BVZL
International Secondary
Markets for Life Insurance

Best Practices

Guidelines for Investors

and

Suggested Best Practice Standards for

Professionals in the US Life Settlement Investment Industry

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INTRODUCTION

About BVZL International:

The member companies of the BVZL International (The German Association for International Secondary Life Insurance Markets – BVZL e.V.) operate worldwide in secondary markets for life insurance. Since its foundation in May 2004, the Association, which currently has some 30 members, has been providing a single representative voice in commercial, legal, and political matters. The BVZL maintains a constant dialog with politicians, opinion leaders, the public, and other interest groups to actively support the dynamic development of the industry. One of BVZL's main targets is to establish industry standards, with regard to transparency and comparability of the various investment segments (British, German, and US life insurance policies), and to steadily improve the basic conditions for successful investment in these versatile asset categories.

About this Guide

The guide has been developed for the benefit of investors interested in US life settlements as an alternative asset class who are looking for more detailed insight. The document also provides suggested guidelines for professionals who are active participants in the US Life Settlement market.

Many associations involved in the market have issued best practices which have been accepted by life settlement industry association members. BVZL has adopted and incorporated many of these best practices in this document, adding a stronger focus on educating prospective investors and current investors.

The members of BVZL consider this to be a living document. It will be updated and revised from time to time as necessary.

Disclaimer Statement:

Nothing contained in this document is intended to convey any legal, tax, financial, or other advice. Readers should consult their own attorney, accountant, or other advisor for such advice. While the information provided is believed to be correct, BVZL does not warrant the correctness of any information, nor intends for it to be an offer of any asset or a representation that any particular asset is good or bad.

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1 Guidelines for Investors in US Life Settlements

1.1. Definition and Basics of US Life Settlement Investments

1.1.1 Definition

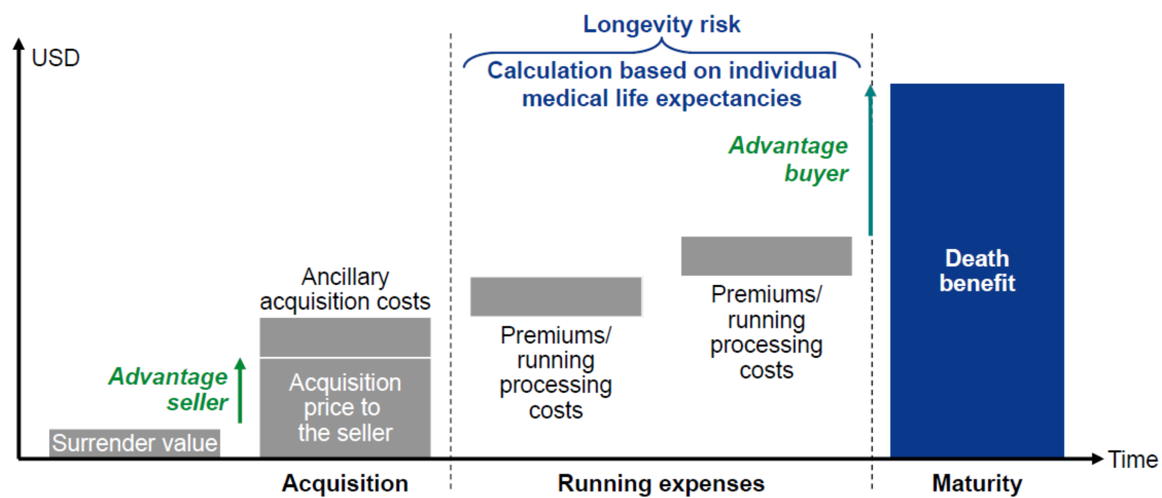
A life settlement is a financial transaction in which the owner of a life insurance policy sells an unneeded policy to a third party for more than its surrender value and less than its face value. Until recently, if a policy owner opted out of a policy by surrendering the policy or allowing it to lapse, the additional value was relinquished back to the issuing life insurance company. In some cases, an insured's health may have declined since the policy was issued and the policy may be worth considerably more than the surrender value. It is also possible that the owner of a life insurance policy no longer needs or wants the policy, or can no longer afford to pay the premiums. A life settlement is an alternative to the surrender or lapsing of a policy.

The Market has grown in two directions, Secondary and Tertiary:

- the secondary US life settlement market, where the original owner of a policy; an individual insured, a trust, or an institution, sells the policy to a financial investor and
- the tertiary US life settlement market, where the financial investor resells the policy to another financial investor after holding and maintaining the asset for a varying amount of time- this greatly depends on the fund structure.

1.1.2 Basics

1.1.2.1 The Concept



1.1.2.2 Parties Involved in a Secondary US Life Settlement Transaction

- **Seller**: The (original) owner of a life insurance policy.
- **Financial Investor**: The ultimate new owner of a life insurance policy, once a life settlement transaction is completed.
- **Insured**: The person whose life is insured by a life insurance policy. In a US life settlement transaction on the secondary market, the insured is typically also the

Seller of a policy. The **Insured** remains the same after the US life settlement transaction and will remain in contact either directly, or by a designated contact person, until the maturity of the policy. The new owner of the policy, the **Financial Investor,** will periodically collect updated information about the current health status of the **Insured**.

- **Agent**: Typically, the life insurance agent, who originally sold the policy to the insured, is the first point of contact when the **Seller/Insured** starts to look for options for the unwanted or unneeded life insurance policy. Depending on state specific regulations, the transaction may be intermediated by a lawyer or an accounting professional instead of an insurance agent.
- **Broker**: The interests of the **Seller/Insured** when negotiating the financial terms of a US life settlement transaction can be represented by a specialist US life settlement **Broker**. The **Broker** puts together all necessary documentation to properly present the policy to various buyers and collects the bids for the policy on the market. State specific regulations also set forth the requirements regarding agent and broker licensing.
- **Provider** (aka "Settlement Company"): The **Provider** is any person or entity which is licensed in the US to process a life settlement transaction in accordance with applicable state laws and regulations. Most states in the US have specific viatical/life settlement laws and regulations in place today, which prevent anyone from acting as a **Provider** without being licensed. A **Provider** may purchase policies for its own portfolio, or represent **Financial Investors** who are seeking to purchase policies on the secondary US life settlement market.
- **Medical Underwriter** (aka "Life Expectancy Provider"): Medical Underwriters analyze the current health status of an insured based on his or her medical records and provide an estimate of the life expectancy of the insured.
- **Servicer:** Many **Financial Investors** do not employ in-house capacity for the post-acquisition maintenance of their policies but rather using the services of specialized industry professionals. Typically, the **Servicer's** responsibilities in this regard will include:
    - ongoing premium management, including: the calculation of (minimum) premiums, instructing the paying agent to carry out the respective premium

payments, and confirming the proper receipt of premium payments by the carrier (insurance company),

- health status tracking, i.e. regular contact with the insured or the designated contact person to verify the current health status of the **Insured** and keep contact details up-to-date,
- serving as the point of contact for the carrier and collecting updated policy information and other correspondence from the carrier,
- coordinating the process of obtaining updated life expectancy estimates if requested by the **Financial Investor** as the new owner of the policy,
- death benefit collection, including: the collection and preparation of the documentation package for the carrier, monitoring the approval process with the carrier, and coordinating the payment of the death benefit proceeds,
- supporting the **Financial Investor** in a process to resell the policy on the tertiary US life settlement market.

- **Escrow Agent/Custodian/Trustee**: Depending on the set-up of a specific US life settlement transaction, and on the funding and holding structure of the **Financial Investor**, there may be additional servicing agents involved in the transaction in order to manage the exchange of purchase price versus title and documents, hold the legal title of the policy on behalf of the **Financial Investor,** and store the documentation package on a US life settlement transaction.

Many of the parties are involved in a tertiary trade except for the insured and original policy owner.

