



## Market Issues and Economic Recovery

### The 2009 Stimulus Package

The current administration has established an \$800 billion stimulus package (with more expected) to try and revive the current economy by repairing the credit markets, fixing the housing crisis, and increasing consumer confidence, thereby inducing consumer spending.

Will the stimulus package avert a depression and stem unemployment, or will the debt load only make things worse?

Most economists agree that last year's stimulus failed to stimulate the economy because most consumers used the money to pay off debt or opted to hold it. Why might this stimulus be different?

Assuming the stimulus package will have a positive effect on the economy, what will provide evidence of recovery? When will we see this evidence?

How are business leaders reacting to the stimulus and how will they change business models to survive and grow?

### Bank Bailout

In the wake of the AIG/Lehman Brothers crisis, Congress enacted a bill to give the Treasury \$700 billion to shore up the credit and commercial paper markets and to increase bank lending.

Has this effort been successful? Would the economy have been better off without it?

How might the investment in national banks ultimately benefit U.S. taxpayers?

Despite the large infusion of capital, bank lending remains lower than prior to the recession. Should the government set lending standards for banks and thus force lending? What about banks, such as BOA, that were pressured into accepting government funds?

Some argue that the bank bailout has created "zombie" banks that are only kept alive by government funds. Should these banks be allowed to fail?

On March 23rd, the Treasury Department unveiled its "Public Private Investment Plan" to deal with toxic assets weighing on banks' balance sheets. The plan calls for the federal government to work with private investors to restart the market for troubled mortgage loans and securities, which officials hope will improve the financial condition of the banks. What are the real costs of this program? By getting involved with these toxic assets, is the government passing more risk on to the taxpayers? Conversely, would letting these illiquid assets remain on the banks' balance sheets prolong the financial crisis?

### Economic Recovery

Many economists believe that rising unemployment and continued economic weakness makes it unlikely that spending will improve much, if any, in the months ahead. Some see this trend extending for several years. Consumers are expected to face much weaker income growth over the foreseeable months and perhaps years, and firms are expected to continue cutting payrolls in an effort to contain costs. Rising unemployment is expected to keep consumer confidence close to historic lows, leading to even more conservative consumer behavior and therefore slow spending.

Will the current government initiatives eventually lead to economic recovery? When?

When might layoffs begin to subside?

Is government stimulus enough or must private capital also be re-energized and redeployed into investments to enable the economy to recover?

What actions should be taken to restore normalcy to the housing market?

Should the government intervene and offer greater assistance to home-owners?

Would this push prices to artificial highs and create greater problems?



## Market Issues and Economic Recovery continued

### Nationalization vs. Private Entities

Fanny Mae, Freddie Mac, and AIG, once public companies, are now owned by the government. Shareholders of Bear Sterns and Lehman Brothers have been wiped out, and many investors are concerned that CitiGroup may be next. The Fed has given mixed signals about its intentions regarding nationalization. This ambiguity has kept substantial investor capital on the sidelines.

Would the partial nationalization of AIG and CitiGroup prevent systemic damage that would lead to their collapse? Would partial nationalization of these firms benefit consumers? (AIG reported a \$62 billion net loss for the fourth quarter of 2008 and also has announced major changes in financing arrangements.) To what extent might the recent FASB change from mark-to-market to alternative valuation methods provide relief to these firms and other firms, thus reducing the need for nationalization steps?

Is nationalization a tenet that can succeed in a private capital-based economy? Will private capital compete or withdraw if nationalization expands and permeates?

How will nationalized business models differ from capitalistic business models?

As recently as last summer, the Federal Reserve's stance on the deteriorating economic conditions was that the private sector needed to solve the problem. But when troubles arose from AIG and government sponsored enterprises (GSEs), the government's response was to virtually wipe out shareholder equity holdings. Was this line of action right or wrong? Has it exacerbated economic conditions? Has it increased investor fear of future equity dilutions and reluctance to invest in equity positions?

