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Webinar Transcript

Life Settlement Securitization: Unbiased!

Recent Congressional Hearing Insights & The Media Bias....

ISLSP THREE-PART WEBINAR SERIES: Investor & Media Education
PART 1 of 3: October 21st at 10:00 AM Eastern (New York)

TOPICS:

WHY A SECONDARY MARKET: The history, present and future of Life Settlements
SECURITIZATION IN PERSPECTIVE: What's involved, why it's needed and regulations
CURRENT MEDIA COVERAGE UPDATE: Identifying, analyzing, tracking and debunking

PANEL: Dr. Jim Aspinwall, Author; Ben Geber, CFP; Ed Jones, J.D.

EXPERTS PRESENTING:

Wm. Scott Page, CEO, **The Lifeline Program & ISLSP** Educational Committee Chair
Boris Ziser, Partner, **Stroock & Stroock & Lavan, LLP**
Stephen E. Terrell, VP Sales, Marketing and Public Relations, **The Lifeline Program**

Andreas Hauss:

Ladies and gentlemen, good morning, good afternoon, and good evening, it is with pleasure that I welcome you to webinar today. I am Andreas Hauss the founder of the ISLSP an independent team of Top Life Settlement Professionals.

I am proud to welcome a distinguished audience from over the United States and Europe representing some of the most influential finance professionals, and above all I welcome the many representatives of the media attending our webinar today. Before we start I would like to thank George Polzer and Charmaine Wages for the excellent organization of this event.

Among institutional investors the International Society of Life Settlement Professionals is being perceived as the go-to resource for investment advice and the constantly growing number of introductions among peers, companies and investors inside our exclusive network has been successful. The past six weeks the U.S. American media and renowned European monthly publications have launched interesting articles about life settlements. Just to quote some of the titles we have “Playing Investment Games with Life and Death”, “Wall Street Pursues Profit in Bottles of Life Insurance”, “Best Bonds”, “Wall Street’s Shocking New Plan to Reap Billions Off Dying Americans”, “Life Settlements Ex Securities Draws Scrutiny and Skepticism”, “Appeal of Life Settlement Securitization Seen as Limited”, and “Choose Life” and many others. On September 24th a hearing about recent innovations in securitization was held at the House Subcommittee on capital markets and government sponsored enterprises.

ISLSP enjoys the reputation of being the only neutral industry association providing investors with transparent non-commercial and up-to-date information. Our mission is to promote and disseminate knowledge on all aspects of life settlements, and we lay particular emphasis on education to ensure that the media and investment advisors are able to deliver optimal information.

When I started monitoring the life settlement industry many years ago for my European clients, the first life settlement documents I reviewed was from The Lifeline, so it is with great pleasure that I announce today that William Scott Page, CEO and President at The Lifeline, has been elected the Chairman of the Education Committee of ISLSP. In response to recent articles in the media and the growing interest and need for life settlements, the Education Committee has decided to launch a series of three webinars with renowned professionals addressing the basics of life settlements and making themselves available for Q and A sessions. Together with you ladies and gentlemen, we can increase confidence among seniors and investors with a vision of enhancing the industry image and accelerating the acceptance and growth of an asset class that is unparalleled in its ethical aspects.

I am glad to announce a panel of highly reputable and distinct speakers. Our experts presenting today are William Scott Page, CEO of the Life Line Program and ISLSP Education Committee Chair, Mr. Boris Ziser, Partner at Strook and Strook Lavan LLP, Mr. Stephen Terrell, VP of Sales Marketing and Public Relations of The Lifeline Program, and the following are a part of our panel, Mr. Jim Aspinwall, Ben Geber, and Ed Jones.

Our topics today are "Why a Secondary Market", "Securitization in Perspective" and "Current Media Coverage Effect". George please go ahead with the overview.

George Polzer:

Thank you everybody for attending our webinar and thank you Andreas your overview of the industry and ISLSP's objectives. To start the webinar, we're going to get quick introductions from the panelists, we have seven panelists and presenters. So if all of the panelists and presenters could give a 10 or 15 second introduction about themselves, which will set the stage. After that we're going to have Scott Page give an overview of the industry and the reason for the secondary market and the context for how the misconceptions and misrepresentations have or can occur Boris Ziser will talk about securitization and put it into perspective. Then Stephen Terrell will discuss current media coverage and the challenges ISLSP and other life settlement associations have to counteract misinformation and launch campaigns to educate the market and the media. After that we're going to have a panelist and participation Q and A session. After Scott Page and Boris' presentations I will open up for brief questions relevant to Scott's and Boris' specific topics, but the full question and answer session is after Steven's presentation. Is Scott available?

Yes I am, thank you.

Scott, please introduce yourself.