1.1.3 Highlights of the asset class:

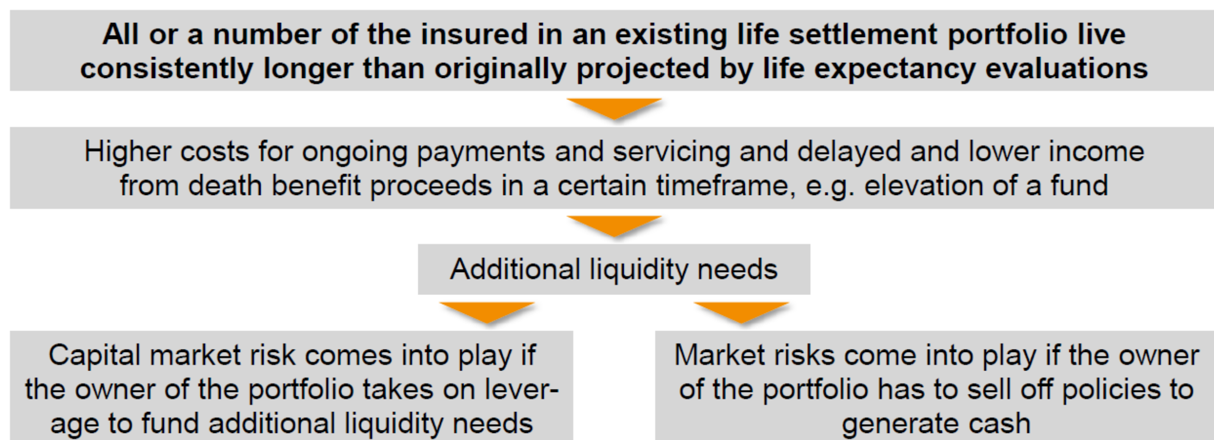
- There is low or no correlation between longevity and the returns in the equity and bond markets, US life settlements can provide opportunities for investment and risk diversification when the fundamental risks of the asset class itself are well understood.

- The consistent evolution of complex federal and state regulations-designed to protect investors and consumers. Many diverse transparency initiatives taken by academics, third party actuarial firms and various funds participating in the market have developed. Medical underwriters forecasting and the education of investors and asset managers has become more comprehensive.

For high net worth/ sophisticated/(semi-)professional investors the US Life Settlement market could be an attractive alternative asset class.

1.1.4 Risks Involved and Risk Mitigation

The most prominent risk associated with investments in US life settlements is longevity risk:



Possible solution to deal with longevity risk:

- Portfolio management tools:
  large portfolio diversification, conservative pricing, reasonable cash management
- Industry products: mortality hedges, stop-loss insurance

Further risks involved with US life settlement investments are the origination risk, the credit risk, operational risks, and the headline risk:

	Risks	Mitigants
Origination Risk	▪ Policy may be contested by carrier due to legal, technical, or contractual problems ▪ Violation of insurable interest laws ▪ Violation of regulatory requirements ▪ Fraudulent actions by insured, broker/agent or settlement companies	▪ Due diligence and careful selection of settlement companies including investigation of their broker/agent network and their organization process and documentation ▪ Focus on seasoned policies ▪ Full legal due diligence on each individual policy with regard to insured background, ownership, right to transfer, etc. ▪ Close monitoring of changes and developments of the regulatory framework and requirements
Credit Risk	▪ Carrier fails to pay death benefit proceeds due to insolvency or financial distress	▪ Death benefit claims are senior to other creditors ▪ Diversify the portfolio across insurance companies ▪ Focus on investment grade insurance carriers ▪ State guarantee funds provide additional protection
Operational Risk	▪ Substandard asset management/policy administration	▪ Build inhouse expertise combined with best in class external service providers
Headline Risk	▪ Negative media reports	▪ Use the best in breed legal advisors ▪ Be transparent ▪ Follow best practices ▪ Educate consumers and investors

If a prospective investor intends to trade the policies after a certain holding period, compared to a "buy-and-hold-until-maturity" strategy, may have more exposure to all risks for the reasons of future availability of capital and market price fluctuations.

1.2 Ethics of US Life Settlement Investments

The investment return of US life settlement is triggered by the actual remaining life time of the insured, the media often describe US life settlement investments as "Death Bonds" and claim that investors are making a profit on other people's mortality. It has been said that the life settlement market is bad and this new asset class is the "most macabre investment scheme invented by Wall Street" (Business Week, Matthew Goldstein, July 29, 2007).

Yet, the US life settlement market is beneficial for consumers (policy holders/owners), as it provides an alternative to the lapse or surrender of a policy. The consumer is able to access a greater value than the insurance carrier will provide. Also, business models, which are based on the remaining lifetime of people or an estimate thereof, are anything but a new invention, and have been in existence for many years. There is no provider of annuity assurance, for example, who is interested in holders of annuity plans living forever. The

business models of annuity carriers are also based on mortality, and their profits increase the earlier their annuity holders will decease.

Due to the demographic evolution, especially in most industrialized countries, it is evident that developing tools and expertise in the proper calculation of the remaining lifetime of humans, as well as mortality/longevity related business models and investment opportunities, will become even more important in the future.

An investment in life settlements is a mortality/longevity related investment, but this is not a new type of investment. The 1911 Grisby decision by the US Supreme Court legitimized the secondary market for life insurance. Although insurable interest was required at the time of the purchase in this decision by Justice Oliver Wendell Holmes, after purchase, according to the court decision, life insurance is property that can be sold or traded, thereby legitimizing the secondary market that would not develop for another 80 years. The market for US life settlements is beneficial for the consumer. It provides a reasonable and profitable alternative for policy holders who may otherwise lapse or surrender an unwanted, unneeded, or unaffordable life insurance policy.
In addition:

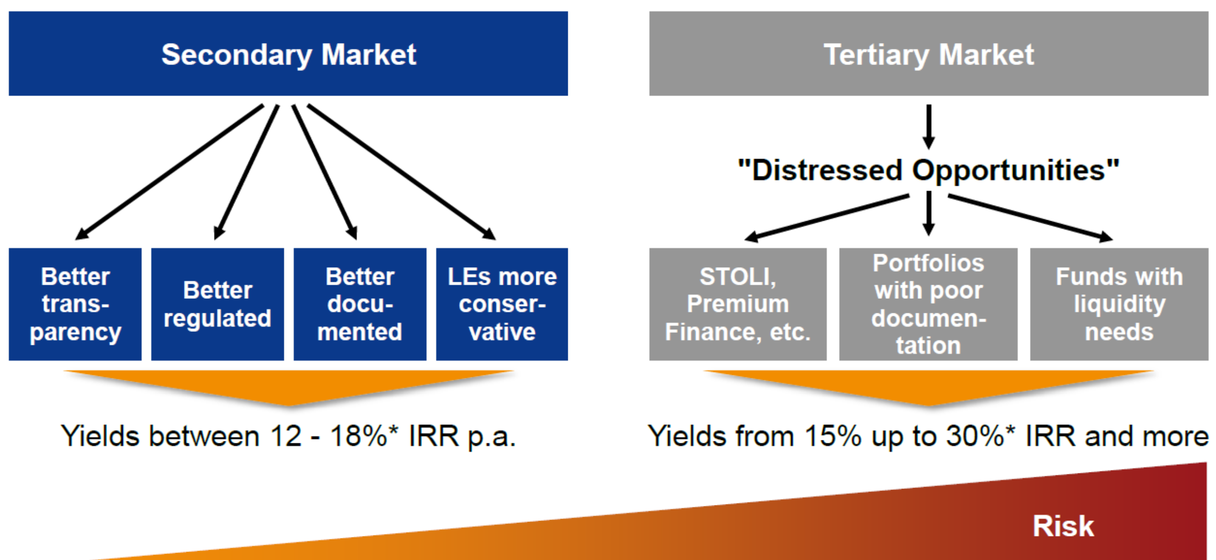
- No policy owner can be forced to sell a policy. The owner is free to lapse, to surrender or to sell a policy.
- Regulators and legislators support the secondary market for life insurance policies. In Great Britain authorities obligate insurance companies to mention life settlements to policy owners as an alternative to surrender or lapse. In the United States the same development is under way. The German legislator[1] requests that people check the possibility of selling an existing in-force life insurance policy on the secondary market before they apply for social welfare.

