Cantor Eyes Life Settlement Exchange

http://www.insurancenewsnet.com/article.asp?neid=20060626900.13.35_a4000000000189e4

Cantor Fitzgerald is considering launching an automated exchange for trading death benefits in life insurance policies, according to a firm spokeswoman. If successful, the move could bring much-needed liquidity to a burgeoning market that some believe could shake the foundations of the life insurance industry in much the same way that mortgage-backed securities did for home sales.

Few details could be learned about Cantor's plans. Stuart Hersch, a Cantor managing director overseeing the business development effort, he was not available for an interview by press time. The secondary market for life insurance has existed since at least the 1990s, when people diagnosed with AIDS and other terminal illnesses sold investors the death benefits from their insurance policies to raise money to pay medical bills. Called viatical settlements, the sale of those benefits has steadily increased, as often healthy elderly people have sold the right to collect on their policies either to avoid payments or to raise money.

The life settlement market has lately begun attracting more and more attention from hedge funds and top-tier Wall Street firms (see IDD, "Street Plunges Into Secondary Life Market," 2/20/06). Investors are attracted by the chance to collect a dividend of close to 10% while owning an asset that is not correlated with equities or other more liquid markets. Life settlement trades are expected to total $10-15 billion this year, according to estimates.

While several market participants are aware of Cantor's plans, they see considerable obstacles to setting up an exchange, because the market for life settlements has yet to become sufficiently standardized to allow for simple trades. "It's not an asset that you can go to a computer, point to a policy, click and buy. There is no industry standard at this point," said Larry Simon, president and founder of Life Settlement Solutions, an intermediary that buys life settlements from brokers and sells them to investors.

Other institutions have made attempts to create exchanges for life settlements, but none is believed to have the resources of Cantor, which is one of the largest brokers of US Treasuries. One business-to-business platform, called Life-Exchange, just launched 60 days ago. David Dorr, its president and founder, said transactions typically take 120 days, though he claimed Life-Exchange can shave a month off that time. The exchange has yet to complete a transaction, but Dorr said it has already started processing paperwork for hundreds of millions worth of deals. Dorr believes Life-Exchange may have an edge over Cantor. "They're massive, but what they miss is the intimate knowledge of the life settlement business that we bring to the table," he said. "These are extremely complex and paper intensive transactions." Dorr was director of business development for a life settlement broker before he founded Life-Exchange.

The trading of life settlements is still in its infancy, and federal and state regulators have been taking a growing interest in the practice. According to Bryan Freeman, president of Habersham Funding and vp of government affairs for the Life Insurance Settlement Association. New York State lawmakers last week weighed legislation to ban life settlement providers from accessing the capital markets, a measure that "would effectively kill the life settlement business in the state," he contended. The bill's sponsors could not be reached.

Large life insurers have expressed opposition to the market, which threatens their profits. At the same time, however, many are scrambling to get a piece of the action lest they be left behind.

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