Life Settlements: The Evolution of an Institutional Asset Class

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## Life Settlement – Transaction Profile

- **The purchase of an in force life insurance policy covering the life of one or more individuals, generally in late 70s to early 80s**
  - Investment guidelines determine which policies are eligible and attractive to each investor

- **Insureds are generally elderly, wealthy and well-advised**
  - Change in financial and estate plans, life, objectives, tax laws are primary drivers

- **The basis for a Life Settlement transaction is primarily the fact the seller no longer has a need for coverage**
  - For the Policy Owner, life settlement is an alternative to lapse or surrender not an alternative to keeping the policy
  - The decision to sell is made **BEFORE** the policy enters the market
  - The original purpose for the insurance policy no longer exists
  - The insured wishes to replace outdated, inefficient or underperforming coverage
  - The policy owner wishes to deploy cash devoted to premium payments in some other fashion
  - Estate/Tax Planning considerations
  - Business ownership changes (Key Man, Buy Back policies)

- **Institutional capital finances the vast majority of Life Settlement transactions**
Life Insurance is Property

- A decision rendered by the United States Supreme Court in 1911 (Grigsby v. Russell, 222 U.S. 149), is generally considered to have established life insurance as having the characteristics of property, meaning that it could be bought, sold, pledged or otherwise transacted as are other forms of property.

- The ability of a life insurance policy owner to sell their policy in the Life Settlement market is based on this landmark decision.

- Market dynamics analogous to earlier periods of the mortgage secondary markets

Life Settlements as an Alternative to the Cash Surrender Value

Life Settlements produce significantly higher proceeds to the seller of life insurance compared to surrendering the policy for its cash value.

Market Survey - Life Settlement Proceeds vs. Cash Value

Source: Conning Research
Life Settlement Market Opportunity

The Life Settlement Opportunity

- The population of “senior citizens” in the US is the fastest growing cohort which owns billions of dollars (in death benefits) of life insurance

- A tremendous volume of life insurance owned by seniors and others is surrendered or lapsed annually because the “needs and wants” of policy owners and insureds change, as they do not take advantage of the Life Settlement alternative

- The majority of life insurance agents has yet to offer a life settlement alternative to their clients

- Life Settlements offer a better alternative to surrender and therefore significant growth has been exhibited on the policy supply side

- Lack of awareness by consumers, financial planners and agents of the Life Settlement alternative

- Life Settlements are viewed by large and reputable institutional investors entering the market as an advantageous non-correlated asset class with relatively low volatility and credit risk

- Opportunity to capitalize on the market “seller and buyer” demand
The US Life Insurance Market

– The life insurance market in the United States represents 30% of all life insurance sold worldwide.

– Total “in force” life insurance in the US is approximately $9.2 Trillion across 1.76 Million policies.

– Conning Research estimates that the percentage of life insurance policies which were settled in 2006 was 0.1% of the total in force amount.

– Eligible policies for Life Settlement will significantly expand as the “baby boomers” age, therefore growing the supply side.

Shifting Demographics are a Powerful Driver for Industry Growth

Eligible Policy Supply Expands the Marketplace

An increasing population of people older than 65 continues to provide a significant supply of life insurance policies to the Life Settlement market.

Source: Census Bureau; Federal Reserve Survey of Consumer Finances; Fox-Pitt, Kelton analysis.
Life Settlement Market Size Estimates (In $US Billions Face Value)

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Source: Conning Research Report 2007

Historical Growth of the Life Settlement Market 1998-2006

Source: Conning Research Report 2007
Life Settlement Market Size - Conclusions

– While each source produces estimates of differing amounts it is clear that Life Settlements are growing rapidly

– Conning Research in a recent report has estimated the eligible policies between 2007-2016 being between $90Bn to $140Bn in Death Benefit, per year

– The estimates above assume:
  – The insured must be 55 and older
  – They must already own insurance policies
  – The must be considering lapsing or surrendering the policy
  – Health is impaired yet not terminal
  – Face amounts should be $100,000 or higher

– Total “in force” life insurance in the US today is approximately $9.2 Trillion. Estimated Life Settlement potential of $90Bn to $140Bn per year between 2007-2016 (Conning Research).