Having efficient secondary and tertiary markets for life insurance policies requires investors to purchase policies that are no longer needed or wanted by the original owner. Labeling US life settlement investments as unethical also casts judgment on the guidance of governments, authorities, and legislators, who see the benefits of such markets and actively recommend consumers to consider selling a life insurance policy instead of letting it lapse.

[1] See: §90 Sec. 2 Nr. 2 SGB

1.3 Risk/Return-Profile and Investment Strategy

US life settlement investments possess attractive qualities which could be considered attractive to sophisticated investors.



A long-term investor, whose primary focus is risk diversification by the investment in a non- or low-correlated asset class providing stable returns well above treasury-bond level, may prefer to purchase policy-by-policy on the secondary market to build his/her own portfolio, follow a buy-and-hold-until-maturity strategy, and possibly further mitigate the longevity risk with reinsurance. Except for a credit-facility to potentially bridge premium payments, if necessary, the US life settlement investment will typically be purely equity based, which further limits the risk for the investor.

A short to medium term investor, on the other hand, who looks at this asset class from a more opportunistic perspective with the main intention to realize gains on price differentials after a certain holding period, may prefer to purchase policy portfolios or blocks of policies on the tertiary market in order to reduce the ramp-up period. In this case, the longevity risk may

play only a minor role and the success of this kind of US life settlement investment will be largely triggered by the future development of the US life settlement markets and the quality of the origination of the purchased policies. To further maximize the potential gains, such US life settlement investments are often (highly) leveraged. This may also maximize the potential losses for the investor if the markets and prices do not perform as originally expected. Market changes may also impact any projected future sale.
Prior to any US life settlement investment, each prospective investor should carefully revisit his or her individual risk/return profile and investment strategy in order to find out the most appropriate approach for his or her beneficial and successful US life settlement investment.

1.4 The Partner(s)

US life settlements offer great opportunities for prospective investors, but only if executed properly. While the risks involved in US life settlement investment transactions are well-defined and manageable (the transfer of an asset from one party to another seems to be pretty straightforward), the complexity of US life settlement investments lies in the details of the purchase and transfer process. This process requires expertise and proper evaluation techniques and tools. Numerous different parties are involved in addition to the seller/owner of a policy and the investor. The post-purchase administration of life insurance policies and portfolios is extremely complex and requires experience, standardization, robust and efficient procedures, state-of-the-art technology with back-up solutions, and the careful selection of additional service providers. The primary target is to keep these policies well-documented and in force until maturity at the lowest-possible costs.

If a prospective investor does not have their own experienced team, technology, and management capacity, then the most important success factor will be to choose the right service partners to assist.

1.5 The Product

The general set-up of the appropriate US life settlement investment product will be determined by the individual risk/return profile, and the overall investment strategy of the investor according to 1.3 above.

The available investment capital will further determine whether the investor will be able to pursue an individually tailored solution, customized for his or her specific goals and requirements, or if he/she should join with other US life settlement investors with similar objectives. In case of the latter, the prospective investor should be aware that should the need for a change in the investment strategy arise in the future, adjustments usually have to be decided in a majority vote, and the interests of the different investors may vary.

It is essential that the documentation provided with a US life settlement investment transaction is clear in its language and completely transparent with regard to all risks involved. The investment purpose and structure, any special features included, and the parties involved (including statements about potential conflict of interests and declaration of any remuneration), are all applicable. The documentation should also describe any possible tax or legal implications depending on the jurisdiction of prospective investors.

The material provided with a US life settlement investment product should allow the prospective investor to understand, its rationale and mechanics. It should be clear:

- the purchase of policies and/or portfolios in connection with the US life settlement investment product will be in line with all applicable laws and regulations,
- was subject to thorough due diligence and valuation,
- the projected cash flows and repayments to the investor are supported by the underlying policies and consider all costs involved with the purchase, ongoing maintenance and possible resale of policies as well as any costs occurring in connection with the set-up, ongoing administration, taxation and any liquidation of the investment vehicle, and
- the investor's assets, the policies, are protected and isolated from unauthorized access.

1.6 Investment Vehicle

Regardless of whether the prospective investor looks for an individual US life settlement investment solution or a joint investment with other investors, it is important to choose the right investment vehicle.

Joint investors, for example, will have to decide between open-ended versus closed-ended investment structures, depending on their individual investment horizon and the potential need for an early exit. A closed-ended structure will generally better accommodate the cash-flow characteristics of a US life settlement investment and allows for the exploitation of the upside potential in a policy or portfolio of policies. An open-ended structure may be more feasible for investors who intend to pursue a long-term investment in principal but need to have an early-exit option, if worse comes to worse. Because of the costs for such early-exit options, open-ended US life settlement investment products usually provide lower returns compared to closed-ended structures (ceteris paribus).

The tax treatment of US life settlement investments is even more important when choosing the right investment vehicle. Usually there are three levels of taxation:

- US withholding tax on death benefit payments on the purchased policies,
- taxation on the level of the investment vehicle, and
- taxation on the level of the individual investors.

Death benefit payments on a policy may be subject to US withholding tax of up to 30% if collected by a non-US beneficiary/owner. This tax burden would significantly reduce the profit potential for the investor in US life settlements. Some jurisdictions, however, have double-tax-treaties with the US in place, which either eliminate the withholding tax payable on such income or reduce the tax rate to zero. In order to minimize the risk from US withholding tax, the prospective investor should therefore look for investment vehicles located in so-called “treaty jurisdictions” such as Germany, Luxembourg, or Ireland. The investor be provided with the respective tax opinions regarding the specific investment vehicle, and should know what procedures are maintained to keep the US withholding tax treatment under review.

Furthermore, the prospective investor should be provided with appropriate information about how any income of the investment vehicle itself will be taxed according to the applicable jurisdiction.

In order to review and analyze the potential impact on the individual tax situation, each prospective investor should talk to their personal tax advisor prior to entering into a US life settlement investment.

2 Suggested Best Practice Standards for Industry Professionals

2.1 Best Practice Standards for Product Designers/Initiators

2.1.1 Product Design

2.1.1.1 Risk Mitigation

2.1.1.1.1 Products should be designed with risk mitigation appropriate to the stated objectives and risk profile of the Product such that the Product meets the expected risk appetite of the investors.

2.1.1.1.2 Product structures should include features designed to mitigate longevity risk, such as a Policy selection methodology which is appropriate for the stated objectives and risk profile of the Product.

2.1.1.1.3 Product structures should include features designed to mitigate cash flow risk resulting from unexpected longevity or cost of insurance increases, such as a liquidity facility, a cash reserve or a third-party guarantee or (re)insurance.

2.1.1.1.4 Product structures should demonstrate with a high degree of certainty that the interest and principal (re)payments presented to Investors can be supported by the cash flow from the underlying portfolio of Policies, and that they do not rely on cash flow generated

from sources of capital (including borrowing, incremental investment, or re-investment) that have not yet been contractually established.

2.1.1.1.5 In addition, Products structured as notes, bonds or similar investments that offer a specified rate of interest and/or the repayment of principal on a specified date should include features that help assure that these specified (re)payments are met.

2.1.1.2 Valuation

2.1.1.2.1 Policies and Products should be valued as closely as possible to their fair value. Fair value is defined by the Financial Accounting Standards Board (FASB) in Accounting Standards Codification Topic 820 (ASC 820) as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The equivalent IFRS rule is set out in IFRS 13 as follows: *“… the objective of a fair value measurement … to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).”*

2.1.1.2.2 An “orderly transaction” implies that normal market conditions apply i.e. that the valuation should not assume a “fire-sale” of assets.