William Scott Page:

I will and thank you very much. First of all, I'm honored to be selected the Committee Chair for the Educational Committee of the organization, something that I have held near and dear to my heart for a career in this industry going on 21 years.

A little bit about myself, I am considered one of the pioneers of the life settlement and viatical settlement industry. I've served several terms of presidencies and boards of directors for one of the first national trade associations and the current trade association LISA that is organized in the United States. I participated actively in the creation of one of the first model acts delivered to the NAIC. I've served as governmental witnesses for the FBI and several private organizations to investigate the validity and the accuracy of transactions. I'm recognized as an industry expert and again I'm thrilled to have the opportunity to use the platform to help educate further investors in the media about the benefit of life settlements.

Today we're going to talk just a little bit about life settlements, just the basics. I realize there are many different levels of understanding of the transactions, so if you'll just indulge me for a moment for those who are not completely aware of the transactions and how they operate.

A little about the basics, you know, a life settlement is the sale of a life insurance policy to a third party. It's been referred to commonly as senior settlement, senior life settlements, and also with those involving the terminally ill as viatical settlements. A simple rule of thumb to keep in mind, a viatical settlement is considered with the life expectancy of 24 months or less. A life settlement is considered with a life expectancy of 24 months or more. A little about the past of the industry. Primarily it was a small niche market serving primarily viatical settlements which started around 1988, 1989, preferably specific of the HIV and the AIDs epidemic, it was small with minimal regulations. It was considered at the time the wild, wild west, but since we've had some huge growth and that's been primarily the factors of more sophisticated high net worth sellers of individuals with policies and of course we follow much more stringent regulation, focused primarily on consumer protections. Just quickly there are various reasons why someone would sell a life insurance policy into the life settlement arena. Each individual consumer has many different needs. That's why we feel it's imperative that we protect this opportunity for sales into a life settlement arena by doing exactly this and educating the media and investors. Now life settlements really have become just one piece of the financial planning puzzle along with long term care, stocks, bonds, and annuities. Quickly, just how the transaction works. There's first the first step, how to source the policy, through a broker or an agent, that really completes an application and presents an individual consumer to a provider for evaluation. The second step, the provider evaluates two primary aspects, first is the life insurance policy and then looks at the medical history to determine if the projected life expectancy falls within the purchasing parameters. The next step would be the facilitator or the provider would collect the offers and if accepted contracts would go out, change of ownership, funds are moved into escrow, and set for once ownership of course the funds are distributed to the consumer. This transaction can take anywhere from 4 to 6 to 8 weeks depending on the complexity of the life insurance policy. The types of policies that can be sold range from universal, whole life, some joint life, and some convertible terms. So life settlements really cover a large gamut of different types of life insurance policies that are offered in the life insurance industry.

I got to look at the market evolution. I think it's important to realize how the growth has taken place. In the 1990's, you know, an average policy size was $100K, the age range of the consumers were from 25 to 44, and the life expectancies were primarily 24 months or less. This was considered primarily viatical transactions. If you look at today's transactions life insurance range at a minimum for most considerations of life settlement providers from $250K to $20M policies. So you can see the policy size has grown tremendously. Additionally, to mitigate the risk of extension, life expectancy extension, the industry has taken a new approach to evaluate consumers, the elderly population of normally 65 or older, and what that's done is to help to mitigate the magic bullet pill or the cure, or the replacement of some failing organs. The life expectancies again have extended once again from 24 months up to 180 months and then again depending on the different criteria of the provider.

To give everyone just an update of just how far the industry has come, as I stated earlier, I've been a founder of the business going on my 21st year in the industry providing education and helping the industry grow. These are some of the accomplishments that the industry has made. One of the first, would be the first trade association, one of the real important elements on here is the federal tax relief for viaticals. This was really the first time the federal government started looking at the industry and providing some type of tax relief for individuals who are terminally ill to sell their policies to a licensed life settlement or viatical settlement provider. One of the first deliveries of the NAIC draft - investor risk disclosures. We realize that to attract the institutional capital that's needed in this market, investor risk disclosures needed to be paramount in the transactions. Anti-fraud plans, transparency requirements, anti STOLI. STOLI has been the most recent phenomenon that has painted a lot of the premium finance transactions with a very broad brush. It's important to distinguish the difference between traditional premium finance and STOLI, which I'll cover in just a moment. Additionally we think one of the most remarkable changes in events is the media awareness in education. The more media awareness and proper information we can help the media attain about these transactions the further our reach to consumers to help grow the industry at an even larger pace.

