THE LIFE SETTLEMENTS REPORT

NEWS, INFORMATION, & ANALYSIS OF THE SECONDARY MARKET FOR LIFE INSURANCE

Volume III, No. 15 lifesettlements.dealflowmedia.com September 3, 2009

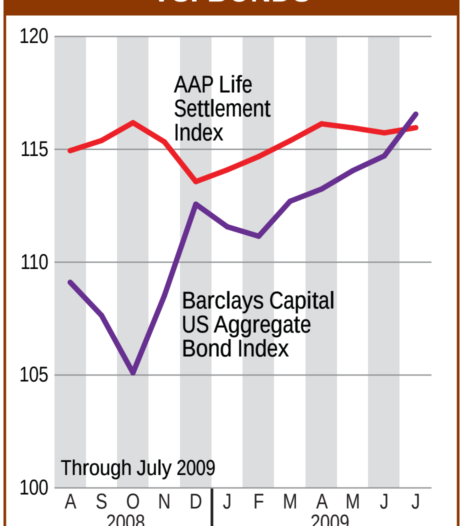
IN THIS ISSUE

TOP STORIES

NEWS IN BRIEF

LEGISLATIVE UPDATE

LIFE SETTLEMENTS VS. BONDS



Source: AA-Partners; indexes at 100 in December 2006

MARKET FOR LONGEVITY RISK INSURANCE EXPANDING

by Maria Brosnan Liebel

The market for longevity risk insurance for life settlements appears to be re-emerging just as the industry expects a wave of securitizations.

Companies based in Bermuda and New York recently started offering life extension risk coverage to investors. And a Canadian fund manager is working to hedge its portfolio with insurance as it pursues a public rating.

Evaluating and mitigating longevity risk is considered by many in the industry to be one of the greatest challenges in securitizing portfolios. Life settlement firms are looking for certainty as they seek to do large securitizations, said Nick Williams, a partner in the insurance practice group at law firm **Clifford Chance**.

"I've heard of more life settlement-based securitizations proposed in the last month than I've heard of in the last few years," Williams said in an email.

Williams said the concept of longevity risk insurance had previously been discussed around the industry. But the idea took on greater urgency after actuary firms extended their life expectancies and threw the industry into tumult last year.

"That development has enhanced the attractiveness of a longevity product," Williams said.

Past attempts to insure against situations when a covered person outlives projected life expectancy have not turned out well. **Goshawk Dedicated Ltd.**, a former **Lloyd's of London** syndicate that offered coverage for viaticals and life settlements, sued life expectancy provider **American Viatical Services** in 2005, claiming fraud and negligence

Continued on page 13

21ST SERVICES FAILS TO SUPPLY MORTALITY DATA FOR TABLE

by Donna Horowitz

21st Services, the life expectancy firm that caused a furor in the life settlement market last year, has declined to participate in preparation of an industry mortality table intended to help investors compare estimates by various underwriters.

Without such a common table, it's been difficult, if not impossible, for investors to evaluate how each life expectancy firm's estimates measure up against the others because they all use their own underwriting methods and tables.

21st Services, based in Minneapolis, rocked the market in September 2008 when it extended its life expectancy estimates by 20% to 25% with only a week's notice, causing policies and portfolios to drop in value. Brokers scrambled to salvage deals that were in danger of falling apart

Continued on page 11

THE LIFE SETTLEMENTS REPORT
DealFlow Media, Inc.
P.O. Box 122
Syosset, NY 11791
T (516) 876-8006
F (516) 876-8010
subscribe@dealflowmedia.com
www.dealflow.com

The Life Settlements Report™ is published twice monthly, on the first and third Thursday of each month, except the first Thursday in January and the first Thursday in August. Subscription rate: $1,595 per year for 22 issues delivered electronically.

PROPRIETARY MODELS AIM TO MITIGATE LONGEVITY RISK

As the life settlements industry gears toward more securitizations to raise funds, industry experts are patenting new longevity risk models designed to help mitigate investment risk.

In May, Steven Shapiro, CEO of provider **Q Capital Strategies**, received a patent for the "Stripped Collateralized Life Settlement Obligation," which he developed in partnership with Jeffrey S. Lange and Jonathan M. Lewis.

Shapiro said he could not comment on the patent at the request of his partners. But public patent documents describe a means of securitizing life settlements using a method to strip the death benefit asset from the premium liabilities.

"A need is recognized for methods and systems to securitize life settlement contracts which will lower the cost of capital required to acquire such contracts in a secondary market for life insurance policies," said a summary of the invention.

The method would "disaggregate, or effectively 'strip,' the assets from the liabilities of a life insurance policy under a life settlement contract or pool of life insurance policy contracts so that the cashflows reflecting the assets and/or liabilities can each be directed to [a] separate bankruptcy remote entity," the documents state.

Such stripping of assets and liabilities "can further reduce the credit risk of a securitization of the underlying life settlement contracts or life insurance policies."

Meanwhile, a couple of academics at The City University of New York have a patent pending on their own securitization risk model. Anne Zissu, chairwoman of the business department at New York City College of Technology, said she and her husband Charles Stone, an associate professor at Brooklyn College, have developed a metric to evaluate longevity risk.

"Our measurement of longevity risk can be used by fund managers to select life settlement contracts that fall within acceptable risk parameters, and it can be used by investors who are adding securities backed by life settlement contracts to portfolios of traditional fixed-income securities," Zissu said in an email.

Zissu and Stone have co-written articles published in financial journals about the securitization risks of life settlements. Their articles have been reprinted in *Life Markets: Trading Mortality and Longevity Risk with Life Settlements and Linked Securities*, written by Vishaal Bhuyan of advisory firm **Bhuyan & Co.**, and published by John Wiley & Sons.

In "The Return on a Pool of Senior Life Settlements," published in *The Journal of Structured Finance* in 2007, they said that even a six-month extension in life beyond a life expectancy causes the actual yield an investor will earn to fall below the 7% to 11% range touted by the industry.

Zissu said that her and Stone's risk model measures the percentage change in the value of a settlement given a percentage difference in a person's life span from the life expectancy.

"For example, an investor using our invention can find out that if life settlers live two years above life expectancy, security 1 will decrease in value by 5% and security 2 will decrease by 12%," she said. "The investor would then invest in security 1 instead of security 2."

How useful these patented models would be for the industry is questionable. Albert Pinzon, a partner at law firm **Cozen O'Connor**, said it would be a "huge gain" if somebody could come up with a tool to hedge longevity risk.

"It would be very difficult to securitize a portfolio without some protection on longevity," said Pinzon, head of insurance-linked securities at the law firm.

