



© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written consent of Life Solutions International, LLC





# Life Settlement Securitizations

February 16, 2010

© 2010 Life Solutions International, LLC.  
May not be reproduced or distributed without the express written  
consent of Life Solutions International, LLC





# Disclaimer

This presentation is not intended for consumers or sellers of life settlements or borrowers under premium finance loans and should not be viewed by anyone that is not an “Accredited Investor” as defined under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended.

Nothing in this presentation is intended as investment advice nor should it be read or construed as providing such advice. Neither Life Solutions International, LLC (“LSI”) nor its officers are licensed to give investment advice. Past performance of life settlements, life settlement funds, and/or other insurance-linked assets is not a reliable indicator of future performance. LSI does not guarantee the performance of any life settlement, life settlement fund and/or other insurance-linked asset nor does LSI guarantee the return of an investor's or purchaser's capital or any specific rate of return. The value of investments and any income derived from them can go down as well as up, and the value of an investor's or purchaser's investment may be extremely volatile and subject to sudden and substantial falls.

This presentation is not and should not be construed as a solicitation to buy or sell any securities, and LSI and its affiliates do not provide legal accounting or tax advice. The information and concepts presented in this webinar are intended to afford general information on the life settlements and insurance-linked asset industries. LSI does not provide advice with respect to the value or suitability of any particular portfolio of life settlements or insurance-linked assets, securities transactions, investment strategies or other matters. Nothing contained herein constitutes a recommendation to buy, sell or hold a life settlement, insurance-linked asset, portfolio of life settlements, insurance-linked assets or any other asset or security.

© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written consent of Life Solutions International, LLC





# Webinar Instructions

- If you haven't already, dial 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 "message" function located at the right of your web classroom screen.
- We recommend that you disable pop-up blockers on your web browser.
- Please close other programs on your computer to enable the Webinar to run efficiently.

**Please stand by, the webinar will begin at 10:30 a.m. PST**

© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written consent of Life Solutions International, LLC



# Panelists

- Sandra Giuffre, Giuffre Risk Solutions
- Dan Passage, O'Melveny & Myers
- Jan Buckler, DBRS
- Moderators:
  - Larry Simon & Kurt Gillhaus, Life Solutions International

© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written consent of Life Solutions International, LLC

