

Glossary Of Terms

The secondary market for life insurance is an emerging and growing market that provides a trading forum for the buying and selling of unwanted life insurance policies. We recognize that some advisors and consumers may not have a complete understanding of the life settlement industry, which is why we created this page of glossary terms commonly used during the course of life settlement transactions.

**ATTRIBUTION: Acknowledgment is given to the Life Insurance Settlement Association as the primary source for the majority of the terms shown on this page. Some terms have been edited for clarity and brevity, while other terms represent our own interpretation or adaptation of commonly used industry terms, some of which may also be found on other sites such as Investopedia.*

Accelerated Death Benefit

A policy provision or rider that lets you collect part of your death benefit before you die. If you have a terminal illness, the policy advances you a specified part of your death benefit to pay medical bills or other expenses, then the amount is subtracted from the death benefit your beneficiary receives.

Accidental Death

A provision or rider that promises to pay more (usually double) if you die in an accident. Also known as double indemnity.

Actuary

A mathematics expert who applies probability theory to the business of life insurance and is responsible for calculating premiums, policy reserves and other values.

Administrative Fee

Charges some policies deduct from cash value accumulation each year.

Annuitant

A person who receives an income benefit from an annuity.

Annuity

A contract purchased through an insurance company, usually to accumulate funds that can be used after retirement.

Assignment

Giving rights under the insurance policy to someone else. You can assign beneficiary rights or policy ownership.

Automatic Premium Loan

A provision in a policy that authorizes the insurance company to use money from your cash value to pay premiums.

Beneficiary

The person you designate to be paid a death benefit when you die. A policy may have one or more beneficiaries.

Broker (Life Settlement Broker)

This means a person who, on behalf of an 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. (From NCOIL Definitions)

Burial Policy

A policy with a relatively small death benefit, intended to cover your funeral and burial expenses.

Cash Value

The savings portion of a life policy. When your premium payments are more than the cost of insurance, the excess goes into a cash value account and draws interest.

Certificate

The evidence of coverage received by persons insured through a group life policy.

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.

CLU (Chartered Life Underwriter)

A title that agents and other insurance professionals can achieve after taking a series of classes and passing exams. An agent with CLU after his or her name should know a lot about life insurance.

Contestable Period

The life insurance contestability period is a short window in which insurance companies can investigate and deny claims. The period is two years in most states and one year in others, and it begins as soon as a policy goes into effect.

Conversion

Changing a term life policy to some other form. This can be done only when the policy is described as convertible.

Death Benefit

The money that a life insurance policy promises to pay your beneficiary when you die.

Decreasing Term

A term life policy whose death benefit goes down each year.

Dividends

When a company collects more money from policyholders than is needed to cover the cost of insurance.

Endowment

A cash value policy that sets a specific time at which the cash value will equal the death benefit. If you buy a \$10,000, 20-year endowment policy, you will immediately be insured for \$10,000. If you are still living at the end of 20 years, you will receive \$10,000 in cash.

Escrow Agent

This term means a state or federally regulated financial institution organized under the laws of the United States or any state, whose responsibilities include accepting investor funds, transferring funds in order to purchase policies, paying insurance premiums and receiving death benefits for all policies where Viatical Investors are not the beneficiaries.

Face Amount

The sum a policy promises to pay when the insured person dies, or at the maturity of the contract.

Family History

Information about medical or mental problems of your parents and other family members. Companies may charge you higher premiums or reject you if your family has a history of cancer, heart attacks, or such diseases as Huntington's.

Financing Entity

An underwriter, placement agent, lender, purchaser of securities, purchaser of a policy or certificate from a Provider, credit enhancer, or any entity that has a direct ownership in a policy or certificate that is the subject of a Sales Contract, but whose principal activity related to the transaction is providing funds to effect the Life settlement or purchase of one or more policies: and who has an agreement in writing with one or more Providers to finance the acquisitions of Sales Contracts. Financing Entity does not include a non-accredited investor or Purchaser.

Financing Transaction

A transaction in which a licensed Provider obtains financing from a Financing Entity including, without limitation, any secured or unsecured financing, any securitization transaction, or any securities offering which either is registered or exempt from registration under federal and state securities law.

First to Die

Provision in a policy that insures both husband and wife. When the first spouse dies, the survivor collects the full death benefit.

Fraud

Any time you knowingly provide false or incomplete information on an application for insurance or on a claim.

Free Look

A time after you receive the policy for you to review and consider whether it is what you want.

Genetic Testing

Using modern scientific analysis of your blood to determine whether you have any genetic defects that might make it more likely that you would die earlier than the average person. Ohio permits insurance companies to use the results of genetic testing for life insurance policies, but only a few companies require genetic testing.

