



*In the Secondary Market, We're First®*


# Advanced Strategies: Industry Trends and Regulation

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# Webinar Instructions

- Dial in to 1-800-839-9416; access code 8334152. Phones will be muted.
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- Disable pop-up blockers on your web browser.
- Please close other programs on your computer to enable the webinar to run efficiently.
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# LSAM Events & Resources

- June 1 – Life Settlements Fundamentals
  - June 4 – Life Settlements Advanced Strategies & Case Studies
  - June 7-10 – LSS at the MDRT Convention
  - June 11 – Investors in Life Settlements –Part I\*
  - June 16 - Investors in Life Settlements –Part II\*
  - June 18 – How changes in past year will impact market going forward
  - June 23 - Investors in Life Settlements –Part III\*
  - June 25 – Advanced Strategies: Market and Regulatory Trends
  - June 30 – Life Settlements Fundamentals (repeat)
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- Continuing Education course on life settlements ([www.lss.webce.com](http://www.lss.webce.com)) available in all 50 states (2-8 CE Credits)
  - Downloadable resources and event signup at: [www.lifesettlementawarenessmonth.com](http://www.lifesettlementawarenessmonth.com)

\* Accredited investors and qualified institutional buyers only

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# Industry Trends

- Glut of assets from distressed sellers for sale:
  - Portfolios – funds with no liquidity
  - Seniors who need cash
  - Non-distressed assets from distressed sellers
- \$20 b + FV potential portfolio asset pools
- Multitude of clients looking to sell policies – economic climate
- Not enough capital in the marketplace

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# Industry Trends

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- VBT changes & LE elongation
- Capital scarcity
- Increased IRR's demanded by investors
- Result of above = Pricing declines for cases
- IRS revenue rulings
- Government attention: Comm. on Aging
- Even so, life settlement market remains a sought after asset class

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# Investor Benefits

- Non-correlated to traditional markets
- Strength of the underlying asset: still highly rated
- Attractive risk/return characteristics
- Potential for high returns
- Sizable and growing asset class
- Increasing regulation adding to strength and stability of industry
- Multiple structures for investing
- Settlement market will continue upward trend

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# Premium Finance Programs

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- Evolution of Loan Programs:
  - Traditional recourse (20 year history)
  - Non-recourse (started 5 years ago and lasted about 2 ½ years)
  - Hybrid programs – carrier disclosed; partially guaranteed by the insured; underlying collateral value from life insurance assets
- Capital crisis has virtually ended funding for hybrids during past 9 months

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# Outlook

- Institutions still Investing in this asset class and planning entry
  - Banks, Hedge Funds, Pension Plans, Insurance/Re-Insurance Carriers
- Capital will re-enter market
- LE's will remain longer
- Pricing will increase from current levels but not return to levels as of 2 years ago

# Revenue Rulings 2009-13 and 2009-14

- The rulings are the culmination of work begun by the IRS last year.
- The rulings respond to ongoing requests for guidance by industry groups and Congress
- What is a “revenue ruling?”

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# Rev. Rul. 2009-13 Addresses Three Scenarios

- SITUATION 1: Surrender of a cash value life insurance policy
- SITUATION 2: Sale of a cash value life insurance policy
- SITUATION 3: Sale of a term life insurance policy

# Revenue Rulings Summary

- Revenue Ruling 2009-13
  - Policyholder's reduction in basis for cost of insurance in life settlement sale
- Revenue Ruling 2009-14
  - Foreign investor subject to withholding tax on death benefits in excess of basis
- Offshore funds in non-tax treaty countries scrambling to redomesticate or otherwise solve withholding tax dilemma

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# Regulation of Life Settlements

- Who are the “Regulators”?
  - State Insurance Departments?
  - FINRA, SEC?
  - IRS?

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# Insurance Regulations

- State Departments of Insurance
- NCOIL and NAIC Model Acts
  - Are not law, but used as guides by state legislatures
  - Current NCOIL model, as amended in 2007, now followed more often as it defines STOLI and better maintains consumer rights
  - Many states adopting modified models or hybrids
- FINRA supervises settlements of registered products
- Hints at possible increased FINRA role on settlements

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# Insurance Dept. Regulations

(As of June 24, 2009)