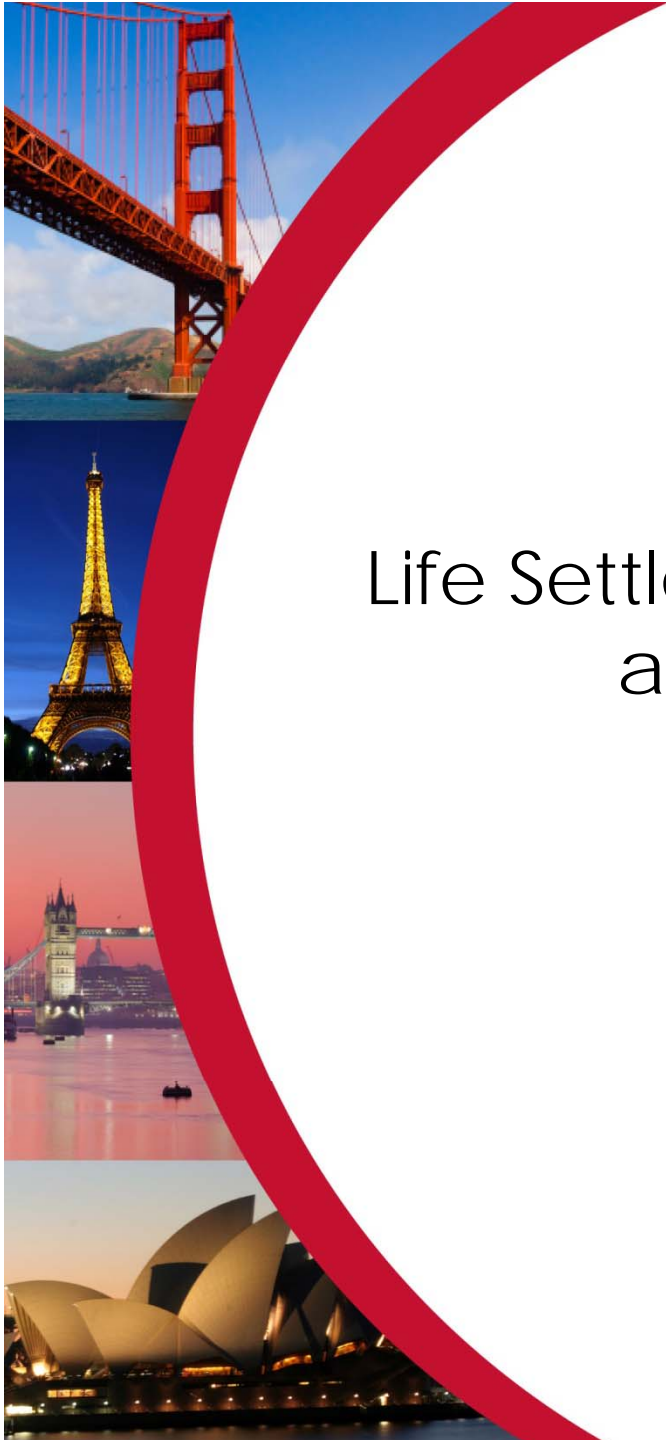




# Sandra Giuffre Giuffre Risk Solutions

© 2010 Risk Strategies LLC





# Life Settlement Portfolio, Extension Risk, and Securitization Primer

© 2010 Risk Strategies LLC





# Life Settlements “101”

- A life settlement (“LS”) provides a method by which a policy owner of a life insurance policy can sell their policy to a third party for more than its cash surrender value but less than its death benefits.
- When no secondary market was available, a policy owner’s choices were to keep the policy in force by continuing to pay premiums or allow the policy to lapse by surrendering it back to the life insurance company for a cash surrender value.
- In a viatical settlement, the life expectancy of the insured is typically two years or less due to a pre-existing life-threatening illness or condition. By contrast, in a life settlement transaction the insured does not necessarily have such a life-threatening illness or condition.
- Participants in LS transactions typically include:
  - The policy owner: the individual or entity that owns the life insurance policy. Often, the policy owners and the insured are the same.
  - The LS broker: the intermediary between the policy owner selling the policy and the purchaser of the policy (i.e. the “life settlement provider”). The broker’s fiduciary duties are to the policy owner.
  - The life settlement provider: purchases the life insurance policy from the policy owner and creates the life settlement file. The provider is typically responsible for conducting the due diligence on the policy and the insured and maintaining the life settlement file.
  - The investor: purchases life insurance policies (i.e. life settlements) from providers. An investor can subsequently decide to hold or sell the policy.
- LS can be purchased from providers or investors looking to resale.
- LS can be purchased for a securitization.

