

The German Secondary Market

Since its launch it has gained increasing popularity among market players such as consumer protection organizations, politics, media and large parts of insurers / consumers.

Until today, BVZL members alone

- have sold life insurance policies of more than 100,000 insurers with an actual surrender volume of ca. 5.2 billion Euro through the secondary market (totaling to approx. EUR 50,000/contract)

Consumers

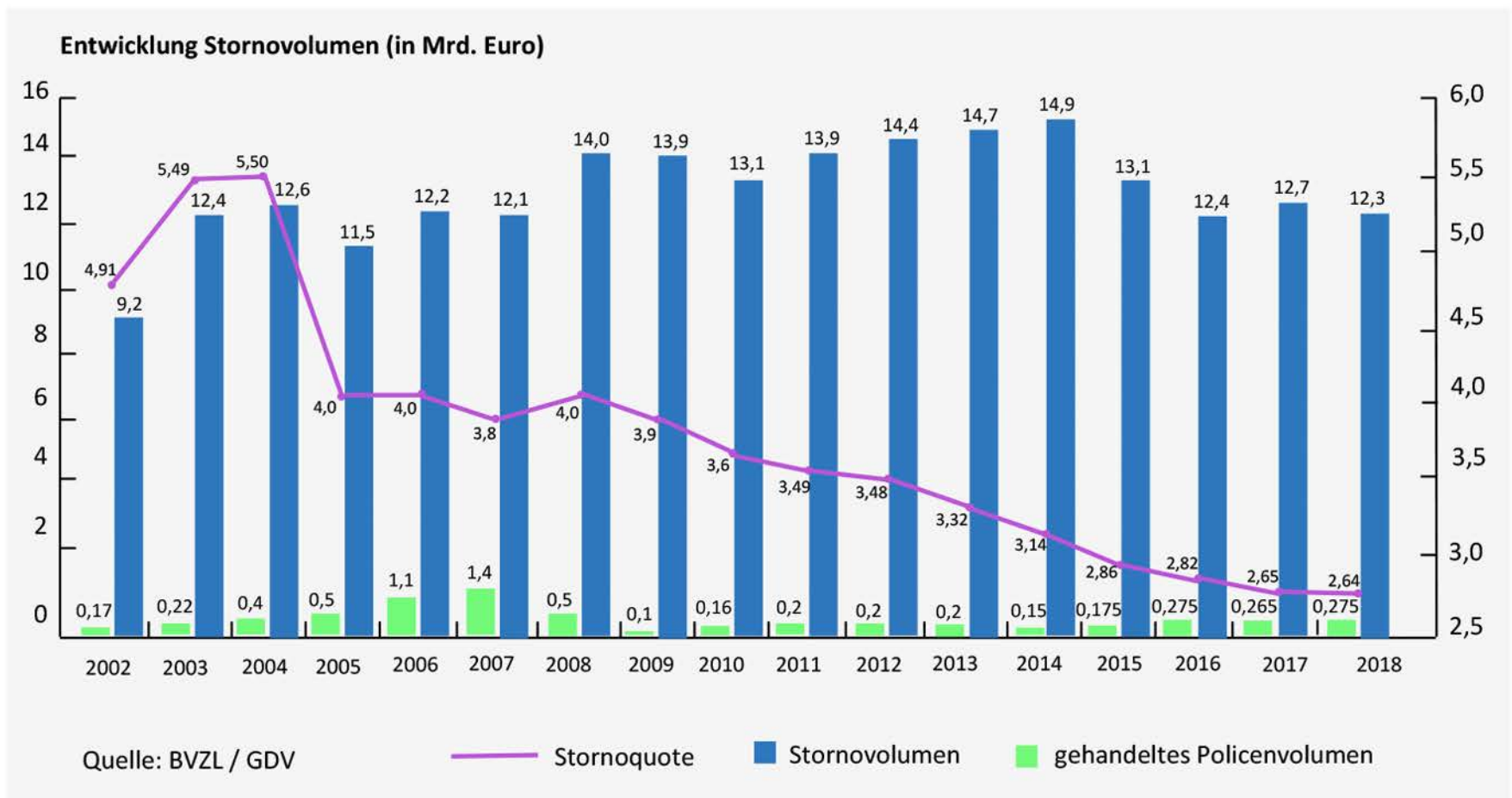
- were able to generate additional revenues exceeding 260 million Euros compared to cancellation (totaling to an average additional revenue of ca. 5%).