Some of the forward thinking elements to keep in mind is some of the myths and misconceptions that are currently happening with the life settlement industry. I think one of the first is, you know, this industry has taken advantage of the terminally ill and elderly. But first of all that's not true. No one is forcing anyone into selling their policies. Each applicant provides a written request to a life settlement provider for evaluation, and if you'll recall my earlier slide, this is a four sometimes eight week transaction. The consumer has plenty of time to understand exactly what they're getting involved in, and again, no one is forcing them to sell their policy into the life settlement arena.

One of the things that I would like to address as being a very valuable option that's happening specifically to the industry. Washington State has just approved a regulatory motion to require life insurance companies to disclose to consumers the availability of life settlements any time that there's a potential lapse or cancellation of a policy. This is a huge victory for the life settlement industry because the life insurance companies have been somewhat questionable as to their support of the life settlement industry and I personally lobbied for 15 years to make life insurance companies make this type of disclosure to consumers, and we feel this is a huge victory for us and is also going to help broaden and expand the access to consumers who may want to sell to the industry.

I think one of the second items that can be somewhat of a misconception is the subject of life expectancy. Life expectancies are projections, they are the best estimate given at the time the life expectancy is provided based on the most current medical information known. So I think that when anyone looks at a life expectancy, they need to remember this as a projection and of course the larger the pool of policies that are into a portfolio, the more accurately the law of large number averages are going to come into play.

An additional item is transparency and fee disclosure that now the industry I will say is in direct discussions regarding the standardization of fee disclosures. We feel again it's a great step in the right direction. It's my personal opinion that all fees related to the transaction should be disclosed. There should be no surprise to the consumer that he or she finds out after the transaction that their life insurance agent or their broker or the provider purchased the company made a fee, they should be made aware of exactly what that fee is, and I'm going to be currently working with this association to help develop best practices for investors, and this should be one area investors should look at specifically and it should be a mandatory requirement for anyone to invest in this industry that transparency and fee disclosures are held as paramount.

In addition, is post sale and tracking requirements. Now this industry is not a life settlement ATM machine and I use this analogy because I think a lot of folks believe that you put your life insurance policy in and money comes out, you turn around and you walk away and you never think about it again. Well that's not true. I think one of the most common misconceptions that have been recently in the press regarding the paraplegic man. Now he seemed shocked that someone was contacting him to find out how he was doing. Tracking requirements to providers are a regulatory, mandatory necessity. We must, in order to protect the investment, have current updated information from the insured. If the insured has not received the disclosure for post sale tracking, the consumer is not made aware prior to selling the policy, I understand where there could be some concern. However, in 99.9% of all the cases that take place in life settlement transactions, post sale servicing is discussed in the contracts with the insured to sell the policy and it should be discussed verbally with the insured to make sure that there is no confusion.

Another misconception is poor consumer protection. Well this simply is not true. In many cases we have to protect ourselves from consumers as an industry. We have to deal with over exaggerated health statuses, the misconception of their financial net worth and potentially fraud on the original insurance application. The burden has been shifted from the insurance industry to the life settlement industry to verify information that took place on the original application for insurance. An example would be, if a policy was issued in 1990 and the insured completed the insurance application with the insurance company to have the policy issued and went through the questions and made a misstatement such as "have you been under the care of a cardiologist", well it's very common that the agent helps the insured fill out the insurance application and everything is no, no, no, no, no, and they skip over that question. Well we are now charged with the task of going back in time requesting medical records from the time the insurance application was issued which would be in 1990, and verify that there was no discussion of a cardiologist in the medical records. These are the kinds of things that the life settlement industry has adopted as standard practices in our anti-fraud plan, and what we are doing to not only protect the consumer but we also have to keep in mind we have to provide clear protections for the investors.

So I believe that this association is forward thinking in providing best practices information to the media and to investors, and once again, I'm very proud to be a part of the organization.

George Polzer:

Thank you Scott, Andreas do you have any comments before we move on to the next section?

Andreas Hauss:

Yes, thank you Scott very much for this excellent presentation, I would like to invite Mr. Boris Ziser to shortly introduce himself and to start with his presentation please. He will be followed by Mr. Stephen Terrell from The Lifeline and before we start the Q and A session, Dr. Aspinwall, Ben and Ed please introduce yourself shortly. Thank you very much. Boris.

Boris Ziser:

Thank you very much. Hello everyone, and I very much appreciate the opportunity to talk about securitization of life settlements today.