Some providers and investment advisers said, however, that they use their own proprietary models for determining risk and didn't understand the reason for others to patent risk models and make them public.

Jonathan Sadowsky, managing director of finance and portfolio manager at **Browndorf PEM** in Newport Beach, Calif., said that there is a broad range in the quality of assets, including fraudulent policies and STOLIs. He said that the ability to strip risk out of securitizations could be a "huge benefit." The trouble, however, would be pricing that benefit correctly. So he prefers to invest in synthetic longevity products.

"It will be a while before I actually bought some secondary securitized product," Sadowsky said. "I would have to do a lot of due diligence on the underlying collateral." *—MBL*

FEDERAL TAX PROJECTION UNDER NEW IRS RULINGS

Guest Commentary

by Jonathan Nguyen-Phuong and Matt Morris, *Life Policy Dynamics, LLC*

There has been much discussion of the impact of the 2009 IRS revenue rulings on the life settlement industry and more specifically on how the rulings apply to a given individual transaction. Since their issuance in May, industry leaders and advisors have hypothesized the effect of the rulings on the industry, but, until now, no one has attempted to quantify the financial impact of the rulings on policy sellers, policy purchasers and U.S. tax revenue.

Life Policy Dynamics LLC, a **Peninsula Group** company, has been collecting data on the industry since 2006 and provides facts, figures and trends relating to transacted policies through a series of market analysis reports for market participants and subscribers. Using the large dataset from the 2008 report, we feel that performing a tax analysis using actual transactions will allow us to further our firm's mission to help in creating a more transparent and efficient marketplace. We estimate that our sample of 354 transactions represents between 8% and 10% of U.S. life settlement transactions, based on an assumed overall market size of approximately $12 billion over 5,000 cases, and has a level of statistical significance from which effective conclusions may be drawn. The purpose of our study is to approximate the federal tax revenue generated from the life settlement industry and thus provide information that can be used by all parties to evaluate both the latest revenue rulings as well as the industry as a whole. This information is relevant and timely given the recent IRS rulings and recent U.S. Senate Committee on Aging hearings on the life settlement industry.

Our findings were based on the presumption of three taxable events: policy sale, policy maturity and federal premium tax generated on policies that would have otherwise lapsed. The tax computation was based on the guidelines set forth by the Internal Revenue Service in Revenue Ruling 2009-13 and Revenue Ruling 2009-14. In order to model the data, certain defensible assumptions were made that affect the size, but not the compilation, of the tax revenue mix. More detailed analysis and a more thorough disclosure of our assumptions will appear in the upcoming release of Life Policy Dynamics' biannual *Market Analysis* for the first half of 2009.

Our major findings based on our preliminary analysis are as follows:[1]

- Approximately $151.8 million in federal revenue would be generated by taxes on seller gains based on life policies sold in 2008. Of this amount, less than 2% of the gain generated from these transactions is projected to be characterized as ordinary income.
- Death benefit maturities on all 2008 life settlement transactions are estimated to produce federal tax revenue in excess of $2 billion. The present value of this revenue is estimated to be $1.2 billion.
- $28.8 million in federal revenue would be generated from the federal premium tax on in-force policies that would have otherwise lapsed if not transacted (during 2008) in the secondary market.[2] The present value of this tax revenue is $23.3 million.
- The aggregate federal revenue generated from 2008 life settlement transactions on a present value basis by

[1] Assumed 15% capital gains rate, 35% ordinary income rate, 5% discount rate, average of all life expectancies available used for life expectancy calculation, highest expectancies used for survivorships, no transaction cost, assumes sample is representative of the life settlement market as a whole and total market size of 5,000 transactions in 2008, COI was based on assumed policy load of 7% of premiums and $10 monthly, premiums paid as illustrated, no premium financed or policy loans and withdrawals, and that all policies are subject to U.S. taxes.

[2] 2% federal premium tax and 24% senior life insurance policy lapse rate was presumed for tax computations based on 2008 ISI paper, life settlements and 2008 issues, available at their website www.insurancestudies.org

seller, investor, and premium taxes is estimated to be over $1.4 billion.

The aforementioned numbers indicate that the tax revenue generated by the life settlement industry is significant. It is important to note that our projections do not include the tax revenue that the life settlement industry generates in state taxes, corporate taxes, property taxes, payroll taxes, and the income taxes from the employees of life settlement firms or other such multiplier effects. Our figures should be considered conservative and policy makers should be aware of the additional value that the life settlement industry creates.

The results also articulate the expected impact of the rulings on buyers and sellers. For policy sellers, only a small percent (under 2%) of seller gains are expected to be characterized as ordinary income. The vast majority of the revenue is classified as a capital gain and is taxed at a lower rate. In contrast to policy sellers, the tax mix for policy purchasers is mostly ordinary income. Thus, the results suggest that the new tax rulings will impact policy purchasers much more than policy sellers.

While far from comprehensive, this analysis should help to add some quantitative data to the discussion of the impact of the life settlement industry on the U.S. Treasury based upon the recent revenue rulings. We hope to provide a more comprehensive analysis in upcoming *Life Policy Dynamics' Market Analysis* reports and will aim to further refine our data collection process in order to meet the changing environment and needs of the life settlement industry. LSR

The purpose of the article is solely informational and seeks to illustrate how the IRS rulings perform on an actual sampling of transactions. Our methodology represents our interpretation of the IRS rulings and what we feel are reasonable assumptions. There are numerous other tax regulations applicable to life insurance policies which are not addressed in this article. This article is not intended to provide any tax, investment, or legal advice and should not be relied upon for such purposes. Any discussion of tax matters contained herein was not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties.

LISA, ACLI ASK FOR POSTPONEMENT OF IRS RULINGS

The Life Insurance Settlement Association (LISA) and the American Council of Life Insurers (ACLI) sent letters to the Internal Revenue Service, expressing their objections to a pair of recent rulings regarding how investments in life insurance policies should be taxed and asking the IRS to postpone one of its rulings that went into effect on Aug. 26.

A second ruling took effect immediately on May 1 when the pair of rulings was issued.

Agreement between LISA, the trade group of the life settlement industry, and the ACLI, an insurance industry organ, is rare, but they have found common ground on the tax rulings, which will cause life insurance death benefits to be taxed at higher rates.

The IRS is in the process of reviewing all comment letters it's received on the rulings, agency spokesman Marvin Robert said.

The rulings were issued in response to a request for clarification of tax policy from Sen. Herb Kohl, chairman of the U.S. Senate Special Committee on Aging who presided over an April 29 hearing on the life settlement industry.