Through the continuation of death coverage

- an additional amount of just under 7 million Euro was paid to the surviving beneficiaries.

The volume of the actual premium payments to first insurers

- totals to ca. 250 million Euro (totaling to ca. 5% premium p. a.)



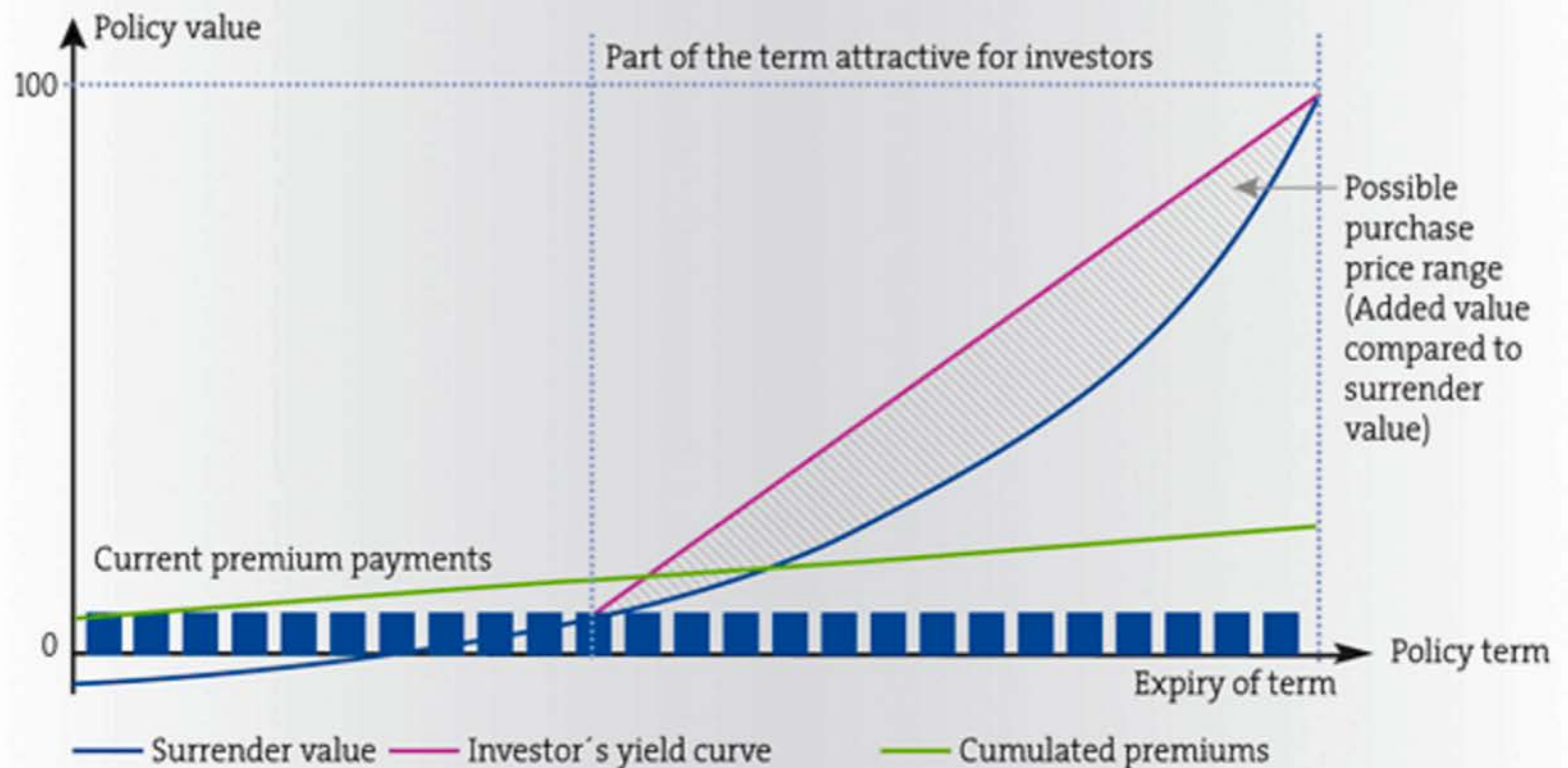
Mode of Operation

The secondary market offers policyholders willing to terminate with the option to sell their policy instead of surrendering it to the insurance company. Often the sale is the better alternative and the policyholders receive a higher purchase price from the policy purchasers compared with the surrender value reimbursed in case of insurance cancellation. Besides, in general, a premium-free death protection is guaranteed during the sale.