2.1.1.2.3 In determining the fair value of Policies, the discount rate applied should demonstrate an appropriate link to market conditions. For example:

- Using appropriate current market internal rate(s) of return (IRR(s)); or
- Deriving a discount rate using current market data as a build up from first principles.

2.1.1.2.4 In determining the fair value of Policies, a discounted cash flow model should be used with either probabilistic or stochastic decrements.

2.1.1.2.5 The valuation of Policies and Products should be undertaken or reviewed by a qualified independent third party, remunerated on a basis unrelated to the valuation.

2.1.1.3 Other

2.1.1.3.1 Managers' performance fees should be based on realized gains, distributable proceeds, actual cash distributions or another similar measure of actual performance. They should not be based on a mark-to-model valuation of the Product or any other measure of expected performance.

2.1.1.3.2 Products should be structured such that life expectancy estimates will be updated regularly, so that new estimates are developed or updates are obtained at least biannually.

2.1.1.3.3 Liquidity facilities available to the Product should be used to ensure the best interests of Investors. For example, they should:

- Avoid any conflict of interest or appearance thereof;
- Avoid additional leveraging such as liquidity servicing fees payable from the Product which are determined with reference to the face value of death benefits;
- Avoid interest accumulation rates which are out of line with market forces; and
- Avoid any assumption that the Product can use prospective incremental Investor funds.

2.1.2 Disclosure and Reporting

2.1.2.1 General

All promotional material and reports should:

- Be fair, clear and not misleading;
- Give appropriate prominence to, and ensure appropriate placement of, risk factors;
- Be written in plain language;
- Be consistent in language and tone; and

- If appropriate, use consumer-friendly formats such as FAQs, charts and diagrams.

2.1.2.2 Disclosure

Documents included either at point of sale by Distributors or, where applicable, as part of communications by Managers to Investors (e.g. within annual reports and accounts) should disclose:

2.1.2.2.1 The Product structure, including the mechanics of, and charges related to, early redemptions where these are possible.

2.1.2.2.2 The purchasing process, i.e., the steps and procedures used to purchase Policies in the secondary and, if applicable, tertiary market.

2.1.2.2.3 The servicing process, including the facilitation of ongoing premium payments and the tracking of insured.

2.1.2.2.4 The medical underwriting process, including:

- The medical underwriter(s) used;
- The mechanism by which life expectancies are averaged or otherwise combined;
- Other considerations used to adjust or rank life expectancies;
- The planned frequency of updates to life expectancies which should be at least as frequent as biennial; and
- Any circumstances in which exceptions to the process may be made, for example, as a result of public disclosures from underwriters or an underwriter database(s) having been purchased.

2.1.2.2.5 For each medical underwriter(s) used undertake best efforts to facilitate the provision of actual to expected ("A/E") information as an indicator of historical performance. The information should ideally be provided by an independent, reputable actuarial firm based on the following:

- All viatical and life settlement life expectancies calculated by the medical underwriter (no exclusions);

- The actual life expectancy originally reported (as opposed to restated or adjusted); and
- The mortality table used by the medical underwriter, provided reasonable disclosure is made to the user (such as quinquennial values for representative ages), or a table available in the public domain, such as the U.S. Society of Actuaries Valuation Basic Table.

All relevant assumptions employed, such as IBNR (incurred but not reported), should be disclosed and explained.

If the information cannot be provided, this should be disclosed and the reasons for it explained.

2.1.2.2.6 The pricing and valuation methodology, the rationale behind it, the factors that influence it and the basis for establishing and maintaining the values of these factors. These may, among others, include:

- The projected future net death benefits;
- The projected future premiums;
- The death benefit collection delay;
- The medical underwriting process;
- The mortality table(s) used;
- The mortality improvement factor(s) used;
- Any other adjustments made to those mortality table(s); and
- The present value discount rate(s) applied to the mortality-adjusted projected future net cash flows.

2.1.2.2.7 If the discount rate(s) is based on the sale IRR(s) of policies from the recent market data, the source and size of the dataset and details of the Policies should be disclosed sufficient to demonstrate the rationale behind their selection and the degree to which they are comparable with the Policies being priced or valued.

2.1.2.2.8 Liquidity facilities available to the Product should be disclosed within the company's Report and Accounts.

2.1.2.2.9 All service providers and other third parties associated with the Product. These may, among others, include:

- Medical underwriter(s);
- Provider(s);
- Servicer;
- Administrator;
- Custodian(s);
- Actuarial consultant;
- Auditor; and
- Distributor(s).

Disclosure should include their names, roles, responsibilities, experience, formal or informal connections with each other and with the Manager, and the Manager's rationale for choosing them.

2.1.2.2.10 All fees and commissions payable to service providers and other third parties associated with the Product. Such fees should be expressed in relation to Investors' investment or the net asset value or annual operating revenues of the Product, rather than the net death benefit of the Policies in the portfolio. If the basis, expected size or expected timing of any fee is not obvious, it should be illustrated by way of example.

2.1.2.2.11 All potential conflicts of interest, or potential misalignments of interest between the Investor and the Manager, any service provider or any other third party associated with the Product.

2.1.2.2.12 All other risk factors and their potential impact on the Product and the Investors' investment. These may, among others, include:

- Longevity;
- Valuation;
- Product liquidity, i.e., cash flow;
- Policy liquidity, i.e., market;
- Investment liquidity, i.e., unit;

- Financing;
- Expense;
- Cost of insurance;
- Credit;
- Currency;
- Ramp-up;
- Diversification;
- Operational;
- Service provider;
- Legal;
- Regulatory;
- Tax;
- Accounting; and
- Investment.

Design features included in the Product structure to mitigate these risks may also be highlighted.

2.1.2.2.13 If the Product is synthetic, e.g., a swap or note linked to the performance of a portfolio of Policies or an index of reference lives, the incremental risks associated with the credit of the counterparty and any supporting collateral.

2.1.2.2.14 The impact that changes in key pro-forma model assumptions have on the average portfolio life expectancy, Product cash flow and Investors' returns. Such sensitivity analyses should include:

- A series of unitary increases and reductions in life expectancies or multiplicative reductions and increases in mortality ratings;
- A reversion of all insured to "standard", i.e., without any impairments;
- A series of unitary increases and reductions in discount rate applied;
- A series of unitary increases and reductions in credit risk adjustment within discount rate; and

- Increases and decreases in the cost of insurance in all, or a certain number of, the Policies.

2.1.2.3 Reporting

At regular intervals, at least quarterly, Products should report:

2.1.2.3.1 Key portfolio information, including:

- Total fair value;
- Total face value;
- Number of Policies;
- Number of insured;
- Number of joint policies; and
- Number of insured with multiple Policies;

2.1.2.3.2 A breakdown of the portfolio by:

- Policy size;
- Insurer;
- Insurer rating;
- State;
- Gender;
- Age;
- Smoking status;
- Life expectancy; and
- Primary impairment.

2.1.2.3.3 The current liquidity position of the Product,

- Including a summary of cash inflow and outflow over future years under both best estimate and stressed assumptions; and
- Time until insolvency assuming no future cash inflows from either the portfolio or Investors and no Policies are lapsed.

At regular intervals, at least annually, Products should report:

2.1.2.3.4 The actual to expected performance of the portfolio, and statements relating this performance to the originally expected, current and anticipated future performance of the Product.

2.1.2.3.5 An update to the sensitivity analyses, as outlined above in 2.1.2.2.14.

2.1.2.3.6 If structured as a tax-efficient investment, a statement confirming the appropriate handling of the Product for tax purposes.

2.1.2.3.7 Details of and updates on the operational risks for the Product, including the monitoring of grace notices to identify any unintended Policy lapses.

