




Life Settlements – The Fundamentals  
Life Settlement Awareness Month  
June 2007

# Webinar Instructions

- If you haven't already, dial in to 1-800-839-9416 and enter the access code 8334152 to join the audio portion. Phones will be muted.
- If you have questions during the presentation, please use the "chat"  function located at the top of your web classroom screen.
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Please stand by, the webinar will begin at 10:30 a.m. PST



# Rapid Growth in Life Settlements - Why We're Here

- The most rapidly growing segment of the life insurance industry – \$200 million FV (2001) to \$3 billion (2003); est \$15 billion (2006)
- In the past 5 years the industry paid in excess of \$2 billion more to policyholders than they would have received through cash surrender
- Average settlement yields 3 – 5 times cash value
- During the past six months of 2006, Life Settlement Solutions, Inc - paid 550% more than CSV for the average policy
- Much more growth in the future with an estimated \$160+ billion industry potential



# Life Settlement Awareness Month (LSAM)

In response to agents' growing need for information and education on life settlements, Life Settlement Solutions, Inc. presents the first-ever Life Settlement Awareness Month™

- Increase the awareness and knowledge of life settlements by financial professionals
- Offer marketing support, training and industry expertise to improve producer sales activities during the summer months, a traditionally slow sales activity time of the year.



# The Reason for LSAM

- An agent survey in the March 2007 issue of *Agent's Sales Journal* showed:
  - 70 percent of agents have not transacted a life settlement primarily due to a lack of education and resources
  - 80 percent of those same agents have senior clients whose needs have changed and who have lapsed/surrendered policies
  - Nearly 70 percent of surveyed agents believe a life-settlement transaction would benefit clients as a financial-planning tool
  - More than 50 percent of surveyed agents believe there is substantial potential for additional income by offering life settlements
  - Nearly 90 percent of surveyed agents were interested in a continuing education course on life settlements (visit [lss.webce.com](http://lss.webce.com))
- Agent awareness and knowledge will be a major industry driver over the next several years



# What is a life settlement?

- The sale, in the secondary market, of an unneeded or underperforming life insurance policy generating proceeds that exceed the cash surrender value but less than the death benefit
- Policy owner receives lump sum payment which can be used to fund a variety of financial goals
- Institutional buyer becomes new policy owner and beneficiary and assumes premium payments until policy matures



# Life Settlements are not the Same as Viaticals

## Life Settlements

- Life expectancy > 2 yrs
- No terminal illnesses
- Much larger average case size (\$1 million+)
- Institutional investment capital
- Regulation
- Industry formation - LISA

## Viaticals

- Life expectancy < 2 yrs
- Some form of terminal or catastrophic illness
- Much smaller average case size (< \$75,000)
- Private investors
- Reputation questionable business practices
- Lawsuits, regulatory investigations

# Why Insurance Is Sold in the Secondary Market

- Financial plans change for client
- Policies under perform compared to illustrated values resulting in escalating premiums or need to deploy capital elsewhere
- Financial distress/unable to meet future premium payments
- Change in beneficiaries (divorce, death of spouse or dependents become financially independent)
- Material change in the value of estate
- Change in existing estate tax laws
- Charitable giving preferences
- Business: Change in leadership- key executives retire
- Business: Seek to monetize business assets and recover assets allocated to business insurance programs

# Why insurance is purchased in the Secondary Market

Institutional investors purchase policies for several key reasons:

- Non-correlated asset compared to equity markets
- Competitive rates of return
- Portfolio diversification
- Large supply of policies enabling the deployment of significant amounts of capital
- Ability to manage credit risk by purchasing policies from highly rated carriers
- Demographic trends of U.S. population
- Regulations, due diligence, compliance

# First, The Basics

When appropriate, an insured has the option of selling his/her unneeded life insurance contract in the secondary market as an alternative to cash surrender or non-forfeiture values

## Typical Candidates:

Minimum age of 65; most transactions are males age 72+ and females age 75+

- Approximate life expectancy of 2 to 17 years
- Minimum face amount of \$250,000; market average in excess of \$1 million
- Universal Life; Term; Survivorship and Whole Life contracts
- Client is typically affluent with financial advisors
- Needs have changed over time
- Seeking better alternatives to lapse or non-forfeiture

