



Rainbow Retirement Income Castle In The Clouds?

Lionsmark Capital's Commentary
On Attorney Lawrence Rybka's
Anti-Premium Financed IUL Article

by Darren Sugiyama

RAINBOW RETIREMENT INCOME CASTLE IN THE CLOUDS?

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In June 2019, an article surfaced online, written by a gentleman that heavily criticized the Indexed Universal Life Insurance product – specifically when used in concert with premium financing – as an accumulation strategy.

My name is Darren Sugiyama, co-founder and Managing Partner of Lionsmark Capital. We are industry-disrupting premium financing intermediary firm that prides ourselves in providing ultimate transparency and indisputable mathematical modeling.

Upon hearing about Rybka's article, my knee-jerk reaction was to immediately (and valiantly) both defend premium financing and the IUL product, and I anticipated having to destroy yet another adversary.

However once I read Rybka's article, I actually agree with many of his criticisms about the abuse of premium financing. However, although some of his criticisms are valid, many of his accusations are inaccurate (and over-generalized).

In this age of internet blog pages and ungoverned "articles" on topics that range from celebrity gossip... to politics... and now, premium financing... the most negative and sensationalized articles get the most attention.

I have received multiple requests by the life insurance agent community to address Rybka's article and his criticisms due to my expertise in the premium financing arena, which I will do in this commentary.

In the upcoming pages, the *black italicized text* is taken verbatim from Rybka's article, and the **blue text** is my commentary on his statements, assumptions and accusations.



How to Retire in the Magical Retirement Income Castle in the Clouds

“What looks too good to be true, usually is.”

Lawrence J. Rybka, J.D., CFP®

Taken Verbatim From Rybka’s Article:

I recently attended what is a top meeting in the U.S. life insurance industry. During that meeting, I experienced no less than three sessions where insurance agents shared presentations of major sales they claimed to have made during the year, each of which generated hundreds of thousands of dollars in commissions. All three presentations were a variation of the recommendation to clients to borrow significant sums in order to finance premiums on Index Universal Life (IUL) policies.

Lionsmark Capital’s Commentary On The Above Statements:

The concept of Premium Financing is not any different than financing a college education, purchasing a home using a mortgage loan, or taking out an SBA loan to financing a start-up business. The idea is to utilize a lender’s capital to purchase an asset that should appreciate in value over time, whether it be the value of education, real estate, a business, or the cash value of an Indexed Universal Life Insurance policy.

With a 0% floor, the crediting strategy of an IUL provides downside protection – something that a neither real estate nor a business has. Both real estate and a start-up business incur far greater risk than an S&P 500-correlated index fund, housed inside a life insurance wrapper (historically speaking, over virtually any 20-year run in the last 65 years).

Taken Verbatim From Rybka's Article:

The proposals showed that loans would be paid back using projected policy cash values and have plenty in the policy to provide lifetime income of hundreds of thousands of dollars a year to the policyholder and a multi-million-dollar death benefit at the end. Each presentation proposed the clients borrow this money from major commercial banks who were willing to loan them \$2 to \$3.5 million each, over the course of five to seven years, to purchase these policies. These proposals are not outliers, but part of a massive sales effort by some insurance companies and banks to push products that may be good for them, but carry significant risk for the client.

Lionsmark Capital's Commentary On The Above Statements:

We agree with Rybka's commentary regarding the significant risk in SOME premium financing programs, but not all premium financing programs incur the same amount of risk.

Some programs only work if the stars align, and if any adverse events occur (ie: Rising borrowing interest rates, poor S&P 500 performance, a poor sequence of returns, etc), some of these premium financing programs fall apart, potentially leaving the client with a net loss and a phantom tax bill.

At Lionsmark Capital, we do not believe in over-leveraged premium financing designs. We will typically have the client pay a first-year premium out-of-pocket (so they have some skin in the game, similar to a mortgage lender requiring the client to pay a significant down payment), and our clients pay the interest due every year (they do not accrue the premium financing loan interest).

We will address the specifics of how we mitigate client risk later in this commentary.

Taken Verbatim From Rybka's Article:

The Market For Premium Financed IUL Is Huge

The concept of premium financed IUL gained broad attention in a 2010 Wall Street Journal article. It was being promoted by former KISS rock star Gene Simmons. In the article, the promoters of these schemes claimed, "Cool Springs promises wealthy people that they can buy enormous insurance policies without spending any of their own money on the annual premiums, which can top \$300,000 for older people."

Cool Springs claims its "platforms have executed more than \$8 billion in transactions, all without any clients writing a premium check." It is unclear what happened to Simmons, who is no longer listed on the company's website.

Wintrust, a major lender in the area, claims on its website to have made over \$3.1 billion of premium finance loans over the last several years to finance this kind of transaction. A third major insurance marketing organization reported that half of all its sales in 2017 resulted from this concept.

Lionsmark Capital's Commentary On The Above Statements:

Rybka references *Cool Springs*, which is a premium financing intermediary, and by definition, a competitor of ours.

I must make a distinction between my firm (*Lionsmark Capital*) and our competitors that offer *Interest Accrual* premium financing programs, including *Cool Springs*, *Aurora Capital*, *NorthStar*, and *NIW* (known for their *Kai-zen* program).

In *Interest Accrual* premium financing programs, the client is encouraged to NOT pay the interest due to the lender (on the borrowed premiums) and accrue or "roll" the interest due back into the principal loan balance.

This concept is currently being marketed as "free insurance."

In some *Interest Accrual* premium financing programs, the client is encouraged to pay a flat dollar amount for 10 years, some of which pays the interest due, and the shortfall is rolled back into the cumulative loan balance, where the program is being marketed as "semi-free insurance."

This concept is extremely risky and can put the client in a terrible position where the accrued debt balance is greater than the cash surrender value of the policy. This can occur if the policy index suffers due to poor S&P 500 performance (assuming the IUL is using an S&P 500-correlated crediting method).

This risk compounds further if borrowing interest rates increase substantially because the annual interest due compounds, and the cumulative debt compounds exponentially. If the cash surrender value of the IUL never catches up with the accrued premium financing loan debt, the policy value is underwater relative to the cumulative loan debt balance, making it impossible to payoff the loan with the policy CSV.

This is very similar to the negative amortization mortgage loans that were being sold during the period pre-2008 mortgage crisis. The basic concept of negative amortization mortgage loans was based on the hypothesis that real estate values would grow faster than the compounding mortgage loan debt, so instead of paying the full mortgage loan interest, the buyer would pay a minimal amount and roll the remaining interest due back into the mortgage loan.

Essentially, you would have a growing and compounding mortgage debt, falling deeper and deeper into debt.

So why did people fall for this?

The reason was that real estate values were skyrocketing, and many unfortunate home buyers believed that they could overleverage themselves into riches by underpaying their mortgage payment and flipping their homes when they doubled in value a few years later.