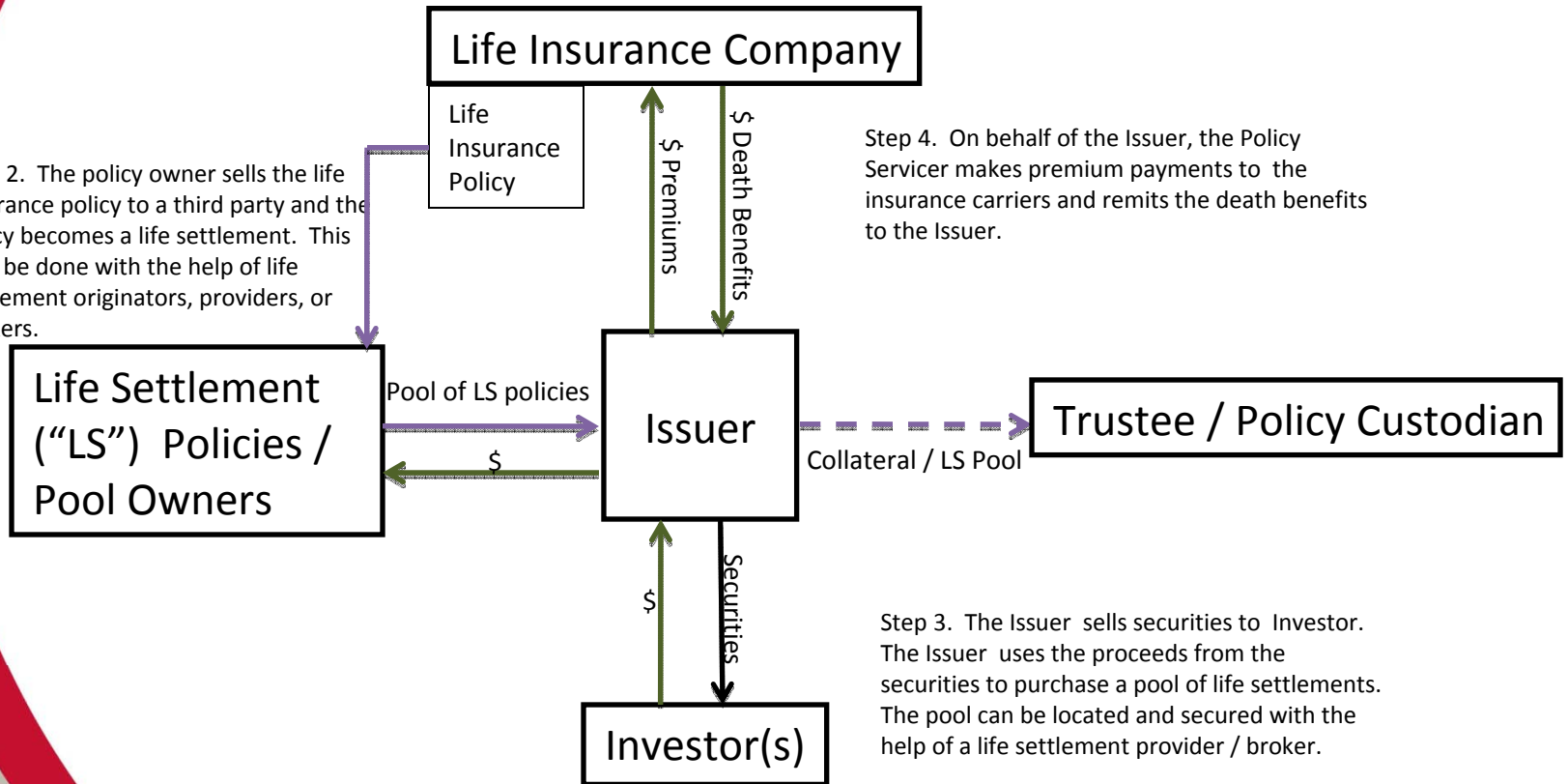
# LS Securitizations "101"