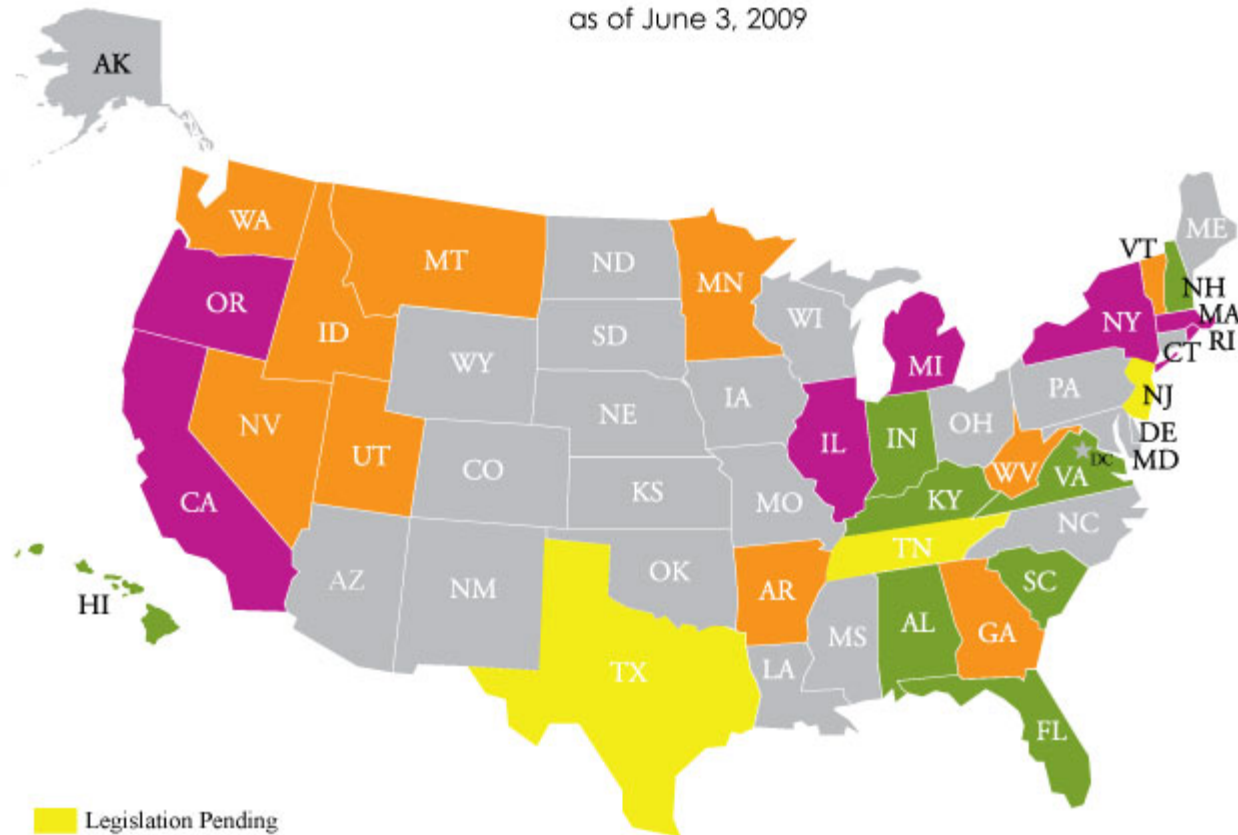
- States that regulate life & viatical settlements: AK, AR, CO, CT, FL, GA, HI, ID (July 1), IA, IN, KY, KS, LA, MA, MD, ME, MN (Aug. 1), MS, MT, NC, ND, NE, NJ, NV, OH, OK, PA, TN, TX, UT, VT (July 1), VA, WA (July 26) & W.VA
- States that regulate only viaticals: CA, DE, IL, MA, MI, NM, NY, OR & WI
- States that have not enacted settlement laws (yet): AL, AZ, D.C., MO, NH, RI, SC, SD, WY
- Legislation being considered: CA, D.C., IL, MA, MI, NJ, NY, OR, RI, TN, TX, WI, & WY

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# The 2009 Legislative Activities

