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[FEATURE]

## **Reining in the Viatical Rep**

The life settlement industry was known more for its Wild West attitude than its service to seniors. Have the guys in the white hats finally arrived?

*By Mary Hillebrand*

If life settlements are good enough for Warren Buffett, shouldn't they be good enough for everyone else? Last October, Gen Re, the global reinsurance and risk management arm of Buffett's Berkshire Hathaway Inc., arranged a financing facility upwards of \$400 million for Living Benefits Financial Services LLC, a life settlements funder in Minnetonka, Minn. Similarly, sources close to Life Equity LLC, of Hudson, Ohio, say that company has also secured a comparable amount from Buffett's group.

And since many life settlement executives say attracting and keeping institutional money is the key to detaching the life settlement market from its viatical roots, Buffett's involvement adds an air of credibility to a business overrun by scams by shady brokers and small investors often unprepared to handle the risk.

"We don't want bad actors in the industry," explains Doug Head, executive director of the Viatical and Life Settlement Association of America, "and we've certainly taken enough thumping in the press." But can the industry do enough to prove to Buffett and other high-profile investors its willingness to reform?

### **A new way of doing business**

2002 is starting off on a better foot, some of the bigger life settlement companies say, thanks to new funding arrangements with Gen Re. The reinsurer has brought consistent financial backing and a name that will inspire more confidence in the life settlement business, argues Steve Ballard, CEO of the Norseman Group, a marketing and brokerage company based in Minneapolis. "Berkshire Hathaway/Gen Re adds huge prominence and credibility to this business. It has generated a ton of business and has opened doors that previously weren't open to us."

Institutional investors can have a significant impact on the life settlement business' image by not allowing a single life insurance policy to take on the importance it does for an independent investor, notes Brian Smith, CEO of Life Equity. When an institution buys a policy, it is often placed with other policies into a portfolio where they are maintained to maturity or sold to another institutional investor in aggregate. An individual or group of individuals that band together to buy one policy, on the other hand, have far more riding on the seller's life expectancy.

"The flow of institutional funds makes it a stronger business," agrees Michael Krasnerman, CEO of AllSettled Group Inc., a New York life settlement broker.

### **Building a new reputation**

Gen Re did not enter the business lightly. Known as a careful investor who does painstaking research, Buffett is said to have personally required that the life settlement companies Gen Re backs follow the guidelines in the National Association of Insurance Commissioners' model state law for licensing life settlement agents. Paul Moe, chairman and CEO of Living Benefits explains

that institutional investors are accustomed to stringent guidelines for any transaction because they have to protect their own reputations among their own shareholders.

"When you're funded by institutions, you don't have a choice. You either act like a consumer finance company or you don't have any financing," Moe notes. "We decided early on we were going to maintain those institutional disciplines."

Institutional investors are banking on this new emphasis on operating cleanly and professionally, Ballard says. Partnerships like the Life Settlement Institute and the Producers Alliance, as well as the VLSAA and the NAIC, support uniform regulation of the business, careful attention to detail and a greater emphasis on ethics than many in the viatical business have demonstrated.

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