### Credit Default Swaps (CDSs)

CDSs are a financial instrument initially designed to protect holders of corporate debt. Swaps are similar to private insurance contracts between two parties to protect lenders from borrowers defaulting on their obligations. Investors were eager to use CDSs to hedge sub-prime positions, and firms like AIG were eager to write as many contracts as possible, betting they would never have to pay out against these contracts. To put this in perspective, life insurance is a \$22 trillion industry, but at its height the amount of outstanding credit default swaps was between \$50 and \$80 trillion. While these instruments behave like insurance, they haven't been regulated as insurance and many investors have used them as a speculative instrument instead of risk protection. This was all predicated on the false notion that the housing market would continue to expand and default rates would remain constant.

Financial institutions successfully campaigned for CDSs to be classified as swap contracts instead of as insurance. With no oversight, the CDS market was allowed to swell into a vast, unchecked industry. In the aftermath of its collapse, government officials are exploring ways to regulate this market, and private exchanges such as the Atlanta-based ICE are trying to establish a clearing house for such trades. An increased regulatory environment is starting to take shape, but there is much more work to be done. What does the future hold for CDSs? What sort of government regulations should be enacted? Should there be a central clearing house for the global CDS market? Is that a realistic possibility?

Because it was not required to have a stake in the underlying asset, people were allowed to invest in CDSs on pure speculation. In and of itself this is not troubling, but the abundance of short-selling caused tremendous havoc in world financial markets. Large investors could easily purchase credit default swaps and then short the paper. Essentially, the downward price movements resulting from the short-sales would trigger payouts on the CDSs. This was the equivalent of purchasing an insurance contract on your neighbor's house and then committing arson. Should future regulation contain a clause where the investor is required to hold an interest in the underlying asset?

Many of AIG's problems are the result of not holding capital in reserve to cover potential payouts. Like many sub-prime investors, AIG never believed that the housing market would crumble as it did; thus, they did not hold sufficient capital in reserve, believing they would never have to pay out on such contracts. When future regulation is enacted, what sort of reserve requirements should be put into place?



## Market Issues and Economic Recovery continued

### Collateralized Debt Obligations (CDOs)

CDOs, a derivative of asset-backed securities, arose in the late 1990s to serve investors in search of non-traditional risk. CDOs hold assets as collateral and package the cash flows to investors. CDOs contain multiple tranches of cash flow with varying levels of risk. With the help of rating agencies, CDO issuers were able to package non-investment grade assets into AAA debt. This AAA rating was the heart of the troubles because the CDO structures were so complex that there was no transparency to the underlying assets. Investors increasingly relied on credit rating agencies to provide an assessment of risk when the accuracy of this assessment was rapidly decreasing.

How were the CDO issuers able to package sub-investment grade assets into AAA debt?

How were investment bankers able to game the system by manipulating rating models?

What increased regulation for CDOs is needed?

How did the risk management practices for CDOs deteriorate over time?

Essentially, the government outsourced the regulatory functions to the credit rating agencies. However, the credit rating agencies were not in a position to serve as regulators due to conflicts of interest between the agencies and investment banks. What role should the government play in the future of CDO regulation?

What role should credit rating agencies play in the future?

Should the structure of present-day CDOs be changed to provide a higher certainty of expected cash flows?

What tools should be put into place to allow investors to gain a better understanding of the underlying risk?

Should banks remain accountable for loans they approve and sell to investors?

What economics do CDOs add to the financial and capital markets? Is there a space for CDOs in the future of structured finance, or is this derivative too far removed from the underlying asset to remain a viable investment vehicle?

### Global Financial Regulation

Prime Minister Brown from England has proposed establishing global financial regulations. Late last year Prime Minister Brown called for “a new Bretton Woods – a new financial architecture for the years ahead,” evoking the New Hampshire site where, in 1944, American and British officials mapped out the post-World War II economic order. However, these efforts have been coupled with pleas by the U.S. and Britain for further global fiscal stimulus. Nations such as France and Germany strongly oppose stimulus packages that require increased spending while they, along with China, seek greater influence in world monetary and trading policies.

Are calls for a global stimulus package undermining efforts to establish global financial regulation?

Is financial regulation on a global scale needed?

Is it possible to rebuild a global financial architecture when countries around the world are struggling to address their own growing economic concerns?

Is it possible to transcend cultural differences in order to establish a set of rules and guidelines needed to regulate the global financial system?

How might this be accomplished?