Obviously, 2008 hit and this arbitrage hope became, as Rybka put it, a “rainbow in the sky” that turned into a “thunderstorm with hail.”

At Lionsmark Capital, we are not fans of the *Interest Accrual* premium financing model due to the substantial risk to the client.

Typically, clients that enter these types of programs are unaware of the risks, due to the lack of transparency of what happens when the policy index credits 0.00% too many times, too many consecutive years in a row, and too early in the sequence of returns.

We agree with Rybka in that these programs are “Rainbows In The Sky” poised for “Thunderstorms & Floods.”

Taken Verbatim From Rybka’s Article:

By looking at a few of the largest lenders making these claims, it seems that over 60% of all premiums written on IUL are bank financed. There is a lot of IUL being sold with this concept that might be called a Leveraged Income Retirement Program.

Lionsmark Capital’s Commentary On The Above Statements:

Most insurance carriers that offer IUL products to be premium financed have maximum premium financing capacity of 20%-25%. Several other carriers that offer IULs are not in the premium financing space whatsoever (or on a very limited basis). Therefore, the claim that 60% of all premiums written on IULs are bank-financed is simply untrue.

Taken Verbatim From Rybka’s Article:

The questions are: Do these plans really work for clients in the long term? What risks are concealed from the policyholders/borrowers in these transactions?

For baby boomers who have delayed saving for retirement, the prospect of not paying out-of-pocket premiums for a big free policy during their final days of working or being in the retirement red zone period is appealing. A transaction that includes a magic tax-free money machine with no premium payments powered by unicorns and rainbows is much easier than cutting spending leading up to retirement. The presentations look easy, simple and relatively risk free through four easy steps:

- 1) Take out a bank loan for \$500,000 per year for seven years.*
- 2) Put the money in an IUL policy, which we call the Rainbow 500.*
- 3) The computer-generated sales illustration shows the cash value compounding at a steady illustrated rate, allowing the policyholder/ borrower to take enough money out of the policy to pay back the bank loan.*

- 4) Wait another couple of years and use the Rainbow 500 pot of gold to turn on hundreds of thousands of dollars of tax-free income from the policy and a tax-free death benefit at the end.

Taken Verbatim From Rybka's Article:

What Are The Risks?

We will examine why, despite the stated rate in the illustration of 6% or 7%, the actual projected rates inside the newest version of IUL policies have bonuses and multipliers that result in much higher effective illustrated rates. Some of the most aggressive illustrations show that for every dollar of premium put into a policy the policyholder is projected to get 12-13% projected cash on cash returns. When these projected returns from the illustration are further leveraged by borrowing from external bank loans, where money is borrowed at a projected rate of 4%, it creates an illusion of a carefree retirement castle in the clouds, with almost no money out of pocket. This paper explores how the illusory financial arbitrage on these transactions is in fact regulatory arbitrage that will likely cause clients far more risk than they bargained for.

Lionsmark Capital's Commentary On The Above Statements:

We completely agree with Rybka's concern. Static positive returns illustrated in a carrier illustration, working in concert with low borrowing interest rates, creates a "rainbow-in-the-sky" perpetual positive arbitrage that will never happen in reality.

This is why we developed our own software that models backtested and stress-tested 40-year periods that include volatility, a poor sequence of returns, and negative interest rate arbitrage so that the client can see what happens (mathematically) when these events occur.

No other premium financing intermediary firm has the ability to illustrate such models. For more information on how we model such backtested and stress-tested periods, contact us at www.LionsmarkCapital.com.

Taken Verbatim From Rybka's Article:

Conflicted Advice From Insurance Agents, Companies And Banks

Unfortunately, many clients considering this type of transaction are being ill advised by both the banks that are loaning them the money to buy the policies and the insurance agent (who may also be employed by a division of the bank) pushing the purchase of these policies.

In the last five or six years, advisors associated with our firm have been asked to provide second opinions on over 100 of these types of transactions, including proposals that non-profits borrow money to fund plans like these. To help clients better understand all the moving pieces, we have built a robust financial model that provides an independent assessment of the economics of these transactions. Once clients understand the risk from interaction of some of the variables, they almost never want to proceed with the transaction.

Lionsmark Capital's Commentary On The Above Statements:

We applaud Rybka's efforts in attempting to build a "robust financial model that provides an independent assessment of the economics of these (premium financing) transactions," however if his firm's assessment modeling was mathematically accurate, he would not be making such harsh statements about premium financed IULs.

Based on his aggressive stance against premium financed IULs and all premium financing firms in general (as I can only assume from the tone of his article), it is obvious that he is an expert in neither arena.

I would be interested to see what his modeling software looks like, and to see if it can truly backtest premium financed IULs with volatile index returns, but also mathematically calculate the IULs charges and credits accurately.

The chronological order in which certain charges are applied, as well as when the index credits within a segment and what value such index credit is applied to are questions that most life insurance agents, attorneys, CPAs and life insurance critics do not truly understand. I suspect Rybka's firm could not answer many of the vital questions necessary in evaluating premium financed IULs properly.

At Lionsmark Capital, we transparently educate and expose the innerworkings of the IUL chassis, and how the charges and crediting methods actually work. This is extremely important in modeling and stress-testing premium financing programs.

Taken Verbatim From Rybka's Article:

The Roman philosopher and statesman Seneca said, "Be wary of the man who urges an action in which he himself incurs no risk." The Insurance companies, insurance agents and bankers have far more to gain from these transactions, through commissions and fees generated from the loans, than the clients who are persuaded to buy them. In fact, premium financing transactions often generate three to four times as much commission as non-leveraged life insurance purchases because the policies must be much larger to provide the desired benefit while supporting the repayment of the loan.

Lionsmark Capital's Commentary On The Above Statements:

Though we can appreciate what Seneca said (which we agree with), the assumption that Rybka is making by citing this philosopher's statement is that what is right for the client, and what is profitable to the agent/bank/carrier, are mutually exclusive.

Yes, premium financed life insurance policies generate high commissions, but it is not because there is something inherently wrong with policies that are premium financed. The reason is that by financing life insurance premiums, the leverage allows the client to purchase a larger life insurance policy with the same outlay as paying the premiums out-of-pocket.

This is similar to being able to buy a larger house by employing a mortgage loan to execute the purchase. In this example, the real estate agent made a higher commission

because the mortgage loan allowed the client to purchase a larger house than they would if they paid cash.

However in premium financing, the strategy (if utilized properly with a suitable client) is designed for a wealthy client that would rather deploy their liquid assets (cash) elsewhere (ie: Investing it back into their business) than to use their cash to pay life insurance premiums. Premium financing should NOT be used for clients that can't afford the premiums, rather it should be used for clients that CAN afford to pay the premiums, but would rather deploy their cash elsewhere.

