BVZL
International Secondary Markets for Life Insurance

Secondary Market for Life Insurance Policies

- Representing interests
- Increasing transparency
- Strengthening investor and consumer protection

Index

BVZL – The Umbrella Association for the Industry of Secondary Life Insurance Markets

Particularly in a challanging enviroment, associations are called to take the lead, to ensure the closing of ranks among its members and the industry, to provide support and to control joint actions in a target-oriented manner. The ever-changing regulatory landscape and the generally volatile economic market environment of the past years present not only the BVZL regularly with new challenges to be mastered.

This management of change processes is and remains one of the Association's central tasks. Also on this account we are determined to stay on the route embarked upon in the past years towards more internationalization of the BVZL, to intensify educational work, increase transparency and to set market standards in order to place the different secondary markets for life insurance once again in the focus of investors and to increase public awareness of this asset class.

The current demographic development emphasizes the great relevance of longevity risk for insurers and retirement institutions such as pension pools and pension funds. The need to hedge and the willingness to invest in longevity risks through capital market instruments will be further on the rise. Intelligent – including over-the-counter – capital market solutions and products, such as mortality-linked securities and longevity bonds may present a potential form of hedging longevity risks providing the BVZL member company with real chances and perspectives of developing new business fields, specifically, with the know-how in the life expectancy field gathered within the last decade.

The core task of the Association – the representation of the joint political interests of the members – will gain even more importance for the BVZL in future. An increasing number of political decisions with a clear impact on the Association members are made on the European Union level.

With regard to the interplay of national markets and European regulation requirements, our Association needs to place a major focus on representing our interests before European policy.

Against this background it is important for BVZL to grow in the medium and long term, to further expand and to sustainably strengthen the best established interest lobby of the secondary markets for life insurance and intelligent product solutions in the longevity sector in Europe in the long run.

In view of the aforesaid, let us join forces and start this journey together – and support us with your inspirations, ideas and your membership!

With warmest regards,

Christian Seidl
Chairman

Ingo Wichelhaus
Chairman

Association Structure

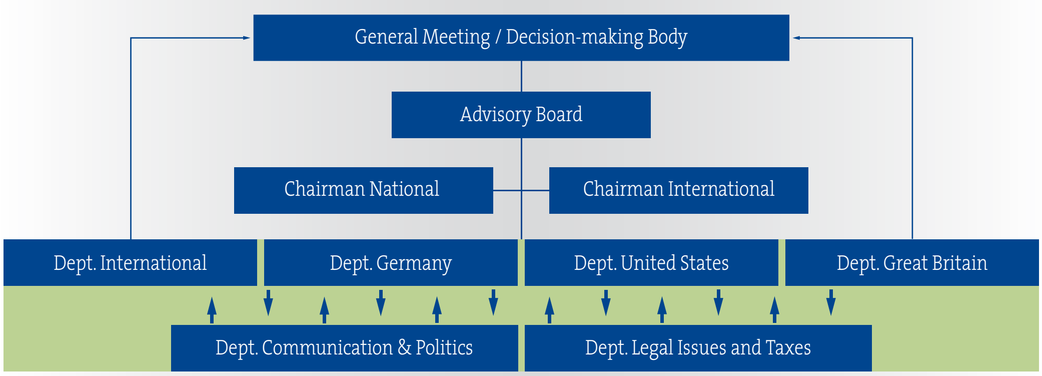
Who are we?

The companies and service providers joined under the umbrella of the BVZL International are engaged in the secondary markets for life insurance policies all over the world. Since its establishment in May 2004, the Association has represented the economic, legal and political interests of its members in politics and the public, holding a constant dialog with opinion leaders, journalists, lobbying groups and consumers to actively promote the development of the industry.

In the year of its tenth anniversary, BVZL provides the most renowned international platform in Europe – a site for networking, exchange, information and representation of joint interests for the most diverse actors in the secondary markets for life insurance.

The BVZL organization structure is customized to the special needs, objectives and interest of the most diverse and different secondary markets for life insurance and its members operating in these sectors.

Organizational structure of BVZL



With both Chairmen and its segmentation into topic and country-specific departments, the Association is well equipped to perform its function as 'service center' for its members, to quickly implement planning and performance of segment-specific measures in a target-oriented manner and to provide support to the public and consumers through industry experts who answer all questions regarding the different secondary markets for life insurance.

