IN RECENT YEARS, investment banks have been exploring whether life insurance policies can serve as a viable asset class for complex structured products. We have worked closely with our clients in evaluating this field and on several of the early generation of completed transactions that emerged at the crossroads of structured products and securitization. Broadly speaking, the transaction structures in this area have focused on financing life insurance policy premiums or monetizing outstanding life insurance policies.

In the premium finance area, we have worked on transaction structures that facilitate low-cost premium financing through the issuance of various types of life insurance policies to the entities providing the financing. The transactions have proven to be highly complex and document intensive, given the interplay between the low-cost financing being offered to insureds and the collateralization required by the financing entities. For greater efficiency, we have structured premium financing transactions using Bermuda trusts, as well as programs offering options for full-life financing, term financing and hybrids. Not surprisingly, these transactions draw heavily on a broad spectrum of our skills, including tax, securities, banking and secured transactions, insurance, consumer lending and protection and off-balance sheet finance.

Monetizing outstanding life insurance policies, whether through loans or outright purchases, has proven to be even more challenging. These transactions can range from the aggregating and repackaging of a large pool of insurance policies accumulated by life settlement providers to programs aimed at providing liquidity to individual insureds or institutions holding blocks of policies. These transactions not only touch on the same array of legal issues as premium finance structures, but also have presented significant actuarial and accounting issues and questions relating to the circumstances and conditions under which transactions of this nature might be socially inappropriate.

Navigating the legal and business issues presented by this nascent area has required extraordinarily close collaboration between our capital markets team and our clients that have determined to make insurance products an important asset category.
The supply of potential products is vast. The demand for such products is robust. What remains is the intricate task of designing the products that will connect supply and demand. We are working on doing exactly that.