Securitization was not in the common vernacular up until about two years ago as the credit crisis began to develop, and then securitization became quite well-known and was much maligned in a lot of articles and certainly took a lot of blame for the credit crisis as a major cause. In reality, however, securitization is actually a valuable and important financing tool and has been around for a long time and securitization as a financing tool has been applied to many consumer asset classes, auto loans, credit cards, student loans. Of course, probably the best known asset class to which it was applied is mortgages, and other asset classes as well, and as a result of the efficiency of financing that securitization was able to provide, the cost of financing to consumers went down and consumers were able to get better rates on their loans for a variety of purposes. One very well-known one, for example, was for auto loans and those rates of course became much lower and life settlements just like other consumer assets is also a consumer asset and you should be able to sell your asset and use your assets freely as collateral just like any other consumer asset. The Supreme Court has said that as well and has confirmed that a life insurance policy is an asset and that the owner of that asset can freely transfer it, and so it's important to know that securitization in and of itself is actually a very valuable financing tool and used properly can actually have beneficial effects on the economy and on consumers consequently.

I think it is very important to distinguish life settlements as an asset class from other asset classes. There's often time a comparison between life settlement and mortgages and I think that a lot of articles have compared the two assets in that way, and in fact, have raised a question as to whether a life settlement is the next sub prime mortgage, and while that creates a good headline, it is an entirely inaccurate implication because no one loses their house by selling their policy. In fact, they might save their house if they use the proceeds from the sale of their policy to pay off the mortgage. It's important to note that a bad mortgage can cause a financial strain on the consumer, whereas when the consumer sells a life insurance policy that they no longer need for whatever reason, it actually produces cash flow to the consumer. So I think that's a very important distinction. I think that distinction is important when you carry it through to a securitization. In a mortgage securitization, if borrowers on those mortgages default, the securities that are issued in those securitizations can also default, depending of course on the level of defaults in the underlying asset pool. After a life settlement, the individual original owner has no further financial obligation in respect of that policy and so in a life settlement securitization the performance of that securitization does not depend on the ability of the consumer to make future payments or meet future financial obligations. And so it's a very different risk profile from a different type of consumer asset, and in fact, the other consumer assets for the most part that have been securitized actually don't have that distinction. If you look at auto loans, if you look at student loans, if you look at mortgages, if you look at even intellectual property, for example, like music royalties, you're always relying on some external source for payments that would then be able to produce sufficient cash flow in order for the securities that are issued in the securitization to perform in the way that it was anticipated at the outset. In life settlements that's not the case, so it's a very different risk profile. But the benefits of the securitization, however, or of a securitization just like they exist with any other asset class would also exist in the securitization of life settlements, and so as I mentioned before, securitization of other consumer asset classes produced benefits such as lowering the cost of financing for consumers. Well here in life settlement securitization, for example, it's not financing cost that's being lowered, but what it would do is increase competition in the life settlement marketplace which would result in better pricing of the policies for consumers which ultimately insure the benefit to the consumer because they would be able to obviously get a greater purchase price for their policy. So it's important to not view securitization in isolation or in a vacuum, but rather view it as a tool, a capital market tool that if used properly actually has very beneficial effects on the consumer and the economy and in fact the government has acknowledged that and the reason certain of the stimulus programs to jump start securitization were put in place is precisely because in order for the economy to recover, the tool that securitization provides for financing is very important in order to enable lenders to start making loans again and for cost of financing to be such that consumers are encouraged to go out and actually purchase large items such as automobiles and jump start the economy. And so securitization is well recognized as a very important and fundamental building block of our economy. Now in addition to the media coverage that has taken place in the recent past, there was also some government activity and as Andreas mentioned there was a Congressional Hearing a few weeks ago on securitization of life settlements and the focus of that hearing was actually on the prevalence of life settlement securitization and the committee members were actually quite thoughtful in their remarks and I think it became clear that there actually has not been a lot of securitization activity in the marketplace as of yet. But securitization is a valuable tool, and again, done properly, should enable to benefit life settlement consumers just like everyone else. And also the question became "is there a retail market for life settlement securitization", and that question really feeds into the SEC Task Force also that has been established to look at the life settlement business because the question becomes "is there a retail market", in other words, are these public transactions or not, or are these really institutional transactions and are privately placed and are not sold to individual consumers. The fact of the matter is that it is an institutional market place, there's not currently a retail life settlement securitization market place and so to the extent that there is securitization activity the investors are actually institutional investors with the ability to do the proper analysis in determining whether to invest in any particular transaction, and the SEC Task Force is looking at the life settlement business and what they're trying to determine is whether additional regulation is needed, keeping in mind that state regulation already exists and is extensive and that insurance generally is governed on the state level. If, however, they do determine that additional regulation is needed then the next question will be what is the appropriate agency to be involved and at that point they will again also look at, you know, is there really a retail market or is this really an institutional market because our securities laws, which already exist, and already are there to protect investors, protect retail investors one way and institutional investors another, and so there is really not a difference between a life settlement securitization and a securitization of any asset class in that regard because that regulatory framework to protect investors already exists in our securities laws. So I think that generally the regulatory authorities recognize the value of life settlements and they recognize the value of securitization and on a combined basis the benefits that securitization of life settlements would bring to consumers, would bring to investors, and would bring to the market place overall and the goal is to create a robust market place that's efficient, that's transparent as Scott was saying, and that lends itself to a healthy life settlement and securitization business environment.