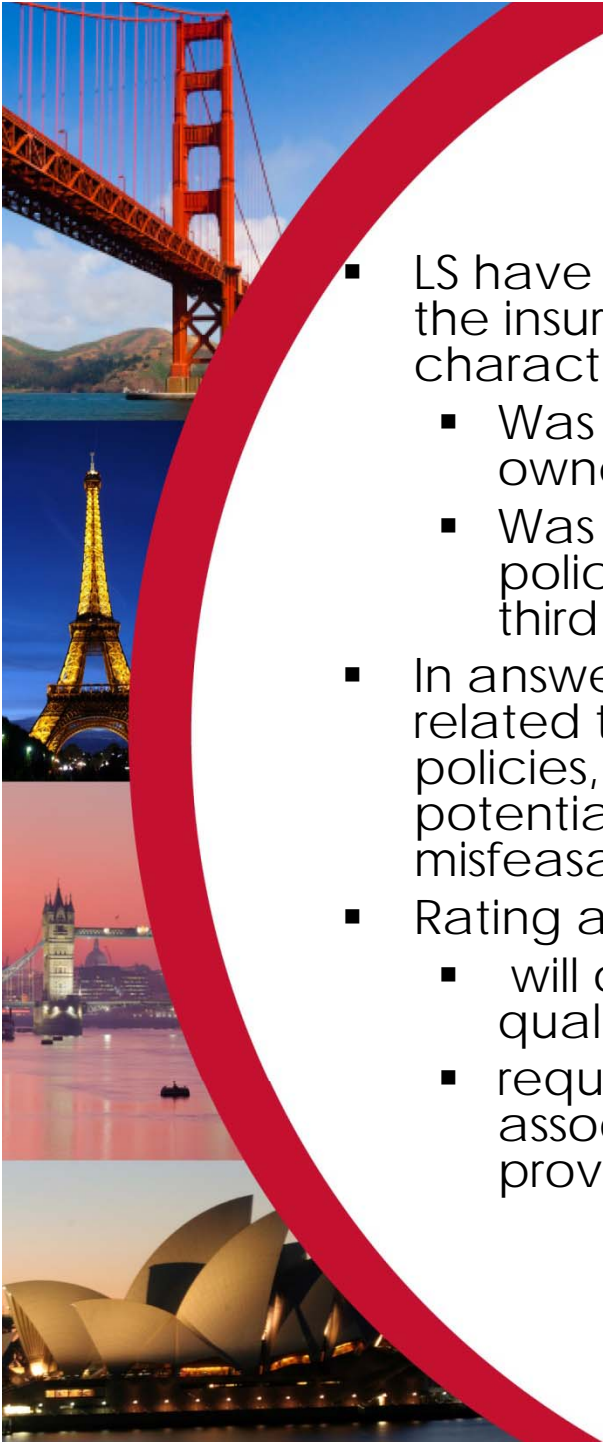
Step 1. A party ("policy owner") purchases a life insurance policy from an insurance carrier. This may be done with the help of an insurance agent.

Step 2. The policy owner sells the life insurance policy to a third party and the policy becomes a life settlement. This may be done with the help of life settlement originators, providers, or brokers.

Step 4. On behalf of the Issuer, the Policy Servicer makes premium payments to the insurance carriers and remits the death benefits to the Issuer.

Step 3. The Issuer sells securities to Investor. The Issuer uses the proceeds from the securities to purchase a pool of life settlements. The pool can be located and secured with the help of a life settlement provider / broker.





# LS Collateral Qualitative Analysis "101"

- LS have qualitative characteristics that could impact whether the insurance carrier pays the death benefit. These characteristics typically relate to two questions:
  - Was the insurance policy properly originated at the time the owner purchased the life insurance policy?
  - Was the life settlement properly originated at the time the policy owner sold the life insurance policy to an unrelated third party?
- In answering these questions, attention is focused on issues related to insurable interest, beneficial interest, manufactured policies, premium finance, recourse loans, and/or other potential forms of broker, insured or insurance carrier misfeasance or malfeasance.
- Rating agencies
  - will currently entertain rating LS securitizations with high-quality "legitimate" LS policies.
  - require legal counsel to review the documentation associated with the life settlement file and the insured, and provide legal opinions.

