

INVESTOR NOTES

Servicing of Life Settlements: A Critical Element for the Investor's Consideration

Life settlements, like many investments, require ongoing hands-on management far beyond the simple payment of premiums. They require a complete analysis of each policy, updated from time to time, effective management of the premium expense, thorough tracking of the person insured whilst respecting their privacy and protecting their identity, and timely filing of the death benefit claims. Maximizing the value of a life insurance policy is not about what happens at purchase – it is about what you do following purchase that matters. The servicing of life settlements requires an experienced Service Provider with a staff knowledgeable in the management of life settlement portfolios, life insurance policies and tracking of insured persons

Policy Review and Analysis: The Servicer must perform a thorough review of each life insurance policy so that all terms of the contract are understood and recorded. A servicer's insurance experts must analyze the policy to discern specific dates and terms that directly affect the policy and the premium cost over time. For example, a policy may have a no-lapse guarantee rider, which may have a significant impact on the amount of premium associated with the policy. It is also crucial to have a thorough understanding of the premium "load" and how the monthly deductions are applied. For example, are the deductions taken from the accumulation fund or the surrender value fund of the policy?

After the review is complete and the Servicer fully understands the contract, it will begin analyzing ways to maximize the value of the asset by minimizing premium outlay and/or determining the premium strategy with the best risk/reward profile.

Policy and Premium Management: Effective premium management requires short and long-term premium analysis to determine the true minimum premium expense necessary to keep the policy in good standing. Long-term premium schedules are critical to the investor for their long-term planning; however, it is equally important to perform short-term premium analysis.

A long-term optimized premium schedule for each policy should be routinely developed before the Servicer begins managing the policy. The long-term schedule should be regularly updated, for example by an actuarial firm or through the use of specific software or pricing models. When appropriate a ledger, or in force illustration, from the insurance carrier projecting premiums required to maintain the policy for a certain period of time will be requested by the Servicer. This ledger is the primary source of information utilized in the development of the long-term premium schedule.

Effective premium management also requires short-term premium optimization. Think of this as your treasury function. Short-term premium optimization includes, but is not limited to, reviewing the annual statement and, at a minimum, obtaining a verification of coverage periodically. Internal policy costs fluctuate, and a clear understanding of each individual insurance contract is vital in managing short-term premium requirements. Internal expenses, combined with No Lapse Guarantee opportunities must be considered when making decisions regarding a short-term or long-term premium management strategy. Further, notwithstanding long or short-term premium optimization, the Servicer needs to be aware of all premium notices, and material correspondence received from the carrier.

Once the premium cost is established the funds are submitted to the carrier as scheduled. Funds are sent via wire transfer or check. Regardless of the medium used to submit the funds to the carrier, it is critical that the Servicer contact the carrier to verify the funds were received by the carrier and applied to the correct policy.

Managing the policy and minimizing the premium outlay are only a part of the process. Effectively tracking the insured and managing the insured's data is the other portion key to an effective servicing process.

Insured Tracking and Management: Effective insured tracking procedures include performing frequent database searches to determine if the insured has passed away, coupled with an effective communication with the insured to determine if any critical information has changed. Effective tracking also requires the servicer to develop and implement procedures that appropriately safeguard the identity of the insured and respect their privacy.

At a minimum electronic tracking should be performed on a monthly basis. Multiple tracking sources should be employed to provide up-to-date results. The goal of electronic tracking is to quickly determine when the death of the insured occurs so that the death claim can be processed as soon as possible following the death.

The second aspect of insured tracking is to make periodic contact with the insured to determine if they have relocated, are seeing new physicians and/or if their third-party contacts have changed. In addition, this is an appropriate time to request that the insured sign an updated HIPAA compliant medical release form. Having this information readily available allows for rapid processing of updated life expectancy reports.

This dual approach to insured tracking helps ensure that the insured's relevant data is current and accurate for timely processing of the death claim.

Death Benefit Processing: Death benefit processing can be complex. There are multiple steps, any of which could slow the process, including obtaining the death certificate, notifying the carrier, collecting

the correct claim forms, and submitting the claim forms for signature to the owner, trustee or other individual that may sign on behalf of the owner.

Experienced servicers will know where and how to request and secure a death certificate in the most efficient fashion, how to work with states that limit the release of death certificates listing the cause of death, how to request death certificates for insured's who die outside the country, and what documentation is necessary to accompany the request for the death certificate.

While obtaining the death certificate, the Servicer will work to obtain and prepare the claim form for processing. After notifying the carrier of the death, and requesting the claim form, the Servicer will again review the policy to determine if there is any premium that should be refunded and if there are any riders, loans, or collateral assignments that would affect the amount of death benefit to be received. The completed claim form must also be forwarded to the appropriate individual for signature. Even after a claim form with appropriate documentation is submitted to the carrier, there is always a possibility of a delay in processing by the carrier. Though receipt of the much-awaited death benefit seems like the end of the transaction, there will still be final reporting for the policy.

Reporting: While the Servicer can provide turn-key management of the policies and insureds, there may still be reports that the portfolio owner is required to submit. A qualified servicing entity will provide the policy owner complete and timely reports with all the necessary financial data regarding the policies. The Servicer should have the ability to provide reporting that conforms to the client's needs at any time during the term of the investment, including a finalized closing report for each policy.

Technology: All tasks that the Servicer performs require a database that is designed specifically for the life settlement policy, the insured, and portfolio management. In addition to having the appropriate technology, it is imperative that the Servicer follow stringent processes and procedures to protect the management and movement of confidential data. Many jurisdictions have strict laws that protect the

insured's personal information, and it is crucial that the Servicer is familiar with this rapidly evolving area of law.

What to look for in a Servicer: A Servicer must at all times adhere to the relevant life settlement and privacy statutes and regulations while continuously building and shaping its formula to minimize costs. Therefore, when choosing a Servicer keep the following in mind:

- Experience - How long has the Servicer been in the business?
- Experienced Personnel - Does the Servicer have personnel with extensive experience with life insurance contracts?
- Privacy - Does the Servicer utilize state-of-the-art technology and proven checks and balances to avoid the dissemination of personal identifying information?
- Efficiency - Does the Servicer have proven processes, procedures and back-ups, and utilize technology that supports the efficient flow of information?

A Servicer must have extensive experience and proven systems as part of an overall adaptable formula that advocates the minimization of cost to maximize the owner's return while securing efficient processing of death benefits claims.

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Contacts: Jack Kelly (202) 552-2788 925 15th Street, NW Suite 500 Washington, DC \ Tel 202 552 2788 \ www.lifemarketsassociation.org