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### THE LIFE SETTLEMENTS REPORT

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## LIFE EXPECTANCY EXTENSION COVERAGE MAKING COMEBACK

Life expectancy extension insurance is once again being offered to life settlement portfolio owners and fund managers to offset policy maturities that fail to materialize as predicted.

Some market players say the coverage may help give investors confidence to step into the market, but others believe it still may be too expensive or is unnecessary.

Such coverage previously was offered by **Goshawk Dedicated Ltd.**, a former **Lloyds of London** syndicate. Goshawk sued **American Viatical Services**, a Kennesaw, Ga.-based life expectancy provider in 2005, alleging fraud and negligence in connection with losses it says were caused by inaccurate life expectancies. The suit is pending.

Representatives of **Signal Risk Insurance**, based in Bermuda, and **Transamerica Reinsurance** are among new entrants in the market that have been shopping coverage recently. **Wilton Re** also is said to be offering coverage, although the firm's representative, Cormac Treanor, declined to comment beyond a general presentation of the issue he made at last month's **Fasano Associates** conference in Washington. **Madison Strategic Partners**, a specialty-finance firm in New York, also is offering coverage, but has declined to say which insurance company or reinsurer is behind the program.

People in the industry believe, however, that **Reinsurance Group of America**, may be providing the coverage or exploring providing the coverage. A spokeswoman for the company declined to verify the information.

Others who said they were offering the coverage last year, including **Risk Capital Partners** in New York and

**INNOVA Insurance**, based in Bermuda, failed to close any deals. Nemo Perera, managing partner of Risk Capital, said he has one deal now that is near closing though, possibly by the end of the year.

"Reinsurance is needed given the lack of past performance," said Zohar Elhanani, chief executive of **Legacy Benefits**, a New York-based provider, in an email. "If prior LEs were accurate this costly hedge would not be required, yet investors currently require a lower risk/return profile as an interim step until their comfort grows with the primary risk – mortality."

He said until investors regain confidence in the accuracy of life expectancy estimates he believes there's an opportunity for such products to make inroads in the market.

Another market player who declined to be named said the products he's seen are very expensive and the small print in the policies offers a way to wiggle out of paying claims. But if done right, it could be extremely useful for the industry and make the firm offering the product a lot of money, the person said.

Terry Miles Friedberg, chairman of Signal Risk, said he has begun offering his product and is pricing portfolios worldwide for the coverage. He said his product was approved by the Bermuda Monetary Authority earlier this year.

Friedberg said his firm, which also has a New York office, looks at such portfolio census data, as the gender of insureds, date of birth, original life expectancy estimates, premium stream data and carrier ratings to determine a price for the coverage.

Friedberg said once his firm obtains the portfolio information, his employees compare it to a control group

containing millions of lives that were previously underwritten by insurers and reinsurers.

He said he's working with more than 40 U.S. and non-U.S. funds holding portfolios with face amounts ranging from \$20 million to \$1.6 billion.

"We're issuing term sheets now and we will write coverage before the end of the year," he said. "We're in the middle of issuing approximately 22 term sheets. We will probably issue policies on three to four portfolios by the end of the year."

He said his firm's insurance is designed to cover tail risk or the outer years. Portfolio owners decide at what point they want to obtain coverage for and that dictates cost, he added.

The coverage is intended to smooth out the lumpiness with the volatility in mortality, he said, adding that pricing ranges from 1.4% to 9% of face value.

Overall, Friedberg said he estimates the market for life settlement mortality has \$1 trillion in exposure while the pension risk market has upwards of \$16 trillion in mortality exposure.

He said he believes the settlement market and the pension industry will grow, but they need some kind of coverage to protect against losses from mortality risk.

Transamerica Reinsurance is shopping around a new longevity guarantee insurance product based upon

projected cash flows of a portfolio rather than the maturity of individual policies.

Transamerica will analyze a portfolio, preferably with a minimum of 300 policies, and provide floor coverage based upon an estimated cumulative cash flow for the deal term, said Matthew Daitch, in-force performance leader in life solutions at Transamerica Re. Transamerica Re will pay proceeds annually if there is a shortage in cumulative cash flow.

Transamerica provides the cash-flow floor using AVS' underwriting ratings applied to the reinsurer's proprietary actuarial tables and modeling approach, he said. It does not look at life expectancies.

A fixed schedule of fees is determined at the inception of the deal based upon the in-force face value at the beginning of each year as implied by the cumulative cash flow schedule. Fees can range from 20 to 70 basis points of face value, depending on the amount of coverage, and are paid annually, Daitch said.

Daitch said he hopes to close one or two deals this year for possible full-scale launch of the program next year. However, Transamerica Re is in the process of being sold by its parent company, **AEGON**.

One company that failed to sell life extension insurance was INNOVA Insurance. INNOVA was owned by Stewart

Ford, founder of **Keydata Investment Services** and **Lifemark**, which are both under investigation in the U.K.

INNOVA had hoped to insure \$1 billion to \$2 billion in settlements once it received public credit ratings in the U.K. through Standard & Poor's and Moody's, INNOVA CEO Thomas Williams told *The Life Settlements Report* last year.

Williams and underwriter Rogan Dwyer left the company in late 2009. Dwyer continues to work in the longevity area at **Global Asset Protection**, a Phoenixville, Pa.-based specialty risk insurance company he founded in 2000.

Since Keydata, a U.K.-based distributor of life settlement-backed bonds and other structured products, was placed under administration by the Financial Services Authority in June 2009, Ford has emerged as a larger player in the life settlements market.

Ford's spokesman Jack Irvine confirmed Ford owned INNOVA.

"Stewart Ford bought the company but thanks to the Keydata fiasco he was unable to do anything with it," Irvine said in an email. "He now has no further interest in it."

Perera of Risk Capital Partners said some of the potential deals brought to his firm did not make sense or fit within the carrier's parameters.

"The problem is every carrier has a box of risk they are willing to take," Perera said. —DH & MBL

## KRAMER DECISION VICTORY FOR SETTLEMENT INDUSTRY

A New York state Court of Appeals decision yesterday in the \$56.2 million Arthur Kramer insurable-interest case said that an insured can take out a policy on his or her own life and immediately assign it to whomever the person wants.

The 5-2 decision by the state's

highest court is considered a victory for the life settlement industry and could have far-reaching impact by clarifying that a person's intent in purchasing insurance is not pertinent, according to several attorneys.

The decision will impact pending litigation in New York, as well as in

other states that look to New York's laws, such as Delaware, according to attorney Jonathan Berck, the successor trustee of the Arthur Kramer Insurance Trust.

"The New York Court of Appeals dismissed the insurance company's argument that an insured has to have a