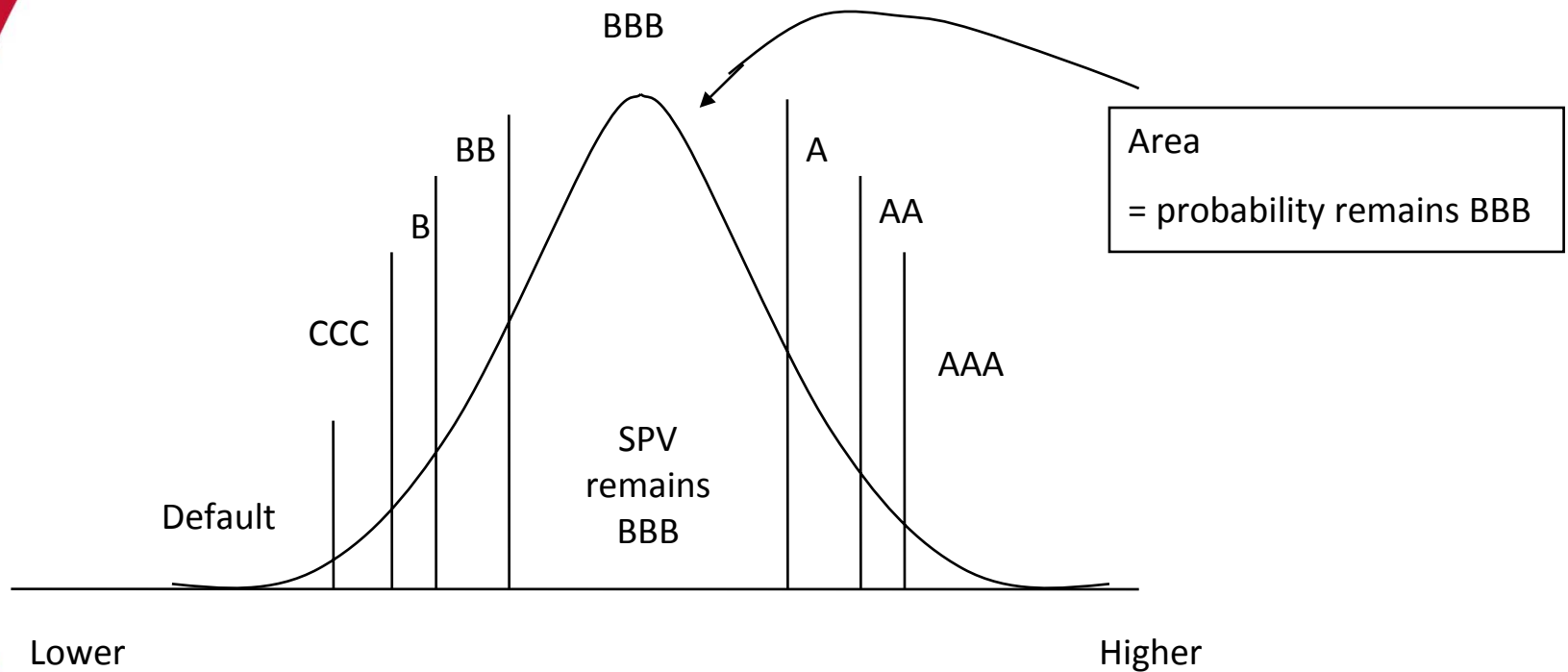


# Longevity Risk

## Quantitative Analysis "101"

- Longevity risk is the risk that an individual life longer than expected (i.e. their life expectancy "LE").
- Simplified, LE is the point in time when an individual has a 50/50 probability of mortality/surviving (LE is not the length of their remaining life).
- Longevity risk analysis:
  - Policy-level analysis
    - The amount of time from the date of purchase to the date when the total cost of the policy exceeds the face value (i.e. time period to loss).
    - The probability of reaching or exceeding the time period to loss
    - The likelihood of a policy expiring
    - The return expected on the policy using various scenarios/tables (IRR and COC return matrix)
  - Portfolio-level analysis
    - The probability of a portfolio failing a measure of financial viability (e.g. exceeding reserves) using various scenarios/tables
    - The level of "lumpiness" (i.e. proportionate exposure) to specified factors (such as death benefit amounts)
  - Fund or Issuer-level analysis
    - The probability of the Issuer failing a measure of financial viability (e.g. premium payment reserve inadequacy, insolvency, defaulting on debt, covenant default, etc.) using various scenarios/tables
    - The return expected on the collateralized securities of the Issuer using various scenarios/tables (IRR and COC return matrix)
    - The probability of a return on principal invested and the expected return on capital.

