

Glossary of Terms

The definitions here are generic. Specific states may have differing definitions in law.

1035 Exchange - A tax-sheltered exchange of cash value from one life insurance policy to another. This allows an individual to avoid capital gains or losses in the first policy as long as the second policy is of greater or equal cost.

Beneficiary - The person(s) named by the owner of the policy to receive the life insurance proceeds upon the death of the insured.

Broker (Life Settlement Broker) - This means a person who, on behalf of an policy owner and for a fee, commission or other valuable consideration, offers or attempts to negotiate sales contracts, between an owner and one or more providers, the subject of which is a Life Settlement. A broker represents only the owners and owes a fiduciary duty to the owner to act according to the owner's instructions, notwithstanding the manner in which the broker is compensated. A broker does not include an attorney, certified public accountant or financial planner retained in the type of practice customarily performed in their professional capacity to represent the owner whose compensation is not paid directly or indirectly by the provider.

Cash Value/Cash Surrender Value - The amount that is available in cash for loans and/or withdrawals. Accessing cash surrender value may reduce the death benefit and may increase the risk of lapse. Withdrawals may be subject to surrender charges and could have a permanent effect on the cash value. If the policy is surrendered, the cash surrender value is paid to the policy owner.

Chronically Ill - This means (1) being unable to perform at least two activities of daily living (i.e., eating, toileting, transferring, bathing, dressing or continence), or (2) requiring substantial supervision to protect the individual from threats to health and safety due to severe cognitive impairment, or (3) having a level of disability similar to that described in (1) as determined by the Secretary of Health and Human Services.

Consumer / Policy Holder - The consumer is an individual who has purchased a policy and now wants to sell it. Unlike most markets, consumers in the life settlement industry are sellers.

Convertible Term Insurance - Term insurance that can be exchanged (converted), at the option of the policy owner and without evidence of insurability, for a permanent insurance policy.

Escrow Companies - An Escrow Company is a neutral third party that by a legal arrangement receives the money to be held in a trust pending a contingency or the fulfillment of conditions in a contract such as the payment of a purchase price. Upon that event occurring, the escrow agent will deliver the asset to the proper recipients and payment to the seller.

Face Amount - The amount stated on the face of the policy that will be paid in case of death. It does not include additional amounts payable under accidental death or other special provisions, or acquired through the application of policy dividends.

Financing Entity - In the life settlement industry, a firm contracted to provide the funds necessary to finance a settlement.

Insured - This term means the person covered under the policy being considered for viatification.

Investors - Entities that puts forth funds toward a pool of policies with the expectation of a financial return from the maturity of policies.

Key Person Life Insurance - When one has a key person in a business without whom the business would suffer financially, key person life insurance is often purchased which helps to reimburse the company for the business loss incurred by the death of this person.

Life Expectancy Company (LE) - Actuarial and physician experts who apply probability theory, actuarial methodology, and medical analysis using the records of the insured to calculate the probable life expectancy of an insured.

Life Settlement - A financial transaction in which a policy owner possessing an unneeded or unwanted life insurance policy sells the policy to a third party for more than the cash value offered by the life insurance company. The purchaser becomes the new beneficiary of the policy at maturation and is responsible for all subsequent premium payments.

Life Settlement Broker (Broker) - This means a person who, on behalf of an policy owner and for a fee, commission or other valuable consideration, offers or attempts to negotiate sales contracts, between an owner and one or more providers, the subject of which is a Life Settlement. A broker represents only the owners and owes a fiduciary duty to the owner to act according to the owners instructions, notwithstanding the manner in which the broker is compensated. A broker does not include an attorney, certified public accountant or financial planner retained in the type of practice customarily performed in their professional capacity to represent the owner whose compensation is not paid directly or indirectly by the provider.

Life Settlement Provider (Provider) - A firm specializing in purchasing life insurance policies in the Life Settlement market. Providers normally resell the insurance policy to institutions called financing entities. A provider works on behalf of the financing entities that they represent. Their objective is to purchase your policy for the lowest price possible and maximize the return on investment for their investors. Providers have the duty to keep the policies in-force with money from the financing entities. Sometimes, this job is outsourced to a contracted tracking company.

Maturity of Policy - The policy matures, or pays a claim, when the insured dies and upon presentation of evidence of the death and the validity of the claim to the insurer.

Permanent Life Insurance - Any form of life insurance except term; generally insurance that builds up a cash value, such as whole life and universal life. Coverage can last a lifetime.

Policy Owner – The person who owns a life insurance policy. This is usually the insured person, but it may also be a relative of the insured, a partnership or a corporation

Premiums – Payments to the insurance company to keep a policy in force.

Producer - A person who sells life insurance.

Provider (Life Settlement Provider) - A firm specializing in purchasing life insurance policies in the Life Settlement market. Providers normally resell the insurance policy to institutions called financing entities. A provider works on behalf of the financing entities that they represent. Their objective is to purchase your policy for the lowest price possible and maximize the return on investment for their investors. Providers have the duty to keep the policies in-force with money from the financing entities. Sometimes, this job is outsourced to a contracted tracking company.

Secondary Market - The financial market for the trading of securities that have already been issued in an initial private or public offering. Alternatively, secondary market can refer to the market for any kind of used goods, such as life insurance policies.

Terminally Ill - Having an illness or sickness that can reasonably be expected to result in death in twenty-four (24) months or less.

Viatical Settlement - (from the Latin "Viaticum" (vi-at-i-kum), historically, an allowance for traveling expenses or provisions for a journey.) Historically, the proceeds from the sale of a life insurance policy to a third party by a terminally ill individual.

