

ABA Recognition Signals Tipping Point for Secondary Market for Life Insurance

FORT WASHINGTON, Pa. – March 12, 2004 – The secondary market for life insurance is pro-competitive and pro-consumer concludes an article published by the American Bar Association. The article entitled “The Benefits of a Secondary Market for Life Insurance Policies” in the ABA’s *Real Property, Probate and Trust Journal (Fall 2003)*, confirms the legal community’s acceptance of the secondary market as an option for consumers.

The study conducted by The Wharton School, University of Pennsylvania, determined that by encouraging competition for underperforming or unneeded life insurance policies, the secondary market enhances policy valuations for consumers and leads to product innovation. Their conclusion is supported by an analysis showing that policyowners realized more than \$240 million over cash surrender value from life settlements in 2002 alone. The authors go on to recommend that lawmakers responsible for regulating the industry should design legislation that encourages participation and investment in the market.

“The ABA’s recognition of the secondary market not only reflects the growing acceptance of the secondary market among legal professionals, but should serve to solidify the emerging consensus that secondary market transactions fall within the fiduciary responsibility of the trust and estate attorney,” says Alan H. Buerger, CEO of Coventry First. “We commend the ABA for recognizing the consumer benefits presented by the secondary market and for bringing the matter to its members.”

The article cites examples from other secondary markets in financial services to illustrate the consumer benefits of the market. “The secondary market for life insurance policies has generated an increase in the liquidity of life insurance policies in much the same way that improvements in the secondary market for home mortgages and catastrophic risk insurance improved the liquidity of the underlying assets in those markets. Secondary markets ...also mitigate downside risk of purchases in the primary market and ... likewise should be expected to



cause consumers in the primary market for life insurance to demand a greater quantity of coverage,” report the authors.

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