What might be the ramifications of such a global initiative?

Would this add burden to and perhaps stifle financial systems within the U.S.?



## Insurer Capitalization and Regulation

### Insurers Seek Federal Aid

The U.S. Treasury Department gave authorization for the inclusion of life insurers in the Troubled Asset Relief Program (TARP). However, money from the federal government will not come without a price. Congress may demand greater influence in how insurance is regulated and could impose restrictions on how the money can be spent and repaid.

Who will benefit from insurance carriers' participation in TARP? Will the consumers or the investors see more advantage from this development?

Will increased regulation strengthen or weaken insurance carriers?

If an insurer accepts a material amount of TARP money, how will this affect its credit rating and its appeal to investors? What are the benefits of insurance carriers' participation in TARP?

### Reserve Requirements

The ALCI, an insurance industry trade group, has been pushing for regulation that would lower the capital requirements for life insurance reserves. While such a move could provide relief during difficult financial times, it also raises consumer protection issues. State insurance regulators voted down proposals to ease reserve and capital requirements after a firestorm of criticism from consumer advocates. This is an important issue for both the life insurance secondary market and for the life insurance industry.

Are current life insurance reserve requirements appropriate or too conservative?

Is principle-based reserving an appropriate alternative?

Should consumers be wary of the insurance industry's efforts to ease reserve requirements?

Financial institutions, insurance companies included, are taking huge investment losses on their portfolios. Do these losses impact the insurers' ability to satisfy claim obligations?

### Accounting for Reserve Requirements

Many states are allowing life insurance carriers to utilize nonstandard accounting practices to value their reserves. This exception has led many to question the validity of some carriers' reserves.

Even though these exceptions are intended to be temporary, is such special treatment wise or will it cause more problems in the future?

If current life insurance reserves are adequate, as many claim, then why are some states granting special accounting treatment to some insurers?

What differences have these "enhancements" made? Should others be granted such changes on a selective basis, or do these exceptions defeat the very purpose of reserve requirements?

How does this affect the comparability of financial statements, knowing that special treatment will vary from state to state?



## Insurer Capitalization and Regulation continued

### Variable Annuities

Increased competition led to insurers adding more guaranteed benefits for variable annuity products. However, reserves for guaranteed portions have largely been underfunded by many carriers. This is because the declining equity market has seriously eroded investment returns, and many insurers need to raise additional capital to cover payouts to customers who were given minimum-return guarantees.

Will the general funds of insurance carriers be able to cover variable annuity losses?

What are the consequences if the reserves are insufficient to satisfy future annuity benefits?

Should the federal government guarantee variable annuities?

How will the declining equity market affect Hartford and Prudential, two of the largest issuers of variable annuities?

### Federal Guarantee of Life Insurance and Annuities

Foreign investors are asking, “Who guarantees policy death benefits?” Some have suggested the formation of a federal body similar to the FDIC; other options include the nationalization of insurance carriers.

Should the federal government guarantee life insurance policies? Via what structure?

If the federal government guarantees a life insurance policy, how might this affect selling such a policy in the LISM? Should the federal government guarantee policies owned by investors?

Would nationalization effectively establish a guarantee resource for life insurance policies?

### Credit Rating Downgrades

During the first half of February, 2009, rating agencies announced reviews and changes concerning many major life insurers. Investors are facing declining market values along with the lack of flexibility caused by tight capital. Fitch Ratings predicts that the broad, shallow downward activity will continue throughout the year.

What will be the impact of credit rating downgrades for the insurance industry?

Will government aid programs such as TARP reduce the need for further downgrades?

With variable annuity capital market exposure driving down credit ratings, will issuers be forced to increase reserves? Do they have enough capital to do so? Will they be able to raise the necessary capital if required to do so?

How is the insurance industry faring compared to other financial sectors?



## Insurer Capitalization and Regulation continued

### Credit Rating Agencies

Credit rating agencies, which analyze the risk of institutions that issue bonds and other financial instruments including CDOs and CDSs, have come under fire for failing to appropriately inform investors about the risks associated with sub-prime mortgage assets.

How can assets with sub-investment grade ratings be packaged together to receive a AAA rating?