If the IUL premium financing program is being used as an accumulation strategy, or as an asset to diversify their net worth holdings, it is a decision similar to a business owner taking out a business loan to expand their business. They believe that the lender's capital can be utilized to grow the value of their company (as an asset), and that the growth of that asset will accumulate at a greater rate than the debt incurred by the business loan. Once the business can afford to do so, the business would payoff the loan debt.

Is there risk and downside potential in a business taking out a business loan? Of course. 95% of start-up businesses fail in their first year. But it doesn't mean there is something inherently wrong with taking out a business loan.

Is there risk and downside potential in taking out a mortgage loan to buy a home? Of course. The home could lose value if the housing market takes a downturn like it did in 2008.

Is there risk and downside potential in wealthy individual taking out a premium financing loan, hoping that the policy asset will accumulate enough cash to one day payoff the loan debt? Of course. The S&P 500 could experience poor returns like it did in the years between 2000-2009.

In each of cases, there is an element of risk involved. But that doesn't mean the concept of taking out a business loan to expand one's business is bad. It doesn't mean that buying a home and having a mortgage loan is bad. And it doesn't mean that the concept of premium financing is bad either.

Taken Verbatim From Rybka's Article:

A recent Society of Actuaries article surveying company profitability showed cash accumulation IUL products to be life companies' highest margin products. Clients considering these transactions should proceed with extreme caution and always get a second opinion from someone who has no vested interest in the transaction. Loans of this magnitude backed by a personal guarantee are more likely to end in a retirement nightmare than a carefree castle in the clouds.

Lionsmark Capital's Commentary On The Above Statements:

When Rybka says premium financed life insurance policies are "more likely to end in a retirement nightmare than a carefree castle in the clouds," my question is this:

Based on what data? Based on what type of stress-tested environment?

We agree that over-leveraged premium financed programs – especially those that assume unrealistic index returns, unrealistically low borrowing interest rates, and interest accrual – can easily end in a situation where the policy cash surrender value cannot payoff the premium financing loan. But to make a blanket statement about premium financing in general is neither a fair nor an accurate assessment.

Taken Verbatim From Rybka's Article:

Nature Of The Transaction And Risks Of The Personal Guarantee

These transactions go under a variety of names including Leveraged Life Insurance Retirement Plan or LLIRP, but the heart of the transaction is an IUL policy that projects to earn significantly more net of fees than the cost of the loan. While policy terms and loan terms may vary slightly from deal to deal, the basic mechanics of the transaction are much the same. These loans require a personal guarantee and are collateralized not only by the policy purchased but also by other assets (usually the client's investment portfolio) of which the bank takes custody.

The loan rate is usually based on a short-term lending rate (LIBOR) which in today's low interest rate market is well below the rate at which the policies' illustrated rate is projected to accumulate. The rates and terms of the loan can change both on funds borrowed and funds that will need to be borrowed for future years' premiums. The numerous risks with the bank loan itself are usually in the final loan documents, but often the client is too far along in the transaction to fully consider them.

Some of them include the risk the rates may go up, that the client must requalify for the loan for future premiums and may be unable to qualify when financial fortunes have changed years later. If the marketable securities held as collateral go down, especially in years where the policy will not earn a credit, it creates an unexpected margin call.

Lionsmark Capital's Commentary On The Above Statements:

We absolutely agree with Rybka's statement about the liability of "an unexpected margin call." The collateral that most premium financing programs require is significant, but that is not the problem. The problem is the lack of transparency and lack of explicit articulation in regards to how this collateral variable is explained to the client pre-sale.

In most premium financing programs, even if the index performs as illustrated, the gap collateral (the shortfall between the cumulative premium financing loan and the cash surrender value of the policy) increases in the first several years (due to the client borrowing more premiums each year). Again, this is not the problem.

The problem exists when the index does not perform as illustrated. If the index performs worse than what was illustrated pre-sale, there will be an even greater collateral amount required.

In our *Leveraged Index Arbitrage™* program, the client pays the first-year premium. The policy is designed to be able to absorb three 0.00% index credits in a row during the first three years of the policy. Under this design, assuming these three 0.00% index credits, the policy cash surrender value will not be less than 105% of the cumulative loan balance, hence the policy will be the sole collateral. Not outside collateral will be required, and no client personal guaranty is required either. This is extremely unique to Lionsmark Capital and our lending platform.

Should the client be older and/or unhealthier than average, the cash surrender value may be less than the cumulative loan balance in the early years should the policy experience three 0.00% index credits in the first three years of the policy. However, this can be modeled up front, pre-sale, and articulated to the client in full transparency. Should this shortfall occur, the client would have to post outside collateral. Despite the high unlikelihood that the policy would receive three consecutive 0.00% index credits in the first three years of the policy, we still model such occurrence so the client can see the outside collateral potential if it exists.

Taken Verbatim From Rybka's Article:

What Is IUL (And What Isn't It)?

The vast majority of premium finance transactions involve the purchase of an IUL policy. (It is estimated that 5% or fewer of the transactions use whole life policies.) The usual design is that money to pay back the loan and provide retirement income comes out of the policies through policy loans creating even more leverage in the transaction. It is an axiom of finance that "leverage cuts both ways." While the illustrated results of borrowing third party money at 4% and having it projected to compound in a policy that may be illustrated as high as 13.5% look great on paper, clients should be informed of the major assumptions and how these multiple layers of leverage inside IUL policies can work in reverse.

Lionsmark Capital's Commentary On The Above Statements:

We absolutely agree with Rybka's stance on this issue. We always model scenarios where this perpetual positive arbitrage does NOT exist due to volatility and negative interest rate arbitrage exists. This is incredibly important to model for clients. Currently, no other premium financing intermediary has the software or mathematical capabilities to illustrate such models except for Lionsmark Capital.

Taken Verbatim From Rybka's Article:

Our financial models illustrate the full consequences of this possible reverse leverage. An IUL policy is a general account life insurance product. The cash values are not directly invested in equities, but in bonds, as part of the life insurance company's general account. The life insurance illustrated proposals claim to earn equity-like returns even though it is primarily invested in bonds. The use of the index crediting method was first used in Equity Indexed Annuities in the late 1960s but this crediting methodology was first applied in a life insurance product by Indianapolis Life in 1997 and additional companies have pushed the limits of these products since then. Unlike earlier versions of UL or Whole life there is no stated rate that the cash values will actually earn.

Lionsmark Capital's Commentary On The Above Statements:

This is an overly simplified explanation of how life insurance companies operate. It is true that their general account is invested in bonds, however the IUL chassis and its crediting method is funded utilizing a different method. A portion of the premiums are used to fund the carrier's budget to buy options packages. Most carriers purchase their options packages on the 15th of the month. Instead of crediting the policy a guaranteed 3% or 4%, plus a dividend (the way a Whole Life policy would credit), a portion of that allocation is used by the carrier to purchase call and put options. This is how the floor and cap are created.