– From 2001 to end of 2006, based on industry analyst averages, investors purchased policies worth approximately $22Bn in face value (Conning Research)

– Average face amount of purchased policy in 2007 approximately $2 Million

Further Developments in the Life Settlement Market

– Investment managers raising capital on a global scale to invest in the new non-correlated asset class. Global investor base active in the marketplace

– Change in US GAAP accounting has improved the treatment of Life Settlements acquisition costs for US investors

– Structured notes, swaps, synthetic structures, mortality hedges and other financial products are being developed and offered by large financial institutions

– Electronic Exchanges are being created for trading Life Settlements (Cantor Fitzgerald LexNet, Life Exchange)

– Lenders are providing asset backed lending facilities - Life Settlements being pledged as collateral

– Insurance companies are entering the life settlement market

– Increased regulatory activity

– Extensive press coverage and multiple conferences and events. LISA, the industry’s largest trade association, continues to grow in size and importance as a primary force behind expanding and improving regulation and standards

– Increased M&A activity (Legacy Benefits, Peachtree, Maple Life)
In The Press – Front Page BusinessWeek, Wall St. Journal and Crain’s

Regulatory Environment

- Viatical / Life Settlements may be aregulated transaction depending usually on policy owner’s state of residence
- Viatical Settlements are regulated in 39 states
- Life Settlements are regulated in 28 states
- Viatical Settlement or Life Settlement? Type of transaction depends on the medical condition of the Insured
- Viatical/ Life Settlement laws regulate transaction mechanics (i.e. escrow procedures), required disclosures, transaction form content, anti-fraud/privacy requirements, etc
- Business is regulated by the states’ Departments of Insurance
Life Settlements - Market Participants

The “Sell Side” of the transaction

- Policy Owner
- Policy Broker
- Provider
- Insurance Agent
- Financial Advisor
- Attorney
- Accountant
The “Buy Side” of the Transaction

- Life Settlement Provider
  - Escrow Agent/Trust
  - Institutional Investor

“Sell Side” - Policy Sellers/Insured

**Sellers**
- Can be an Individual, Trust, Corporation, or other legal entity
- Regulation generally driven by the state in which the seller resides
- Owns the policy asset and controls the right to sell it
- May or may not be the Insured
- Generally represented by an Intermediary (Insurance Agent, Financial Advisor, Attorney, Accountant or Broker)

**Insured**
- Typically elderly, wealthy (“high net worth”) and well-advised
Policy Owner Options

– **Keep** the policy
  – Premium payments must be made
  – Owner may not benefit

– **Lapse** the policy (no cash value available)
  – All value is lost. Alternative of a Life Settlement is favorable as money is paid to owner.

– **Surrender** the policy
  – Monopsonistic “sale” (one-buyer – insurance carrier)
  – Owner receives only cash value. Alternative Life Settlement policy sale generates an amount significantly higher than the cash surrender value

– **Sell** the policy **(Life Settlement)**
  – Owner benefits (receives a multiple of cash surrender value)

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“Buy Side” - Institutional Investors

– **Institutional Investors** – Domestic (USA) and international
  – Exempt from licensing requirements if purchasing through licensed providers
  – Large, reputable, institutions with significant amounts of capital to invest
  – Securitization. Other sophisticated financial structures/instruments being developed

– **Pension Funds**

– **Hedge Funds**
  – Large, private pools of sophisticated, "structured" or managed capital
  – Concerns about liquidity are dissipating

– **Insurance Companies**
  – Hedge for portfolio of issued life business (matching of deferred payment assets to deferred liabilities).
  – AIG’s investment is an example
  – Additional companies entering the market – Phoenix Life, Transamerica
  – Mortality risk associated with life settlements is the same as that associated with SPIAs (Single Premium Immediate Annuities) and retirement-related obligations

– **Investment Funds**
  – German private equity funds have dominated the investor role for the past 3 years
    – Entered market in 2003 with $300MM
    – Total investment to date, approximately $3 Billion (Source: BVZL presentation, LISA Conference 2007)
  – New entrant funds, globally
Select Institutional Participants

- Goldman Sachs
- CREDIT SUISSE FIRST BOSTON
- HypeVereinsbank
- AIG
- Morgan Stanley
- UBS
- BEAR STEARNS
- Deutsche Bank
- WestLB
- AIB
- WACHOVIA
- KGAN
- Citi
- JPMorgan
- ABN AMRO
- MIZUHO
- Merrill Lynch

Life Settlement Provider - Traditional Role

**Value-added by Life Settlement Provider**

- Life Settlement Providers ("LSP") create the link between all participants in the secondary life insurance market
- Match supply and demand in the life settlement market
- Underwrite, evaluate and price policies presented for sale
- Very few LSPs (the Legacy warehouse) policies eliminating ramp up risk for investor
- Provide post acquisition tracking and monitoring services that are essential for the functioning of the secondary market
- Medical underwriter may be internal to the LSP or one or more external vendors

**Example of Simple Transaction Structure**

- Investor
- Escrow Agent/Trustee
- Life Settlement Provider
- Life Insurance Company
- Medical Underwriter (a)
- Agent/Broker