The rulings covered four areas and resulted in mixed results for sellers of insurance policies and for investors in settlements. The rulings found that investors can deduct premiums and other costs of purchasing insurance policies. Sellers, however, can't deduct their costs of insurance and premiums from their cost basis.

The rulings also found that death benefits to investors should be taxed as ordinary income, rather than at the lower capital gains rate. Taxes on ordinary income can go as high as 35% for corporations and 39% for individuals.

In addition, the decision said that international investors who buy policies and hold them to maturity will pay 30% withholding taxes unless the funds holding the policies are domiciled in countries with U.S. tax treaties. The rulings also said that investors who trade policies instead of holding them would pay the lower capital gains rate.

In an Aug. 19 letter from the law firm of **Ivins, Phillips & Barker**, which is representing LISA, the trade group is also asking for the withdrawal of both rulings and for the IRS to establish a rule-making procedure.

"The Revenue rulings fail to meet the standards of proper rulemaking" and the Treasury and IRS as well as taxpayers would be better served with a process in which public comments are taken, the letter stated.

Furthermore, LISA said that some conclusions in the rulings are incorrect and they would "significantly impair the property rights of life insurance policyowners" who want to sell their policies in the secondary market.

LISA's letter said sellers have received about $6 billion to $7 billion more in the last decade than they would have received if they had lapsed or surrendered their policies. It also said in such tough economic times, the ability for seniors to sell their policies is a valuable alternative.

LISA also argued that one of the rulings could harm consumers because they would not know the tax consequences at the time of sale of their policies and because the tax on the sale could exceed the tax on surrendering a policy.

In its July 31 letter, the ACLI said it is "concerned that certain of the positions adopted by the Service in the ruling are contrary to established law, tax policy, and the longstanding treatment of life insurance under the Internal Revenue Code."

ACLI said that one of the rulings would "adopt a different rule for life insurance" than applies to all other financial instruments.

Specifically, it said that it would single out life insurance by requiring that part of the tax basis of the policy be allocated toward its current economic benefit.

"A life insurance policy provides a policyholder with a bundle of rights and benefits that are permanent and do not diminish over time," the ACLI said. "Any basis rule that treats the insurance component as a series of one-year term policies is incorrect and disregards the essential features of the contracts."

ACLI said it knows of no other situation in which a taxpayer must reduce the basis of an asset because ownership provides a current economic benefit. As an example, ACLI said a homeowner is not required to reduce the home's basis by the economic value of occupying the home, or its rental value.

ACLI said one of the rulings "could result in unexpected and harmful tax consequences to policyholders who transfer their policies" that wasn't contemplated by the IRS. The ACLI asked the IRS to confirm that the ruling only applied to sales of in-force policies to unrelated purchasers.

The carrier trade group cited four circumstances in which the ruling could cause unexpected consequences, including transfer of a policy to an employee, transfer of a policy as a gift, transfer of a policy with an outstanding loan to a charity and the tax-free exchange of a life insurance policy for another policy or annuity contract. *—DH*

Illinois Governor Approves Life Settlement Legislation

Illinois Gov. Pat Quinn approved legislation on Aug. 25 regulating the settlement market in the state.

SB 2091, which allows policies to be sold on the secondary market after two years, was supported by the settlement industry. The bill also includes a definition of stranger-originated life insurance (STOLI) advocated by industry representatives.

Illinois may be the first of three big states to approve settlement legislation this year. Legislation to regulate the market is pending in California and New York. So far, 34 states and Puerto Rico have enacted laws governing settlement transactions.

"A viatical settlement can be an important financial tool for a well-informed consumer facing challenging circumstances," said Michael McRaith, director of the Illinois Department of Insurance, in an Aug. 27 statement. "This new law will protect consumers by imposing aggressive disclosure obligations, supervision requirements, and professional licensing and ethics standards for viatical transaction participants. While allowing legitimate estate planning practices, the law protects our seniors as they deserve."

One of the bill's sponsors, Sen. William Haine, a Democrat, said negotiations on the bill took place over three years.

He said in a statement that the law will protect seniors from falling victim to stranger-originated life insurance (STOLI), but will protect legitimate settlement transactions.

Kramer Decision Could Impact STOLI Cases in New York

A New York federal judge's decision on Tuesday in a $56.2 million stranger-originated life insurance (STOLI) case could have profound consequences for insurers trying to void policies based on insurable interest challenges, according to attorneys with the law firm of **Locke Lord Bissell & Lidell**.

The case in question involves an effort by Alice Kramer of Stamford, Conn., to get $56.2 million in death benefits paid to her. The policies were taken out on her late husband, Arthur, who died in January 2008.

Alice Kramer alleged that the policies, which were put into two trusts, were never ultimately intended for the couple's children named initially as beneficiaries, but were created to benefit "stranger investors" who paid the premiums.

U.S. District Judge Deborah Batts of the U.S. District Court for the Southern District of New York issued a 107-page opinion saying carriers can only challenge alleged STOLI cases after the contestability period if they specifically included provisions in their insurance contracts allowing such insurable interest challenges, according to Brian Casey and Paul Kim, attorneys with Locke Lord Bissell & Liddell in Atlanta.

In New York, the law currently holds that carriers can't contest insurance contracts for any reason after the two-year contestability period has elapsed, the attorneys said. This differs from most states in which challenges for fraud are cut off after the contestable period, but challenges on the basis of insurable interest can be brought at any time.

Kim pointed out that **Phoenix Life Insurance Co.**, which issued one of the policies in the Kramer case, had such provisions allowing for contestability in its contract for misrepresentations. The other carrier, **Lincoln Life & Annuity Co.**, did not. Still, Judge Batts tossed out Phoenix's claim because it did not include enough specificity in its contract and said Phoenix could have inquired about the true beneficiaries if it had wanted to.

"The market value of perceived STOLI policies has increased measurably," Kim said.

As a result of the decision, if it holds up, Casey said he would expect insurance companies to begin filing new insurance contract forms with New York's insurance department with clauses allowing policies to be contested after two years in case of insurable interest violations.

Batts, however, took the unusual step of staying her decision for 10 days to allow an immediate appeal to the 2nd Circuit Court of Appeals in New York.

U.K. Fund May Compensate Keydata Investors

The U.K.'s Financial Services Compensation Scheme said it's investigating whether it can compensate clients of **Keydata Investment Services** for their losses.

Keydata was placed under administration by the Financial Services Authority in June. Approximately 5,500 investors are likely to lose £103 million ($167 million) invested in Keydata life settlement bonds issued by **SLS Capital** of Luxembourg. Administrator PricewaterhouseCoopers said that the policies and cash backing those bonds appear to be missing. Other Keydata investors may face losses because different life settlement bonds they believed to be tax free were determined by the FSA not to qualify for tax exemptions.