For example, let's use a \$100,000 as an example. If the carrier were to guarantee a 4.00% return in a whole life product, the credit in that given year/segment would be \$4,000. In an IUL, instead of receiving the guaranteed \$4,000 credit, the carrier goes to an investment bank and purchases an options package. In this example, we'll assume the options package request is an annual point-to-point S&P 500-correlated index with a 0.00% floor.

The investment bank may quote a cost of \$15,000 for that options package. The carrier however only has a \$4,000 budget (in this example). To stay within this budget, the investment bank offers a \$4,000 package with a 0.00% floor, but a 10.00% cap, meaning that any gain between 0.00% and 10.00% will go to the carrier. The carrier would absorb zero losses in the event of a negative S&P 500 return, but never more than 10.00% on the upside.

In this options package, the carrier absorbs no risk, only the \$4,000 expense with the potential of a 0.00% return. This crediting method is then passed through to the policy design, and ultimately, to the benefit of the policy owner.

The reason the policy may receive "equity-like returns" is that it is correlated with the S&P 500 (or the index offered by the carrier in the IUL), without the downside risk of negative returns, but with the limitation of the capped upside.

Taken Verbatim From Rybka's Article:

Companies Can Change Key Elements Of How These Products Credit Cash Value

So, if there is no stated rate, how exactly does an IUL credit method work? With an IUL policy, the company credits a portion of the increase in the referenced index subject to a cap on the upside to a policy's cash value, less other charges. IUL policies also have a floor or minimum credited rate when the referenced market is negative. Today that floor on most IUL products is usually 0% but may be 1% on a few policies. The cap is the maximum rate that would be credited to a policy in a given year, if the index is positive. These caps also have their own current and guaranteed levels. For most products the current caps today are between 9% and 12%. Perhaps the single most important thing clients must understand is that companies can and have lowered the caps on IUL Products. All contracts have guaranteed minimum caps that are much lower than projected in illustrations: usually between 1% and 3%.

Lionsmark Capital's Commentary On The Above Statements:

Of course, the carriers are forced to lower caps when market conditions persist. This is based on the carrier's limited options budget (which is funded by the allocation of premium).

Critics of carriers lowering caps may take an accusatory stance on this issue, however lower caps is purely indicative of the economic environment at the time and the market tolerance of put options buyers to be willing to buy an option that doesn't come "into the money" until whatever the cap is.

If market experts speculate and anticipate the market producing lesser returns in the near future, and current caps are 10.00%, it becomes increasingly harder to find buyers to options that have the tolerance to buy an option that doesn't come "into the money" until 10.00%. In such case, perhaps the options buyer market is only willing to make that options purchase if they come "into the money" at 9.50%. In such case, the carrier may have to decrease the cap to 9.50%.

But again, if the alternative investment is for the policy owner to invest in mutual funds, or even an S&P 500-correlated ETF, they would naturally have to expect lower returns in the same environment that and institutionally purchased options package with a 50bps lower cap.

Taken Verbatim From Rybka's Article:

Let's look at various scenarios on what rate would be credited to the policy's cash value in an example where the policy in question had a current cap of 12%, a guaranteed rate of 1% and the contractual ability to lower the cap to 3%. We look at rates credited in five scenarios, negative 5% return, zero, plus 5%, plus 10% and plus 15%. The table below shows the earnings that would be credited to the policy after application of the cap and floor rates.

Increase / Decrease Index	Amount Credited to Cash Value		
	Current Cap 12%	Guaranteed Cap 3%	Reduced Cap 6%
-5.00%	+1.00%	+1.00%	+1.00%
0.00%	+1.00%	+1.00%	+1.00%
+5.00%	+5.00%	+3.00%	+5.00%
+10.00%	+10.00%	+3.00%	+6.00%
+15.00%	+12.00%	+3.00%	+6.00%

While the rate on an IUL policy is likely to fluctuate from year to year based on the index, most life insurance illustrations assume some common average of what these returns will be, based on the current cap. The computerized illustrations project this rate uniformly over the projected life of the policy and this inherent earnings volatility is a key risk that is

ignored in illustrations. This is especially true when money is borrowed out of the policy to produce income for retirement.

Lionsmark Capital's Commentary On The Above Statements:

We completely agree with the fact that an IUL policy is likely to fluctuate from year to year based on the index, which the carrier illustration does not have the ability to illustrate. Again, this is why we developed our own software that can illustrate such volatility.

In addition, the concept of “average returns” is meaningless in reality. Calculating average returns does not take into consideration how a poor sequence of returns can destroy a premium financed program. If you only look at average returns, any illustrated scenario will still show a static annual return with no volatility.

If negative S&P 500 returns occur in the early years of a premium financed design, and the policy index credits 0.00% too frequently, it may take the cash surrender value too long to accumulate enough positive margin in the LTV to payoff the premium financed loan. This is why we are so adamant about stress-testing our program in volatile index environments.

Taken Verbatim From Rybka's Article:

Additional Arbitrage From Policy Loans

IUL illustrations show distributions or retirement income coming from “tax free” loans against the policies’ cash value. There is a charge for this loan inside the policy, but the illustrated growth of the cash value using the average rate is greater than the loan value. A key assumption is that the policy stays in force for the life of the insured.

If it were to lapse, it creates a huge taxable event. In the real world, markets don't earn 7.1% each year. Years where the market is flat or down would have zero or 1% and would produce very different results, but the loan expenses continue inside the policy. A recent article in the Journal of Society of Actuaries highlights and helps quantify this risk; it points out that these IUL illustrations are fundamentally flawed. “The compliant illustrations available to policyholders and agents, which limit crediting rates to the maximum permitted by NAIC Actuarial Guideline XLIX (AG49) cannot model crediting rates realistically.” In regard to IUL policies with loans or withdrawals, “Making the right adjustments [to policy distribution amounts] is not easy, and it is not realistic to expect policyholders and agents to do it well, especially when clients reach their 80s or 90s.”

The National Association of Insurance Commissioners (NAIC) has established a maximum rate of return a life insurance company may use in calculating expected cash values when illustrating *Indexed Universal Life (IUL)* insurance policies.

Lionsmark Capital's Commentary On The Above Statements:

Known as *AG49 (Actuarial Guideline 49)*, each carrier is limited to the average of each 25-year rolling period of the S&P 500 for the last 65 years, based on each of the carrier's crediting methods. This maximum allowable rate is typically what agents use when

illustrating *IUL* insurance policies, however showing a static rate (a rate that does not fluctuate whatsoever over a 20, 30 or 40-year period) with no volatility is not realistic.

If an agent shows a policy illustrated using a static 5.76% annual index credit *every year*, there is one thing we know. The S&P 500 will never produce a 5.76% return every single year, year after year. There will always be *some* volatility.

Though the policy index credit may *average* 5.76% over a 40-year period for example, there will be some years where the index will credit 0.00%, and some years where it will credit significantly more than 5.76%. This is incredibly important to understand in a premium financing arrangement.