George Polzer:

Excellent, thank you very much for that presentation. Stephen Terrell could please introduce yourself, Part III the last section after which follows the questions and answer section for attendees. We'll have the panelists first introduce themselves and pose questions pertaining to Scott Page's presentation and Boris' presentation, and then we'll open it up to the participants and attendees to ask their questions to the panelists and the presenters. Stephen please proceed?

Stephen Terrell:

Hello everybody, I'm Stephen Terrell, VP of Marketing, Public Relations and Advertising Sales for The Lifeline Program. I've been working in the life settlement industry for almost 20 years and all of the grey hair is earned. We started with a lot of press early on and I'm going to start by saying one of the most enticing things about our industry is that we're unique and at the same time we're odd, and that's something that we do have to embrace as an industry. We're something that can and will continue to get media attention. Based on just those facts, one of the toughest things now for us to realize is that we're working with a group of people in the United States that are very easily seen as taken advantage of. I think Scott has spoken about that. When you're dealing with an industry that could potentially put children or seniors in any type of harms way, the media is ready to latch on to that, just keep that in mind. We have to remember that public relations versus media responses is very important, and what I mean by that is when we see things that hit the television or the newspaper the immediate thing for us to do as an industry is to look for the bad in what we're reading, looking for the mistakes that have been made versus actually realizing that this could be something good for the industry even though it looks bad. A lot of people are very quick to take those emotions and create a media response versus actually creating a public relations plan and putting it in place. A plan is something that tries to make sure that you take a positive angle on your industry, not a protection mode, but a truth mode. We want to be able to show that our industry does create an opportunity for a segment of the United States citizens that they may not be aware of this opportunity and we have to continuously be prepared to educate it. Like I said press is good even when it's bad. I think there was an expression, I forgot who said it now, I apologize, but when I went to college for journalism they said that as long as you spell the person's name correctly any press is good press. Just as an example, Martha Stewart, everyone knows that she went to jail, had a lot of problems, insider trading, her career is doing phenomenal now, she did the time, she got a lot of press out of it, she did a very good job public relations wide of rebuilding her image and coming out to a great career. We have to kind of need to look at, learn to look at the press that's on hand and not take it personal. You have a reporter that's extremely busy with deadlines as well as other staff that they have to report to and report their facts and what they've learned and try to keep their opinions out of it. A lot of times when they're writing a story, what looks like might be their opinion is actually them trying to balance out information that they may have already been fed from another angle or side of the story that you're unaware of. It's not a journalist's problem or responsibility to actually share or educate you on what card they're currently holding when you speak to the media. Which brings me to the point of, if anyone is not prepared to speak to the media, if you are not comfortable speaking with the media, do not take that call. The problem that happens when you talk to the media is that anything that you can say can be used, and if you're not absolutely clear on what your message is it can be misconstrued or as they call it "misquoted", and you may end up being in shock. One thing that's very different from when I went to college and started working in public relations was the internet. The internet is really quick, everybody knows the super highway of information, but it has quickly become information overload, including press releases and other articles that are being picked up by blogs, rewritten and there are very few laws if any to protect anyone from what they call "word weaving" where people take their opinion and put it into information that they've picked up along the way. Word weaving is considered taking true statements and weaving in people's opinions or their own definitions. Blogs also are very searchable by the media, that's something I just want to throw out there to warn people about. The last point that I had on the screen was facts versus ethics and headlines that sell. The article that was in the New York Times as an example had one headline that was also repacked up and reworked through the AP Associated Press having different headlines around the country. Some of them looked more gruesome than the others, and others were a little bit softer on our industry. Sometimes you only have about three seconds when an opinion is created by someone looking at a story. We have no control over what the media is going to pick for that headline that usually comes down to a headline that sells. Going forward with the press I just want to make sure that people understand if you're going to speak to the press be prepared to speak to the press, do not go into it having all your cards or ducks in a row and make sure that you're able to be very transparent about this, and sorry one thing that I wanted to make sure I pointed out to everybody. Be prepared to have success stories. Everyone has stories. I would say 99% of the people that have performed life settlements through our company are happy. Of that most of the people don't want to work with the media, they want their personal finances kept private to their family matters, but there are some people, especially seniors, that they love to talk about their life, they'd love to talk about the decision they made. Keeping in good contact with people that you've actually worked with to perform transactions for the people that are in the industry, you need to be prepared to give that to the media, show them some good things. If we're trying to like go forward in a positive manner be prepared to show them some positive things versus the negative things.

Now I'm going to open it up for discussion and I guess George if you'd like to take over.