The FSCS is a fund established by the U.K. government to compensate investors when a firm is unlikely to pay claims against it. Advisers have been calling for Keydata to be declared in default so that the FSCS can reimburse investors, *Citywire* reported.

The FSCS is specifically looking at whether Keydata can be held legally liable for the losses, the agency said in an Aug. 25 statement. The agency said it would update investors via its website by the end of September.

"We understand the anxiety the delay may be causing investors, but we are working hard to determine the extent of the FSCS's potential involvement (if any) in relation to Keydata," the statement said.

Each investor could receive up to £48,000, comprising 100% for the first £30,000 and 90% of the next £20,000 invested, an FSCS spokeswoman said. The FSCS is funded by fees charged to financial service companies.

In an earlier interview on the BBC program *Money Box*, Dan Schwarzmann of PricewaterhouseCoopers said the SLS Capital policies were liquidated in late 2008. He said the assets no longer exist, "and so the bonds really have no value."

Pete Magowan, founder of the Keydata Victims Action Group, said in an email that he was pleased to hear that the FSCS was progressing with its investigation. "A lot of victims are counting on them to perform their duty," Magowan said.

Magowan will serve on the Keydata Creditors Committee, PricewaterhouseCoopers said on Aug. 25. Other members on the committee are representatives of the U.K.'s tax authority, **Credit Suisse**, and independent financial advisers Geoff Hartnell and John Joseph.

Magowan said his role is to represent the investors "in an effort to peel back the layers of the legal onion surrounding this fraud." As of Aug. 29, the Keydata Victims Action Group represents 220 members with more than £25 million invested, he said.

New York Judge Throws Out Alleged $45M STOLI Case

A federal judge in New York has dismissed an alleged stranger-originated life insurance (STOLI) case brought by a trustee in an action involving $45 million in life insurance policies.

The decision was handed down on Aug. 25 by U.S. District Judge Barbara Jones with the U.S. District Court for the Southern District of New York.

She said that Daniel Bleznak had no standing in the case he filed against **Wells Fargo Bank**, **Lancier Group**, and the law firm of **Alston & Bird**. Bleznak is the trustee and beneficiary of his father Alan D. Bleznak's life insurance trust.

The younger Bleznak alleged that **XE-R New York** schemed to obtain a beneficial ownership in policies on the lives of strangers, violating insurable interest laws, according to the order issued by the judge.

He claimed that XE-R offered nonrecourse loans to elderly people to buy life insurance and then took "a piece of the action" by charging phony fees and commissions.

Bleznak said that his father agreed to buy five policies totaling $45 million in life insurance that was financed by XE-R in 2005.

In addition to borrowing the money from XE-R to pay premiums, Bleznak said servicing agreements with the firm gave it the exclusive right to sell the policies and required the trust to pay a commission upon sale of the policies within five years after the loans were made. He further alleged the trust was required to pay servicing fees for "non-broker services" if the elder Bleznak died before the policies were sold.

The trustee claimed that Wells Fargo was not authorized to enter the service agreements and the service agreements were "grossly unreasonable and unconscionable and that the services to be performed under those agreements were illusory."

XE-R's rights under the service agreements were transferred to Lancier in August 2007, the judge's order noted.

The younger Bleznak said the former successor trustee of the trust, **Meridian Trust Co.**, obtained a broker to sell the policies, a broker who made $400,000 in fees. He charged that Lancier failed to obtain any offers for the policies and thus Meridian had to obtain the broker. But he said Lancier refused to release its lien on the policies until Meridian paid Lancier $1.8 million in commission and fees.

Bleznak claimed in his suit that Wells Fargo breached its fiduciary duty and committed gross negligence, that Lancier breached its contract, and Alston & Bird breached its fiduciary duty.

The defendants said Bleznak couldn't sue them because he had no standing and the judge agreed. She concurred with the defendants that the terms of the trust prevented him from serving as successor trustee.

"The decision shows that a court of law will carefully scrutinize whether a sophisticated trustee who challenges a beneficial life insurance transaction is the proper plaintiff to pursue the case," Peter Bicks, a partner at the law firm of **Orrick, Herrington & Sutcliffe**, who represented Lancier, said in an email.

California Assembly Passes Life Settlement Legislation

The California Assembly passed life settlement legislation on Wednesday that would allow new policies to be settled after two years.

The bill, which previously passed the state Senate, would also establish rules to regulate the market for the first time in California, require licensing of brokers and providers, establish measures to prevent stranger-originated life insurance and set rules on transactions and penalties.

The Assembly approved SB 98 on a 54-0 vote. The bill must now go back to the Senate for concurrence to changes made in the Assembly. Then it will go to Gov. Arnold Schwarzenegger for his signature.

The major change between the Assembly and Senate versions is a provision in the Assembly bill that would require disclosure of the details of compensation paid to brokers in settlement transactions.

The deadline for passage of all bills in the current session of the California Legislature is Sept. 11.

The Assembly Appropriations Committee approved the bill on Aug. 27 on a 17-0 vote.

Although California does not regulate life settlements, it is considered one of the busiest places for sales of policies in the secondary market.

GAO Starting on Life Settlement Study

The U.S. Government Accountability Office has begun work on a wide-ranging study of the life settlement market.

Sen. Herb Kohl, chairman of the U.S. Senate Special Committee on Aging, asked the agency in an April 23 letter to look into the industry because of concerns about life settlements and securitizations for consumers, life insurers and investors. He also asked the GAO to investigate how the settlement and securitization market is regulated.

The aging committee held a hearing on the settlement industry on April 29 that members of the industry felt was biased against them.

"We're in the design phase that will help us identify the objective for the work we will do and give us a gauge on how long it will take," said Orice Williams Brown, a spokeswoman for the GAO.

She said the GAO will talk to regulators and people with varying perspectives.

"When we do an engagement, we cover a wide range of stakeholders," she said. "We reach out to cover as much of the waterfront as possible."

She said she expects the initial design phase of the study to last a good part of the remainder of this year.

The lead investigator for the committee, who has asked not to be named, said the committee also asked the GAO to follow up on oversight, securities and tax issues. In addition, the panel wants the GAO to determine the size of the settlement market, the status of regulation of the industry and the extent to which the Securities and Exchange Commission takes action against market participants.

"They're going to take a look at the STOLI [stranger-originated life insurance] issue," the investigator said. "I think we established at the hearing that it was more widespread than they [settlement representatives] said at the beginning. There is lobbying in many states that allow STOLI to continue."