As the events occur, Products should report:

2.1.2.3.8 Any change of, or change in the disclosure related to, service providers and other third party associated with the Product.

2.1.2.3.9 Market developments that impact the Product's Investors, either directly or indirectly.

2.1.3 Sales and Marketing

2.1.3.1 General

2.1.3.1.1 Managers and Distributors should promote Products as part of a well-balanced investment portfolio and with appropriate consideration of the risk/return profile of Investors.

2.1.3.1.2 Managers and Distributors should not knowingly accept Investors who cannot be considered as having sufficient knowledge to fully interpret and understand all of the risks

associated with investing in the Product. In particular, the retail investors are unlikely to have sufficient knowledge in this regard.

2.1.3.1.3 Managers and Distributors should ensure that potential Investors are provided with sufficient information to be able to make a fully informed investment decision.

2.1.3.1.4 Managers and Distributors should recommend that Investors retain their own independent professional advice in connection with their investment.

2.1.3.2 Oversight

Managers should implement systems and controls designed to:

2.1.3.2.1 Ensure that Distributors comply with all applicable laws and regulation, operate ethically and do not abuse the trust placed in them for personal gain.

2.1.3.2.2 Minimize the risk of the Products being mis-sold, inadvertently or otherwise.

2.2 Best Practice Standards for Asset Managers

2.2.1 Organization (Asset and Risk Management)

The asset manager should determine the overall risk profile for the fund or the individual investor including but not limited to liquidity risk (both asset and funding liquidity), leverage risk, market risk, longevity risk, and operational risk. The manager should consider the extent to which these categories of risk apply to its fund, and the kinds of methods that will be used to measure, monitor and manage the applicable risks. In particular, stress testing and scenario analysis are often desirable risk management practices. While objective measures of risk are critical to understanding how the portfolio behaves, qualitative factors are also important when analyzing portfolio risks.

The asset manager should establish risk measurement criteria that is clear and transparent while implementing a process to monitor the portfolio's risk profile. Implementation would be based on the overall structure of the portfolio, investment and trading strategies, the level of centralization of the decision-making process, the capital allocation process and consistency with the overall investment and risk profile of the fund.

2.2.2 Track Record/Experience

The asset manager should have several - preferably more than 5 - years of experience in the asset class and a proven track record in the successful management of US life settlement investments and portfolios.

2.2.3 Access to Markets (buy-and-sell-side)

In order to ensure the best possible risk management in connection with policy sourcing (ramp-up) and liquidity, the manager should have access to both, the secondary and the tertiary market for US life settlement policies. On this regard, the asset manager should employ a broad network of providers and brokers and also use electronic trading platforms, to purchase and sell policies.

2.2.4 Technology/Systems/Tools

To mitigate financial loss in the event of disaster or other business disruption, the asset manager should establish a comprehensive Business Continuity/Disaster Recovery plan. The plan should include a business impact analysis to identify and prioritize critical processes for the manager. It should also clearly articulate business recovery and resumption objectives. This plan may include written procedures and documentation, test plans and test scenarios as well as other procedures for addressing unforeseen events in an emergency.

Business continuity planning should cover all operational business functions and should not be limited to technology- based disaster recovery plans.

2.2.5 In-house Actuarial and Medical Know-How

In-house actuaries shall have a sound procedural and technical knowledge in assumption development, methodological approaches and modeling and projections. In addition, on an

ongoing basis or from time to time, the asset manager should seek the professional advice from well-reputed actuarial firms, to review the model assumptions, the methodical approaches and the actuarial software tools, which are in use.

The asset manager should have in-house medical expertise in order to review life expectancy projections from 3rd party Life Exptectancy Providers and be able to develop an independent view on the health status and life expectancy of an insured, who's policy is under review for purchase or sale. On this regard, the medical records of an insured shall be treated with the utmost integrity and protection of their rights and personal information.

2.3 Best Practice Standards for Life Expectancy Providers

Life Expectancy (LE) underwriters shall be transparent with life settlement investors and prospective investors as to their methodology for estimating life expectancy and their performance results.

Methodology and Related

Although LE underwriters shall not be required to disclose any proprietary information, they should disclose the methodology(ies) used and the situations in which they are used. Some commonly used methodologies include the debit methodology and research based clinical judgment. If the evaluation process is automated, this too should be disclosed. LE underwriters should also disclose the types of professionals used in the different steps of their analytic process, be they lay underwriters, nurses, physicians or clerical personnel.

LE Underwriters should disclose whether or not they have used information from sources other than the medical records provided to them by a particular client. If an LE Underwriter is unable to provide a LE estimate or if it has qualified its LE estimate, it shall disclose the associated reason (s).

LE Underwriters may provide a Mean LE estimate, a Median LE estimate or both, and shall endeavor to communicate with its clients which type(s) of estimates are provided. If requested, the LE Underwriter shall provide the mortality distribution associated with a particular LE estimate.

Performance Results

LE Underwriters shall make their Actual to Expected (A to E) performance results, prepared by an independent actuarial firm, available on a regular basis, preferably annually, to investors, prospective investors and audit firms. Although LE Underwriters may charge a fee for any special analysis requested, no fee should be charged for the basic Actual to Expected analyses discussed in these Best Practices.

LE Underwriters shall be required to provide A to E results based on the actual LE estimates provided to clients (i.e., not restated or "current basis" estimates) and shall present its results both with and without IBNR (incurred but not reported), disclosing explicitly any IBNR assumptions used. If an LE Underwriter should elect to provide a modified A to E analysis based on LE estimates different than those provided to its clients, it shall explicitly and prominently disclose the fact that the analysis is modified – in both the report of such results and in any related advertising or promotional material – and shall, with at least the same prominence as is given to the modified results, present the results on an unadjusted "historical basis".

LE Underwriters shall present at least one set of A to E results based on a publically available Mortality Table, such as the 2008 Valuation Basic Table – Standard, or – if it should use a proprietary Mortality Table, it shall disclose an adequate number of sample cell values from the proprietary Table to allow a user to estimate the differences relative to a publically available table, such as the 2008 Valuation Basic Table – Standard.

LE Underwriters shall present results covering the LE underwriter's entire history and should additionally provide the results of shorter time periods, to include the last 5 and 10 year periods. Results should cover all life settlement and viatical LE estimates provided,

excluding only (1) estimates for which there is a documented date of birth or social security number error and (2) preliminary or qualified LE estimates. The analysis shall explicitly disclose all relevant assumptions and the methodology for handling multiple lives (e.g., include all lives on a weighted basis, include all lives on an unweighted basis, include the most recent LE estimate per unique life for each calendar year or include only the first or the most recent LE estimate) and the impact such assumption might have relative to other approaches. For A to E analyses base on a "mortality distribution" methodology, results should be presented in a way to allow the user to see performance by both calendar year and year of underwriting and in aggregate for the entire period of analysis. LE Underwriters are encouraged to provide additional "splits" of A to E results, e.g., by smoking status, gender, age bands, mortality rating brackets and impairment category, if there are enough deaths in the respective categories to provide statistically meaningful results.

A to E results should be calculated and presented using both a Mortality Distribution and DCLE (Difference in Curtate Life Expectancy) approach. A Mortality Distribution approach takes the mortality distribution associated with each LE estimate, aggregates those distributions and then compares total Actual deaths over the analyzed time period with total Expected deaths as per the aggregated mortality distributions, whereas the DCLE approach measures the difference between the actual number of months lived and the expected, or predicted, number of months lived.

3 Glossary

Accelerated Death Benefit: If the insured has a terminal illness, the policy advances a specified part of the death benefit to pay medical bills or other expenses, which the amount is subtracted from the ultimate paid death benefit.

Accidental Death Benefit: A provision or rider that promises to pay more (usually double) if death occurs by accident. Also known as double indemnity.

