International Society of Life Settlement Professionals

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Teleconference transcript

Invitation Only / Limited Audience:
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"PREMIUM FINANCING – state of the art and next generation: better for insureds and safer for investors"

Presenter: **Pierre-Olivier Bensahel**

Andreas Hauss:
It is with pleasure that I welcome you all to the second teleconference of the International Society of Life Settlement Professionals.
I am Andreas Hauss, the founder of the Society, an independent and investor oriented team of top life settlement professionals.

Today I welcome an audience from all over the United States of America, Europe and Asia, representing brokers, fund managers, law firms, advisors, marketing firms and investors. Let me especially thank George Polzer and Charmaine Wages for the excellent organization of this event.

Following our kick-off teleconference in February, the International Society of Life Settlement Professionals is becoming the go-to resource for marketing advice, on investor orientation and numerous introductions among peers inside our exclusive network have been successful.

In our conversations with providers and investors, many agree that only a clear vision and dedication to be investor oriented will attract the necessary capital to the life settlement asset class to assure further success and growth.

We deal with more demanding and very intelligent investors asking for cutting edge and transparent investment opportunities.

Today's teleconference serves as an overview on premium financing opportunities, a win-win scenario for seniors and for sophisticated investors. The teleconference will be recorded and assembled in a media library on our website available to members.

Teleconference transcript

I am proud to announce the participation of one of the most forward-thinking professionals in the industry, Mr. Pierre-Olivier Bensahel. Pierre-Olivier is a well renowned life settlement fund manager and shares ISLSP's investor focus.

We appreciate very much you are available today, Pierre. I know you are traveling and appreciate particularly that you made yourself available for this conference. I wish you an interesting conference. Pierre-Olivier?

Pierre-Olivier Bensahel:
Great. Thank you, Andreas, for this introduction and thank you for giving me the opportunity to have a discussion on premium financing, which has been a very heavily discussed subject and the focus of a lot of legislative activities right now.

I am assuming that we have on the call a number of fairly experienced investors or players in the life settlement market overall. So I don't want to spend too much time on the overall explanation of the life settlement industry.

The basic concept is really the transfer of the legal rights and beneficial rights of a policy to a third party in exchange for a cash payment to the policy owner.

This business has, as you all know, developed very fast over the past five years to become a marketplace that is doing today approximately $10 billion in face value transaction in the life settlement business, and generating a lot of interest at a time when a number of asset classes in the world cannot really find a recognizable value.

Our asset class is really recognized as a very strong, uncorrelated asset class, and I am meeting with institutional investors almost every week of my life, and I can share with you that there is lot of interest right now in our asset class.

Now, talking about the premium financing, it's important to remember that the concept of premium financing which is for the owner of a policy to borrow money to pay for the premiums is not a brand new concept. It has been around for many, many years.

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The traditional historical premium financing concepts were basically programs where you as the owner of the policy would go to your bank and borrow the money to pay premiums.

And the value that the bank would place on a policy would be derived from the cash value or cash surrender value of the policy, which is usually a fairly small amount of capital. In our group, at the Peninsula Group, we have a servicing entity that tracks a lot of fundamental information on the marketplace.

The average cash value in a policy is 4% of face value. So, if you have $10 million dollar policy, the average cash value of the policy would be $400,000. And so you would go through your bank, and the bank would take this $400,000 as the value of reference of the policy, and would then apply a loan-to-value ratio of 'X', whatever that 'X' is denoted to be, and then would lend money against the value of that policy.

Practically, the amount of lending capacity that you would have, is very limited, due to the fairly small value recognized or admitted value of the policy. So, if you wanted to borrow more money, the bank would ask for very substantial collateral, that you would have to put, in terms of actual cash, in terms of hard assets, something that would be really marketable very easily; so that concept has been going on for a very, very long time.

Now, with the development of the secondary market for life insurance, all of a sudden the recognized value of reference of the policy has increased dramatically to a level where we know the life settlement transactions are happening today.

So, let us assume just for the sake of the argument that the recognized value over that $10 million policy is $2 million and if you still have the same loan-to-value ratio, all of a sudden, you can really lend a lot more money against the real value of the policy. So that substantial discrepancy between the historical recognized value and the current economic value of the policy has really generated a number of solutions in the marketplace and we've been a player in the premier financing market starting in '03 and '04 where at the time you had a lot of activities going on where insureds would get brand new life insurance

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policies being issued with premium financing in place, pay the premiums for two years and at the end of the two years, with the arbitrage opportunity that existed in those situations, they would then flip the policy two years right after contestability period and generate a profit. Those premium financing products were referred to as "two years and flip" type of programs.