Much of the criticism levied at these agencies is attributed to the alleged conflict of interest embedded in the credit rating agency business model, e.g., Warren Buffet's 20% stake in Moody's. How can this conflict be mitigated to ensure fair and accurate representation and ratings?

Should credit rating agencies be forced to divest lines of business where there are conflicts of interest, much like accounting firms were forced to separate audit and consulting or investment banks were forced to separate research and advisory?

Should regulators set standards and best practices for credit rating agencies?

The NAIC is planning on creating its own NRSRO (Nationally Recognized Statistical Rating Organization). If NAIC does this, how would it benefit investors?

How might credit ratings be insured? Should they be insured?

### Insurer Transparency

Approximately one in ten life insurance policies ever pay out a death benefit. Between 6% and 7% of all individual life insurance policies lapse or are surrendered annually. With roughly \$10.7 trillion of outstanding individual life insurance policies, this represents over \$700 billion of death benefits. In 2007, life settlements totaled \$12.5 billion, which represents merely 1.8% of the total value of lapsed and surrendered policies. Total lapses and surrenders include all ages while life settlements only represent age 65 and older, thus the \$12.5 billion of life settlements represent a larger percentage of lapses and surrenders for people age 65 and older.

Should insurers be required to provide disclosure of life settlement options to seniors who seek to lapse or surrender their policies?

Some insurers are concerned that agents will sell new policies and be paid a healthy commission, and then sell the policy as a life settlement two years later to make another commission. Should insurers disclose to policyholders agent commissions paid on new and converted policies?

Should insurers utilize lapse-based pricing?



## Legislation and Regulation

### Legislative Developments

What legislative developments affecting the LISM are in store for 2009 and beyond?

Will legislative rulings be affected by budget shortfalls of the federal and state governments?

How will formulation of federal charters and regulations affect advancement of state legislative efforts?

What changes should be made in regulations?

What life settlement transaction information should be disclosed to policy sellers?

Should insurers be required to provide disclosure of life settlement options to seniors who may wish to lapse or surrender their policies?

### U.S. Senate Committee Plans to Hold Spring Hearing on Settlements

The U.S. Senate Special Committee on Aging plans to hold a hearing this spring on the life settlement industry. The committee wishes to learn more about tax ramifications for investors involved in the market, commissions charged by brokers, regulatory issues, and the clashes between the life insurance and life settlement industries. STOLI will also be a topic of discussion.

Will this result in advances or setbacks for either life insurance carriers or the LISM?

What benefits will this hearing provide for senior consumers? Will it increase consumer awareness of the LISM?

What are the possible outcomes of such a hearing - federal regulations, federal charters, nationalization?

How can this lead to greater cooperation between insurers and the LISM?

### Optional Federal Charter and Federal Life Insurance Regulations

The debate of state regulation vs. federal regulation is intensifying. Even the chairman of the Federal Reserve, Ben Bernanke, has weighed in on the issue, telling House members that it would be a "useful idea" to create a federal charter option for insurance companies, "particularly for large, systemically critical insurance companies."

Many national insurance carriers have received, or plan to receive, federal funds to shore up their balance sheets. Will this ultimately increase support for an Optional Federal Charter or federal life insurer regulations? Will these developments take the industry closer to nationalization?

How might a federal charter and/or regulations change requirements for insurance carrier reserves?

How are state regulators likely to respond?

Should state governments oppose federal charters, considering that insurance is a valuable source of state revenue?

Overall, how could federal charters and/or regulation result in benefits to consumers?

If the federal government guarantees a life insurance policy, how might that affect selling such a policy in the LISM?

How would federal charters and/or regulations affect the LISM?



## Legislation and Regulation continued

### **Nationalized Health Care**

Nationalized health care has become a major social issue on the Democratic Party's agenda, and now that they have significant influence in both the Executive and Legislative branches, movement toward a nationalized health care systems seem certain.

How can nationalized health care be successful considering the current state of the economy?

What characteristics should a nationalized U.S. health care system include?

Would seniors benefit from or be hurt by such a move?

What would be the impact on businesses selling health care benefits?

What would be the impact on businesses providing health care services?



