



MAKING MONEY ON *Death*

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Recently, one of our clients called us to say that someone has introduced him to invest in Viaticals and Life Settlements. It was promoted to him as a low risk and high return instrument and asked us whether these instruments are really so good. Obviously, there is no free lunch. So what is the catch?

What are Viatical & Life Settlements?

Let's say someone is diagnosed with a terminal illness such as cancer or aids and do not have sufficient money for treatment or keep himself happy till he die. But he has a life insurance policy that pays only upon death. He can sell his policy to a Viatical Settlement company at a value higher than his cash values who in turns package all these policies and resell it to investors like you. The terminally ill gets money to do what he wants and the investors assumes payment of the premiums and ultimately receives the death benefit.

So where is the risk you may say? Well, the risk lies in the fact that advanced medical technology may prolong the life of the sick and outlive the doctor's prognosis. Such was the case with Aids patients whom the Viatical Settlement Company first target in

the 1980s. Medical advancement prolonged their lives and many went into remission and are still very much alive. A happy situation for them but not for you as you have yet to realize your investment gains. So investors were no longer willing to take in anything except the very worst cases and in the end, the market for them became very small. This was when a lot of frauds started to happen in the viatical market. Many Viatical fraudsters began collecting money and never even invested in policies. It doesn't help when this market wasn't very well regulated at that time. You can read more of these frauds in http://www.quatloos.com/viaticals_fraud.htm

In the midst of all this, came the Life Settlement product. While Viatical Settlements involve terminally ill patients (those with life expectancies of no more than a year or two), Life settlements involve policy owners with longer life expectancies—generally between two and 13 years. These are people whom are usually above the age of 65 years old and they need to have a significant decline in health since the policy was first purchased. As an investor, your return on investment comes when they die and you receive the death benefit, similar to that of the Viatical.

So what is wrong with these Products?

It is interesting how salespeople can word their sales pitch depending on what products they are pushing at that point in time. This is what a typical sales line would be: "It is a low risk; high return instruments and you are really helping the terminally ill and the dying to have money before they pass on" Sounds really good and noble but maybe too good to be true? As a start, if someone is really interested in helping the terminally ill and the dying, maybe they shouldn't charge so high a commission in selling the product? Agent commissions alone can be anything between 10-20% and we have not considered what Viaticals and Life Settlements companies earn. From the insured's perspective, is it really the best financial decision to sell their policy? Obviously keeping the policy till their demise will provide the best return on investments for the demise's estate; otherwise, investors wouldn't be interested to buy them in the first place. There are many ways to raise cash when one is about to pass on and especially so when you have huge death benefits and beneficiaries to the policy, space constraints do not allow me to list them down but suffice it to say that selling away a life insurance policy that is about to mature may not be the best option.

Contrary to what is being preached by financial salespeople, Viaticals and Life Settlements present huge investment risks. It has to be since it is touted to give high double digits returns. Some of these risks are: life extension risk (insured living beyond their life expectancy), exchange rate risk (if the product is an offshore product), legal risk (your risk of having no legal recourse if it is not properly regulated) and also fraud (Viaticals and Life Settlement companies mishandling of monies and insured misrepresenting their real health condition).

As an independent private wealth manager, we have been approached many times by companies to recommend Viatical and Life Settlements products to our clients. Besides not being too happy with the high cost structure, the high incidence of frauds in this industry, what we are particularly uncomfortable with is the ethical issues surrounding these products. As an investor, the only time you reap the return of your investment is when people die. The earlier they die, the higher your returns and the happier you are. When advance medical technology lengthens the life of the terminally ill and dying, they and their loved ones are happy but you are upset because they don't die soon enough for you to maximize your returns. We do not think that we and our family of clients

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So should you invest in Viaticals and Life Settlements? Ask yourself these questions: Do you need to take the risks associated with these products? Can you take the risk of losing your investments? Can you accept the fact that your investment returns depends on how fast someone dies? Are you willing to take the risk so as to get the high returns? If you need not and cannot, even if you are willing to blind your eyes to the ethical considerations of these products, maybe you should not invest in them.

Human being is an innovative specie. We will find all sorts of ways to make money, even on death. Death sells for the reason that it is unavoidable. But there are many ways to make money and some money you should not make. Joseph Belth, US editor of the monthly newsletter Insurance Forum and author of Viatical Transactions: The Frightening Secondary Market for Life Insurance Policies has this to say about Viaticals: "The simple rule for the investor is to stay away from them like poison" There may be a lot of wisdom in his words.

Christopher Tan is the CEO of Providend, Singapore's sole fee-only independent private wealth management firm. The edited version appeared in The Sunday Times on 29 June 2008.