(a) External or part of Life Settlement Provider
The Legacy Benefits Advantage

Legacy Benefits – Corporate History

- Long and Profitable Operating History
  - Since its inception in 1991 until today, Legacy Benefits has focused solely on purchasing unwanted or unneeded life insurance policies from individuals, companies, charitable organizations, banks, trusts and other entities
  - Market leader among the top 6-7 provider companies. No revenue figures available as these are private companies

- Founding of Life Settlement Association
  - Meir Eliav, Founder and President of Legacy Benefits, was a founding member and past-President of the Viatical and Life Settlement Association of America (VLSAA), renamed in 2005 as the Life Insurance Settlement Association (LISA), the largest trade association representing the majority of the life settlement participant firms

- Highly Experienced Team
  - Legacy Benefits’ management team a highly experienced group of settlement professionals in the industry.
  - Few other firms have more experience originating, executing and managing Life Settlements
  - Legacy Benefits 16 year operating history one of the longest and most reputable in the industry

- Strong Credit Ratings
  - On March 16, 2004, Moody’s Investors Service assigned ratings of A1 and Baa2 to the Class A Notes and Class B Notes issued in the securitization by Legacy Benefits Life Insurance Settlements
  - In 2004 and again in 2005 Legacy was awarded an “AA” rating by Scope Credit Rating Agency in Germany.

- First Institutional Financing
  - Legacy Benefits secured lines of credit to purchase life settlement from Chase Manhattan Bank and later Bank One, from industry inception

- Strong equity position as a result of the recent strategic investment into the company by Mofet Holdings
First Securitization with Merrill Lynch Rated by Moody’s

Life Settlement Securitization
In March of 2004, Legacy became the first Life Settlement company to successfully issue a security backed by life insurance settlement assets. This transaction was underwritten by Merrill Lynch, Rated by Moody’s, and represents a milestone for both Legacy Benefits and the life settlement industry.

Rating Action: Legacy Benefits Life Insurance Settlement 2004-1 LLC
MOODY’S RATES LEGACY LIFE SETTLEMENT SECURITIZATION A1 AND Baa2
Approximately $70 Million of Asset-Backed Securities Rated

New York, March 16, 2004 – Moody’s Investors Service assigned ratings of A1 and Baa2 to the Class A Notes and Class B Notes issued by Legacy Benefits Life Insurance Settlements 2004-1 LLC. The Legacy Benefits transaction is the first life settlement transaction rated by Moody’s.

Issuer: Legacy Benefits Life Insurance Settlements 2004-1 LLC
$61,500,000 Class A 5.35% Notes Due February 10, 2039, rated A1
$8,500,000 Class B 6.05% Notes Due February 10, 2039, rated Baa2

Legacy Benefits - Key Competencies

- Market and Underwriting Expertise
  - Team possessing extensive experience and relationships in the Life Settlement market
  - Strong underwriting, policy evaluation and policy pricing expertise with over 16 years of operating history in the viatical and life settlement industry since market inception

- Strong Distribution Network
  - Legacy Benefits established a strong platform for continued expansion of key business relationships with all major sources of policy submission in the financial services universe
  - Legacy Benefits is licensed in the most important states for life settlements
  - Sources of policies consists of major life settlement policy brokers, life insurance brokers and agents, financial planners, commercial banks and independent broker-dealers

- Brand Name and Reputation
  - Legacy Benefits has established a strong brand recognition, and impeccable reputation, through a high degree of integrity and business practice
  - Legacy Benefits maintains strong relationships with major financial institutions and investment companies

- Sophisticated Operating Platform
  - Legacy Benefits has built in-house databases and sophisticated pricing models to evaluate the economic value of life insurance policies
  - Legacy Benefits utilizes an advanced service and IT-platform to efficiently track policies and manage claims
Legacy Benefits Corporation - Regional Presence and Broker Network

Viatical/Life Settlement Licenses by State
(As of December 14, 2007)

- Licensed
- Pending
- Life settlements not regulated*
- Regulated states but no license

* In California, Delaware, Illinois, Minnesota, New York, Wisconsin and Washington Viatical Settlements are regulated but Life Settlements are not.

Legacy Benefits – Underwriting Responsibilities

- Life insurance policies being sold in the life settlement market are complex assets that must be reviewed and analyzed by entities that are experts in the life settlement industry.
- Legacy conducts due diligence for each policy involving extensive documentation at various stages of the purchasing process.