To put things into perspective in terms of “actual” returns, we must look at the *Compounded Annual Growth Rate (CAGR)* of different backtested periods of time to understand what “realistic” index return expectations are. Over the last 40 years (1979-2018), the S&P 500’s CAGR was 8.49% (not including dividends). Over the last 20 years (1999-2018), the S&P 500’s CAGR was 3.63% (not including dividends).

However, this obviously does not mean that running an *IUL* illustration at 8.49% or 3.63% is accurate, because in reality, with volatility, we need to evaluate returns taking the *IUL*’s floor and cap into consideration.

Using a 0.00% and a 10.00% cap over the last 40 years (1979-2018) of the S&P 500, the CAGR would have been 6.41%. Over the last 20 years (1999-2018) of the S&P 500, the CAGR would have been 5.65%.

It is important to look at the last 20 years as an example of volatility because it included the years 2000, 2001 and 2002 in which the S&P 500 produced three consecutive negative returns. The S&P 500 produced 6 negative return years in this 20-year period. But due to the 0.00% and 10.00% cap, the CAGR would have been 5.65% instead of 3.63% had there been no protective floor and full positive and negative index participation.

When looking at these backtested periods of time, a 5.00%-6.00% index performance assumption does not appear to be overly optimistic.

Taken Verbatim From Rybka’s Article:

This Journal article pointed out that all IUL policies are exposed to sequence of return risk ... the order in which returns occur. “Even if the average credited over the life of the income stream is as good as illustrated, the policy can lapse and produce a large taxable income if the order of the returns is unfavorable.” Participating loans exacerbate this risk significantly. To convey the sequence of return risk, the actuaries conducted testing on a hypothetical product showing income streams from policy cash values from age 65 to age 100 using historical S&P returns from two 20-year time periods. One time period produced an average crediting rate 0.43% higher than the assumed illustration rate. Despite the slightly higher return, 38% of participating loan scenarios lapsed by age 90. The second time period produced an average crediting rate just 0.39% lower than the assumed

illustration rate. A staggering 89% of policies would have lapsed by age 90 in those models and 78% would have lapsed by age 85.4. These risks compound other risks including that a company is likely to decrease its contractual cap over time. It's important to remember that a policy lapse with outstanding loans will result in an income tax bill for the policy owner.

Clearly, the risk is significant with the financed IUL product structures being promoted. With the huge premiums under such financed policies, the taxable income triggered by a policy lapse would be millions of dollars.

Lionsmark Capital's Commentary On The Above Statements:

We completely agree showing a participating loan scenario in which the Par Loan Rate (PLR) is perpetually lower than the illustrated policy index credit is misleading. We call this the "Participating Loan Arbitrage Mirage."

Rybka's claim that "89% of the policies would have lapsed by age 90" may be true, depending on which policies they analyzed, because many policies are not designed properly.

This however is not the case in our premium financing programs at Lionsmark Capital due to how we design our policies. If the policy design is not overfunded enough, or if the particular product from a particular carrier is not designed for cash value accumulation, taking too many participating loans too often could absolutely strip the policy of too thin, putting it in a vulnerable position. This issue however is not always the case with all IULs.

In our software, we stress-test the Participating Loan Rate at the carrier's guaranteed maximum PLR, during a constructed 40-year period using historical S&P 500 performance in which the CAGR is only 2.25% with dividends, and 0.41% not including dividends due to 14 negative returns within this 40-year period. This 40-year period, assuming a 0.00% floor and a 10.00% cap, would produce a 5.05% CAGR.

This demonstrates the power of the cap and floor crediting method.

Taken Verbatim From Rybka's Article:

Attempts To Regulate IUL And Indexed Annuities

Because the credited rates on IUL and Indexed Annuities reference certain external financial equity indexes, they are often compared to directly owning equities. But indexed products do not directly invest in equities, but theoretically invest a small portion of the general account in derivatives, that track a portion of the increase in external financial indexes (often the S&P 500). There has been an ongoing battle to regulate indexed products as securities since their inception. Some insurance companies, who did not wish to have their products or agents subject to securities laws, have fought to resist this undesired securities regulation. The SEC first sought to classify equity indexed products as security products in 1967.

The court considering the matter ruled in favor of the insurance company and it was the prominence of the base guarantees in these products that kept them classified as a general account life insurance product rather than a separate account product.

For a time, it appeared that these products would face a regulatory overhaul when the SEC voted to classify indexed annuities and IUL products as securities under SEC-proposed Rule 151A starting in 2011. However, in a surprising turnaround, the insurance industry was able to avoid this classification by last-minute lobbying of the conference committee of the Dodd-Frank Bill called the Harkin Amendment. This amendment reversed the SEC rule and kept regulation of these products exclusively within the jurisdiction of state insurance regulators.

NAIC Actuarial Guideline 49

Because these IUL products are not regulated as securities, insurance companies and agents have taken liberties with their illustrations and have projected crediting rates and sales materials in a way that would not be permissible had the SEC Rule 151-A gone into effect. The primary abuse today involves the inflation of the expected rates that the policies will earn.

For a time, there was a race between life companies to have the highest illustrated rate and the most attractive computer-generated proposal to garner sales. This led to ever more bizarre crediting methods and assumptions on what the index would return, driving up illustrated rates. Often, the assumed rate used in the illustration was based on increasingly complex indexes with short historical look-back periods that were not a fair representation of the actual returns clients might earn. This was done so that the life insurance proposal would have greater illustrated values and a higher illustrated income.

It should also be noted since IUL policies do not actually invest in equities directly, the indexes referenced in indexed policies do not include the returns that come from the dividends from the actual stocks in the underlying indexes, including the S&P 500. The absence of dividends in an index over long periods of time makes a significant difference in returns. “Looking at average stock performance over a longer time frame provides a more granular perspective. From 1930–2017, dividend income’s contribution to the total return of the S&P 500 Index averaged 42%.”

This absence of dividends and the negative impact on returns usually is buried in the fine print of the contract that the policyholder will get after he or she buys the contract.

Lionsmark Capital’s Commentary On The Above Statements:

We completely agree that many life insurance agents do not talk about the fact that IUL S&P 500-correlated index returns do not include S&P 500 dividends.

However in our software and in our proposals, we fully disclose this fact and actually model backtested S&P historical returns without dividends. This modeling transparently discloses the Compounded Annual Growth Rate (CAGR) in several different 40-year periods of historical S&P 500 performance.

In the chart below, we show four different 40-year constructed periods to show the client different index return environments with volatility, with dividends, without dividends.

In the far right column (highlighted in green), we calculate what the CAGR would have been in each of these four 40-year periods using the IUL crediting method of the specific product the client is considering. In this particular case below, we are assuming a 0.00% floor and a 10.00% cap.

