



PRACTITIONER'S POINT: LIFE SETTLEMENTS

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What is meant by "life settlements" and how can one invest?

An allocation to the US Secondary Market policies also known as "life settlements" entitles an investor to acquire the right to the maturity value of the life insurance policy. In doing so, an investor takes over the payment of the ongoing premiums on behalf of the insured person and receives the insurance sum upon that person's death. This insurance sum will be payable in any event, with the exact liquidity date as the only variable.

In order to participate in the secondary market, investors can turn to a settlement company that acts as a link between sellers and investors. The company manages the procurement, review and sale of policies as well as the payout of the insurance sum.

"Precision in evaluating an insured's life expectancy is what ultimately determines the return on investment". Elaborate.

Although it is possible to calculate the annual yield from the date of the investment on the basis of the forecasted life expectancy, it is the actual date of payout that will determine the return on investment. When the insured "survives" the forecasted life expectancy, the annualized return will be lower; upon early maturity, it will be accordingly higher. The actual date of payout may thus be prior to or after the forecasted date, depending on when the policy matures. Experience shows, policies with long maturity periods are more likely to mature early and this generates a higher yield than short-term policies.

"Given the vast improvement in medicine - the terminally ill can expect to and are living longer than was anticipated at the time of acquiring the policy (crudely put a life settlement firm could actually be financing health insurance to keep a patient alive that they anticipated would be dead)"

Are life settlement firms allowed to abandon policies?

Globalvest does not purchase policies that insure terminally ill individuals and has not and will not abandon a policy.

Who and how is the "fair price" of a policy determined?

The marketplace determines the fair price for a policy based on factors such as: age and medical condition of the insured, type of insurance policy held, rating of the issuing insurance company and amount of premium payments required to keep the life insurance policy in force. The life settlement marketplace is very competitive and the vast majority of policies are presented to multiple brokers and provider companies in an auction style bidding process.

When acquiring a policy what determines the settlement amount? When is it likely to be 25% and when is it more likely to be 80%?

The longer the life expectancy and the higher the premiums - the lower the settlement amount tends to be.

"For 75% of the secondary market life insurance policies, the person insured is already 70 years or older" and "5% of US citizens are aware they can see their policies in the US."

a. Sounds like a captive market? Is it?

The 2006 Conning Report on life settlements estimates the size of the US life settlement market at USD188 bn. In 2004, policies worth USD 3.5bn policies were sold, which rose to USD5.5bn in 2005 and is estimated at USD13bn for 2006.

b. How stiff is the competition from other life settlement firms?

This is an ever increasing and extremely competitive marketplace – we believe there are 100 broker firms and 20 settlement firms.

c. What about exploiting opportunities outside the US? (are there legislative/regulatory etc. constraints?)

While there may be US designed and issued life insurance policies available outside the US, currently, the size of the US life settlements market eliminates the need to explore opportunities overseas.

How would/do life settlement firms react:

"If insurance companies began offering surrender values adjusted for health impairments?"

US life insurance companies already offer many of their clients an "Accelerated Death Benefit" if they are terminally ill, but the qualification parameters are narrow for the insured. However, if an insured person qualifies for such a benefit he/she should choose it unless a life settlement company is able to exceed the amount offered by the insurance company. Since Globalvest does not purchase policies from terminally ill individuals, this is a non issue for us.

Legislative changes in US laws could result in life insurance companies offering larger surrender values based on declining health. Each life insurance policy currently in force is a contract between the owner and the insurance carrier and each contract specifically states the surrender charges to be levied against any cash value in the policy: this is what determines the cash surrender value and if there was any change in the law it is highly unlikely that these existing contracts would be affected by these changes.



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What are the risks borne by an investor?

The life expectancy forecasts of a specialized institute are not a warranty. Incorrect appraisals, medical progress or other unforeseeable events may alter the actual life expectancy of the insured. With regards Globalvest, at no time has a B+ or higher rated American life insurance company defaulted on a death benefit, however low the risks, the possibilities that an American insurance company could become insolvent and default on a death benefit at the time of maturity.

Example for the functionality of the GLOBALVEST Life Settlement-INDEX

In the first quarter of a year the GLSI is 925. That equals an annualized yield of 9.25%. An investor signs for a \$ 100,000 investment sum. The projected LE is determined at 48 months (4 yrs.) The investor receives a 100% repayment of his investment plus a yield of 37 % (4 x 9.25 %). Thus the investor will receive a total return of \$ 137,000.

1st quarter: GLSI is 925

investment sum	US-\$ 100.000	life expectancy	48 months
annualized yield	9.25 % *	total return	US-\$ 137,000

*at life expectancy

In the second quarter the GLSI is 950. That equals an annualized yield of 9.50 %. Thus an investor that signs for the same face amount for 48 months as well, will receive a total return in the amount of \$ 138,000.

2nd quarter: GLSI is 950

investment sum	US-\$ 100.000	life expectancy	48 months
annualized yield	9.50 % *	total return	US-\$ 138,000

*at life expectancy

Source: Globalvest Ltd. (LE stands for life expectancy)

In order to make the market more transparent Globalvest developed the Globalvest Life Settlement Index -GLSI. The life settlement market, like every other market - stocks, fixed income commodities etc. acts dynamically. The policy prices too, are determined by supply and demand. Globalvest always has the required "buying power" to track down and acquire premium quality policies. GLSIs are calculated quarterly.

In the aftermath of the Conventry Group debacle – there is talk of a full disclosure model. What does this entail and how long would it take to implement?

Although there has been talk of this for some time now, the Conventry debacle has brought the issue relating to disclosure of broker commissions back under the spotlight. It is a complicated issue to address as each of the 50 states in the US has its own insurance department. The National Association of Insurance Commissioners (NAIC) will probably address this issue in the near future and provide guideline legislation through a model act: which each state would review and implement.