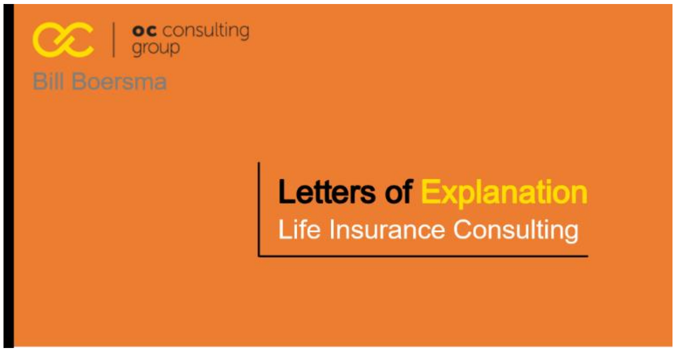
Title: Premium Financing

Following is an email I recently received:

Over this past year I have been contacted several times (by parties that I respect) asking me to get involved with Premium Financing... The pitch is compelling - that Indexed life insurance is great (a game changer); that some carriers offer immediate surrender free CV of 100% of the premium deposit(s); that super large banks are happy to do the lending... on and on...

I just read your take on this and I respect your opinion... Could I ask you, if I was to get involved, what insurance companies or financial firms do you think are respectable and experienced (and doing the best job) in this specialized arena?



My Response:

Thanks for the questions. As you might expect, I have answers for you and look forward to talking. I want to focus on your first paragraph now and we can talk about the second paragraph later.

The agents and carriers are involved because there are huge premiums and commissions. It's also a way to sell way more insurance than clients are even looking for. A number of carriers are driving their sales increases through this strategy. If you think about it, of course the big banks are on board. They get the financing with no risk because everything is collateralized. Cynically, they don't even need to care if the concept works, so no one should look at their participation as a qualifying vote.

Finally, most of the cases I am brought in to are ridiculous and won't work. The promoters aren't telling the entire story and the clients have no idea what they are getting in to.

Even so, I'm not saying that premium financing is always bad, I'm just saying that I think it is often bad the way it is being pitched. When I say bad, I mean that if we're being honest, the numbers simply won't work out. The concept is fine.

Think about this; let's say you're a guy with all his capital deployed in your business or real estate and you're making 20% on your money. You realize you need life insurance for estate tax liquidity or business succession planning but you aren't eager to pull money off the table to redeploy it into something with a much lower return.

You could borrow money at 10% and be ahead, couldn't you? As long as there is a real spread between what you're earning and the borrowing costs, that you understand you have to pay it back at some point and you understand the risks, then go for it. What doesn't work as cleanly is what is too often being promoted; arbitrage between policy crediting and borrowing.

I look forward to further discussing.

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