	S&P W/ DIV	S&P NO DIV	CAPPED
40-YR LOOKBACK (1979-2018)	11.56%	8.49%	6.41%
20-YR LOOKBACK (1999-2018 x2)	5.59%	3.63%	5.65%
SANDWICH	2.25%	0.41%	5.05%
BEST 20 YEARS (1980-1999 x2)	17.99%	13.95%	7.17%

It is important to note that this level of disclosure and education of historical returns, as well as the level of transparency that our firm provides in every proposal is not industry standard, so we would agree with some of Rybka’s accusations against “some” of our competitors.

Notice, I continue to say “some” of our competitors. Some premium financing intermediary firms are absolutely guilty of abusing some of the deceiving techniques Rybka is referencing, but certainly not “all” firms, and certainly not Lionsmark Capital.

Taken Verbatim From Rybka’s Article:

State Based Insurance Regulation Left Giant Loopholes That Allow Very Aggressive Assumptions

In an attempt to rein in some of this abuse, the National Association of Insurance Commissioners (NAIC) issued Actuarial Guideline XLIX (AG 49) on December 11, 2016. Its stated goal was to bring uniformity to the illustrations of policies tied to an external index or indices by providing a reasonable cap on the illustrated credited rate.

Uniformity across illustrations allows clients to more easily compare the policies offered by different companies. It should be noted that this “compromise” allowed insurance companies to assume a 50% annual profit on their options by projecting an illustrated rate! The unsustainability of illustrated rates on IUL can be proven another way. Indexed annuities, which are also issued by the same insurance companies that sell IUL, have a similar crediting method but much lower cap rates.

A major study of all indexed annuities was published by Cannex in 2018, and showed that clients should expect no more than a 3% to 3.5% return on indexed annuities. Much of this was because the highest cap on any indexed annuity was 6%, ... not the 12% that was projected on IUL. In fact, most caps were at 5%. This means, in a good year, the balance would increase to 5% or 6%, but in a down year it would yield 0%.

The same insurance companies that sell IUL have cap rates that are more than double what they have on their indexed annuities! This is largely because they cannot change the cap rate on indexed annuities during the surrender period and must return principal after that period; whereas with IUL, companies have the contractual ability to reduce the caps dramatically.

Lionsmark Capital's Commentary On The Above Statements:

Again, assumptions can be made about whether or not an IUL's performance will meet or exceed the illustrated rates, but attempting to determine that is purely based on crystal ball theory.

The only thing anyone can speculate (and mathematically model, assuming they have the capability to do so) is how each product or strategy would have performed during historical periods of time, or under manufactured hypothetical market conditions.

However, to put any analysis into perspective, one must compare all alternative products and strategies to one another. The novice cries "rainbow" or "thunderstorm" based on a naïve and narrow view of how they emotionally "feel" about a product or strategy, however a mathematically-based analyst like myself purely looks at the "realistic alternative of choice."

Our firm's software can build virtually any comparative model for cash value accumulation comparative purposes. For example, we can build a non-qualified investment account, and manually input any assumptions a client wants to see. They can choose an equity-to-bond ratio (we use S&P 500 historical returns WITH dividends for equity returns, and historical 10-Year T-Bond returns for bond returns in this hypothetical non-insurance investment)... we will calculate their short-term and long-term capital gains tax rate based on their adjusted gross income, marital status and state of residence... we will model the percentage of equities that the client wants to see taxed at short-term versus long-term capital gains tax... and we will model various all-in investment fees.

We will then compare the same outlays contributed to each model, usually this hypothetical managed account compared to a premium financed IUL using the same backtested periods (we use 5 different 40-year constructed periods, all including volatility, and some included unrealistically negative sequences of returns).

So we agree with Rybka in the sense that non-dividend S&P 500 correlated index comparisons are not transparently communicated to clients by many life insurance agents... however Lionsmark Capital does not fall into that category of agents Rybka is referring to.

Taken Verbatim From Rybka's Article:

IUL Illustrations More Abusive Than Ever

Despite state insurance regulators allowing companies to assume ongoing profits on derivatives of 50% annually in their IUL illustrations, the NAIC left an even bigger loophole in the AG-49 regulation in 2016. While the overall stated rates in IUL illustrations

decreased from 10% to 11% before AG-49, to between 6% and 7% under the new rules, some of the most aggressive illustrations show more money coming out of the policies after the AG-49 changes were implemented. That is because AG-49 left the door wide open for insurance companies to use features called bonuses and multipliers to greatly increase the projected cash values in the policy projections. These features are why IUL sales illustrations which show 6% or 7% illustrated rates can show projected returns, cash on cash, that are double the level of the illustrated rate. But the words “projected and illustrated” are the operative words.

Some of the most cutting-edge exploration of what is going on behind the curtain of IUL products has been done by Bobby Samuelson, the editor of the Life Product Review. Bobby is a former Vice President of Insurance at MetLife. In his previous role at Met, he designed life and annuity products for the companies; now he writes detailed reviews on these policies and the new lengths to which they have gone to make illustrations look better. Bobby was also part of the AG-49 working group and accurately predicted that companies would exploit just such a loophole.

Regulatory Arbitrage, Why IUL Is The Choice For Bank Loaned Policies

Not only do IULs avoid the SEC and FINRA requirements of detailed prospectus disclosure, approval of sales materials by a broker-dealer, and suitability requirements of being a security, but also they allow banks to make much larger loans than they would on any securities product.

Had the SEC been successful in regulating IUL with Rule 151A, this market would not exist. Both requirements on broker-dealers and Rule 15c3-3 under the Securities Exchange Act of 1934 place specific requirements on this type of lending. There are also FINRA requirements of approval of sales materials that would likely prevent these proposals from being used. Banking Regulation U is a Federal Reserve Board regulation that governs loans by entities involving securities as collateral and the purchase of securities on margin.

Regulation U limits the amount of leverage that can be extended for loans secured by securities for the purpose of buying more securities. Securities involved typically include stocks, mutual funds and other market-traded securities.

Since IUL is not considered a security, the bank can count 100% of the cash value as collateral. Note the investments that also need to be pledged as part of the personal guarantee do not avoid this requirement and can only be given a 50% credit. While the loan grows as additional premiums are borrowed, there is significant risk that additional assets must be pledged, especially if a flat to down market for a couple years negatively impacts both the policy cash value and the collateral pledged.

