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Agents Sued as Insurance Product Fails to Take Off

By [LESLIE SCISM](#)

A few years ago, Wall Street thought it had a hot new investment product, though one that was a little ghoulish.

Firms would buy life-insurance policies from the elderly, take over payment of the premiums, and pool them with hundreds of other policies. Firms would then sell them to investors as notes or funds—or even securitize them in the same way home mortgages have been bundled. When the older people die, their death benefits become the payoff for investors.

But the product, which alarmed regulators and never took off with investors, has left a lingering legacy of lawsuits involving the key link between some firms and the elderly: insurance agents who aggressively sold the policies to reap big commissions.



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CA Department of Insurance

Razmik Khachatourians

Now, two insurance agents in Burbank, Calif., are battling [Deutsche Bank AG](#) in federal court over policies they said they sold but the bank argues never existed. They are being sued for breach of contract and fraud in a case that shows how the bank was burned as it tried to acquire insurance policies to create investment products.

The case dates back to 2006, when an investing entity of Deutsche Bank began purchasing policies from the agents. In late 2007, the bank wired \$221,388 to the agents to cover the purchase price of two policies, reimbursement of initial premiums paid by the elderly and fees for the agents, according to the bank.

The problem, the bank later learned: Premiums hadn't been paid to initiate the two policies, so they didn't actually exist, according to a civil lawsuit filed by the Deutsche Bank entity against the agents in federal court in Los Angeles, accusing them of various breaches of contract and fraud.

The ill-fated partnership between Deutsche Bank and the Burbank pair is illustrative of Wall Street's largely aborted effort to transform ordinary life insurance into a sophisticated investment as popular as mortgage-backed bonds. In a season of investor ire over soured mortgage products, the unfolding legal action shows parallels to the housing market, where demand by banks for mortgages they sold off to investors led to lower lending standards and helped set off the financial crisis.

Four years ago, executives from firms including [Credit Suisse Group](#), [Goldman Sachs Group Inc.](#) and [Lehman Brothers Holdings Inc.](#), among others, packed conferences about ways to build investments tied to death benefits. But Wall Street's hopes



CA Department of Insurance

Tigran Khrlonian

for securitizing the policies were dashed for many reasons, including fading investor interest in the offbeat product after the 2008 financial crisis and questions about the reliability of life-expectancy estimates.

It didn't help that the idea of profiting from death alarmed regulators and lawmakers. In the fall of 2009, a congressional panel held hearings and the Securities and Exchange Commission assigned a task force to figure out what was afoot. And new state laws were drafted to restrict older people's ability to sell brand-new policies.

Several hundred civil suits filed by insurers are pending nationally in which insurers accuse commission-hungry agents of wrongdoing in generating policies to be flipped to investment entities. The insurers seek to void the policies. Regulators in Florida, Minnesota and Ohio recently have brought actions against allegedly unscrupulous agents.

And in July, California state prosecutors weighed in on Deutsche Bank's troubles. The state filed felony charges of alleged embezzlement against the two Burbank agents, who were arrested and released on bail.

The agents, Razmik Khachatourians and Tigran Khrlonian, have pleaded not guilty and deny the civil-suit accusations.

Mr. Khachatourians, 54 years old, declined to comment and his lawyer didn't return phone calls.

In an interview, Mr. Khrlonian, 41, declined to comment on the specifics of the alleged embezzlement except to say, "There is another side to the story."

Deutsche Bank never securitized any policies, a spokeswoman said, and no products ever were sold involving policies generated by the Burbank pair; she declined to elaborate on the firm's past product-development efforts in the area. The bank said its efforts today are limited to risk-management strategies for pension funds and insurers.

The pair had long been insurance agents and not always did well. They went through Chapter 7 personal bankruptcies in the past decade, court records show. Proshield, an agency owned by Mr. Khrlonian, wrapped up a liquidation in January 2007.

For some years, the pair worked out of a modest Burbank shopping plaza before moving to a modern office building. In October 2006, a bank employee emailed them "a brief write up of how our program will work," civil-court filings show. The agents would sell to wealthy people, who "will pay the first quarter of premiums to put the policies in force," at which point a "Purchasing Trust can make offers" for the policies.

The pair, who sold policies for numerous big insurers, told Deutsche Bank they had strong relationships with independent agents in various ethnic communities, and these agents could help identify rich people for the program, the civil suit says.

Under the contract, Messrs. Khachatourians and Khrlonian would deliver policies to CAP Accumulation Trust. It was one of 15 such insurance-focused investing entities that the bank had at the peak of its activity, according to regulatory filings.

In an interview, Mr. Khrlonian said various Wall Street firms had recruited him, and he recalled several enthusiastically talking up prospects.

"This is not like mortgages where people can file bankruptcies," he recalled them saying. "These people are eventually going to die." Deutsche Bank, he said, impressed him with a tour of its life-insurance operations in New York.

Contrary to the CAP Accumulation pact, the two agents directed the others they employed to target "low to middle-income seniors in immigrant communities," many with "a limited understanding of English," according to filings in a pending licensing proceeding against the agents by California's insurance department.

Then, the state filing claims that to get insurers to sell multimillion-dollar policies to these people, the two agents or those working for them allegedly misrepresented them as millionaires on about eight applications.

By November 2007, Deutsche's CAP Accumulation Trust had acquired rights to 51 multimillion-dollar policies through the two agents, at a cost of \$15.8 million, the suit says.

Then Deutsche Bank learned that the insurer, a unit of [Lincoln National Corp.](#), wasn't honoring two policies because premiums hadn't been paid to initiate them, the bank's civil suit alleges.

In a civil-court filing, the two agents denied the allegations on premiums and asserted that any misrepresentations on applications were the fault of the other agents they relied on.

"Sadly, some of the agents brought in some bad cases, not all of them," Mr. Khrlobian said in the interview. He also blamed insurers, saying they failed to vet applications in haste to collect premiums. And he faulted Deutsche Bank for not having measures in place to catch problems early on.

Meanwhile, the two agents' business in August 2008 filed for Chapter 7 liquidation, listing more than \$16 million in liabilities and virtually no assets, records show.

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