Accumulation Value: (See Cash Value)

Actuary: A mathematics expert who applies probability theory to the business and risks of life insurance and is responsible for calculating premiums, policy reserves and other values.

Administrative Fee: Charges by insurers for the administration of policies, generally is deducted from policy cash values.

Age at Issue: Policies are approved and issued on a specific date. Insurers generally use the nearest age or last age of the insured to determine the insured's age as of the issuance date.

Agent: (See Life Insurance Agent and Life Settlement Agent)

Alternative Investment: An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities, life insurance and derivatives contracts. Alternative investments are favored mainly because their returns have a low correlation with those of traditional asset classes.

Annual Renewable Term Insurance: A type of term life insurance that offers a guaranteed rate for one year. Each subsequent year, the policy renews at a higher rate based on the insured's next age. At older ages the price of annually renewable term can become cost prohibitive.

Application: A form provided by the insurer to obtain an individual's declaration of personal, occupation, financial, and avocation information. The information provided by the insured (and typically completed by the agent) forms the basis on which an insurance company will make an offer to provide a life insurance policy. The application becomes a part of the legal contract of insurance, and the insurer is generally allowed to challenge the validity of the policy based on misstatements if death occurs within 2 years of policy issue.

Assignment: Giving rights under the insurance policy to someone else. You can assign beneficiary rights or policy ownership.

Automatic Premium Loan: A provision in a policy that authorizes the insurance company to use money from the policy cash value to pay premiums.

Assignment: Life insurance is considered property. Therefore insurance policies are legally assignable to another party in part or in full including all rights.

Assignee: An individual or entity that receives the rights in a life insurance policy assigned by the policy owner.

Attained Age: The current age of the insured as measured from the age at the time the policy was issued.

Beneficiary: The person designated to be paid a death benefit when upon the insured's death. A policy may have one or more beneficiaries, which may be a person, trust, corporation or other entity.

Bid (Appraisal): Offer to purchase a policy

BOLI: Bank Owned Life Insurance

Broker: This is a person who, on behalf of a policy owner and for a fee, commission or other valuable consideration, represents the owner in an effort to obtain the best price and terms for a sale of the owner's life insurance policy to the Life Insurance Secondary Market through licensed Providers. Most states with life settlement regulations require brokers to be licensed. A broker generally excludes an attorney, certified public accountant or financial planner retained in the type of practice customarily performed in their professional capacity to represent the Owner whose compensation is not paid directly or indirectly by the Provider.

Broker-dealer - An individual or company whose primary business activity is the buying, selling or management of securities. Broker-dealers are required to be registered with the NASD and comply with certain SEC regulations.

Carrier - An insurance company or issuer of insurance products. (See also Insurer, Insurance Company)

Cash Value: The excess of premium payments over cost of insurance, accumulated in a cash value account for the policy owner and which earns interest and/or dividends. Typically this amount is available for loans or distribution to the policy owner, but sometimes subject to reductions for fees and obligations due to the insurance company.

Cash Value Policy: A policy that provides a build-up of a cash value, e.g., universal life policy or whole life policy. A cash value policy is a permanent policy versus a term policy.

Cash Value Withdrawal: The amount of a policy cash value that can be withdrawn by the policy owner. The policy death benefit is reduced by amount withdrawn.

Collateral Assignment: Certain rights in a life insurance policy can be assigned to a third party, typically as security for a loan or other transaction. Collateral assignments are generally not made for a specified amount, rather are defined "to the extent that his interest may appear." The assignment is registered with the insurer, and typically the assignee must prove to the insurer the amounts that are owed to it if and when the assignment collection criteria are met.

COLI: Life insurance that is purchased and owned by a company on the life of an employee, typically on executives.

Contestable Period: The period of time, typically two years, during which an insurance company can challenge information on an application for an issued life insurance policy during the first two years after issue, and if found in error, may rescind the policy.

Conversion: Changing a term life policy to some other form of policy, typically a permanent universal life policy. This can be done only when the policy contains a convertible provision.

Convertible Term - A type of term life insurance policy that includes a provision allowing the policy owner to exchange the policy for another type of life insurance policy issued by the same company.

Counter Party Risk: Counterparty risk relates to potential carrier solvency – in short, that of the life insurers underwriting the policies.

Covered Life - The individual upon whose life is insured under a life insurance policy. The age, gender, smoking and other personal habits, income and medical history of the insured may all be considered in the decision made by the life insurance company as to whether or not to issue a policy. (See also Insured)

Cost of Insurance (COI): An accounting amount an insurer charges a life insurance policy based on the actuarial probability of the insured having died when the charge is made. This is regarded as the real cost of insuring the insured

and the excess amount of premium paid above the COI to the insurance company covers the insurer's fees, profits and build-up of the policy account value.

Credit Life: A policy issued to pay off a specific debt (loan for car, furniture, appliances, etc.) upon death of the debtor.

Date of Issue: The effective date of the policy as issued by the insurer.

Death Claim: When an insured dies, the policy owner or beneficiary will provide the insurer with poof of death (including a death certificate) and other information to cause the proceeds of the policy to be paid to the beneficiary.

Disability Waiver: A feature in some life insurance policies that keeps the policy in force and forgives the payment of premiums if the insured is totally disabled.

Death Benefit: The face value, i.e., lump sum of money, that a life insurance policy is obligated to pay beneficiaries upon death of the insured.

Decreasing Term: Life policy for which the death benefit decreases each year.

Dividends: Distributions from life insurance company earnings to policyholders. Typically this is paid into cash value accounts.

Endowment Policy: A cash value policy for which the cash value will equal the death benefit after a specific number of premium payments, and at that time the policy owners may collect the death benefit prior to death. It is like a savings account.

Escrow: Funds held by a third party until the conditions of a contract are met. In a life settlement the amount payable to the policy seller is held in escrow until the transfer of ownership and change in beneficiary are recorded with the insurance company.

Escrow Agent: A state or federally regulated financial institution whose responsibilities typically include accepting investor funds, transferring funds to policy sellers, paying premiums and collecting death benefits for policies where investors are not the beneficiaries.

Endow: A policy will endow when the policy's cash value is equal to the death benefit of the policy. Not all policies are "endowment" policies.

Evidence of Insurability: When purchasing a life insurance policy, the applicant seeking to be insured must provide evidence of their health. The insurer evaluates the information and determines if the risk of death is insurable. Once a life insurance policy is in force, no further evidence of insurability is required to maintain the policy.

Exclusions: Exclusions are specific events or circumstances where the insurance company has the right to deny an insurance claim. They are always listed in the policy. Common exclusions include suicide within the first 2 years and fraud.

Expense Charge: A monthly charge paid to an insurance company based on various elements of the policy such as insured's attained age, original rate class, etc. Allowable charges are specified in the policy, but at its discretion, the insurer may charge less than the contractual amount as circumstances allow.

Face Amount: (See Death Benefit)

Face Value: (See Death Benefit)

Financing Entity: An entity whose principal business in a life settlement is to provide funds to effect the transaction, and/or who has an agreement in writing with one or more life settlement Providers to finance the acquisition of policies. Non-accredited investors or purchasers may not be financing entity.

Flat Extra Rating: A flat extra rating is an extra charge that is applied to some policies where the insured has very adverse health conditions such as cancer or does hazardous sports or hobbies such as skydiving.

Flexible Premium Adjustable Life: A type of life insurance policy that allows the policy owner to vary the amount of premiums payable, the death benefits and some other components of the policy without having to exchange the policy for a different policy.

Funder: A financing entity, other business entity or person that provides capital to a life settlement provider for the purpose of purchasing a portfolio of life insurance policies as an investment. The term generally does not refer to an investor who invests in life insurance funds, portfolios, business

partnerships, stock life insurance investment firms or any other such investment.

Financing Transaction: A transaction in which a life settlement Provider obtains financing from a Financing Entity to facilitate the purchase of life insurance policies and investing therein.