Settlement market participants contend, however, that they are trying to stop STOLI in their lobbying efforts for new laws in the states as much as the life insurance industry is working toward the same end.

The committee investigator said the GAO plans to put a large team of analysts together from various cities and divisions to work on the study.

"This is not a small effort," he said, adding that team members will be working on other projects as well at the same time.

But the GAO won't be starting without any research. They will be getting the committee staff report and "a ton of background material," the investigator said.

He declined to make that report available to *The Life Settlements Report*.

If the committee decides to hold a follow-up hearing after the study is out, it wouldn't take place before early next year, the investigator said.

"We've given them a fairly wide-ranging and complex assignment," he said.

Cantor Releases New Version of MAPS Portfolio Pricing Software

Cantor Fitzgerald released a new version of its Model Actuarial Pricing Systems software, which is used to value life settlement portfolios.

MAPS Portfolio Edition 4.2's new features include functionality that allows users to add new policies to already created portfolios, and improvements to functions for tracking portfolio expenses and reporting cash flow, Cantor said in a statement.

Cantor purchased the MAPS technology, formerly known as Milliman Pricing Software, from **Milliman Inc.** last year.

Coventry to Expand to Japan and Australia, Report Says

Coventry First plans to open offices in Japan and Australia, *Euromoney Institutional Investor* reported.

The Fort Washington, Pa., provider previously opened offices in London and Hong Kong.

Life Settlement Solutions Offers Portfolio Servicing

Life Settlement Solutions, a San Diego-based provider, said it's begun offering portfolio servicing to the life settlement industry as a whole.

Previously, the firm said it only offered such services to its institutional clients.

Chief executive Larry Simon said in a statement on Aug. 25 that Life Settlement Solutions has seen an increased demand for such services in the last six months. He attributed that to the credit crunch and lengthening of life expectancy estimates, which hurt the tertiary market and caused investors to hold onto portfolios longer than expected.

"Many portfolio owners now recognize the need for high quality servicing to avoid inadvertent or unnecessary lapse of policies and ensure that projected rates of return and other goals are achieved," Simon said in a statement.

Canadian Company Lists Stock on Frankfort Stock Exchange

Shares of Calgary, Canada-based financial service firm **Focused Money Solutions** are now traded on the Frankfurt Stock Exchange.

Trading began on the exchange on Aug. 12 under the symbol "1FS.F." The shares were offered to accredited investors for C$3 (U.S. $2.76) each.

Focused Money launched an open-ended, $50 million debenture offering on Nov. 1 to raise money to buy U.S. life settlements. As of May 31, it had raised more than $8.2 million, according to a private placement memo.

With that money, it has begun building a settlement portfolio, which now holds policies with $12 million in face value that generates about a 17% rate of return, the memo said.

Chief executive Victor DeLaet told *The Life Settlements Report* that Focused Money is also expanding into Europe and plans to form a separate company, **Focus Money International** in Luxembourg. In addition, he said he plans to move the firm's portfolio to Luxembourg because it has a more favorable tax treaty with the U.S. than Canada.

DeLaet said the company also is attempting to develop a securitized bond that will yield 6%. Focused Money is currently in talks about insuring the longevity risk with an A-rated reinsurer that he declined to name.

NASAA Warns Against Life Settlement Scams

The North American Securities Administrators Association is warning investors under pressure from the struggling economy to be on the lookout for investment scams, including life settlement fraud.

The agency's website referred to two recent cases in Idaho and Texas where state authorities are alleging life settlement investment fraud.

"While life settlement transactions have helped some people obtain funds needed for medical expenses and other purposes, those benefits come at a high price for investors, particularly senior citizens," NASAA said in an Aug. 18 statement.

Examples of fraud in the life settlement market include Ponzi schemes, fraudulent life expectancy evaluations, inadequate premium reserves that increase investor costs, and false promises of large profits with minimal risk, NASAA said.

In April, the Texas State Securities Board issued an emergency cease-and-desist order against **The Stamford Group**, accusing the investment firm of misleading statements and fraud. Stamford had allegedly promised investors 12% returns on a portfolio of life settlement policies.

The Idaho Department of Finance said in March that it filed a lawsuit against **North American Capital Trust**, **North American Capital Group**, **Pacific Partners**, **Silverstone Equity Group**, and other defendants. The defendants were said to have raised more than $5 million for life settlement investments promising 10% monthly returns. The Idaho regulators allege that life policies were never purchased and the investment funds were sent to out-of-state promoters who then sent the money to Panama.

Mosaic Caribe Hires Perez as Executive Director

Luis Perez has been promoted to the executive director's position with **Mosaic Caribe**, a life settlement product distribution company based in San Jose, Costa Rica.

Perez, who joined the firm in 2006,

is currently its manager. His promotion to executive director was effective on Tuesday. The executive director position is new.

Mosaic Caribe is looking for someone to fill Perez's manager position as well as staff members to handle sales in new markets, Andrew Murphy, chief operating officer of **Mosaic Management Group**, said in an email. Mosaic Management is based in Boca Raton, Fla., and has the same ownership as Mosaic Caribe.

Mosaic Management provides accounting and banking services for Mosaic Caribe as well as life settlement services such as portfolio management tracking and premium optimization for hedge funds, pension funds and other institutional clients, Murphy said.

Mosaic Caribe sells several products through financial advisers in 29 countries, Murphy said.

ISC Services Hires Vice President and Chief Underwriter

Roger Tafoya is the new vice president and chief underwriter of **ISC Services**, a life expectancy firm based in Clearwater, Fla.

He was hired in May. Tafoya replaces James Setaro who remains at the firm as chief underwriter emeritus, ISC said in a statement.

Tafoya previously was second vice president for individual insurance services and chief underwriter for **Shenandoah Life Insurance Co**. of Roanoke, Va.

New Life Settlements Books Released

Two new books about the longevity risks with life settlements became available for sale this month in the U.S., according to publisher John Wiley & Sons Inc.

Life Markets: Trading Mortality and Longevity Risk with Life Settlements and Linked Securities was authored by Vishaal B. Bhuyan, managing partner of **VB Bhuyan & Co.**, a New York-based advisory firm. The book includes chapters written by other experts in the industry.

Life Settlements and Longevity Structures: Pricing and Risk Management was written by actuary Geoff Chaplin; Jim Aspinwall, adjunct professor of mathematics at Florida Southern College; and Mark Venn, founder of life settlements data management company **Clearlife**.

Actuarial Firm Data Life Expands into Europe

Data Life, an actuarial firm based in Verona, N.J., said it's expanded into Europe by obtaining a client in Luxembourg.