Grace Period

The time after an insurance premium is due during which the premium can still be paid with no interest charged, and coverage remains in force. This period is usually 30 to 31 days.

Group Life

A policy issued to an employer, association, or other organization.

Guaranteed Issue

A policy that is sold to all applicants without regard to their health.

Guaranteed Rate

The only interest amount that the insurance company promises to pay on any cash value in the policy.

In Force

A policy is in force when all conditions have been met to establish or maintain the company's obligation to pay if you die.

Insurable Interest

In order to be the owner and beneficiary of a life insurance policy, there must be some relationship to the insured person.

Insured

This term means the person covered under the policy being considered for viatication. (NCOIL definitions)

Lapse

The termination of an insurance policy as a result of failure to pay the premium.

Legal Competency

An opinion provided by an insured's and/or policy owner's doctor providing medical assurance that the insured and/or policy owner is of sound mind.

Life Expectancy (LE)

The number of months the individual insured under the life insurance policy to be viaticated can be expected to live as determined by the Viatical settlement provider considering medical records and appropriate experiential data. (NCOIL definitions)

Life Insurance

An asset purchased to provide financial protection should an individual (the insured) die whereby the named beneficiary will be paid a death benefit by the insurance company

Life Insurance Settlement Association (LISA)

Established in 1994, the Life Insurance Settlement Association is the oldest and largest trade organization in the life settlement market. LISA's membership consists of: Brokers, Providers, Financing entities; and Service providers to the industry (law firms, medical underwriters, consultants, investment funds, actuarial firms, trustees and escrow agents.) The mission of the Life Insurance Settlement Association (LISA) is to advance the highest standards of practice and professional development for the industry, and to educate consumers and advisors about a life settlement as an alternative to lapse or surrender of a life insurance policy.

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 Market Place (Commonly Used Terms in the Market Place)

Life Settlement, Viatical/Life Settlement Broker, Viatical/Life Settlement Provider, Net Death Benefit, Life Expectancy, Owner, Insured, Purchase Agreement, Sales Contract, Financing Entities, Financing Transaction, Special Purpose Entity, Related Provider Trust, Secondary Markets, Accredited Investor, Qualified Institutional Buyer

Loan

If your policy has accumulated cash value, you may borrow part of it. Interest rates are generally better than bank rates. The amount you borrowed will be deducted from your death benefit until you have repaid it.

Mortality Charge

The cost of insuring you at your current age.

Net Death Benefit

The amount of the life insurance policy to be viaticated less any outstanding debts or liens.

Non-forfeiture

If you cancel a cash value policy after several years, the company is required to refund part of the cash value.

Outlay

The amount you pay the insurance company for insurance (same as premium).

Owner

This term means the Owner of a life insurance policy or a certificate holder under a group policy. The term "Owner" does not include any Provider or other licensee. (NAIC definitions)

Paid-Up

A policy on which all premium payments have been made.

Participating Policy

A policy that has the possibility of paying dividends.

Policy Owner

The person who contracts with an insurance company for a life insurance policy. The owner of the policy has the right to designate beneficiaries.

Preferred Rate

The rate the company charges people who have the lowest risks.

Provider (Life Settlement Provider)

A life settlement provider is a company that is licensed by a state's department of insurance to purchase life insurance policies from the insured. The purchaser becomes the new beneficiary of the policy at maturation and is responsible for all subsequent premium payments. Providers may purchase policies for their own purposes or on behalf of institutional investors and other financing entities. Their policy acquisition goals involve purchasing policies at as great a discount as possible. Providers differ from life settlement brokers in that brokers owe a fiduciary duty to represent the seller in obtaining the highest possible settlement value for policies that they broker. However, providers are not required to have a fiduciary duty to the seller, as their duty is to represent the policy acquisition goals of their investors.

Purchase Agreement

A Contract or agreement entered into by a Provider with a Purchaser, to which the Owner is not a party, to purchase a policy or an interest in a life insurance policy, or acquire a beneficial interest, or a certificate issued pursuant to a group life insurance policy.

Rescission Period

A period of time that the seller of a life insurance policy can reverse a life settlement transaction. In most regulated states, the rescission period is 15 days. The rescission period does not start until the seller has received the funds from the escrow agent. For a rescission to be effective, the money must be returned to the Life Settlement Provider within the rescission period.

Reinstatement Period

Restoration of a policy that has lapsed due to non-payment of premium after the grace period has ended. The reinstatement period in life insurance is 3 years from the premium due date

Renewable Term

A term life policy that guarantees you the right to renew at the end of the term.

