

LIFE LINES...

Serving High Net Worth Clients With Traditional Premium Financing

by Leila Morris

There has never been a better time for premium financing. “Business is booming and thanks to President Obama, estate taxes are here to stay and the borrowing rate is low,” said Julian Movsesian, president of CMS – Succession Capital Alliance. He addressed a recent conference on traditional premium financing in Las Vegas hosted by CMS – Succession Capital. The two-day conference featured top experts in the insurance and legal fields and focused exclusively on traditional premium financing.

The event drew 300 attendees. Sponsors included ING, AXA Equitable, John Hancock, Sun Life, Transamerica, Pacific Life, and the law firm GreenburgTraurig. CMS Inc. is a premium financing firm and founder of the Capital Maximization Strategy (CMS).

Mike Bell, executive vice president of Pacific Life, said insurance companies are marketing products with premium financing in mind. In fact, carriers have developed life insurance products for premium financing so that loans don’t require as much collateral. Carriers are also taking some initiatives to make medical underwriting faster and easier.”

Marty Flewellen, president of Transamerica Insurance and Investment group noted the importance of working with a carrier with a fulfillment team to guide inexperienced agents through the premium financing process.

Premium Financing Is Not For Everyone

There is a myth that premium financing is only for people who can’t afford life insurance, but the opposite is true. Movsesian stressed that premium financing allows



Photo Left to Right: Dave Wilken, ING; Mark Teitelbaum, AXA; Greg Mack, John Hancock; Marty Flewellen, Transamerica; Mike Bell, Pacific Life.

agents to serve their high net-worth clients who want to purchase significant insurance coverage without having to cash in investments or sell real estate to pay for it. This is especially important in today’s economy when people are waiting out the market, hoping their assets recover in value.

A premium-financing client must not only have a high net worth, but also have liquid assets and a top credit score. Donald Trump may be rich, but he wouldn’t qualify because of all the bankruptcies on his credit report.

Shaking Off The Stigma

The premium financing market is still trying to shake the bad image it got in 2003 and 2004 when unscrupulous producers got into the business and submitted applications that inflated a client’s net worth. Movsesian drew laughs from the crowd when he showed an investigation photo of a broken down trailer belonging to an

unscrupulous producer’s “high net worth client.”

The industry has taken a welcome turn back to basics following scandals in the financial sector and the economic crisis. But there are still a few bad actors. “We need to clean up our act. We need to stop settling for the gimmicks and sell large premium policies the right way. We have millionaires in this room because this is a great business,” Movsesian said.

The insurance industry has made progress in fraud prevention by tightening financial underwriting. Also, in a premium financing deal, carriers no longer accept stranger owned life insurance (STOLI)/ investor-owned life insurance (IOLI) or hybrids. Mike Bell, executive vice president of Pacific Life said, “If an agent tried to present an IOLI, we would cancel his contract.” He said the lack of capital in this economy has shut down the market for life insurance in which the owner has no in-

surable interest in the beneficiary. Movsesian said that his company surveyed carriers about whether they would deal with an IOLI in premium financing and they all said no; it's not worth the effort. Tim Whitmore, head of Business Development for Succession Capital Alliance said, "A lot of clients expect to be able to do STOLI. We have to explain that traditional premium financing is where it's at."

Managing Client Expectations

Movsesian said that present premium financing should not be presented to a client as the only option for purchasing a policy. Instead, it should be presented as an alternative if the client needs the insurance, but doesn't want to cash out assets to pay for it.

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Tim Whitmore stressed that the first issue in considering premium financing is determining whether the client actually needs insurance – no need, no deal.

He stressed that a premium financing case is not off-the-shelf. It requires clients to provide tax returns and financial statements, as well as tailoring the case to a client's needs. All of a client's advisors need to be involved, including the CPA, the attorney, insurance agent, etc. "Who is the decision maker? You need them to be involved ASAP. If the decision maker is the attorney or CPA, they need to be there. Make them part of the team to present to the premium financing option client," Tim said.

Whitmore also said clients need to post collateral in a premium financing deal. "We have to explain how collateral works." Movsesian said, "You need to get away from client's expectations of never having skin in the game. You have to present the case so they understand that it is not an unsecured loan. Any time you ask a bank for money, they will ask for collateral." "I will not present something they can't afford or something that

won't work," he added.

Bell said, "Money used to be easy and cheap. But money is tighter than ever within financial underwriting. Producers and clients are beginning to understand that."

Disclosing the Facts

Whitmore explained that a producer is much more likely to close a case when they have gathered all the necessary information, such as:

- The client's total net worth.
- How much insurance they need.

- If they have liquid assets.
- If they can post collateral.
- The desired amount of the benefit.
- The source of income.
- Annual gifting limits.

You also have to disclose to the client how the lender platform is chosen. Discuss changing interest rates, projected collateral, and what happens if the policy doesn't perform. High net worth clients don't like surprises. Movsesian said never to go with just one lender. "We have multiple lenders."

Marty Flewellen, president of Transamerica Insurance and Investment Group said producers should look at the suitability of the client and be transparent with the carrier. "Premium financing is not a one-year sell; it takes management to sell and that

is complicated. You need somebody who understands what they are getting into."

Movsesian answered the following audience questions:

Q. Does the client need to be a U.S. citizen?

A. No, but the client needs to have a trust in the United States. The client needs to be able to back up their assets.



Q. What if the client doesn't want to take money out of the market?

A. You can use stocks and bonds as collateral.

Q. What kinds of policies are involved in premium financing?

A. We use whole life, universal live, indexed universal life. □

For more information, visit www.Succession-Capital.com. Leila Morris is editor of California Broker Magazine.