The firm, which offers analysis and management tools for assessing settlement portfolios, is now working with the **European Life Settlements Management Co**.

Family Sues Bank in Stein Fraud Case

A Pittsburgh-area family is suing **Signature Bank** for allegedly allowing hedge fund manager Edward Stein to steal $750,000 of the family's money, *FIN Alternatives* reported.

Stein pleaded guilty in June to securities and wire fraud, according to *FIN Alternatives*. The Securities and Exchange Commission said Stein moved investor money through accounts he controlled without telling investors and lied to them about how he was investing the assets of hedge funds **Gemini Fund I** and **Prima Capital Management**, and life settlements fund **DISP**, the article said. LSR

Items updated this issue appear in blue.

2009 Legislative Activity

State[1]	Bill	Bill Source	Last Action	Date
Alabama	SB 457	NCOIL[2]	In Banking and Insurance Committee.	Mar. 3
Alabama	HB 453	NCOIL	In Banking and Insurance Committee.	Feb. 10
California	SB 98	NCOIL	Passed by California Assembly.	Sept. 2
Florida	SB 1882	NAIC[3] hybrid	In Senate Banking and Insurance Committee.	Mar. 3
Florida	SB 1924	NCOIL amended	In Banking and Insurance Committee.	Mar. 5
Florida	HB 1461	NCOIL amended	Identical to SB 1924; in Insurance, Business and other committees.	Mar. 9
Georgia	SB 61	-	Passed House; sent to governor.	Mar. 26
Hawaii	SB 53 HD1		Senate disagrees with House amendments; House conferees appointed.	Apr. 20
Hawaii	HB 1439	NCOIL	Passed readings in House and Senate.	Mar. 12
Indiana	SB 357	-	Committee on Insurance and Financial Institutions.	Jan. 8
Kentucky	HB 230	-	Carrier disclosures; sent back to House Banking and Insurance Committee.	Mar. 2
Michigan	HB 4890		Five-year waiting period. Referred to Committee on Economic Development and Regulatory Reform.	May 19
Michigan	SB 0646	NCOIL	Referred to Committee on Economic Development and Regulatory Reform.	June 17
Montana	SB 151	NCOIL	Passed House Business and Labor Committee; sent to full House.	Mar. 24
New Hampshire	SB 141	NCOIL	Referred to Senate committee.	Mar. 5
New Hampshire	HB 668	NCOIL	In House committee.	Feb. 17
New Hampshire	HB 660	NAIC	In House committee.	Feb. 17
New York	S3655	-	Passed Senate Insurance Committee.	June 2
New York	A7131	-	Passed Assembly.	June 22
New York	A1873	-	Referrred to Insurance Committee.	Jan. 2
North Dakota	HB 1397	NAIC hybrid	Second reading in House failed.	Feb. 19
North Dakota	HB 1284	NAIC/NCOIL	NCOIL's anti-STOLI rules; NAIC's five-year waiting period. Passed House and sent to governor.	Apr. 13
Rhode Island	SB 229	NCOIL	Passed House. Sent to Senate Corporations Committee.	May 28
Rhode Island	HB 5199	NCOIL	Senate passed Sub A as amended.	June 26
Tennessee	SB 2284	NCOIL	In Commerce Labor and Agriculture Committee.	Mar. 2

Recent Laws Passed

State[1]	Bill	Bill Source	Comments	Signed into Law
Arizona	HB 2513	NCOIL		May 23, 2008
Arkansas	HB 2113	NCOIL	Repeals viatical settlements act. Governor signed into law.	Apr. 3, 2009
Connecticutt	HB 5512	NCOIL; existing law		June 12, 2008
Hawaii	HB 94	NCOIL		June 16, 2008
Idaho	HB 75	NCOIL/NAIC	Leans toward NCOIL, two-year waiting period. Signed by governor.	Apr. 1, 2009
Illinois	FB 2091	NAIC	Governor signed into law.	Aug. 25, 2009.
Indiana	HB 1379	NCOIL	Defines STOLI; gives carriers two years to contest a STOLI.	Mar. 21, 2008
Iowa	SF 2392	NAIC		May 10, 2008
Kansas	HJ 2376 (HB 2110)	NCOIL		Apr. 21, 2008
Kentucky	HB 348	NCOIL		Apr. 9, 2008
Maine	LD 2091	NCOIL	Effective July 1, 2008.	Apr. 2, 2008
Maine	LD 1063	Disclosure bill	Governor signed into law.	June 12, 2009
Minnesota	SF 166	-	Four-year waiting period.	May 9, 2009
Nebraska	LB 853	NAIC/NCOIL		Apr. 17, 2008
Nevada	SB 426		Five-year waiting period.	May 29, 2009
North Dakota	S 2268	NAIC	Five-year waiting period.	Apr. 9, 2007
Ohio	HB 404	NCOIL/NAIC	Two- or five-year waiting period.	June 11, 2008
Oklahoma	SB 1980	NCOIL		May 15, 2008
Oregon	SB 973	NAIC	Five-year waiting period with disclosure amendment.	July 14, 2009
Tennessee	HB 2296	NCOIL		July 8, 2009
Utah	HB 170	NCOIL	Defines STOLI as criminal act. Signed by governor.	Mar. 30, 2009
Washington	SB 5195	NCOIL	Governor signed into law.	Apr. 16, 2009
West Virginia	SB 704	NAIC	Imposes fines and prison sentences on insureds for fraud.	Mar. 13, 2008
Vermont	HB 222	NAIC/NCOIL	NCOIL STOLI definition; five-year waiting period.	June 1, 2009

[1] States and territories not listed have no current legislation. [2] NCOIL: National Conference of Insurance Legislators [3] NAIC: National Association of Insurance Commissioners

Continued from front page

and were forced to order new life expectancy reports. Investors flooded the market with distressed portfolios.

Until it unexpectedly revised its estimates, 21st had been widely considered the provider of the shortest life expectancy reports in the market. This meant that sellers received higher bids for policies if the returns forecast for those policies were based on 21st estimates. But if the estimates were artificially short, as some alleged, it would end up hurting investors in the long run because they would have to pay premiums longer to keep policies in force when insureds didn't die when expected.

Other underwriters in the market followed 21st in the ensuing months and lengthened their own estimates, although not to the same degree as 21st.

To boost the confidence of shellshocked investors, Mike Fasano, president of **Fasano Associates**, predicted during a panel discussion at the Life Settlements Conference 2008 in Las Vegas last September that life expectancy underwriters would reach consensus on a standardized way to measure mortality in a year.

But Fasano, who heads a Washington, D.C.-based life expectancy company, said work is not yet complete on a common table, a key element of a larger best-practices project.