At the end of '05 and in '06, carriers were starting to realize that there were lot of policies that were being issued in the senior population and really wondering whether the real reason for all those policies were actually the need for coverage or more for a financial play.

So, they studied, asking a lot of questions on applications to really track those specific cases where you should really want to just to make a quick buck on an investment. The result of that has been that carriers have substantially decreased the number of policies being issued with premium financing and we at that point in time decided to get out of the marketplace because we felt that the business was getting too challenging, too challenging for everybody in the marketplace, very difficult for investors to make decently attractive returns on those policies and also for insureds who really needed the coverage, they had to go for a very lengthy underwriting process.

Now what has happened over the past two years is a number of premium financing programs that we can refer to as hybrid premium financing programs and in essence those are programs that are being disclosed to insurance companies and by disclosing them to an insurance company, the carriers monitor the amount of coverage that is being put in force. They also manage to do it in a way where the arbitrage opportunity is monitored by them so there is less opportunity in all to make money on the secondary market on the backend, if there is a need or a will to sell the policy.

To get carrier approval as I did refer to, you have to go through a fairly long process of explaining to the carrier in a real partnership approach, what you want to do, how your program is structured, how you are going to charge the insured

how you are going to charge the insured themselves and then once your program is approved (it's just approved for some period of time and not forever), then you can take policies through underwriting and hopefully get those policies issued.

The reality of all those programs and there are not too many programs available out there right now, but those programs that are being funded currently do give an opportunity to make some money.

But I think, at a time when there are a number of very serious dislocations in the financial markets, smart investors are looking for much more attractive returns. Those of those hybrid programs usually generate for investors anything around 9% to 11% returns because the carriers want to monitor the money that the investors are generating in those programs.

Now what we have done ourselves is we recognize that there was actually a real need for people who do have a life insurance policy today, who do need the liquidity, who in an ideal world would like to keep their policy and would like to keep the coverage, have the protection, but still face a pretty dramatic cash flow situation.

So, we have really decided to address this real issue, this real concern, and reveal the program that is more referred to as a 'bridge financing program' rather than a premium financing program, and it has really a number of very favorable consequences for both investors and insureds.

Again the real concept is not to put a brand new policy in force with premium financing. We are talking here about using the value of an existing policy that has been validly issued and paid for by the insured to be used against a line of financing.
So, that's what we were talking about here.

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The real advantage is that you do not have to go through a carrier specific underwriting program. The policy has been issued, has been paid for, there is no challenge to insurable

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interest at the issuance of the policy. There was a real need, the interest would be paid for the policy; there was no pre-arranged life settlement transaction. It's a very clean and well originated process, and remember that as investors, you want to make sure that you have an asset that has a real transaction value and a real foreclosure value, in case something goes bad. So the major challenge to all of those premium financing programs out there right now is the high level of doubts on insurable interest.

I have given you the clean and nice version of those premium financing programs that are disclosed to the carriers but there is a flurry of other premium financing programs that are not disclosed to carriers where returns are attractive to investors, but when at the end of the day, you as an investor, you foreclose on the asset, you want to sell the policy, you cannot then sell the policy.

And there are unfortunately a number of examples in the marketplace right now where investors are very disappointed about the marketability of those policies but I think there is a number of basic fundamental elements that have not been taken care of and may leave with vis-**à**-vis insurable interest challenge.

Remember that if there is no insurable interest at issuance of a policy, a carrier can rescind the policy at any point in time during the life of the policy, it goes beyond the two year contestability period.

So to come back to our approach, you know we feel that the program we are only targeting on existing policies that have been validly issued, do not represent any challenge on insurable interest.

So you're not going through the carrier approval process, you do not challenge insurable interest and you have a real asset that has a real value. You as an investor you can lend against the future value of that policy and you can charge the insured an interest rate that can be higher than what you could charge too with carrier proof programs.

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Usually carriers do not let you charge more than 9.5% interest rate, with this program you can charge a higher interest rate as long as you do not hit the usury laws. That's the first basic fundamental specific item about this program.

