

Life Policy Trading: Exploring Options Other Than Cash; the US Life Settlements Market

What NZ Can Learn from the US Life Settlements Market

While similar to New Zealand's Life Policy Trading market, the Life Settlements market in the United States is a much larger entity, involving transactions in the hundreds of millions of dollars each year. It's a longstanding, highly competitive market with strong regulatory oversight, conditions which provide a healthy environment for continual evolution of business practices.

Cash No Longer the Only Option

Originally US policy traders simply offered a cash payout for outright ownership of the policy. But today there are a range of options available, including the ability to sell down yet retain an interest in the cover without having to pay future premiums; or to take a cash payout with no further interest in the life cover. A combination of these two options is also possible.

Innovation: Exploring New Offerings for New Zealand

Observing the US Life Settlements market closely, Policy Exchange monitors development of these new offerings to US policyholders. And although the US and NZ markets do differ, as a competitive and regulated environment the US market offers a unique 'looking glass' opportunity to consider how we do business in NZ.

We're currently exploring the above concepts for NZ bundled policies: we're testing demand for selling down the cash value of a policy while retaining a portion for funeral cover. We're interested in market feedback on this concept. If you'd like to express interest in this idea, have suggestions for product design or for other ideas that could benefit your clients, [we'd like to hear from you](#).

Best Practice: Protecting Private Information

When Policy Exchange created the NZ market in 1996 we implemented a custodial arrangement which ensures the name and private details of the original policyholder and life insured remain confidential, including after the policy matures. This was not the case originally in the US market, but it's encouraging to see that market has now largely moved away from direct investor ownership of life policies and instead uses a custodial arrangement similar to that in New Zealand.

How the US Market Differs to NZ

At first glance, the New Zealand Life Policy Trading market and the United States Life Settlements market appear very similar: both offer an alternative exit option for policyholders needing to cash up their policy. Both exist because circumstances change, causing ageing policyholders to begin researching options to free up cash or reduce outgoings in retirement.

But there is a fundamental difference between the two markets. The NZ market solely trades in **investment-backed insurance policies**, commonly referred to as 'bundled' policies. Bundled policies have fixed premiums from day one, and over time build up a surrender or cash value as quoted by the

life company. By comparison the US market trades in **Universal Life policies** with relatively high fixed premiums, or stepped premiums that increase significantly as the life insured gets older. These US contracts do not come with a fixed maturity date (NZ is age 95, or earlier by arrangement) and only payout on death of the life insured. They also have a very heavily discounted cash value, or sometimes no cash value at all over the life of the policy.

Consequently, the rationale for exiting a contract is not the same: while the NZ market is characterised by policyholders freeing up cash to support themselves in retirement, for older policyholders in the US the impetus to sell is often related to premium affordability.

NZ Super Fund Invests in US Life Settlements

We note with interest the NZ Super Fund currently has over \$500m invested in US Traded Life Policies (source: Comprising Funds I, II and III with Apollo Global Management LLC (as reported in Investment News: <http://investmentnews.co.nz/investment-news/nz-super-fund-completes-life-settlement-hat-trick/>).

Need to Know if a Policy is Tradeable?

Policy Exchange continues to offer an enhanced surrender value option for policyholders needing to access cash. To get a quick indication of a policy's tradability you can use our webform:

www.policyexchange.co.nz/do-you-qualify/

In 2-3 minutes you'll get an onscreen indication of the likelihood of the policy being tradable, plus the estimated dollar value enhancement. To do this you'll need to know the policy start date, current age of life insured, maturity date, sum insured, attaching bonuses and the gross surrender value as quoted by the life company. There's no obligation to continue through to a formal quote.

Have A Burning Question?

If there are any questions we haven't answered here [please do get in touch](#); we're always happy to help.

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Find out more

To learn more about life policy trading please visit our website www.policyexchange.co.nz/industry-portal .

And if you'd like to receive our [quarterly market updates](#) on the policy trading market, including tips on how to get the best value for your clients, please [let us know here](#).

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