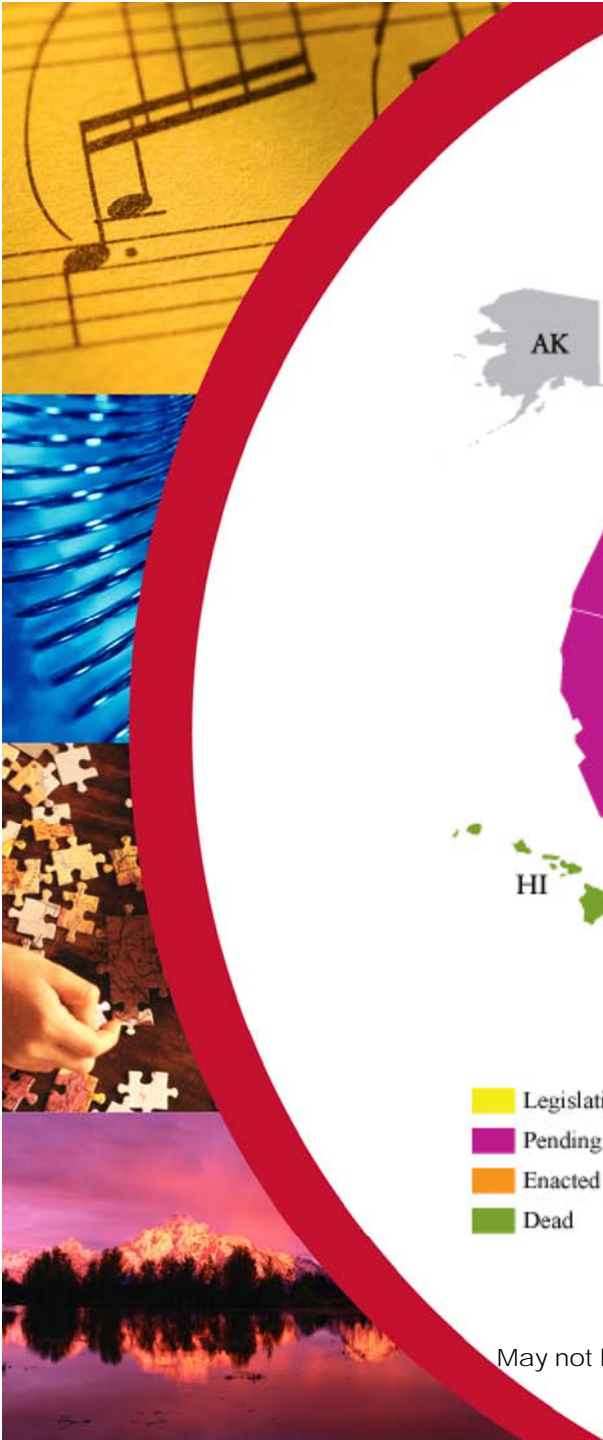
as of June 3, 2009



- Legislation Pending
- Pending
- Enacted
- Dead

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# Issues of Concern

- #1 Issue = STOLI (Insurable Interest)
- 2 yr vs. 5 yr waiting period
- Commission disclosures & sales practices
- Consumer disclosures
- Non-recourse premium financing; beneficial trust transfers
- Transfers of trust interests may be deemed to be settlement transactions

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# Red Flags in Anti-Fraud Reviews

- STOLI and insurable interest reviews are essential
  - Relationship between Insured and First Policy Owner
  - Legitimate premium financing vs. STOLI in disguise
  - ILIT's: Who are the beneficiaries of the trust?
- What was the "Intent" in applying for the Policy?
- Discrepancies between disclosures on Policy application and currently available medical records

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# Addressing Potential Problems

- Investors working with providers with legal staff and compliance advisors
- Don't participate in anti-competitive activities, ever – excuse yourself from the conversation
- Avoid conflicts of interest – do what is in the best interests of your client
- If you don't have the license, don't do the deal – never “borrow” someone else's
- Do not participate in questionable programs for obtaining new insurance

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# Tips to Avoid Regulatory Problems

- Use proper forms, make required disclosures & Document everything
- Stay informed & keep your licenses, forms & practices up to date
  - LISA membership is best source for legislative & regulatory news:  
[www.thevoideoftheindustry.com](http://www.thevoideoftheindustry.com)
- Only do business with people you trust
- Consult with your attorney about your particular business

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# About Life Settlement Solutions

- One of the oldest and largest life settlement providers
- Management with collective experience closing in excess of \$2 billion in face value to date
- All Institutional (QIB & AI) capital (customer protection)
- Industry-renowned capabilities and reputation
- Member of Life Insurance Settlement Association
- AA+ rating from Scope Agency
- Expert management and employee teams
- Founder and presenter of Life Settlement Awareness Month (LSAM)®
- Developer of one of the few continuing education courses on life settlements for credit toward life agent licensing

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# Resources

[www.lifesettlementawarenessmonth.com](http://www.lifesettlementawarenessmonth.com)

[www.lss.webce.com](http://www.lss.webce.com)

[www.lifesettlementsmarketwatch.com](http://www.lifesettlementsmarketwatch.com)

[www.lss-corp.com](http://www.lss-corp.com)

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