In the German secondary market for life insurance there are some providers buying the policies directly from the insureds who as members of the Bundesverband Vermögensanlagen im Zweitmarkt Lebensversicherungen e. V. (BVZL) agree to comply with set quality standards to ensure an active consumer protection.

In addition, these BVZL member companies working on the German secondary market for life insurance very constructively cooperate with the insurance companies in the interest of the insured, with very few exceptions.

Simplified schematic diagram showing the performance of life insurance policies



Source: BVZL

Motivation of Policy Vendors

The vendors are usually motivated by liquidity needs, meaning they are driven by the wish to repay debts, to make purchases or to expand the financial flexibility as the result of changes of the personal life circumstances (divorce etc.). In case of short-term financial shortages, consumers also have the option to borrow against their policy instead of cancelling or selling it.

Motivation of Policy Traders

The policy trader is motivated by the fact that the surrender value offered to the insureds in case of cancellation is in most cases lower than the 'intrinsic value' of the policy. If the policy return is attractive and if it meets some basic criteria, the insured achieves a price with the sale exceeding the surrender value. In general, premium-free death protection is still granted for the vendor.

Particularly in the years 2003 – 2007 closed-end funds were the main sales channel for the secondary market policies acquired by the purchasers which has now changed with institutional and private investors being able to purchase 'used' German endowment policies as a capital investment via electronic trading platforms or web shops.

Keep your eyes open when selling a policy

Next to the companies organized within the BVZL operating in the German secondary market, over the past years an unorganized market was established referred to as 'pseudo secondary market'. Here the policies are usually maintained but the capital of the insured (or policy vendor) is often transferred into other investments or disproportionately high fees and costs are invoiced.

In this regard, for instance, the German Federal Financial Supervisory Authority (BaFin) prohibited some of these companies to continue their business activities due to the operation of illegal deposit transactions.

In general, insureds should be very cautious with respect to offers based on paying the purchase price in installments or at a later time. The purchasers organized within the BVZL pay always immediately.

Otherwise, the policy vendor would have to bear the risk of not receiving all promised payments if, for example, the credit rating of the purchasers deteriorates over time. A skeptical approach is also recommended if extremely high profits (e.g. doubling the surrender value) and non-standard market returns are promised for reinvestment.

BVZL provides assistance and information

For consumers planning on selling their policy on the secondary market, thinking about applying for a policy loan in order to expand their financial flexibility, the BVZL created some guidelines (information leaflets) to help consumers with the selection of providers.

This and other useful information regarding secondary markets of life insurance as well as a list of member companies operating on the German market who voluntarily agree to comply with the Association standards and guideline, can be **downloaded for free** on the home page of the BVZL at www.bvzl.de.

In addition, in case of any doubt, the BVZL experts recommend the consumers to contact a local consumer advice center or the Association of the Insured (BdV) to request information about the potential purchaser.

Value Addition for all Market Players

The secondary market for life insurance policies creates additional value for this long-term proven, safe and regulated investment product. The secondary market for life insurances is an active consumer protection creating added value for all players:

Advantages from the sale of a life insurance on the secondary market:

1. For customers

- The insured obtains a purchase price higher than the surrender value and usually keeps a premium-free death protection.

2. For insurance companies

- Lower cancellation rate (key indicator for competition)
- Stable premium income since the 'new' policyholder keeps the policy until maturity date
- Maintenance of the long-term cover pool

3. For agents or banks

- ensuring best-advice consultation by showing alternatives to cancellation of a policy such as sale or borrowing
- Additional income from commissions
- Higher utilization rates and less need for value adjustments in the field of 'Utilization of securities'
- Link for new business with released liquidity