Factsheet

Selling a Life Insurance Policy: Why & How

The life settlement market provides flexibility and potentially added value for insureds by providing policyholders with an alternative to lapsing or surrendering their life insurance policy to the carrier. Specifically, it offers policyholders the opportunity to sell their policies for more than the cash surrender value, but less than the net death benefit, to investors.

In the US, unlike most other jurisdictions, life insurance policies are considered property. The life settlement market was originally established in 1911 with the *Grigsby vs Russell* case, when the Supreme Court declared the policyholder has the right to transfer ownership of a policy to a third party.

For the institutional investor, the life settlement market provides an opportunity to access an asset class that has diversification benefits for the seller, a life settlement provides the policyholder with an additional option, alongside home equity lines of credit or reverse mortgages, for example, when considering their broader retirement, inheritance and tax plans. Every year, more than 3,000 life settlement transactions are completed, with numerous reasons as to why this level of deal flow exists.

WHY INSUREDS SELL THEIR LIFE INSURANCE POLICY	
Affordability	The affordability of life insurance premiums is affected by an individual's personal circumstances. Increases in the cost of living, such as those observed in 2022 and 2023 when inflation reached approximately 9%[1] in the US, could lead to some individuals lapsing their life insurance policy if they feel that they can no longer justify paying for life insurance.
Financial Reasons	Financial reasons for which an owner might sell their policy refer to specific situations, rather than affordability. These situations include paying off a mortgage or other type of loan, providing a deposit for a house for the insured's children or grandchildren, funding a divorce settlement, or simply because of a change in the insured's financial planning requirements during their retirement.
Health Reasons	Healthcare-related reasons are frequently cited by life settlement brokers as to why an owner might seek to sell their life insurance policy. Healthcare costs in the United States are commonly cited as being high; in 2022, Americans spent an average of $13,493 per person[2] on healthcare, and in 2020, the average spend by seniors was $22,356.[3]
Lack of Need	Life insurance is usually taken out by working age individuals to provide a cash lump sum to their beneficiaries to pay off debt, such as a mortgage or an auto loan, and provide additional funds for their dependents when they die. Seniors whose children are now grown adults, or those that don't have a mortgage or other debt, may simply take the view that they do not need the coverage anymore.

The drivers of life insurance policy sales above are evergreen, providing life settlement asset managers – and therefore, their clients - with fresh deal flow every year.

[1]www.statista.com/statistics/273418/unadjusted-monthly-inflation-rate-in-the-us/

[2]www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical

[3]www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/ageandgenderhighlights.pdf

Structural and Market Information Around the Selling Process

There are many forms of life insurance, but investors tend to have criteria that determine whether they would purchase a life insurance policy on the secondary market. These criteria include the type of life insurance - Universal Life, Whole Life, Variable Life, Survivorship Life, Endowment Policies, Convertible Term Life and Term Life Policies nearing their end date – and the age of the insured, usually 65 years and up. Most of the policies considered by investors contain a cash component, and the life insurance company offers a cash surrender value as a feature of these types of policies.

THE BENEFITS OF SELLING A LIFE INSURANCE POLICY IN THE LIFE SETTLEMENT MARKET

According to the US life insurance industry group, the American Council of Life Insurers, the combined termination rate of policies in 2022 was 6.7%, which consists of a lapse rate of 5.7% and a surrender rate of 1.0%, based on the number of policies.[1]

In 2022, life settlement industry trade group, the Life Insurance Settlement Association (LISA), began surveying its provider members with regard to their secondary market transactions. It repeated the effort in 2023, and found that:

$638m

Consumers received $638m more than if they had simply lapsed or surrendered their policy to the life insurance company[2]

$790m

$790m in total paid to consumers from LISA members in 2022[3]

5.2X

The average payout to the consumer was 5.2 times more than the cash surrender value of their life insurance policy[4]

THE PROCESS OF SELLING A LIFE INSURANCE POLICY

An insured has two channels through which they can sell their life insurance policy: 'direct to consumer', or brokered.

In the former, the insured transacts directly with a life settlement provider. Sometimes, providers advertise in media such as television, radio, or on the internet, and consumers respond directly to these advertisements.

In the latter, companies or individuals work on behalf of policyholders to help them sell their policy. Many states require life settlement brokers to be licensed; these firms have a fiduciary responsibility to their client to secure the best outcome for them.

Other intermediaries involved in the sale of an insured's life insurance policy include accountants, attorneys, insurance agents, and wealth managers. These companies or individuals provide advice to their client, and/or support them during the sale process.

REGULATORY & LEGAL PROTECTIONS IN THE LIFE SETTLEMENT SALES PROCESS

Numerous regulations govern the sale of suitable life insurance policies to ensure consumer protection and market transparency, which in turn enhances institutional investors' confidence in the market. Regulations vary by state but generally include licensing requirements for brokers and life settlement providers, privacy protections, and detailed disclosure requirements.

One of two models – provided by either the National Council of Insurance Regulators (NCOIL)[5] or the National Association of Insurance Commissioners (NAIC)[6] – or both are used by individual states as their framework for drafting their own regulations concerning the secondary market for life insurance.

Additionally the Financial Regulatory Authority (FINRA) recently published a consumer advisory notice that is designed to help American seniors understand some of the nuances of the process around selling their life insurance policy.[7]

[1] www.acli.com/-/media/public/pdf/news-and-analysis/publications-and-research/2023-fact-book-chapters/pub_07fb23_chapter_07_lifeinsurance.pdf
[2] [3] [4] www.lisa.org/Files/LISA_2022TransactionData_Final.pdf
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[6] content.naic.org/sites/default/files/inline-files/MDL-697.pdf
[7] www.finra.org/investors/insights/what-you-should-know-about-life-settlements