First to Die: Provision in a policy that insures both husband and wife, and when the first spouse dies, the surviving spouse collects the full death benefit.

Fractional Interest: This results from the practice of dividing a life insurance policy into multiple ownership units which units are sold to investors.

Fraud: Any knowingly false or incomplete information on an application for an insurance policy, policy claim or sale of the policy. Also, any misrepresentation of a material fact regarding risks in a life insurance investment, such as misrepresentation of what a life expectancy means (see Life Expectancy).

Free Look: A time after receipt of a new policy to review and consider whether to keep it or return it to the insurer.

Grace Period: The time period after an insurance premium is due during which the premium can still be paid with no interest charged, and coverage remains in force. This period is usually 30 to 31 days.

Group Life: A policy issued to an employer, association, or other organization that provides life insurance to employees or members.

Guaranteed Issue: A policy that is sold to all applicants without regard to their health.

Guaranteed Rate: The minimum interest amount that the insurance company promises to pay on any cash value in the policy.

Guaranteed Return: A promise to pay a certain return to an investor.

HIPAA: An acronym for the Health Insurance Portability and Accountability Act of 1996 (public law 104-

191) that governs the treatment of medical files by companies.

In Force: A policy is in force when all conditions have been met to establish or maintain the company's obligation to pay the death benefit upon the insured’s death.

Insurable Interest: In order to be both the owner and beneficiary of a life insurance policy, there must be some relationship to the insured person that shows a reason for the policy owner to keep the insured alive.

Insurance Company Rating: A rating of the insurance company's financial strength. The major rating firms include: A.M. Best Company, Standard & Poor's, Wiess Research, Duff & Phelps, and Moody's Investor Services.

Institutional Investor: An entity with large amounts to invest such as mutual funds, pension funds, investment banks, etc. Institutional investors are large in terms of investment assets managed, sophisticated, self-reliant, have access to independent investment knowledge and data, and experienced in investment analyses and decision processes.

Insurable Capacity: Every person has a capacity for life insurance, which capacity is measured by net worth, income, obligations, and other financial measures. One's actual capacity is not precise, but for example, a person with only $20,000 income and no assets would not have capacity for a $10,000,000 policy, but someone with an income of $300,000, assets of several million, major obligations and substantial business interests would have a capacity for a $10 million policy.

Insurability: Insurability refers to an individual's ability to obtain life insurance based on their health. If an individual is unable to obtain life insurance due to bad health, the individual is considered to be uninsurable.

Issue Date: The specific date when the insurance company issues an insurance policy. The issue date is shown in the policy**.** Note that the Policy Date and Issue Date are different. (See Policy Date)

Insurer: An insurance company or issuer of insurance products.

Investor: A financing entity or other business entity or person that provides capital to a life settlement provider for the purpose of purchasing a portfolio of life insurance policies as an investment. (See also Funder, Financing Entity)

Insured: This is the person whose life is covered by the policy. (See Covered Life)

Lapse: The termination of an insurance policy as a result of failure to pay the premium.

Legal Competency: An opinion provided by an insured's and/or policy owner's doctor that assures the insured and/or policy owner is of sound mind.

LE: Life expectancy, an estimate of the period of time a person has left to live

LE Provider: (See Life Expectancy Underwriter and Underwriter)

Level Term: A type of term life insurance policy that provides a fixed death benefit for a period of time during which the premiums payable do not rise (i.e., 5, 10 or 15 years) and the death benefit remains constant over the same period.

Life Insurance Agent: Individuals or businesses that are licensed to sell life insurance by the State Departments of Insurance. The agent or insurance sales person or entity has primary duties to the insurance company and not to the applicant. Agents may represent just one or many insurance companies, and are generally paid commissions by the insurer with whom the policy has been written.

Life Insurance Policy: A legal contract entered into between a life insurance company and a policy owner. The agreement provides for the payment by the company of a sum of money (the death benefit) to the beneficiary when the covered life (the insured) dies.

Life Insurance Settlement: See “Life Settlement.”

Life Expectancy: The number of months the insured is expected to live. Typically a life expectancy such as 48, 60, 96, 120, etc. months, means the number of months at which 50% of the cohort group of people are expected to have died. A life expectancy is typically estimated by experts who evaluate the insured’s personal and medical records.

Life Expectancy Underwriter: An individual or company that reviews personal and medical information for the purpose of issuing mortality reports and related life expectancy estimates for use in life settlement transactions. Other terms used to describe this service include LE Provider, Life Expectancy Estimator or Life Expectancy Evaluator)

Life Insurance Investment: This may include any of the following:

- The purchase of entire or fractional portions of life insurance policies from within the Life Insurance Secondary Market or Tertiary Life Insurance Market for the purpose of achieving an investment return.
- Investment in special purpose entities that own portfolios of life insurance policies.
- Investment in debt instruments issued by entities which assets are primarily made up of life insurance policies.
- Purchase of stock in corporations which assets are primarily made up of life insurance policies.

Life Insurance Secondary Market: This is all of the businesses and individuals who provide the resources, systems, pricing, bidding, handling, safe keeping, legal compliance, transferring, financing, i.e., all services that enable original owners of life insurance policies to sell policies via life settlements. This is not the reselling of policies among life insurance policy investors as done in the Life Insurance Tertiary Market (See Tertiary Market).

Life Settlement: A financial transaction or process, in which a policy owner sells a life insurance policy to a third party for more than the cash value offered by the policy insurer. The purchaser is responsible to pay all subsequent premiums and typically becomes the new beneficiary of the policy. Investors do not invest in life settlements.

Life Settlement Agent: Typically this is a Life Insurance Agent (see Life Insurance Agent) that helps an owner get a life insurance policy to a life settlement broker or life settlement provider. Such agent represents the policy owner and is paid for such services from sale proceeds paid to the policy owner/seller.

Life Settlement Broker: (See Broker)

Life Settlement Company: (See Life Settlement Provider)

Life Settlement Provider: (See Provider)

Life Settlor: The seller of a life insurance policy that is the subject of a life settlement.

Life Settlement Investment: There is no such thing as a viatical or life settlement investment. A life settlement is a legal process, not an asset. (See Life Insurance Investment and Life Settlement)

Living Benefit (Accelerated Benefit): Death benefits paid to a policy owner while the insured is still alive using strict guidelines dictated by the insurance policy and the insurer.

Loan: If a policy has an accumulated cash value, the policy owner may borrow part of it. The amount borrowed will be subject to an interest charge. Any unpaid loan and unpaid interest will deductable from the death benefit until paid.

Medical Records: Records provided by an insured's doctor(s) and other medical care providers or facilities (hospitals, etc.) reflecting the insured's medical history

Medical Underwriter: See (Life Expectancy Underwriter and Underwriter)

Misstatement of Age: If the age of the insured is misstated and is not discovered until death of the insured, the insurance company generally has the contractual right to adjust the death benefit to reflect the face amount that would have been paid with the corrected age and actual premiums paid.

Modal Premium: This is a payment method selected by the insured to pay policy premiums. There are generally four premium mode options including annual, semiannual, quarterly, and monthly. There is usually a higher incremental cost for all modal premium options other than annual.

Mortality Charge: The cost of insuring you at your current age. (See Cost of Insurance.)

Net Death Benefit: The policy death benefit (face amount or in-force amount) less any outstanding policy debts or liens.

Non-forfeiture: The minimum amount that an insurer must pay if a cash value policy is surrendered.

Non-Institutional Investor: Also referred to as: “Retail,” “Natural person,” “Individual,” “Small investor,” and which includes small investment entities, municipalities, trust funds and endowment funds that do not possess the characteristics and capably of Institutional Investors. Such investors buy and sell securities for their personal account and not for another company

or organization, and buy in much smaller quantities than institutional investors. An exception to this may occur where an individual is deemed to be of sufficient net worth or sophistication comparable to institutional investors and/or relies on professional advisors who have the capabilities of an institutional investor.