		Guaranteed Charges				Current Charges				Current Charges			
		Guaranteed Interest: All Accounts 0%				Guaranteed Interest: Weighted Allocation 0%				Assumed Interest: Weighted Allocation 7.10%			
		Account Allocation: 100% Indexed Account, 0% Fixed Account											
End of Year	Age	Net Annual Outlay (f)	Net Policy Value	Surrender Value**	Death Benefit	Net Annual Outlay (f)	Net Policy Value	Surrender Value**	Death Benefit	Net Annual Outlay (f)	Net Policy Value	Surrender Value**	Death Benefit
1	56	36,000	23,563	2,812	536,153	36,000	26,458	5,707	536,153	36,000	29,636	8,895	536,153
2	57	36,000	45,504	25,358	536,153	36,000	51,208	31,062	536,153	36,000	62,118	41,973	536,153
3	58	36,000	65,904	46,364	536,153	36,000	74,380	54,840	540,600	36,000	97,473	77,934	563,693
4	59	36,000	84,793	65,860	551,013	36,000	96,069	77,136	562,289	36,000	135,989	117,055	602,209
5	60	36,000	102,213	83,885	568,433	36,000	116,372	98,045	582,592	36,000	177,967	159,640	644,187
6	61	36,000	118,180	103,713	584,400	36,000	135,363	120,896	601,583	36,000	223,720	209,253	689,940
7	62	36,000	132,682	122,197	598,902	36,000	153,114	142,628	619,334	36,000	273,589	263,104	739,809
8	63	36,000	145,701	138,954	611,921	36,000	169,679	162,932	635,899	36,000	327,934	321,187	794,154
9	64	36,000	157,252	153,997	623,472	36,000	185,114	181,859	651,334	36,000	387,153	383,898	853,373
10	65	36,000	167,390	167,390	633,610	36,000	199,467	199,467	665,687	36,000	451,676	451,676	917,896
11	66	0	149,415	149,415	350,795	0	182,398	182,398	350,795	0	488,446	488,446	586,135
12	67	0	136,458	136,458	350,795	0	170,783	170,783	350,795	0	533,358	533,358	634,696
13	68	0	123,678	123,678	350,795	0	159,752	159,752	350,795	0	582,159	582,159	686,947
14	69	0	110,992	110,992	350,795	0	149,256	149,256	350,795	0	635,421	635,421	743,443
15	70	(75,498)	22,845	22,845	275,297	(75,498)	63,750	63,750	275,297	(75,498)	617,010	617,010	727,811
16	71	(13,604)	Lapsed	Lapsed	Lapsed	(50,332)	Lapsed	Lapsed	Lapsed	(75,498)	600,525	600,525	713,591

Illustrations Don't Accurately Depict Values Policy Will Produce

The snapshot above of an IUL sales illustration showing retirement income demonstrates just how big the gap can be between what is illustrated and what could happen should an insurance company exercise its rights to increase charges while decreasing caps on the indexes on an IUL policy. The base line sales illustration shows \$36,000 of premium being paid for 10 years and then, beginning in year 15, the policy projects \$75,498 to be taken out for 20 years ending with a projected death benefit paid to the beneficiary.

What is guaranteed in this policy? That the client will pay \$360,000 of premium. If we look at the same illustration with maximum charges (and reduced caps) in year 15, the policyholder can take a one-time distribution of \$75,498. The following year the policy will collapse with only \$13,604 paid and no more policy and no death benefit. While this is clearly a worst-case scenario and extremely unlikely, it illustrates a powerful point: that 96% of the anticipated benefit is subject to changes that the company can make through its caps and other charges.

Lionsmark Capital's Commentary On The Above Statements:

Some IUL products come with guarantees. Guaranteed maximum participating loan rates. Guaranteed multiplier bonuses. Guaranteed persistency bonuses.

However, the reality is that guaranteed components are somewhat meaningless because the carrier can offer a guaranteed component, but then offset that guaranteed component by increasing the internal costs in another component. For example, a guaranteed persistency bonus can easily be offset by an increase in Cost Of Insurance (COI) charges.

Index crediting caps cannot be guaranteed either, due to options market pricing adjustments in the future.

But the lack of guarantees in all of these examples I mentioned above do not make the IUL a bad product. You cannot say that a product with only partial guarantees is not an ethically designed product. For example, what do you think happens in a mutual fund if

the market crashes? There is no guaranteed performance in a mutual fund, or a 401(k), or a bond portfolio.

There are no guarantees in marriage, so should we make a blanket statement and say that marriage, as an institution is bad?

There are no guarantees in investing in real estate, so should we say that those promoting real estate investments are evil, or that real property in general is a bad thing to invest in?

Perhaps these analogies seem ludicrous to you, but these absurd proclamations are almost identical to what Rybka is saying about IULs and premium financing.

Taken Verbatim From Rybka's Article:

More likely outcomes involve fluctuating earnings rates including frequent occurrences of the floor rate (i.e. 0%) and the life companies changing caps in response to derivative pricing and market volatility. For example, one carrier has gradually reduced the cap from 16% when it introduced its IUL product in 2012 down to a current cap of 10.5% as of January 2019.

If LIBOR-based loans are used to finance the premium, the interactions between rising loan rates, lower caps and non-linear returns create significantly worse results for clients than projected. Some marketers of premium finance purport to "stress test their models," but these stress tests in no way show the client the full downside of what could happen or what is likely to happen. Proper stress testing using our financial full models show that instead of paying off the loan and having retirement income, there is a high chance that the policyholder will have to pay out of pocket to both post additional collateral and pay back policy loans especially when you factor in flat markets and lower caps.

Lionsmark Capital's Commentary On The Above Statements:

We would agree that some IUL carriers build their products that illustrate well assuming the "positive arbitrage mirage," but do not hold up with volatility or during a poor sequence of returns, but not IUL products are built equally. Some IUL carriers are subsidizing higher-than-industry-norm caps in their currently marketed products by punishing in-force blocks of business (IULs owned by long-time loyal clients) and lowering the caps on these in-force policies.

When evaluating carriers as an advisor (and as a client of a financed IUL myself, which was designed by Lionsmark Capital), I personally look at the track record of the carrier. We will always analyze which carriers have a history of making product decisions on in-force blocks of business to the benefit of the policy holder, versus the shareholders (of stock insurance carriers), which is why I typically like mutual companies better than stock companies.

As an example, Pacific Life has a strong history of improving in-force blocks of business. They have made 125 improvements to benefit in-force policyowner since 1985, 27

improvements regarding Cost Of Insurance, and passed on \$425 million in savings to policyowners. This is not a commercial for Pacific Life, rather just a few examples of elements our firm looks for in partnering with carriers in our premium financing programs.

Taken Verbatim From Rybka's Article:

Conclusion

Life insurance illustrations have always been subject to abuse. Particularly in the last 30 years, amidst an environment of falling interest rates, the projections of the fixed rate of credited interest on dividend rates for whole life or current rates on traditional UL policies have resulted in policyholders having to pay more for their life insurance than expected. The failure of AG 49 allows abuse utilizing IUL illustrations and takes this to a whole new and seemingly purposeful level. The client's risks are multiplied when premiums are financed with external bank loans. The downside for these clients is not only limited to having to pay more for their life insurance, but also the potential to severely undermine the clients' entire balance sheet as loans are called and policies are subject to lapse with huge tax bills.