## Social Issues Regarding Seniors

### **Social Value of Life Settlements**

Last fall, FINRA issued a warning to seniors to be careful about selling their life insurance policies during times of economic hardship. However, many industry participants claim that life settlements offer seniors a material value by allowing them to realize an economic gain from their life insurance assets.

What social benefits do life settlements provide?

What ethical considerations are involved?

Are life settlements a predatory practice during times of economic hardship, such as now?

What regulatory changes should be made to protect seniors?

What life settlement transaction information should be disclosed to policy sellers?

Should insurers provide disclosure of life settlement options to seniors who may wish to lapse or surrender their policies?

### **Income/Asset Recovery for Seniors**

Many seniors' retirement assets have been impaired by the current economic crisis.

What options do seniors have to satisfy their monetary needs?

Should life settlements be an option? If not, why not?

What can governments, associations, media, institutions, and LISM stakeholders do to expand knowledge and understanding of the LISM among seniors? Who should be obligated to do so?

### **Longer Lives and Decreased Saving for Retirement**

77 million baby boomers are on the verge of retirement. Baby boomers, who are likely to live longer than their parents, have been largely unconcerned about retirement planning. The current financial crisis has only exacerbated this matter. The model for life after 50 must evolve to fit the needs imposed by the current economic environment. Seniors will need employment to supplement their retirement savings, and the business community will increasingly rely on seniors to suit employment needs.

How will the retirement lifestyle of baby boomers compare to generations past?

What sort of innovative financial planning solutions will be conceived for seniors delaying retirement or reentering the workplace?

In what ways should the government step in and address the situation?

Should employers change compensation packages to induce older workers to stay in the work place?

### **Long-Term Care Funding**

The cost of LTC has been steadily increasing, making it difficult for many seniors to maintain the financial resources needed to pay for such services.

How can seniors monetize assets and create new funds to pay for LTC?

Should life settlements be an option?

How should LTC costs be managed relative to other retirement planning obligations?

### **Retiree Financial Needs vs. Insurer Profits**

Insurers have asserted that the LISM undermines their profits by reducing windfalls from policy lapses. Some legislators seem inclined to protect such profits, and the current economic instability of insurers heightens such concerns.

However, seniors have major investments in life insurance policies and annuity contracts and need the liquidity that can be provided by life settlements.

Within the broader scheme of economic recovery and senior funding, are protection of seniors' asset values and the monetization of such assets more or less important than the protection of insurers' financial stability?

If more important, how should the need for such protection be communicated to legislators, insurers, economists, President Obama, and others?

If less important, how can seniors realize the market value of their life insurance policies? In the hypothetical absence of the LISM, should legislators require insurers to develop arrangements to pay such value? Can legislators require insurers to inform policyholders about the LISM and the financial opportunities that it may offer?



## Secondary Market Investing

### Product Innovations

As the tertiary market for life settlements develops there are multiple investment vehicles. Examples include:

Fractional interests in life insurance policies, offered by Life Partners, Inc.

LifeNotes, offered by GWG Life

AAP Life Settlement Index, offered by AA-Partners, Ltd. in Switzerland

Policy Put Option (PPO), offered by Senior Settlements, LLC

ARM Guaranteed Income Fund, offered by Guernsey-based Catalyst Investment Group

PolicyValue loans, offered by Legacy Funding Group, Inc.

Synthetic life settlement contracts for the investor seeking pure speculation in mortalities, offered by Deutsche Bank

Proprietary index-based investment structures, offered by Credit Suisse, Swiss Re, and Goldman Sachs

Purchasing of few select whole policies or developing comprehensive proprietary portfolios to hold to maturity or for resale

Purchasing of whole portfolios that have become distressed

Stock ownership in industry stakeholders

Foreign mutual funds such as EEA Life Settlements Fund in Guernsey (none exist yet in the U.S.)

What types of investment vehicles are appropriate or inappropriate for investors? Does it vary depending on the type of investment?

What are the similarities and dissimilarities between a life settlement note and life settlement fund?

What problems or concerns exist with the selling of fractional policies?

How much transparency should be provided to the investor in terms of reporting and investment structure?

What issues are associated with investing in a foreign life settlement firm?