Replacement An insurance agent replaces your policy when he sells you a policy to take the place of one you already have. Ohio law requires you to sign replacement forms whenever money from one policy is used to buy or fund another policy. If the new policy is with a different company, the agent must notify your old company. The old company then has a chance to persuade you not to switch.

Rider

An addition or amendment to an insurance policy.

Risk

The likelihood that you will die while insured.

Risk Factor

Things about you that affect your risk, such as age, smoking, hazardous occupation, or a family history of heart disease.

Sales Contract

This is a written agreement entered into between a Provider and an Owner, the subject of which is a Life Settlement. Sales Contract also includes a written agreement for a loan or other lending transaction, secured primarily by an individual or a group life insurance policy, other than a loan by a life insurance company pursuant to the terms of the Sales Contract, or a loan secured by the cash value of a policy.

Second-to-Die Insurance Policy

Second-to-die insurance is a type of life insurance on two people (usually married) that provides benefits to the beneficiaries only after the last surviving person on the policy dies. This differs from regular life insurance in that the surviving partner doesn't receive any benefits after the spouse dies.

Secondary Market for Life Insurance

Provides a trading platform for policy owners to sell unwanted life insurance policies to institutional buyers for a cash payment generally less than the death benefit on the policy, but more than its cash surrender value. The buyer assumes future premium payments and receives the death benefit when the insured passes away.

Settlement Option

How a beneficiary receives payment of the death benefit.

Special Purpose Entity

A corporation, limited liability company, or other similar entity formed solely to provide either directly or indirectly access to institutional capital markets to a Financing Entity or Provider.

Split-Dollar Policy

A life insurance policy that includes an arrangement between two parties where life insurance is written on the life of one party and the other party is assigned the cash value of the policy. The two parties split responsibility for premium payments.

Stranger Owned Life Insurance (STOLI)

The issuance of life insurance for the benefit of an individual who has no insurable interest to the insured.

Suicide Clause

A life insurance policy will not pay a death benefit if you commit suicide within the first two years after you buy the policy.

Surrender Charge

If you surrender an annuity or life policy prematurely, the company may deduct a fee from the amount it owes you.

Term Policy

A life insurance policy that provides coverage for a limited number of years and expiring without value if the Insured survives the stated period, which may be one or more years, but usually is 5 to 30 years. A term policy has no cash value.

Terminally Ill

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

Underwriting

Information gathering and verifying process by life settlement companies that assures that all relevant policy and medical information is available for review to analyze a life insurance policy, determine a life expectancy, and estimate the value of a policy.

Universal Life

A flexible-premium life insurance contract that accumulates values and pays a death benefit. You choose the policy's premium and face amount, and you can adjust these as long as the policy is in effect. Under the terms of the policy, the excess of premium payments above the current cost of insurance is credited to the cash value of the policy. The cash value is credited each month with interest, and the policy is debited each month by a cost of insurance (COI) charge, as well as any other policy charges and fees drawn from the cash value.

Variable Life

A type of whole life insurance in which the face amount and cash value rely on the investment performance of a special fund. Reserves are placed in investment accounts that are separate from the company's general account.

Viatical Settlement

(from the Latin "Viaticum" (vi-at-i-kum), historically, an allowance for traveling expenses or provisions for a journey.) n. Historically, the proceeds from the sale of a life insurance policy to a third party by a terminally ill individual. The term today covers the sale by persons who are not terminally ill. Today the term also refers to the sale by a policy owner who may not be the insured individual. This could be a corporation or another family member.

Viatical Settlement Broker

A person who, on behalf of an 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. (From NCOIL Definitions)

Viatical Settlement Provider

A Viatical or life settlement provider is a company that is licensed by a state's department of insurance to purchase life insurance policies from the insured. Providers may purchase policies for their own purposes or on behalf of institutional investors and other financing entities.

Viaticals

A general term referring to transactions in the Viatical settlement marketplace.

Viaticate

(vi-at-i-kate) Historically, to furnish with the provisions necessary for a journey. v. To sell a life insurance policy to a third party when the insured is terminally ill.

Viator (vi'-a-tor) n. A terminally ill person who sells his or her life insurance policy to a third party and receives a lump sum cash payment. (From NAIC definitions)

Waiver of Premium

A provision that suspends your obligation to pay premiums when you are disabled or you meet some other policy requirement. This is a common feature in life insurance policies.

Whole Life

Life insurance with a savings feature. Premiums generally are the same (level) every year. When you are young, your premiums are more than the cost of insuring your life at that time. The excess amount accumulates and resembles a savings account, called cash value. This excess is used by the company to insure you later in life, when your level premium is no longer enough to cover you.