The second one is this is a program where we can deploy very substantial amounts of capital because of the very essential dry up in the financial markets especially in the premium financing market.

There are billions of dollars of face value ready to be issued or already issued where premium financing programs or the concept of the premium financing program was being discussed with the insured but did not really materialize and there is a very urgent need to get those policies issued and paid for, at some point may be refinanced and it could be in six months, in a year, in three years and we would then make that option possible.

The third that's a very, very important approach to this program is that we are going to make sure that the insured keeps full control of this asset. Again this is not a hidden life settlement transaction, like so many other programs have developed in the past. It is very clean lending arrangement where the insured, as long as he pays off his loan at the end of the loan term, keeps full control of his policy.

He can come back any point in time, pay off the loan and he can keep his policy. If he wants to sell his policy, he can sell it to anybody he wants. He can use whoever he wants to sell the policy.

As you may know, there has been a lot of legislative activities over the past year or year and half on what you referred to as STOLI and those STOLI are exactly what I am addressing here.

A STOLI arrangement is a transaction whereby a lender or a funder has designed in a program ways to take control of the policy either through put options or call options or a remarketing arrangement upon issuance of the policy. As you know, there are lot of discussions going on right now to try to

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change some state laws to address those STOLI arrangements. We do support all of those legislative activities because we are firm believers of the necessity of the use of having well designed, well constructed for premium financing arrangements.

We feel that this really gives an opportunity for investors to generate very attractive returns where loan terms would be, on average two and half years, which is really what we would like; the amount of the time, the breathing room we would like to give our clients to get on their own two feet and get better in their financial situation for their personal kinds of situation as a real alternative to life settlement transactions, so they can fill their policy and in two and half years or three years, then they can make a more educated decision without the pressure of the current moment.

Andreas, you had given me 20 minutes, I think I'm right on there.

Andreas Hauss:
You are perfect as always when we travel together and do our conferences all over Europe. Thank you very much, Pierre.
I think this is a very ethical approach for seniors as well as a transparent investor-oriented vehicle. One should drill in more in depth with the advisor or with the consultants.

I would like to thank you for that presentation and also, apologize for the background noise. Pierre is actually in the airport leaving for his next flight, so, if there is any question from the audience right now, please take this opportunity to talk to Pierre, and otherwise we will organize one-to-one follow-up calls with him next week.

To schedule for such individual conference calls with Pierre-Olivier or for more in-depth information, please feel free to contact us at info@islsp.org or calling me directly at 602-904-5746.

Are there any questions from the audience right now?

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Unidentified Speaker:
Okay. My name is Dennis, and I've got a question. On the loan term, you said between two and three years in a loan term? I understand the general concept here, but what type of obligation does the insured have during the loan term, and at the end of the loan term, there is no guaranteed buyback as my understanding, is that correct? You have to find a place, to put it at the end of your loan term or pay the loan off?

Pierre-Olivier Bensahel:
We are really giving the insured full flexibility to pay off the loan ahead of plan if he wants to. It's like a mortgage type of loan arrangement where, as long as he respects the loan terms and interest accrued, so he doesn't have to pay the interest along the way. He can then make the decision at the very end to the pay the loan and if he doesn't pay off the loan as planned, well then we have a foreclosure mechanism in place where we take ownership of the policy, but there is full control being given to the insured.

Unidentified speaker:
Okay, so really it's a non-recourse loan in most part.

Pierre-Olivier Bensahel:
It's recourse only on the policy and its full recourse on the individual if there is recession of the policy by the insurance company in case of misrepresentation of the application.

Unidentified speaker:
Okay, pretty typical and okay. All right, thank you.

Pierre-Olivier Bensahel:
Look, I really apologize for the background noise and I would be very happy to take any other questions directly maybe on a separate call.

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Andreas Hauss:
Okay, Pierre-Olivier, thank you very much and once again, to schedule for an individual conference call with him or for more in depth information, please feel free to contact us at info@islsp.org or call me directly at 602-904-5746.

Looking forward to welcoming you on our 3rd International Teleconference in April on "**Identifying Fair Value in the Life Settlement Industry"** I thank you very much.

I'm Andreas Hauss, the International Society of Life Settlement Professionals.

Pierre-Olivier Bensahel:
Thank you, Andreas.