George Polzer:

Thank you Stephen. Next, the panelists, starting with Jim Aspinwall will give a brief introduction, of who they are, then Ben and Ed. After their introductions we'll open up for general questions. Let me point out to the attendees that in your panel, the upper left corner you'll have a symbol, and icon which is a raised hand, when you would like to ask a question, you can either click on that raised hand icon, or, a better alternatively is to type your question into the question box that you should also see on the panel. Please start typing in your questions now, they will be cued and I will read them out loud. First we'll have the introductions by the panelists, have them pose their questions and get responses. Then we'll open it up to the attendees. Go ahead panelists. Ben please go ahead.

Ben Geber:

My name is Ben Geber, I'm the CEO and managing partner for Bally Capital Management. I come from 15 years of life insurance experience where as a producer I'm a member of the million dollar roundtables top of the table. I had the fortunate experience I started my career with one of the largest insurance companies in the world, so I was able to see how life insurance was built and priced from the ground up. So it was that experience that in entering the life settlement industry that I was able to bring with me, and currently I play several roles in the life settlement industry, including the honor being a part of the Education Committee for the ISLSP.

George Polzer:

Good, thank you Ben. Ed Jones could you please introduce yourself .

Ed Jones:

Okay, yes I muted myself because I have some neighboring dogs who have lots of opinions but nothing about life settlements so I muted myself, the credentials for Jim and myself… Jim why don't you start.

Jim Aspinwall:

My name is Jim Aspinwall and I apologize for not being able to get on sooner. At present I'm an adjunct professor of mathematics at Florida Southern. I basically got into this industry through the capital markets, was in structured products and oversaw head of quantitative research and applications for some of the bigger investment banks and we were using, I was heavily involved in the credit derivatives markets and in the CDO's particularly and we discovered that we could use life settlements as a dampening effect for volatility and correlation in the big CDO's. So that's how I got started back in 2001, 2002 and have been involved ever since. We obviously price the life settlement products, we have a number of different models we've developed to include models that will work with other structures, and that's just basically my background.

George Polzer:

Also can you tell us a little bit about your book that you recently published.

Jim Aspinwall:

We just recently published a book on life settlements and structures and from the standpoint of risk management the longevity risk and what you can do to try and hedge and protect yourself against the longevity risk, and there is a second book coming out. I'll push that one too which will be pretty much totally dedicated to a lot of what I see coming down the pike as this business becomes more popular. You can in fact port over all interest rate models into mortality models, you can get a mortality curve that will look like an interest rate curve and in doing so you can then use all the hedging capabilities that we have in the interest rate markets like swaps, and caps, and floors, etc. and hedge the longevity risk on a life settlement pool because that seems to be the major, that and liquidity, are the two big risks in longevity in life settlements. And I do have a question for the panel but I'll hold off.

George Polzer:

Ed if you'd like to introduce yourself and then we'll move to the questions.

Ed Jones:

I'm very much involved in the industry particularly from the securitization aspect because of ownership at a silica mine and an effort to securitize capital for a gold mine and very appreciative of the presentations by Scott, Boris and Stephen, and very much in agreement with what you've presented. I think it's very professional and I think very much needed in the industry for the overall image as well as for self-monitoring and I believe, if I'm not mistaken, as Boris mentioned that he was not aware if there was any retail effort in the area of life settlements and I think there's a company called Life Partners, Inc. in Texas that is licensed to take private investment money of $3,000, $5,000 or whatever and showing in their prospectus that the investment is protected by life settlements and that's what their business is. There's another one in London, they're based off shore, I don't have that name or their website but I can send it out in an e-mail to everyone. But thank you, it's great to be a part of this.

George Polzer:

Thank you, lets start with the questions to the presenters by the panel. Do we have any questions. Jim, Ben ... go ahead

Jim Aspinwall:

I have one to get this started. Bear in mind I'm a strong proponent of this industry and I think, I worked in the mortgage back securities and collateralized mortgage backed industries way back when, it just shows you how old I am, and I saw that industry explode and grow exponentially and I see this industry moving pretty much the same direct, but my question this ... most life insurance companies price the policy of their life insurance based on the fact that almost 85% of the policies they sell will lapse, and I think one of the fears from the regulators is that if life settlements take off that lapse percentage will go way down possibly to zero, at which point in time you're going to get the same effect you got with Freddie and Fannie where you're looking at very high rated companies that all of a sudden weren't making any money at all and in fact were in trouble of default. What is the response that we give to people who bring that question up because the minute life insurance companies start stop seeing 85% of their policies lapse they're going to start losing money. I mean if it goes down too far they're going to start losing money and then you're going to have massive problems, same type of thing that you had with the credit markets. Any response to that.