# Case Studies

- Insured: 73-year-old male
- Face Amount: \$5,000,000
- Type of Policy: Universal Life
- Cash Surrender Value: \$28,620
- Amount Paid to Seller: \$1,050,000
- Amount Above Cash Value: \$1,047,138
- Reason for Policy Change: Estate planning tax changes

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- Insured: 82-year-old female
  - Face Amount: \$1,000,000
  - Type of Policy: Universal Life
  - Cash Surrender Value: \$14,139
  - Amount Paid to Seller: \$208,333
  - Amount Above Cash Value: \$194,194
  - Reason for Policy Change: Could not afford premiums

# Case Studies

- Insured: 73-year-old male
  - Face Amount: \$1,000,000
  - Type of Policy: Universal Life
  - Cash Surrender Value: \$37,078
  - Amount Paid to Seller: \$250,000
  - Amount Above Cash Value: \$212,922
  - Reason for Policy Change: Coverage no longer needed
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- Insured: 85-year-old female
- Face Amount: \$5,340,200
- Type of Policy: Universal Life
- Cash Surrender Value: \$477,178
- Amount Paid to Seller: \$1,100,000
- Amount Above Cash Value: \$622,822
- Reason for Policy Change: Purchased more suitable coverage

# Case Studies

- Case Studies are illustrative examples
- Case studies footnotes must be updated every six months
- In 2006, Life Settlement Solutions average payout to Sellers was nearly 25% of face value
- Average amount paid was approximately 550% over cash surrender value in the last half of 2006
- Actual price varies according to many factors, such as face value, premium structure, and life expectancy of the insureds



# Reasons why you need to increase knowledge of life settlements

- Policy owners are demanding more options for their life insurance policies than surrender, lapse, or non-forfeiture values
- Settlements enable producers to retain clients and policies and create a financial resource that clients never knew existed
- Financial situations and people's circumstances change over time
- People are living longer, the cost of living continues to go up, estate tax laws are changing
- Life Settlements are becoming a vital component of the financial planning process for many financial professionals
- Settlements provide a valuable resource for serving client needs and generating additional revenue
- If you don't offer settlements, your competition will



# Benefits to Client

- A resource and transaction to support the restructuring of life insurance programs
- Proceeds to fund investment and retirement programs
- Provides value from a previously dormant asset
- Proceeds to fund other goals such as long term care needs or charitable giving
- A means to alleviate escalating premiums
- Business applications for business owners and key employees



# Benefits to Producers

- Additional financial planning tool to meet the complex and changing needs of your clients
- Turns a policy lapse event into an opportunity to meet complex and changing needs of senior clientele
- Improved customer retention and satisfaction
- Improves customer referrals
- Provides additional revenue stream via settlement compensation, cross-sales commissions, and improved renewal commissions



# A Rapidly Maturing Market

- Industry has grown into a multi-billion dollar market
- Growth in Institutional investment capital entering the market
- Major financial institutions including banks, investment banks, and pension funds are providing capital
- Industry growth and capital trends have created a very competitive pricing process
- Due diligence, compliance and regulatory adherence
- Major firms employ trustee agreements to ensure confidentiality of client information and prevent sale to private investors
- Third-party escrow arrangements in place
- Regulatory attention is creating more discipline in the market

# Settlement Transaction Process

- Settlement application compiled on behalf of policy owner:
  - Medical releases and information
  - Settlement application forms
  - Life expectancy reports
  - Inforce illustrations on existing life insurance policy
- Settlement file submitted through intermediary or directly to settlement provider for market value/pricing offers
- Pricing offers are determined and offered to client
- Pricing proposals are evaluated by client and advisors
- Upon acceptance, sales contracts are completed and signed
- Coverage verified, signoff by all relevant parties including insured, owner, beneficiaries, etc.
- Ownership and beneficiary are changed
- Owner is paid lump sum, advisors paid compensation