# Ratings "101"



Normal Distribution\*

# Life Settlement Securitization

## Risks "101"

Risk Category	Examples / Definitions	Factors / Techniques
Insurance Carrier Risks	Credit Risk: the risk that a carrier is downgraded; the risk that a life insurance carrier encounters financial difficulty and fails to pay the Insurer the death benefit	Insurance carrier enterprise risk and performance assessment ; Availability of insurance carrier default information and data; Insurance carrier diversification / spread of risk across counterparties; Insurance carrier ratings; Rating requirements (e.g. rated A or better); hedge / CDS; Scenarios analysis
	Policy Contestability: that the life insurance carrier does not pay the death benefit to the Issuer (for reasons other than credit), or the risk that the payment is delayed. For example, the risk that policies were not properly originated when the policy was inception or when the life settlement was originated.	Availability of contestability data; Quality of origination process; Availability of timing data; External law firm due diligence and legal opinions; Seller's representations and warranties; Contestability hedges / wraps; Inclusion of "ultra – ultra" clean policies; Scenario analysis
	Cost of insurance ("CoI"): the risk that the assumed premium amounts will be unexpectedly increased	Availability of COI information and data; Scenario analysis
Market Value Risk	The risk that the market value of the policies is lower than expected due to factors such as interest rates going up / investor IRR requirements going up	Asset and liability duration matching; Residual value hedge
Interest Rate Risk	The risk associated with a change in interest rate. For example, the risk that the rate the insurance carrier applies to the cash value ("CV") in the policy will unexpectedly change	Guaranteed interest ("floor") provided within policy; Scenarios analysis
Longevity / Extension Risk	The risk that loss occurs because mortalities have taken place later than originally anticipated (e.g. the risk that the mortality table selected is unrepresentative of the target population, or where the portfolio differs from the population (i.e. wrong table)); the risk that improved healthcare or other factor will impact mortality patterns between illnesses or mortality as a whole	Statistically relevant pool; Well structured investments; Reserves, Liquidity facility; Stress and scenarios analysis; Longevity risk hedge or maturity guarantee; Stressed survival analysis / simulations; Multi-table analysis; Mortality improvement assumption; Period to loss analysis; Probability of loss analysis
Operational Risk	The risks associated with people and process failures, and external events. For example: the risk that the servicing party fails to make premium payment and / or to maintain sufficient cash value and the life settlement lapses (i.e. expires worthless); the risk due to an unexpected change in regulatory or business environment that impacts life settlement; the risk that a terrorist event creates a financial crisis impacting multiple financial institutions dealing with the Issuer; the risk of that the Issuer's assets are stolen	Background checks; Professional pool servicing company; back up servicer provider ; data verification agent; Collateral trustee; Strong management team; Directors and Officers Liability insurance; Fidelity / theft insurance
Investor Risk	The risk that there will be sufficient parties to purchase the securitization / bond	Non-correlated investment analysis; Matching market rate required returns



# Contact

**Sandra E. Giuffre**

Giuffre Risk Solutions

Wilton, CT 06897

Phone:(203) 563 0801

Facsimile:(203) 663 8236

Mobile:(203) 570 5790

[sgiuffre@giuffresolutions.com](mailto:sgiuffre@giuffresolutions.com)

