On August 9, 2011, SCOR SE, a global reinsurer with offices in more than 31 countries, acquired substantially all of the life reinsurance business, operations and staff of Transamerica Reinsurance, the life reinsurance division of the AEGON companies. The business of Transamerica Reinsurance will now be conducted through the SCOR Global Life companies, and Transamerica Reinsurance is no longer affiliated with the AEGON companies.

While articles, treaties and some historic materials may continue to bear the name Transamerica, AEGON is no longer producing new reinsurance business.

Archive Materials

An Update on the Life Settlement Market
Reprinted from the October 2009 Messenger newsletter

by Christian Kendrick, Senior Analyst

At the start of the year, many life insurers worried that rising unemployment and declining portfolio values would increase consumer demand for life settlements as a source of cash. Midway through 2009, we’ve seen the opposite. With few exceptions, brokers in the $12 billion life settlements industry report sluggish sales at sharply reduced prices.

Life insurance is one of the few asset classes to retain its value. As an asset class its value is driven by mortality experience not the financial markets, and investors were drawn to the secondary market to capture this risk diversification benefit. However, there is a correlation between life settlements and other asset classes – the market’s influence on the cost of capital.

Following the collapse in credit markets, investors in general have become more risk averse. Capital for life settlements has become scarce and liquidity in the secondary market has dried up. With fewer buyers, settlements have become less attractive for policyholders. At the market peak last year, buyers were willing to purchase policies at sub-10 percent discount rates. Investors in second quarter 2009 were asking for yields of up to 19 percent and higher.

For several years, there has been considerable regulatory activity around life settlements. So far in 2009, some of these decisions can be seen as favorable to the secondary market:

• In July, a Federal judge in California ruled that non-recourse premium financing for life settlement was allowed under state law.

• As of September, insurers doing business in Maine, Oregon and Washington must disclose settlements as a liquidation option to their policyholders. Kentucky and Indiana are considering similar legislation.

• In May, the Internal Revenue Service issued guidance that proceeds from life settlements in excess of the policy’s cash surrender value are treated as capital gains – not ordinary income – making life settlements more attractive to consumers. It was also clarified that investors must pay ordinary income tax on death benefits net of the purchase price and premiums paid.
Life insurers have been addressing the topic of life settlements as well. Companies remain concerned about non-recourse premium financing and continue to press their case for legislation that protects insurable interest. Carriers are developing product features, such as policy value loans secured by the death benefit, to give policyholders access to the value of the policy without having to sell their coverage.

The secondary market is still poised for growth, with more consumers wanting access to the economic value of their policies. The current market may not be the best time to assess the long-run viability of life settlements. As the overall economy recovers, it will be interesting to see if capital returns to the secondary market as investors inevitably shift their focus from capital preservation back to growth.