### Insurers Enter the Life Insurance Secondary Market

Three major life insurers have entered the LISM since 2007 and several others are considering entry. On a macro level, life insurance carriers generally oppose life settlements and have attempted to persuade regulators to pass legislation unfavorable for life settlements. However, these same life insurers apparently see opportunities in life settlements for un-correlated returns and an ability to serve as a hedge against existing life insurance portfolios. Will other carriers follow suit?

What financial benefits can insurers expect by joining the LISM?

What advantages does insurer presence give (1) to the LISM, and (2) to consumers?

What disadvantages does insurer presence give (1) to the LISM, and (2) to consumers?

Would non-insurer LISM stakeholders partnering with insurers be a benefit or detriment to the LISM?

If insurers become a major presence in the LISM, how might that affect LISM regulation?

### Capital Market Issues

With the retrenchment of capital last summer and the current economic crisis, what stimuli can be created to persuade investment capital to come back to the LISM?

What is needed to induce investment capital back into the LISM?

Has capital withdrawn solely in response to economic downturn or are there other factors involved?

To what extent is it valid to claim that life insurance policies acquired via life settlements are an uncorrelated asset, and to what extent is this claim a valid reason for investors to allocate capital to life insurance investments?



## Secondary Market Investing continued

### Life Settlement Securitization

The maturation of the LISM has come a long way, but the tertiary market is still largely underdeveloped. This is likely to change over the next several years as more providers attempt to securitize their portfolios.

What is the future of life settlement securitization and capital market investment?

Is life settlement securitization important? To whom?

How would securitization affect investors?

### Sales Process for a Life Settlement-Backed Note

A life settlement-backed note is a fixed-income product, but should it be sold as such? Life settlement-backed notes can offer returns commensurate with equities but are structured as fixed-income securities. Investors typically have a fixed allocation between fixed-income assets and equities. Where do life settlement-backed notes fall in this allocation? Is it possible for a note to be categorized as both?

How should life settlement-backed notes be compared to other asset-backed securities?

How should life settlement-backed notes be compared to other fixed-income securities such as municipal or corporate bonds?

How do the risks of a life settlement-backed note compare to a corporate bond?

Are life settlements non-correlated to traditional investment assets, or do they merely have a low correlation to these assets?

What types of risks should be disclosed to potential investors?

### Synthetics

Many claim that the development of a synthetic market leads to a greater maturation of the cash market. This is based on the notion that synthetics bring more investor capital into the market space, which in turn increases the liquidity of the cash market.

Why would synthetic markets lead to maturation?

Some say synthetics are simply credit swaps (derivatives) that contribute no real asset value. Are such synthetics another speculation that can lead to meaningless asset statements?

Does the LISM need a synthetic market to aid the industry's maturation, or are there other underlying issues involved? One such issue is the ethical concern over gambling on a person's life when no social utility is provided to the senior through a synthetic transaction.

How should synthetics be regulated?



## Secondary Market Investing continued

### Portfolio Rescue Funds

As changes in life expectancies and the instability of the economy put investors under pressure to raise cash, owners of distressed portfolios of life settlements are increasingly shopping their portfolios. The market for distressed portfolios started heating up last summer, but took off in earnest at the end of 2008 and is expected to remain active possibly through 2009.

What is the strategy of such rescues?

How should such rescues be structured?

How prevalent will this market be in 2009, and what is the investor appetite for distressed portfolios?

What impact does the rescue market have on ongoing LISM businesses and other non-stressed LISM investments?

### Life Insurance Policy Portfolio Management

A portfolio of settled life insurance policies often requires management considerations that are not associated with managing a portfolio of traditional assets.

When describing “life settlement” portfolio management, what comes to mind? What separates well managed portfolios from poorly managed portfolios?

How is longevity risk managed in a portfolio of life insurance policies?

How should portfolios adjust to systemic changes in mortality tables, medical advances, and underwriter practice changes?

How does longevity risk management relate to catastrophic risk management?

How do insurance-linked securities such as life settlements compare to other investment assets such as stocks, bonds, real estate, credit default swaps, etc.?

### The Future of the LISM

Life settlements are a dynamic class that offers investors attractive yields with low correlation to traditional market credits. The general consensus is that the LISM has grown from an estimated \$50 million of face value in 1991 to between \$12.5 and \$15 billion in 2008. Transaction volume in 2017 is estimated to be at \$31.5 billion.

