Financed Life Insurance: The Marketplace

Produced By:
Bracknell Baker, Managing Partner
Caleb Baker, Managing Partner

The Market Place *(Lending and Insurance)*

Lending

Although no exact data is available about the total market size of financed life insurance policies, industry participants seem to agree that in the past decade several billion dollars of life insurance premium has been financed. The landscape today is filled mostly with financial institutions that make premium finance loans available as an asset gathering/client prospecting tool for their private banking businesses. There have been a number of private banking divisions from some of the largest institutions who have provided financing of insurance policies as an additional service for clients. Independent premium finance lenders who exclusively focus on making traditional premium finance loans have disappeared since the financial crisis of 2008 as they experienced great difficulty in attracting long term stable capital. As a lending source, retail premium finance lenders will provide the greatest service for the client. The market demand for traditional premium finance loans is unabatedly robust.

The biggest challenge most borrowers face is the lack of long-term exclusively premium-finance-focused lenders. It is particularly difficult to find a lender who has outsourced the loan processing and servicing activities to a company whose sole business it is to provide these services for traditional premium finance loans. The advantages to the client of such a combination are numerous. For instance, a lender that is looking for ancillary business may be unwilling to extend credit should the client not engage in other services. In addition, it would require the client to disrupt existing relationships. Also, lenders who are focused on asset gathering will typically lack the necessary understanding of insurance and the intricacies of the symbiotic relationship between the lending and the insurance components, thereby potentially jeopardizing the long-term success of the structure.

In addition to the domestic US market place, traditional life insurance premium finance has also seen international activity. For many years, the Asian market has been successfully penetrated and significant volumes of traditional premium finance loans have been made to the offshore vehicles of Asian entrepreneurs. In addition to internationally focused Asian clients, there is a detectable amount of international insurance premium finance activity developing in Latin America as well as The Middle East.

INSURANCE

Life insurance companies view traditional premium finance as an “advanced concept” that is important to provide to their sales force to enable affluent clients to implement the strategy with the carrier’s products. Many, if not all, recognize the sales enhancement opportunity premium finance offers by providing clients flexible funding strategies with regard to the acquisition of large life insurance policies. The benefit of a life insurance policy is self-evident, but it is one of the only assets an individual will purchase that they will not benefit from personally. For years insurance companies have struggled to bridge the gap between the client's needs during their life and the benefit their product will provide to the client's estate, family and business.

It is imperative that life insurance companies whose products are to be financed approve the premium finance lender's lending parameters and business practices. Without the insurance carriers' written consent of the structure, the insurance carriers will not acknowledge that the policy can be pledged to the lender of the financed life insurance policies.

In addition, the insurance products offered by the various US insurance companies need to be designed to successfully work in the premium finance structure. Not all life insurance products can provide a viable solution and it is important for the long-term success that the products used function and perform well in the overall structure. There are three critical product features required for long-term success:

1. The ability to attain growing, long-term positive cash values, since these cash values are used as the primary collateral in the transaction;
2. The ability for the death benefit to increase on an annual basis, which provides a more level economic benefit when the loan is repaid from the death benefit. The increasing death benefit can be guaranteed or based on policy performance;
3. The ability to have flexibility in the timing of premium payments in the event a funding change needs to be made.