Scott Page:

This is Scott Page, I'd like to take the first pass at that. The amount of life insurance in force in the United States is in the trillions. I think that the life insurance industry is currently starting to pay much closer attention to the life settlement business. I believe that the policies that are being settled is still a very, very small fraction of the total policies that are in force. I also believe that the underwriting parameters that are taking place with the life insurance companies will probably have to be notched up a bit. I know that particularly the underwriting that takes place for a mortality or life expectancy projection in the life settlement industry is much more in-depth and much more carefully analyzed than simply utilizing what's known as a VBT table or an actuarial table just based on a standard life or a high risk. So at this point I don't believe that there's going to be a dramatic impact on premiums for the general consumers on the life insurance side based on what's happening in the life settlements side, but I do think that the life insurance companies are going to start taking notice, because you are correct, a large percentage of the policies that are issued the carrier assumed will lapse in their premium pricing. I think it may have an effect long term in raising the pricing, but at this point I don't think we're in any type of critical danger of life insurance being priced out of the consumer's reach.

George Polzer:

I have some statistics, LISA recently point out that the life settlement market is 1/500th of the total insurance market, so we're looking at roughly $15 billion of life settlement face transactions, that's a little bit high for 2008 based on the recent Conning Report, versus $7.3 trillion total in transactions for the entire insurance industry, so it's a drop in the bucket for the insurance industry. We're exaggerating thinking that life settlements can really catch the attention of the insurance industry as far as having any significance. They have other problems that they're dealing with right now, having to focus on the impact of the health reform on their business. Any other questions from the panelists.

Boris Ziser:

I would like to address Ed's point for just one second on the retail market in that he's correct about Life Partners although as I said there's really not much of a retail market. Life Partners actually is the only publicly traded life settlement company and has done some retail transactions but by and large the market does remain here in the USA as an institutional one, but it is true that there is one company as you mentioned that is publicly traded and has done some retail transactions, but it's a small percentage of what is actually out in the market place.

George Polzer:

Boris, I have a question ... how will the accredited retail investor be able to take advantage of this asset class if at this point it is only the institutions and investment banks that are going to be packaging and integrating this into their products. Is the accredited retail investor ultimately going to be getting watered down products or can they already participate?

Boris Ziser:

Not necessarily, I mean it depends on what product you're really looking at because I think you have to really then separate the actual asset, in other words the policy from a security. You know, every securitization represents a security that's backed by a pool of assets or packaged as you said, whereas you can also at the same time go buy an individual auto loan but you typically don't. So here if you were to do a securitization, securitizations by and large are usually bought, even public transactions that could be bought by retail investors are usually not, they're usually bought by institutions, and so I think that in a securitization you probably would expect that most of those buyers were institutions. On the asset side I think for an individual investor, I think it's somewhat challenging in that it requires the ability to analyze the asset and to analyze the risk and to analyze the life expectancies Scott was talking about, and the mortality curves and be able to understand how the policy works, and you know, there are certainly some individual investors who are able to undertake that sort of analysis, but I think it probably would be difficult for many. So I think this asset class is probably more easily accessible to institutional investors simply from an analytic perspective.

Ben Geber:

Can I jump in real quickly. Ed and I through the Dominion Fund were involved with a fund in London that basically sold the net asset value, the shares of the fund were based on the value of the life pool behind it and while this fund is in fact still only institutional I can see setting something like that up where the investor, the retail investor, buys net asset value shares of a fund like any other fund.

Boris Ziser:

I agree with you but in that situation you have a professional investment manager managing the fund and I agree with that, I include that when I say it's an institutional market, I include a fund in which a retail investor can actually invest and buy shares but the management of that fund and the analytics on the portfolio and the management of the portfolio are done by a professional portfolio manager with the capability to analyze the investment.

Ben Geber:

Yes absolutely.

George Polzer:

Good, let's open it up to attendees. I already have a couple of questions from attendees. We're approaching 5 minutes over our one hour, we'd like to stay as punctual as possible so we're going to pose if anybody has any other questions, please type them into your question box, the question is, "there's been a recent Conning Research Report, the life settlement transactions have been hit hard according to this Conning Research Paper. Can anybody make any comments what was meant by that and how hard was the life settlement industry hit? I saw a couple of blogs and press releases on the topic saying it was a Conning Report says that the life settlement industry was hit hard ... any comments on that?"

Response:

Yes I can jump in real quickly because we're buying life settlement pools as we speak. It's kind of misleading in that hedge funds are having redemptions like mad, banks and financial institutions have capital requirements that they have to make and the only real asset they can sell that has held any value at all are the life settlement pools. So they are selling life settlement pools not because the life settlement pools are in trouble but because the institution behind the life settlement pools are in trouble, and yes you can get distressed sales out there now.

