

The New Big Idea - Investments Emerging on Wall Street from Packaging Life Insurance Policies

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After the mortgage business imploded last year, Wall Street investment banks began searching for another big idea to make money. They think they may have found one.

The bankers plan to buy “life settlements,” life insurance policies that ill and elderly people sell for cash - \$400,000 for a \$1 million policy, say, depending on the life expectancy of the insured person. Then they plan to “securitize” these policies, in Wall Street jargon, by packaging hundreds or thousands together into bonds. They will then resell those bonds to investors, like big pension funds, who will receive the payouts when people with the insurance die.

The earlier the policyholder dies, the bigger the return - though if people live longer than expected, investors could get poor returns or even lose money.

The idea is still in the planning stages. But already “our phones have been ringing off the hook with inquiries,” says Kathleen Tillwiz, a senior vice president at DBRS, which gives risk ratings to investments and is reviewing nine proposals for life-insurance securitizations from private investors and financial firms, including [Credit Suisse](#).

[In addition to securitizing life settlements, some banks are repackaging their money-losing securities into higher-rated ones, called re-remics \(re-securitization of real estate mortgage investment conduits\). Morgan Stanley](#) says at least \$30 billion in residential re-remics have been done this year.

What is good for Wall Street could be bad for the insurance industry, and perhaps for customers, too. That is because policyholders often let their life insurance lapse before they die, for a variety of reasons — their children grow up and no longer need the financial protection, or the premiums become too expensive. When that happens, the insurer does not have to make a payout.

[But if a policy is purchased and packaged into a security, investors will keep paying the premiums that might have been abandoned; as a result, more policies will stay in force, ensuring more payouts over time and less money for the insurance companies.](#)

[Goldman Sachs](#) has developed a tradable index of life settlements, enabling investors to bet on whether



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people will live longer than expected or die sooner than planned. The index is similar to tradable stock market indices that allow investors to bet on the overall direction of the market without buying stocks.

Spokesmen for Credit Suisse and Goldman Sachs declined to comment.