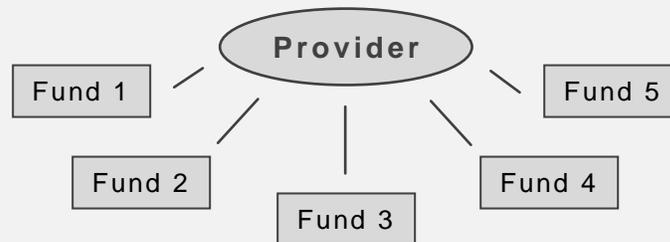


# Life Settlement Provider Defined

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By definition, a life settlement provider is a person or entity that manages the acquisition of a life insurance policy on behalf of a third-party buyer, which may range from individual to institutional investors. In addition to aggregating policies from numerous sources for more efficient consideration by their buyers (commonly called funds), providers ensure each case is thoroughly vetted from pricing, legal and regulatory perspectives. In effect, providers are buy-side brokers that interface with sellers of life insurance on behalf of their underlying funds, representing the funds' interests in all matters.



At times, providers use their own capital to buy policies, serving as both the provider and buyer (via an affiliated fund) in the same transaction. Doing so enables them to compile their own portfolios for long-term investment or to re-sell policies for short-term gains.

While the lines have become increasingly blurred about whether or not providers buy policies for themselves or others (causing the terms provider, buyer and fund to be used somewhat interchangeably), one issue stands clear – a provider's main objective is to minimize the amount it pays for policies in an effort to maximize its fees and/or the investment returns of its funds. It's important for sellers to be mindful of this universal truth because the goals of buyers and sellers in the life settlement space are diametrically opposed.

	<b>Buyer</b>	<b>Seller</b>
<b>Stakeholder</b>	Investors ► Fund ► Provider	Broker ◀ Advisor ◀ Policy Owner
<b>Goal</b>	Buy low	Sell high

Providers may work with one or multiple funds, and their success is largely dependent on the amount of capital their funds possess, as well as how liberally they're willing to spend it on policies. All else equal and absent self-dealing by the various stakeholders, life settlements are a commodity business whereby the highest bidder for a given policy wins. Accordingly, providers with the "strongest" money (i.e., those who make the highest offers) are typically the most active and successful buyers.

A fund's capital is not unlimited, however, and buying life insurance policies is capital intensive (in addition to the amount paid to purchase a policy, ongoing premiums are required to keep the coverage in force). Once a fund's capital is depleted, it must raise more money from investors (i.e., a tranche) in

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order to remain an active buyer. For this reason in part, providers favor having a stable of funds at their disposal – perhaps as many as six or eight. If and when active funds become idle, others exist to fill the void. When successfully implemented, this approach enables providers to minimize lulls in business over time.

The pattern of providers and their funds cycling through tranches of capital, which vary widely in size and quality (i.e., strength), contributes to regular changes in the buying landscape. Today's most active and aggressive providers may become dormant within weeks if their funds must raise more money or shift priorities elsewhere.

As with mutual funds and other investment types, the terms and conditions under which funds operate, as well as the investment returns they hope to achieve, are enumerated to potential investors in a prospectus. How exactly a fund buys policies and the returns it seeks (both relative to competing buyers) ultimately dictate the strength of its money – the more concessions the fund makes in these regards, the more aggressively it may bid for policies. For example, if a particular fund is willing to accept investment returns below the returns other buyers pursue, then it will outbid its competitors all else equal. Conversely, if that fund is stringent about how it selects and prices cases with above-average expectations about profits, then its success will be limited compared to rivals that are more seller friendly in these ways.

The differences between funds regarding their risk and reward profiles, buying preferences and specialties are another reason why providers prefer relationships with multiple funds: it enables them to be more versatile, capable of buying an array of cases with diverse parameters.

Not unlike life settlement brokers, providers are required to be licensed by the states in which they operate if that state regulates life settlements (only a handful of states lack such legislation at this time). Licensure is important because it means providers are subject to initial and periodic reviews by the state's governing body to ensure compliance with its regulations, which are intended to protect the interests of policy owners / sellers.

Another key consideration for sellers is if providers buy solely on behalf of institutional investors (as opposed to private or individual buyers). In addition to the favorable track records they typically afford, such firms are better equipped to absorb investment losses within their portfolios due to superior capitalization and diversification (moreover, they often hedge against this risk). Consequently, institutional buyers offer sellers peace of mind after the sale of their life insurance.

Other issues that may differentiate providers are their privacy, confidentiality and antifraud policies and procedures, as well as their post-purchase plans for policies (i.e., hold them until maturity or flip them to third parties for quick profits).

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