Scott Page:

And this is Scott Page to add to that. I believe the Conning Report was focused at least my understanding was primarily on the policies traded from the secondary market being direct for consumer, and I think everyone is aware that a year and a half, two years ago, the economic structure of the United States failed and what that did was to allow less capital into the market to purchase life settlements. So I think that's why we saw a small little decline, I think that Conning predicted that it was a 12 billion trade and then it dropped to about 11 billion which is still a gigantic number, but I do believe primarily the reason for the drop again is because of the economic situation that the country was in, and a lot of the current lines of credit and financing and liquidity was no longer available.

Response:

And let me reiterate that there was no other asset that anybody had that they could sell that wouldn't take a huge hit so they were selling the life settlements because those were the assets that seemed to hold value best.

Response:

Yes and it was almost the perfect storm if you would because consumers needed this transaction and need this transaction more than ever and unfortunately the banks and the credit markets sort of contracted with the availability of capital which calls less money out into the industry which could also prove to be more competitive offers on the policies. So we're hopeful that we are seeing that more capital is currently entering the market because there are some wonderful opportunities to buy fair pricing with life settlements as soon as capital returns.

George Polzer:

Thank you. Here is another question ... "which criteria or is there a criteria that has been fulfilled for life settlements securitization to be successful? I've noticed conflicting reports in the media saying the S&P is excited about rating these transactions and there was another article recently saying that the S&P has no intensions and doesn't see this even in the near future. What's your perspective on this?"

Response:

Well we've dealt with the S&P, I keep missing his name it's Chen or Chang who's in charge, who heads up this area for S&P and the word we got from him is we'll never rate these policies.

Scott Page:

This is Scott Page at the moment and Boris I would like you to chime in after me, but I think that there are currently two real securitizations being taken into consideration in the U.S. and the primary concern for the consideration for the securitizations is the standardization of documentation. It's very difficult to take multiple providers providing their own forms and their own documents and merging that into one specific standardized documentation. So I think Boris if you could maybe highlight a little more your opinion on the subject.

Boris Ziser:

No I think that's correct and I think also different rating agencies would have different requirements for the diversity in the pool and in terms of the number of lives effectively that would be represented in the pool because obviously the larger that number the law of large numbers can better apply and so you can better approximate the performance of the pool along the mortality curve, and look, one of the risks in life settlements is longevity risk and one has to be able to analyze that with some precision that they feel comfortable. S&P, taking them as an example, you know, while I don't know that they would never rate a pool, I think that if there was the right type of transaction with the right number of lives and the policies were sufficiently diversified and Scott is exactly right, the documentation pursuant to which the policies were acquired was sufficiently uniform for them to be able to do the analysis they need to do. Under their own rating methodologies I wouldn't say that I would rule it out, but I think those standards differ and I think they would frankly differ from rating agency to rating agency on any asset class and just to highlight that further you can have two rating agencies that are willing to rate any asset class backed pool, but the methodology diverts so much that effectively they really can't structure a transaction that is economically viable and so to say that they're willing to rate it but their methodology is so stringent that you can't actually make the transaction economically viable really is sort of a substance without a difference area. So I think that it's hard to paint it with a broad brush and I think that given the right transaction different rating agencies I think would look at it differently.

Response:

We talked about this before, coming through the derivatives markets, you know, they had all kinds of problems initially, even things like when Russia defaulted on their bonds the default swaps, people were turning in the default swaps, and the argument went well they didn't default on the dollar denominated bonds, therefore they theoretically didn't default, and the argument then started into what is in fact a default. If I go into reorganization, is that a default, and it was a total mess. Why I'm going in that direction is that the credit derivatives markets finally joined ISDA, International Swap Dealers Association and put into effect what was basically a conforming program like a conforming mortgage backed security and we've talked about this with this organization of setting up some sort of conforming program as to this is what a good conforming pool of life settlements should look like, and I think that may help.

George Polzer:

Alright we've come to the end of the webinar. I'd like to thank everybody for participating, the presenters and the panelists, outstanding job. Andreas would you like to do the closing statement.

Andreas Hauss:

Yes, thank you very much gentlemen for participating actively in the webinar and for the fruitful Q&A session. These three webinars will continue in the months of November and December, so please feel free to contact ISLSP should you wish to suggest topics for our upcoming webinars or have questions.

We will have the pleasure to listen to Mike Fasano at Fasano Associates and to Mr. Keith Styrcula at Structured Products at our next monthly webinar in November. Also you may want to know that ISLSP is putting into place an innovative education program with training sessions and a certification program to be launched in Q1 2010.

Looking forward to welcome you at our next conference in November. I am Andreas Hauss, the founder of the International Society of Life Settlement Professionals speaking from our offices in Europe.