

JULY 30, 2007

COVER STORY

## Even The Insurers Have Hopped On Board

Big insurers don't know what to make of life settlements. On the one hand, they can jeopardize profits that for years have been easily gleaned; on the other, this burgeoning market can't be ignored.

Before the emergence of life settlements, customers who no longer wanted coverage either stopped paying the premiums or sold their policies back to their insurers for a fraction of the potential death benefits--the so-called cash surrender value. Insurers have long banked on not having to pay on a certain percentage of their policies. Life settlements eat into those profits.

Insurers are especially critical of stranger-initiated policies, which are paid for by hedge funds or other outfits rather than individuals. Here's how they work: Elderly customers are enticed to buy life insurance with promotional offers such as free cruises or a promise of free coverage for a short time. After two years, those consumers usually sign over the policies to a hedge fund or another financier, which collects when they die.

The insurance industry is fighting back, lobbying regulators to crack down on what it thinks are predatory or outright fraudulent practices. So far North Dakota and a few other states have enacted rules to make it more difficult to generate such policies.

Increasingly, insurers are also challenging policies in the first two years after issue, in what's known as the contestability period. During that time, insurers can void a policy if they find evidence of misrepresentation. Others, like American International Group Inc. ([AIG](#)), the world's largest insurer, are making those policies less attractive by hiking premiums for customers over 70. AIG figures it will sacrifice income now to protect future profits by scaring off speculators. A stranger-initiated policy "is different from an investment in a legitimate life settlement," says Chris Winans, an AIG spokesman. "Our position on [such policies] is consistent throughout AIG. Not only do we oppose that market, we have taken steps to inhibit it."

But most insurers also realize life settlements aren't going away--and so they're getting into the game. AIG, for example, is one of the biggest buyers of life settlements, snapping up policies with a face value of \$1.1 billion since October, 2001. It isn't alone. Bermuda reinsurer Axis Capital Holdings Ltd. ([AXS](#)) recently purchased a \$400 million life-settlements package. CNA Financial Corp. ([CNA](#)), a 100-year-old Chicago insurer, has \$108 million invested in life settlements.

By sinking money into the sector, insurers can get back at least some of the money they now have to pay out in death benefits. If someone is going to profit, insurers have realized, it might as well be them.