At an absolute minimum, clients and advisors must understand that IUL is the most complex and opaque form of life insurance ever created and it gives insurance companies far more discretion to impact policy values than any life product in history. Rather than creating free insurance and tax-free retirement in a castle in the clouds, clients should understand it as a risky bet with dice that seem to be loaded to favor the insurance companies and banks, leaving the policyholders with a transaction that is much more likely to destroy retirement than secure it.

Lionsmark Capital's Commentary On The Above Statements:

Though we agree with several of Mr. Rybka's comments and concerns about the abuse of premium financed IULs, what is hugely misrepresented in his article is:

1. The prejudiced categorization that all IULs are created equally.
2. The assumption that all premium financing programs incur a high probability of risk.
3. The accusation that all insurance agents, banks and carriers have formed an alliance to conspire against clients by wooing them into a detrimental premium financing trap.

The reality is that none of these three accusations are true.

The tone of Rybka's article is one of bigotry. An individual considering entering a premium financing strategy that reads Rybka's article could be negatively influenced, and doubt the validity of all premium financing programs, which is an unfortunate byproduct of an irresponsibly published article that does not thoroughly address all components of legitimate premium financing programs.

Anyone can carve out incomplete data and regurgitate it in a way that leads people to believe something that is not true. For example, it is a statistical fact that every human

[baby that drinks cow milk will die. It is a historically proven fact. However these deaths have nothing to do with drinking cow milk. All human babies will die... eventually.](#)

I am definitely not a “Rainbow Retirement In The Clouds” advisor (as categorically described by Rybka, being that I own a premium financing intermediary firm) however I am a “Silver Lining” person in general. I seek to find a positive outcome in every negative circumstance.

The negativity that Rybka’s article has caused in the premium financing industry has also brought awareness and speculation of the abuses that DO occur in some premium financing programs.

Though Rybka’s article is filled with inaccuracies and can mislead an innocent client to believe something that is detrimental to the client’s financial future, client scrutiny – in general – is a good thing.

Clients should evaluate every financial strategy and scrutinize every element of potential risk before making any decisions, including strategies presented by Lionsmark Capital.

In fact, we encourage it.

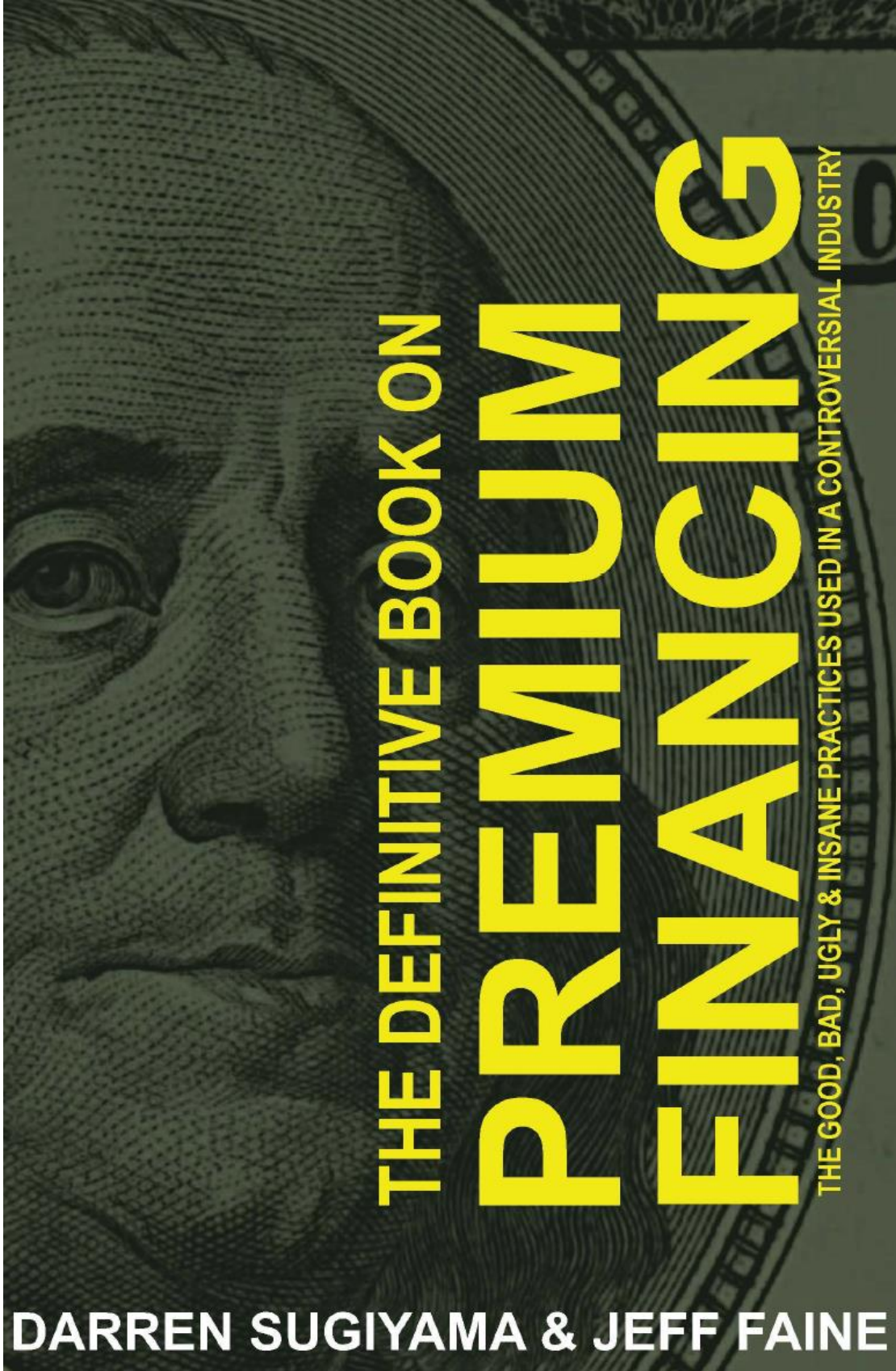
Our methodology is NOT to convince everyone that premium financing is the best thing since sliced bread.

Instead, our process is to take the client through every potential element of risk, every adverse scenario, and advise the client to make their decision based on an unrealistically negative scenario that we create, where every adverse variable is working against our program, concurrently.

If we can mathematically prove that our program can withstand that level of compounded adverse stress, the client will naturally run out of reasons to not implement our program.

For more information about Lionsmark Capital and what makes our premium financing programs the most conservative and transparent, and how our proprietary strategies mitigate (and in some cases eliminate) the risks addressed in this article, contact us at www.LionsmarkCapital.com.

You can also find our recently published book, ***The Definitive Book On Premium Financing*** at www.WhyPremiumFinancing.com. You can even read the first chapter for free on this site.



**THE DEFINITIVE BOOK ON
PREMIUM
FINANCING**

THE GOOD, BAD, UGLY & INSANE PRACTICES USED IN A CONTROVERSIAL INDUSTRY

DARREN SUGIYAMA & JEFF FAINE