# Roles of Provider & Broker/BGA/GA/B-D, etc.

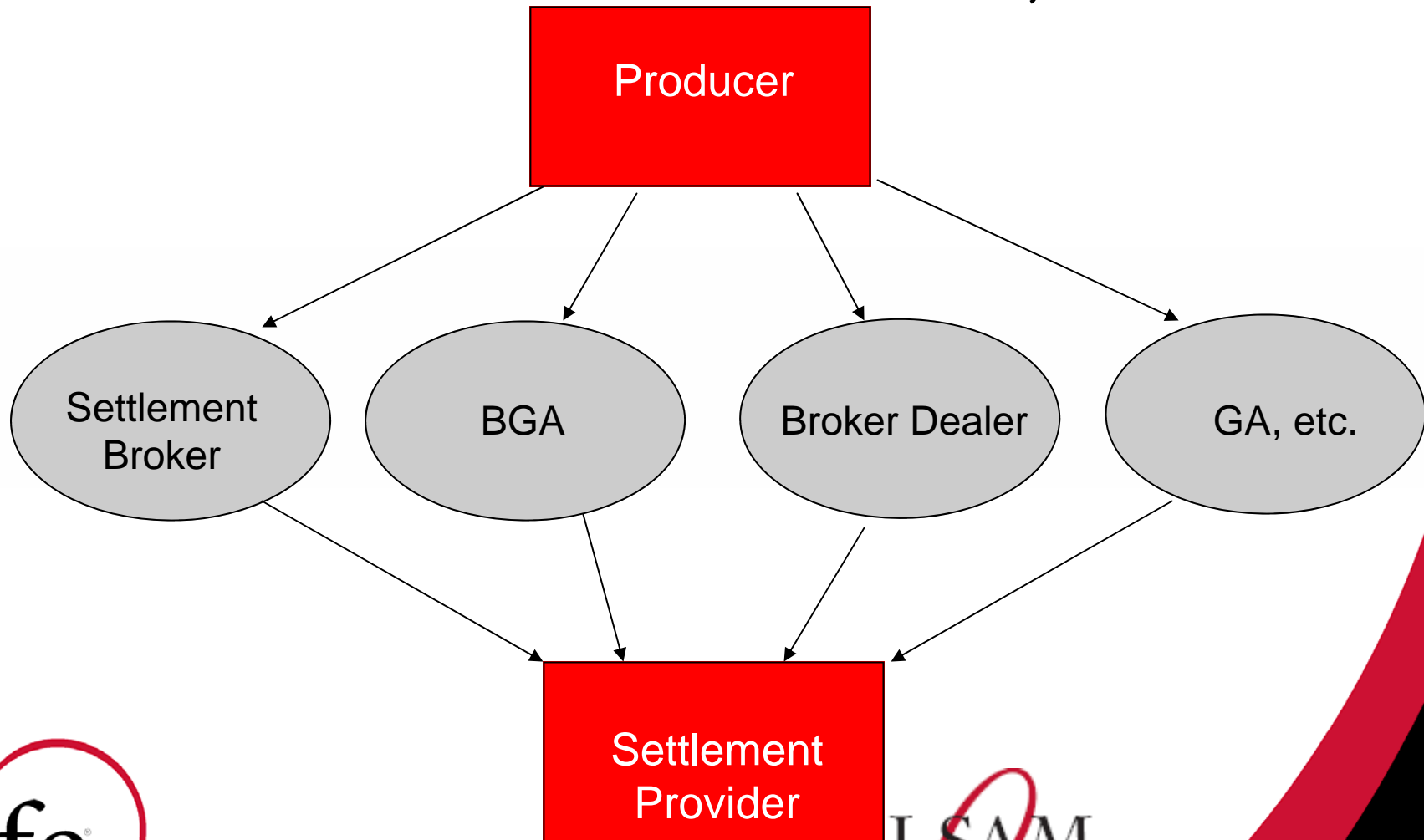
## Provider

- Represent investment capital
- Purchases policies on behalf of institutional investors
- Evaluates and underwrites case files to determine pricing offer for existing policy
- Provides pricing to producers/brokers
- Transacts accepted offers
- Maintains policies through maturity
- Various support resources

## Broker/BGA/GA/B-D

- Represent clients & producers
- Aggregates case submission files on behalf of clients
- Solicits bids from multiple providers to obtain best offers
- Communicates pricing offers to agent based on provider pricing
- Supports transaction process
- Various support resources

# Roles of Provider & Broker/BGA/GA/PPGA/B-D, etc.



# Choosing Settlement Intermediaries and Providers

- Financial professionals need to evaluate their resources and capabilities in the settlement market
- Work directly with providers if they have the resources and capabilities
- Otherwise, work through an intermediary
- Either way, conduct due diligence on all intermediaries and providers

# Provider Considerations

When evaluating providers, work only with those that meet strict due diligence requirements:

- Largest, most reputable providers
- Extensive state licensing (including Florida)
- Funded solely by Institutional Capital; no private investors
- Demonstrated performance (\$1 billion+ FV transacted)
- Efficient, competitive pricing capabilities
- No customer or regulatory complaints
- World-class, proven leadership team
- In-house legal staff
- Provision of full due diligence information



# Selecting Intermediary: Broker/BGA/GA/B-D, etc.

- Reputable, expert brokers
- Extensive state licensing
- Access to multiple Providers with Institutional Capital
- Demonstrated performance
- Service – procurement of medical information, verification of coverage, inforce illustrations, life expectancy reports
- No customer or regulatory complaints
- Provision of full due diligence information
- Structured compensation to producers
- Availability of support and marketing resources

# Considerations for Producers entering Settlement Market

- Understand your selling-away agreements with your broker-dealer and adhere to them
- Working through your existing firm's platform is ideal if they have established a settlement platform
- If your firm does not offer settlements, assess intermediaries:
  - Retrieval of life expectancy reports, APS's, inforce illustrations, verifications of coverage and other necessary documents
  - Handling of contractual needs of case from inception through closure
  - Procurement and negotiation of pricing with providers to receive most competitive bid
  - Communication with producer on bid/case status
- If you don't have an intermediary, we can help you find one



# Market Trends

- The Life Settlement market continues to emerge
- More Agents, CPAs, Attorneys, fee-base planners and Broker Dealers are entering the market and increasing knowledge to meet fiduciary responsibility
- Increasing financial professional and consumer awareness will continue to fuel rapid growth
- In 2005, approximately \$12 billion of benefits were transacted in settlements market
- In 2006, it is estimated that close to \$15 billion FV was transacted
- Growth expected to continue as independent research estimates a market potential of \$160 billion FV of inforce life insurance positioned with settlement value > CSV (Bernstein)

# Regulation

- Property rights dating back to 1800's
- NAIC Model Act
- NCOIL response
- Settlements regulated by state departments of insurance
- Varied state licensing requirements
- NASD considerations (Notice to members Aug 2006)
- Impact of premium finance industry
  - Stranger/Investor -initiated versus -owned life insurance transactions
  - State DOI responses (LA)
- Increasing number of states becoming regulated

# Settlement Marketing Program

Start now to set the stage for a strong year-end sales finish

- Now - identify potential candidates based on client/policy characteristics
- June – July: Conduct planning meetings/seminars to:
  - review existing life insurance coverage of clients and communicate opportunity.
  - determine if life policies still meet needs & expectations
- June – July: If any coverage is not meeting needs, then a life settlement may be a suitable course of action
- July – August: Gather medical info (APS, LE reports) and policy illustrations
- July – August: Select life settlement providers, intermediary to obtain offers
- August: Once pricing offers are obtained, determine whether life settlement is suitable course of action – client decision
- September: If agreed, conduct life settlement transaction and determine optimum use of proceeds



# Other LSAM Events

## Continuing Education Course

State-approved continuing education course on life settlements for life licensing available in most states by June 2007

## Webinars

June 1 & 26 – Life Settlement Fundamentals

June 5 & 28 – Advanced Strategies in Life Settlements

June 19 – Panel of Industry Experts featuring Brian Casey, Lord, Bissell & Brook, LLP and Roscoe Smith, Agent Media Corporation, Steve Walker, 21<sup>st</sup> Services

## Industry Events

June 7-9 – NAILBA Focus meeting – booth #300

June 10-13 – MDRT Annual meeting – booth #524

## Workshops

June 12 – MDRT Workshop on Life Settlements presented by Life Settlement Solutions



# Producer Resources

- Web sites of settlement brokers and providers
- LSS Web site: [www.lss-corp.com](http://www.lss-corp.com)
- Extensive collections of bylined articles in trade publications and producer resources
- Settlement firm training events such as LSS Life Settlements Awareness Month including sales campaign outline at [www.lifesettlementawarenessmonth.com](http://www.lifesettlementawarenessmonth.com)
- Presentations and sales campaigns posted on websites of settlement firms
- Workshops at key industry events (MDRT)
- Life Insurance Settlement Association [www.lisassociation.org](http://www.lisassociation.org)
- Continuing education course on life settlements [www.lss.webce.com](http://www.lss.webce.com)



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