© 2010 Risk Strategies LLC





Dan Passage

O'Melveny & Myers



O'MELVENY & MYERS LLP



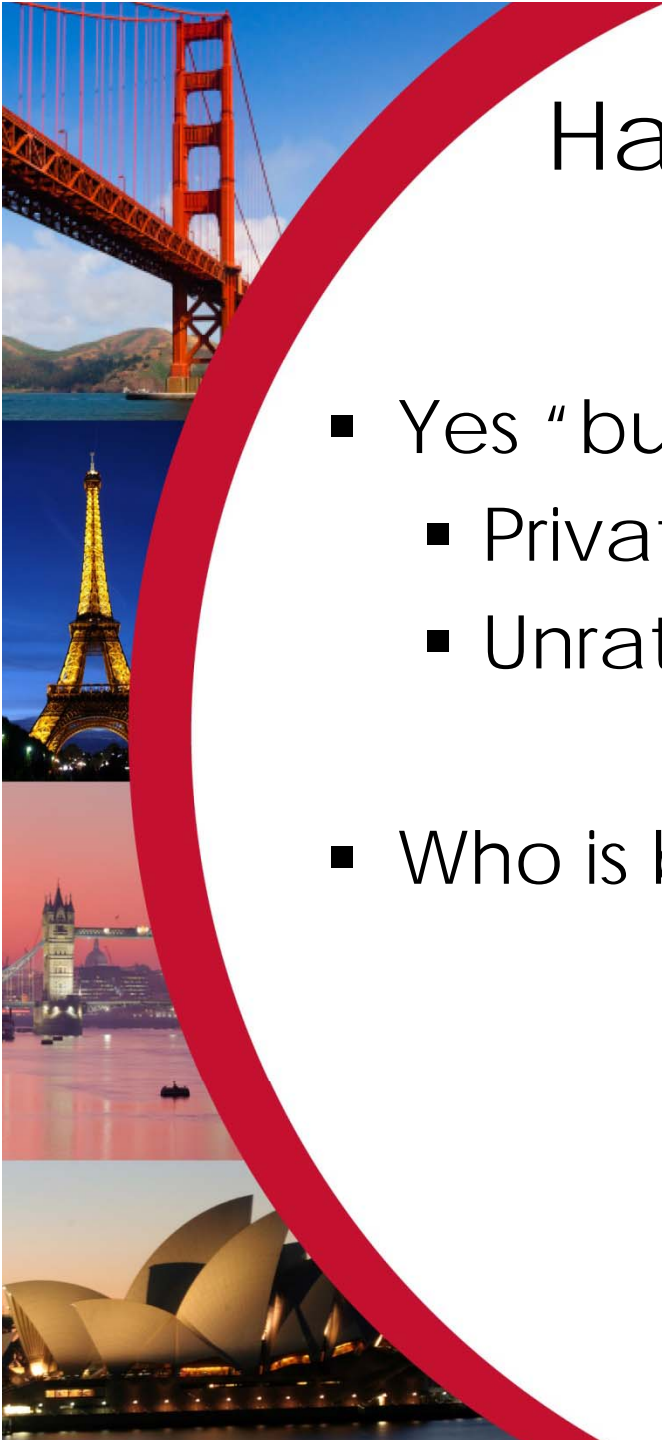
# Where are all the deals?

“I’ve been hearing about deals for a year now . . .”



---

O'MELVENY & MYERS LLP



# Has anything closed at all?

- Yes “but”
  - Private/private individually negotiated
  - Unrated or “self-rated”
- Who is buying?



---

O'MELVENY & MYERS LLP



# Obvious Impediments

- Rating a model? Rating a pool or a pool of pools?
- Warehousing pools while waiting for investors?
- “I’ve heard this a hundred times”
- Broker-Dealer concerns about SEC, FINRA and headline risk
- Proposed Deal sizes
- Use of Proceeds (Reserves, Returns and Sponsor Needs)
- Seller/Asset Diligence and Risk Coverage



O'MELVENY & MYERS LLP



# Is it ever going to happen?

- Yes, “but”
  - Balancing diligence and disclosure against realistic expectations for seller risk tolerances
  - Getting investors to the table before or concurrently with pool construction
  - Complexity of structure vs. returns to all
  - Wasting time with lookey-loos



O'MELVENY & MYERS LLP



# Contact

**Daniel F. Passage**

O'Melveny & Myers LLP

400 South Hope Street

Los Angeles, CA 90071

(213) 430-6618

[DPassage@omm.com](mailto:DPassage@omm.com)