- Applications and Releases
- Mortality Data
- Insurer Rating
- Regulatory Compliance
- Verification of Coverage

- Policy Information
- Closing Documents/Contracts
- Funding Documents
- Premiums and Pricing
- Seller/Insured Information
Mofet’s Investment and its Impact on Legacy’s Future Business Model
Impact of Mofet’s Investment on Legacy’s Growth Projections

– Legacy’s Existing Purchasing Capacity
  – Legacy’s operational capacity has not been fully utilized in the past due to limited capital availability
  – Legacy’s expertise, reputation, and long standing in the marketplace has generated significant deal flow
  – Not all policies were eligible for purchase from a deal economics/demographics standpoint, yet many more could have been purchased with available funding

– Legacy will Utilize $20MM of its Equity to Purchasing Policies
  – Mofet has invested $20M into Legacy. This equity infusion will be leveraged 4:1 to further increase Legacy’s capacity to accumulate policies and build portfolios
  – Policies will be traded by Legacy in the active secondary Life Settlement marketplace. These will be sold in blocks or larger portfolios presenting buyers with readily available policy inventory
  – Legacy will capture more economic value stated as an IRR spread (buy-sell) vs. the prior fee based origination model where it did not utilize its own equity for policy purchase

– Market Growth and Opportunity
  – Legacy anticipates exponential market growth in the upcoming years
  – Growing awareness by the consumer coupled with a changing demographics will expand the supply of eligible policies
  – Capital availability will enable Legacy to participate in the market in a broader capacity, acting as a principal while generating much higher revenues as a business

Legacy Benefits - Past Business Model

Fee – Based

“Back-to-Back”

Legacy Benefits as operated as an originator in the secondary life insurance market. Revenues were purely fee driven

- Services provided
  – Legacy Benefits screens, evaluates and prices life insurance policies which have been presented for sale
  – Based on an evaluation of medical records and an estimated life expectancy, economics of the policy, and IRR target. Legacy provides a quote in the secondary market based on the Investor’s criteria and pricing
  – The policies are purchased “back to back” by the investors

- Sources of Revenue
  1) Legacy collects an origination fee for each policy resold to investors
  2) Policy tracking fees (on per life basis)
  3) Policy servicing fee (on face value basis)
Legacy’s Evolved Business Model Post Mofet Investment

Legacy Benefits

Value Added

- Legacy will leverage its own equity to purchase policies directly in the life settlement secondary market.
- Legacy will warehouse any policy with economic value with the intent to resell it at a gain in the secondary market.
- Legacy will trade policies in the secondary market.
- Legacy will therefore serve as a broader market maker for policy buyers, presenting inventory of purchased policy supply.
- Legacy is positioned to expand on its position as a market leader by enhancing its purchasing scale and criteria.

Example of Simple Transaction Structure

- Periodic Premium Payments
- Death Benefit Payment
- Escrow Agent/Trustee
- Life Insurance Company
- Medical Underwriter (a)

Types of Services

- Market Maker & Policy Originator
  - Provide a diverse portfolio of life insurance policies at any given point in time for investment purposes or for securitization
  - Buy and sell policies/blocks/portfolios providing liquidity to an inherently illiquid market
  - “Back to Back” origination of policies

- Policy Service
  - Periodic analysis of policy values and projected changes calculating optimal premium schedule
  - Ensure the timely payment of minimum premium payments to avoid policy lapse

- Tracking of Insured Lives
  - Monitor each insured life, post acquisition, throughout the coverage period to ensure efficient benefit claims management

- Benefit Claims Management
  - Execution of benefit claims on behalf of policy owner/investor

Compensation

- Resale Profit Margin (expressed as spread of IRR)
- Origination Fee (expressed as percentage of face)

- Tracking fee: fixed amount per insured life
- Service & Maintenance fee: based on aggregate face amount of policies serviced
Rationale for an Evolving Business Model

Attractive but Illiquid Market

- The life settlement market has very attractive growth prospects over the next decade
- Investors are increasingly interested in the asset class for diversification purposes
- Due to an illiquid market, investment funds are unable to purchase large quantities of life insurance policies in a short period of time
- Investment return is adversely impacted by delayed policy accumulation

Current Business Model

- Build a portfolio of life insurance policies, utilizing a "warehouse" facility
- Offer a choice of policies or entire portfolios that meet specific investment criteria of our clients
- Provide add-on services such as policy tracking and maintenance
- Ability to charge a fee for providing liquidity and diversity (Minimizing ramp-up risk)
- Fees are likely to exceed origination fee charged under current model

Legacy Post Acquisition Servicing Activities

- Recording
  - Internal document management
  - Database records, physical files, electronic files
  - Regulatory & client reporting

- Tracking
  - Monthly electronic tracking of insured’s status
  - Contact with designees if required

- Policy Servicing
  - Analysis of insurance policy annual statement issued by carrier
  - Premium payment optimization, calculations and management

- Collection at Maturity
  - Notification and filing for payment of policy death benefit
  - Follow up with insurance carriers to ensure timely payment of death benefits directly to investor
Questions & Answers