Option A-Level Death Benefit: Universal life policyholders may elect a level death benefit (Option A) that is fixed and doesn't increase unless required to maintain a policy's status as life insurance under IRS rules. With a level death benefit option, the net amount of insurance at risk with not decrease over time assuming proper premiums are paid.

Option B Increasing Death Benefits: Universal life policyholders may elect an increasing death benefit (Option B) that increases as a policy's cash values increase. With an increasing death benefit option, the net amount of insurance at risk never decreases over time as all cash values are added to the initial face amount to determine the actual death benefit.

Owner: A person who contracts with an insurance company to purchase a life insurance policy and is recorded as the owner with the insurer. The owner of the policy has the right to designate beneficiaries.

The term "Owner" does not include a life settlement Provider, escrow agent, transfer agent, financing entity, or any other such firm or individual who facilitates a life settlement, except it does include the ultimate purchaser of a life insurance policy in a life settlement transaction to whom the ownership of the policy is recorded with the insurer.

Paid-Up: A policy on which all premium obligations have been paid and no further premiums are due.

Participating Policy: A policy that earns dividends based on the earnings of the insurance company.

Permanent Policy: A life insurance policy that typically has a level premium, i.e. it is a universal or whole life policy and is not a term, group policy or variable life policy.

Policy Anniversary: The policy anniversary occurs yearly on the day and month of the policy date.

Policy Date: The actual day month and year on which coverage becomes effective. Note that the Policy Date and Issue Date are different. (See Issue Date)

Policy Exchange: Usually the result of a policy replacement. Any potential taxable gain associated with terminating a policy can be deferred by qualifying the purchase of a new policy as an exchange under the provisions of Internal Revenue Code 1035.

Policy Loan Amount: (See Loan)

Policy Owner: (See Owner.)

Preferred Risk or Rate: The cost of insurance rate the company charges people who have the lowest risks, i.e. they are expected to live longer than most other people.

Premium: The payment amount required to maintain the insurance policy. Premiums can generally be paid annually, semiannually, quarterly, or monthly.

Provider: Any person or entity that is licensed to process the purchase of a life insurance policy from a policy owner in accordance with applicable state laws and regulations. Most states with life settlement laws prevent anyone from performing the "provider" functions without being licensed by the state. A provider may purchase policies for its own portfolio or represent investors seeking to purchase life insurance policies for investment. Providers are paid by the investors they represent. A natural person generally may bypass Providers and/or Brokers and enter into no more than one life settlement agreement in a calendar year.

Purchase/Sale Contract: (See Sale/Purchase Contract)

Reinstatement Period: Reinstatement is the restoration of a policy that has lapsed due to non-payment of premium after the grace period has ended. Typically the reinstatement period is 3 years from the premium due date. Reinstatement may be conditional based on the insured health and other factors.

Related Provider Trust: A trust established by a licensed Provider or a financing Entity for the sole purpose of holding ownership or beneficial interest in purchased policies in connection with a life settlement or financing

transaction. In order to qualify as a Related Provider Trust, the trust must have a written agreement under which the licensed Provider is responsible for ensuring compliance with all life settlement laws and under which the Related Provider Trust is obligated to make all records and files relating to life settlement transactions available to regulators for review as if those records and files were maintained directly by the licensed Provider.

Renewable Term: A term life policy that guarantees the owner the right to renew the policy at the end of its term.

Rescission Period: This the period of time, typically 30-60 days, during which the seller of a life insurance policy may rescind the sale providing the seller returns all monies received for the sale to the Provider.

Retail Investor: (See Non-Institutional Investor.)

Rider: An amendment to an insurance policy that provides additional benefits or otherwise modifies the policy.

Risk: The probability of the insured dying at any point in time.

Risk Factor: Things about the insured that affect risk, such as age, smoking, hazardous occupation, a family history of heart disease, etc.

Sale/Purchase Contract: This is a written agreement between a Provider and a policy owner, the subject of which is a Life Settlement. Sale/Purchase contracts can include numerous sub-parts that stipulate terms and conditions applicable to the owner's and insured's family members, beneficiaries, trustees, lenders, spouses, etc, i.e. any persons or entity that might have some interest in the policy that is being sold.

Secondary Markets: (See Life Insurance Secondary Market)

Senior Settlement: A life settlement where the insured is a "senior," i.e., age 65 or older.

Settlement Option: Choices available to a beneficiary for payment of a death benefit.

Special Purpose Entity: A corporation, limited liability company, trust, partnership or other similar entity formed solely to provide access and/or to hold capital or assets for the purpose of facilitating financing and investment arrangements.

Split-Dollar Policy: A life insurance policy that includes an arrangement between two parties where life insurance is written on the life of one party who also names the beneficiary of the net death benefits (death benefits less cash value) and the other party is assigned the cash value of the policy. The two parties share the responsibility for making premium payments.

Standard Risk: Standard risk is an underwriting classification that refers to the overall health of the individual applying for life insurance. A standard risk is an individual that is in average health with an average life expectancy.

Sub-Standard Risk: Sub-Standard risk is an underwriting classification for individuals that have significant health concerns. Generally, sub-standard risks have a shorter than average life expectancy due to a health impairment and will therefore pay higher premiums for their insurance than preferred or standard risk individuals.

Suicide Clause: A provision that voids a life insurance policy if death occurs by suicide within the contestability period.

Surrender: The policy owner may terminate a policy by surrendering it to the insurer in exchange for the policy's cash surrender value or other non-forfeiture values.

Surrender Charge: Typically applicable to adjustable life, indexed universal life, and variable universal policies. This is generally a declining schedule of charges that may be imposed on the policy. If the policy is surrendered the death benefit is reduced. In some instances the surrender charge is taken into account in the monthly calculation to determine if the policy is still in force.

Surrender Value: (See Cash Value)

Term Life: A policy that is provides a death benefit for a specific period of time, e. g, one year, 10 years, 20 years. This is the simplest form of life insurance. It offers no cash value feature.

Terminally Ill: Having an illness or sickness that can reasonably be expected to result in death in twenty-four (24) months or less.

Third Party Life Settlment Risk: Third-party risk is that posed by the various servicers involved in assisting a life settlement provider with a life settlement.

Underwriting: The process of evaluating the risks and associated costs involved in issuing a life insurance policy, estimating a life expectancy, or deciding whether or not to enter into a life settlement.

Universal Life: A flexible-premium non-cancelable life insurance contract that accumulates cash values and pays a death benefit. The owner can choose policy premium amounts over the life of the insured, providing the amount paid never is less than the cost of insurance plus minimum fees the insurer charges.

Variable Life: A type of universal or whole life insurance in which the face amount and cash value rely on the investment performance of a special fund, such as a designated stock mutual fund.

Verification of Coverage (or VOC): A statement provided by an insurance company defining the current status of a life insurance policy, including relevant policy values, premium payments, and ownership status.

Viatical Market Place: (See Life Insurance Secondary Market)

Viatical Settlement Investment: There is no such thing as a viatical or life settlement investment. (See Life Insurance Investment and Life Settlement)

Viatical Settlement: Same as Life Settlement (See Life Settlement). Some states use the term "viatical" to describe a life settlement.

Viatical: A term referring to a life settlement. (See Life Settlement)

Viator: A terminally ill person who sells his/her life insurance policy. (See Terminally Ill)

Waiver of Premium: A life insurance policy provision that suspends the obligation to pay premiums while the insured is disabled or meets some other policy requirement. This benefit typically ends when the insured reached age 65.

Whole Life: This is a life insurance policy that remains in force for the insured's entire life and requires (in most cases) premiums to be paid every year into the policy. Typically whole life insurance has a savings feature and build up of cash value. Unlike universal life, whole life generally has fixed level

premiums that are not subject to change by investment yields or interest rates.