its communication strategy, rather than simply reacting to negative articles. A reactive approach only ensures that by the time the damage to the industry has been done, it will be too late to respond effectively.

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will be too late to respond effectively. Proactive efforts should emphasize the value that life settlements bring to consumers as an alternative to policy surrender. Life settlements effectively put significantly more dollars into the consumers' pockets, in the course of a regulated, well defined and secure transaction. Specifically, the industry needs to confront head-on and accurately address issues related to:

- Perceived speculation on the death of the insured;
- Perceived morbidity of the transaction;
- STOLI and its potential for abuse;
- Regulation intended to eliminate industry fraud; and,
- Disclosure and transparency in all stages of the transaction.

LISA and its members must also make concentrated efforts to educate consumers about the existence of the life settlement alternative. They should engage their agents and financial planners to speak to their clients about life settlements in a balanced and truthful manner.

In communicating with the consumers about the value of the transaction to them, emphasis should be placed on:

- New alternatives available to the consumer for liquidating a policy, which in many cases has become an unwanted, unneeded or financially burdensome asset;
- Eliminating cash outlay for future premiums;
- Providing additional funds for retirement; and,
- Providing liquidity in times of financial need.

I can see a future where life settlements are viewed in a similar light to annuity products or reverse mortgage loans. The more awareness there is of the increase in regulation and the reputable players in the business, the more favorable the coverage will be.

If we, as an industry, want to promote our value to the public and change the media's negative characterization, we must closely work with LISA in spearheading this effort. We need a proactive approach in communicating the strong value of life settlements in a consistent and effective manner. I am confident that efforts initiated on this front will lead to a more balanced portrayal of the industry in the future.