Since the beginning of the year, Fasano has headed a Life Insurance Settlement Association (LISA) task force made up of six life expectancy underwriters. In addition to developing the mortality table, the group is also trying to reach consensus on best practices to guide their profession.

Fasano said he did not know why 21st didn't provide data for the mortality table to the task force's consultant, Steve Boger of **Boger & Associates**. Boger is a former **Milliman** actuary who now runs his own firm near Chicago.

Repeated telephone calls and emails to 21st executives from *The Life Settlements Report* seeking comment were not returned.

"I wrote an eight-page document describing the method I planned to follow," Boger said. "I sent emails to them [21st] on the 13th of May, the 27th of May and the 5th of June. I never got an email, a phone call, or a care package."

He said he wrote to Vince Granieri, chief actuary with 21st , trying to get a response.

"I understand you are the biggest doubter of the propriety of using the 2008 VBT [Valuation Basic Table] in any way to derive the standard table for calculating A-to-E studies," Boger's letter said. "I think that is a very important and valuable perspective, but so far that is all that I am hearing; that you are reluctant at best, unwilling in the extreme."

Boger said Granieri wrote to him in April when the project to develop a common table was early in the process. Granieri said "he thought the industry should be using his table because they had done a lot of work on it" and that his competitors should share in the costs of development of the 21st table, according to Boger.

Boger said that was "a non-starter."

"The idea that the underwriters would buy his table from him is ludicrous," Boger said. "The committee had already told him they weren't going to do that."

Fasano said that agreement has been reached in six key areas on best practices for life expectancy underwriters.

But he said the new table, completed without 21st data, is still undergoing review by the task force and he could not predict when it would be done.

Fasano said that it's essential for the group to come to some consensus because "if you don't use the same table, you can't compare one report to the other."

The common table will provide useful information to life settlement investors on the pattern of life settlement mortality as a whole, Fasano said. It will also provide a common measurement of mortality that can be used to compare actual-to-expected experience of one underwriter to another on "an apple-to-apple basis."

The table, actually a set of four tables, was developed by Boger.

The table is based on five years of data provided by four of the six underwriters participating in the task force. He created separate tables for life expectancy experience for women, men, smokers and non-smokers based on rates of death per 1,000 people. The table is a blend of underwriter mortality experience and data from the 2008 VBT, Boger said.

Fasano said he believes the table still will be valid, despite the lack of participation by 21st.

A second underwriter, **Advanced Underwriting Solutions**, which is one of the newest entrants in the business, also didn't supply any data for the table because the firm hasn't collected enough of it yet.

"We needed a certain critical mass and we got that," Fasano said. "If you get two-thirds to share, that's a big success. I consider it a huge positive."

As to Boger's view on the lack of participation by 21st, he said in an email: "You work with what you've got."

Other firms that are part of the task force besides Fasano Associates, 21st Services and Advanced Underwriting Solutions are **AVS Underwriting**, **Insurance Strategies Services** and **Examination Management Services Inc**.

Boger said that if the task force reaches agreement on the table, it would hopefully be updated every one to two years.

Best Practices

The life expectancy group has been able to develop consensus in other areas, Fasano said.

"We made what I thought was really good progress on best practices," he said. "I think the point was to help create investor confidence in the life expectancy process and to provide for more transparency than there has been."

Among the best practices agreed to so far:

- Life expectancy providers should hire independent actuaries to conduct actual-to-expected analyses at least once every three years.
- Life expectancy providers would make actual-to-expected analyses available to investors and prospective investors.
- At least one set of results should be presented in a "claims triangle" format that shows life expectancy results by both calendar year and year of underwriting.
- Life expectancy results should include the number of cases each year so their significance can be determined.
- Incurred but not reported deaths should be presented so that investors can make their own assumptions about them.
- At least one set of results should be based on an agreed upon common table that would be available publicly.

Some market players said it was disappointing that 21st didn't share its data for the table.

"I think it's very disappointing," said Nik Volkov, chief financial officer for **Milestone Managers & Providers**, a Manheim, Pa.-based provider "They were all sitting on the stage in Las Vegas and they all agreed to come up with this new table. I think it's very disappointing that all the life expectancy participants are not on the same page and willing to participate."

Volkov said, however, that he believes the table still will be useful.

In the last year since 21st disrupted the market, some of its market share appears to have shifted to AVS and Fasano, Volkov said.

He said he believes that 21st is concentrating its effort more on providing estimates to estate planners.

Before 21st shocked the market by extending its table, the firm and AVS had been the top two life expectancy firms as far as the amount of life expectancy reports they did, according to market players.

In addition, in the last six months to a year, Volkov said funders have gotten more sophisticated at calculating life expectancies by using their own actual-to-experience on specific impairments in conjunction with estimates from life expectancy providers

Steve Washington, a representative of the Life Settlement Institute, which represents providers, said if the life expectancy providers don't develop their own standards they risk having regulators impose standards on them.

He said this issue came up last year when Ohio's legislature was considering licensing life expectancy providers, a step that ultimately wasn't taken. Only Florida regulates life expectancy providers, requiring them to register with the state and submit actual-to-expected analyses every three years.

"I think that's a continuing risk," Washington said. "Just because Ohio didn't succeed doesn't mean another state might not."

If the life expectancy underwriters come up with a set of standards, it will act as a seal of approval and help investors pick life expectancy underwriters, he said.

Bad actors or those who don't adhere to the standards will have to explain why they're not following them, he said.

"This will help or hinder the growth of the market," Washington said. "We're at an evolutionary point in the market, where the providers should develop standards." LSR

Senior Editor Donna Horowitz may be reached at donna@dealflowmedia.com.

Continued from front page

for losses that Goshawk suffered because of life expectancy estimates that were alleged to be inaccurate. That case is still pending. Attorneys with law firm **Chadbourne & Parke**, which represents Goshawk, declined to comment.

Lloyd's stopped taking new risk for the syndicate in 2003. In 2005, the U.K.'s Financial Services Authority fined Goshawk for "systems and control failures primarily relating to its management of third party underwriting agreements," the agency said in a statement.

Canadian investment firm **Universal Settlements International** sought court protection from creditors in 2008 after it ran into financial troubles when insured people did not die as early as expected and its reinsurer, Italian company **San Remo SpA**, went out of business, Universal claimed in court documents.

Since then, availability of coverage has been scarce. Coverage hasn't been discussed with Canadian ratings firm DBRS as it's reviewed life settlement pools for ratings, said David Hartung, senior vice president of asset-backed securities. Investors have instead resorted to synthetic instruments such as longevity swaps to try to hedge risk in settlement portfolios. But derivatives have a bad name right now, and insurance seems like a safer hedging tool, Williams said.