What future developments are in store for the LISM?

What developments, advances, or changes should stakeholders in the LISM attempt to accomplish?

What efforts are needed to increase industry transparency? What should transparency include?



## Best Practices and Standards

### **Institutionalization of the LISM**

Investors, stakeholders, and legislators are expressing desire for the LISM to mature to an “institutional” level. This means that the industry must establish standards, practice methods, procedures, reporting, performance measurements, and tradable investments, i.e., those characteristics that demonstrate the industry to be self-regulating, self-disciplined, and self-measured. Some within the industry are proposing efforts to do this, and others are slow to let go of exclusive and boutique business operations. Some say the benchmark for institutionalization is to have “tradable paper.” Is this a legitimate standard for institutionalization, or are there other criteria that need to be considered?

How can an industry advance itself to an institutional level?

How does the credit worthiness of insurers affect the LISM’s ability to institutionalize?

Is it necessary to securitize investments in the LISM?

Is industry-wide transaction data reporting necessary? If so, should this occur through state or industry-level procedures?

What kind of investment standards and reporting are needed?

What must be accomplished to establish “best practices and standards”?

- a. Closing procedures
- b. Application investigations, specifically regarding fraud
- c. Medical underwriter practices
- d. Industry data reporting
- e. Portfolio performance measurements and reporting
- f. Audit procedures

### **Medical Underwriter Best Practices**

Many industry participants argue that entities within the LISM lack consistency and transparency in their standards and practices. Furthermore, many operators and investors express desire for “best standards and practices” to be established across the industry. Efforts are in progress among life expectancy underwriters to establish such guidelines.

What are the effects of current minimal standardization and best practices among life expectancy underwriters?

Should the best practices of life settlement life expectancy estimators be consistent with life expectancy estimators for life insurers?

Should regulators establish best standards and practices for life expectancy estimators, both in the LISM and for life insurers?

What best standards and practices should be established? What can be done to get these guidelines adopted and established among practitioners?

How might the adoption of best standards and practices affect the LISM and investors?

What will be the long-term impact of the medical underwriter changes announced in late 2008?



## Best Practices and Standards continued

### Due Diligence and Securities Compliance

It can be difficult to assess the credit-worthiness of companies issuing securities, which is why it is important to have third-party verification of the securities' quality. Should third-party verification include a legal opinion on the issuing company's investment offering, financing, valuation, and exit strategies?

What are the ramifications of selling a SEC-registered security versus a non-registered security that abides by SEC guidelines?

How critical is it to have third-party verification?

How do life settlement-backed securities abide by the SEC's security registration guidelines?

### Standardized Forms

The life settlement industry is still fragmented as to what information different entities require before they will consider purchasing a life insurance policy. This uncertainty contributes to the amount of time necessary to close a settlement because brokers need to obtain many different pieces of information for various providers. Standardized state-approved forms could help shorten the process and benefit seniors wishing to sell. ILMA and LISA have created some proposed standard forms, but adoption has been slow.

What types of information should be considered "standard" in the process of life settlement?

Who should determine what information is considered "standard?"

What group or organization(s) should be responsible for creating such forms?

Would standardization be accepted by the industry? How could this be done?

Is it realistic to expect a single set of standard forms to be approved in all states?

### Standardized Disclosures to Investors

The LISM has not endeavored to establish standardized disclosures to investors seeking to purchase interests in life insurance policies acquired via life settlements. This has led to some investors claiming they were not adequately informed of risks and probable returns. Earlier this month, Nevada introduced legislation that set forth specific disclosures to investors. The proposed disclosures were substantially influenced by ACLI, and ACLI was named as the entity to review and approve all forms used by providers when presenting life insurance policies to investors. LISM opposed this legislation.

What types of information should be considered "standard" for investors in life insurance policies?

Should ACLI, state regulators or LISM stakeholders determine what information is considered "standard" for investors?"

What group or organization(s) should be responsible for creating such standards and forms?

Would standardization be accepted by the LISM? By investors? How could this be done?

Should state insurance commissioners, FINRA, or neither regulate investor disclosure information?