---

**O'MELVENY & MYERS LLP**



Jan Buckler

DBRS



# Contact

**Jan Buckler**

Senior Vice President  
U.S. Structured Finance

DBRS

140 Broadway, 35th Floor  
New York, NY 10005 United States

TEL +1 212 806 3925

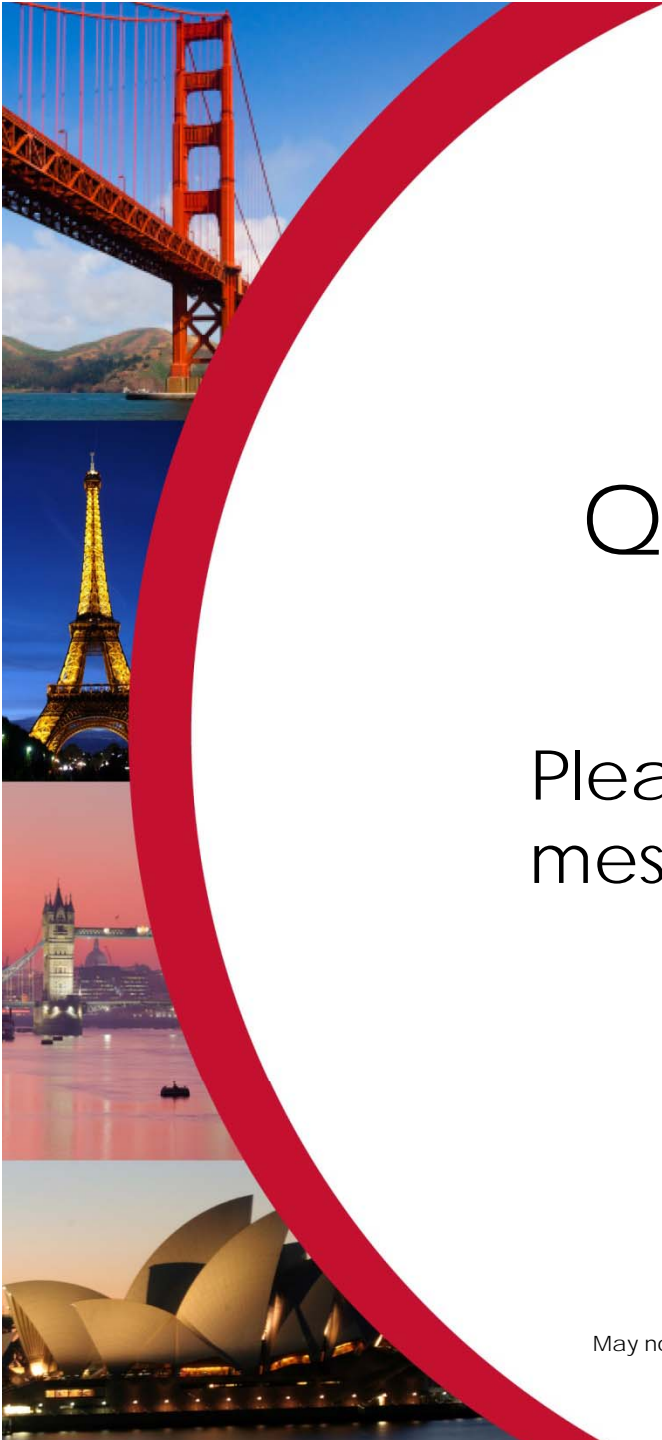
FAX +1 212 806 3201

CELL +1 646 327 8168

[jbuckler@dbrs.com](mailto:jbuckler@dbrs.com)

<http://www.dbrs.com>





# Questions & Answers

Please send all questions in via the message function on the right side of your webinar screen.

© 2010 Life Solutions International, LLC.  
May not be reproduced or distributed without the express written consent of Life Solutions International, LLC



# ILIAM

- Feb. 3, 2010, 10:30 a.m. PT/1:30 p.m. ET - Investing in Distressed Life Settlement Portfolios
- Feb. 9, 2010, 10:30 a.m. PT/1:30 p.m. ET - Life Settlement Investors Market: Yesterday's Distress is Tomorrow's Success
- Feb. 16, 2010, 10:30 a.m. PT/ 1:30 p.m. ET - Life Settlement Securitization
- Feb. 18, 2010, 3:00 p.m. Western Europe Time (UTC) (GMT)/7:00 a.m. PT - Life Settlement Investments: Yesterday's Distress. Tomorrow's Success (Special event for European time zones)
- Feb. 23, 2010, 10:30 a.m. PT/1:30 p.m. ET - Life Settlement Investment Strategies for Pension Plans
- Mar. 4, 2010, 9:00 a.m. China Standard Time (UTC+8)/5 p.m. PT on March 3 - Life Settlement Investments: Yesterday's Distress. Tomorrow's Success (Special event for Asian time zones)

© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written consent of Life Solutions International, LLC



# Contact

Life Solutions International  
9201 Spectrum Center Blvd., Suite 105

San Diego, CA 92123

858.576.8067

info@lifesolutionint.com

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

 Become a fan of ILIAM on Facebook

 Follow us on Twitter @LifeStImntAware

 Join our ILIAM LinkedIn Group

© 2010 Life Solutions International, LLC.

May not be reproduced or distributed without the express written  
consent of Life Solutions International, LLC