"I think to some, buying an insurance policy from a regulated insurer may be preferable than entering into an unregulated derivative contract, even though substantively they may provide the same or similar protection," Williams said in the email.

Covering the Market

But the market seems to be opening up to providing life expectancy risk insurance. **Risk Capital Partners**, a specialty insurer based in New York, and **INNOVA Insurance Ltd.** in Bermuda both recently started selling this coverage and are in the process of closing their first deals.

"We believe it is going to be a necessary component to any securitizations," said INNOVA CEO Thomas C. Williams (no relation to Nick Williams). He said life extension insurance answers the questions, "When will I be able to stop writing checks for premiums?" and, "When do I get my money back?"

INNOVA, founded in 2004, has found support from insurance brokerage **Aon Benfield**, which will be finding private equity sources familiar with investing in the life settlement market to invest in INNOVA, said Tom Williams and underwriter Rogan Dwyer. The company is in negotiations with financial institutions that want to participate in the risk, similar to insurance captives, Williams said.

INNOVA is in the process of getting a public credit rating in the U.K. through Standard & Poor's and Moody's Investors Service. Once the company is rated, it hopes to insure settlements of at least $1 billion to $2 billion, Williams said. He said that INNOVA has the capacity to cover even more. The company plans to warehouse the risk until it is seasoned and then to resell it to investors, Williams said.

INNOVA is licensed to sell insurance now, Tom Williams said. The company has not sold any coverage yet, but he said it has applications pending. He said INNOVA is asking for commitments from settlement companies of at least $20 million in death benefits. But most of the deals that INNOVA is seeing are worth $100 million or more, Williams said.

INNOVA has tried to learn from Goshawk's mistakes, Williams said. He said the company does not rely as heavily on life expectancy providers as it also considers the cost component of policies. For example, some policy premium payments increase more sharply than others.

"We look at the escalation inside the cost of the policy as an important factor," he said.

INNOVA offers to pay 80% of the death benefit. Dwyer said INNOVA will quote coverage premiums on each policy as they each have a different measurement date. The standard rate is 5% of face value.

Risk Capital Partners found a European reinsurer that is willing to underwrite longevity risk for life settlements about six months ago, said Managing Director Nemo Perera. Risk Capital plans to finalize its first policy within the next month, Managing Director Chris DeSilva said.

Risk Capital Partners is a 10-year-old firm that has provided specialty life insurance-related risk coverage. That has included policies for life settlement investors, insuring against insurable interest risk. Perera said he has long sought a credible carrier willing to back life expectancy risk. With the help of a broker partner in Europe, they found a 100-year-old insurance firm rated "A-" by S&P that he declined to name. Risk Capital Partners' overall capacity for this coverage is $3 billion in face value.

Risk Capital Partners' insurance will cover life expectancy plus one year, which is what rating agencies are asking for, Perera said. The premiums will depend on the individual life insurance policy and the investor's intent (if the policies will be part of a rated bond or held in a portfolio, for example). But in general, the premiums are approximately 8% of face value.

Risk and Returns

Quality Investments claims to be the only European provider that can currently offer insured settlements. The Amsterdam-based company purchased $160 million worth of death benefits last year, said founder Frank Laan.

"The reinsurance is the main selling point we have," spokeswoman Minke Besseling said. "We can guarantee the life expectancy as well."

Laan said he started buying life extension risk insurance for the policies his firm purchases in 2004. He said the coverage is obtained from a U.S.-based insurance company that he declined to name. The risk is then resold to reinsurers. He said each policy is covered by five or more reinsurance firms. Life expectancy insurance premiums run 10% to 12% of the life insurance policy's face value, he said.

The reinsurance provider conducts its own underwriting on the policy, which provides for a second opinion on the extension risk. Quality Investments does not purchase a policy until it is approved by the reinsurer.

Although Quality Investments has had this coverage in place for five years, Laan said he just recently made his first claim and expects to be paid by mid-September. Lately, payouts have been earlier than expected on the firm's policies. A normal return on investment is 11%, but it is currently 17% net, he said.

Victor DeLaet, CEO of Calgary-based **Focused Money Solutions**, is relying on insurance coverage as part of his fund's plan to get a public rating for a securitized 10-year bond to be sold to institutional investors. DeLaet said he is trying to achieve returns of 5% to 6%, a more conservative rate of return compared to unrated deals in exchange for reduced risk.

"We couldn't get a rating without a strong reinsurer" guaranteeing payouts, DeLaet said.

Focused Money is trying to build portfolios with face values of $50 million to be resold to investors. He said the company has one portfolio worth approximately $49 million and has started another one with $18 million in face value currently.

DeLaet said it has been difficult to find reinsurers. He is in preliminary talks with an insurance company other than INNOVA that he declined to name. But he said he is expecting insurance rates to be 5% to 7% of face value. That will cut into expected individual returns by an estimated 1% to 2%, he said.

"If it were one to two percent off the yields, to me that sounds cheap," said Ian Cotgias, senior actuary at U.K.-

based **Surrenda-link Investment Management**.

Cotgias said he has approached reinsurance companies for life expectancy risk policies. But the two problems he runs into are that either the coverage is too expensive or the credibility of the insurance company is questionable. In most instances, the companies are small reinsurance boutiques with small amounts of capital behind them, he said.

"I've spoken to several companies," Cotgias said. "There are companies looking at the space, but they are not comfortable stepping in."

Cotgias said that for reinsurers, longevity insurance for life settlements is a "drop in the ocean," which requires a lot of analysis for little profit. He said he thinks that the industry will continue to see boutique outfits acting as specialists.

In addition to INNOVA, there is another group in the Cayman Islands offering coverage, Cotgias said, and he's spoken to U.S. and European institutions. He said the structure of European insurers is more of a risk-sharing model. If people die sooner, the insurers participate in the upside, and if people die late, the insurers take most of the downside.

Perera and DeSilva agreed that they have found other life expectancy risk insurance companies to be "suspect."

DeSilva said these companies offer "attractive pricing to get money in the door today, without taking consideration of claims to be paid in the future."

Phil Loy, managing partner of American Viatical Services, said Goshawk was never a client of AVS. He said Goshawk had no competitors at the time because, "they did not price it appropriately for the risk they were taking."

However, by pricing the coverage low, the Lloyd's syndicate set expectations resulting in a "disconnect of what people want to pay and what people want to charge," Loy said. LSR

Maria Brosnan Liebel may be reached at maria@dealflowmedia.com.

Have news that may be of interest to readers? Please e-mail us at editor@dealflowmedia.com