Our goals

One important objective of the BVZL in the past and today is to develop industry standards for transparency and comparability of the various secondary markets for life insurance and the most versatile investment segments, German, British and U.S. life insurance policies and to continuously improve the preconditions for investments in these asset classes as well as to inform investors and consumers always openly about chances and potential risks.

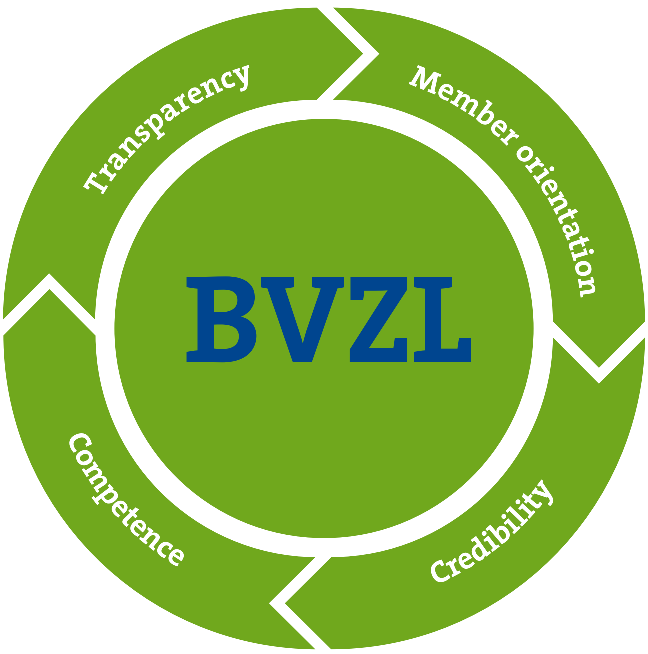
What do we stand for?

- Introduction / implementation of quality standards to improve consumer protection
- Increased transparency by providing information about the respective chance / risk profiles of the different secondary markets for life insurance
- Establishment of asset classes with private investors, institutional investors, opinion makers, media and the general public

Services for our members

- Representation of political interests in Berlin and in Brussels
- Networking platform
- Business/marketing support
- Press/public relations work

... and much more



Overview of Secondary Markets for Life Insurance Policies

The principle of the sale of life insurance policies on the secondary market has been internationally known for many years – in Great Britain since 1844, in the USA since 1911.

The German secondary market for life insurance is relatively young in comparison. Only since 1999 consumers have the option to sell their endowment or pension insurance policies to professional purchasers.

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 insurants / consumers.

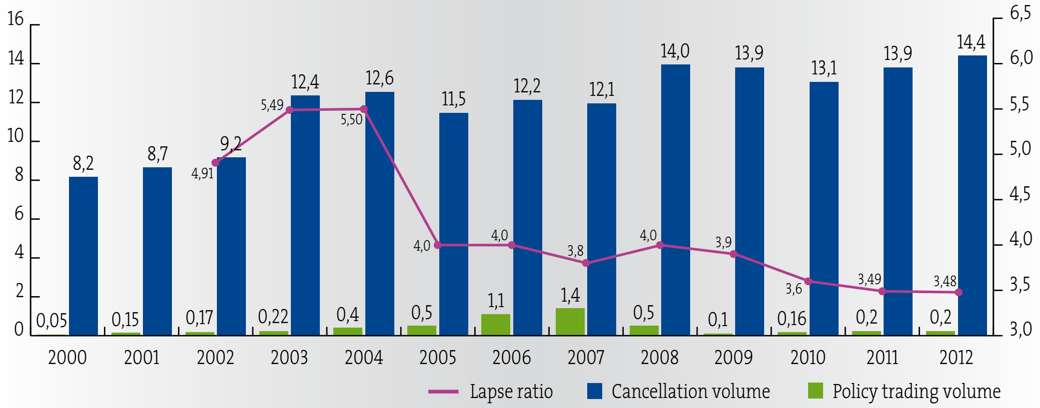
Until today, BVZL members alone
- have sold life insurance policies of more than 100,000 insurants with an actual surrender volume of ca. 5.2 billion Euro through the secondary market (totaling to approx. EUR 50,000/contract)

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

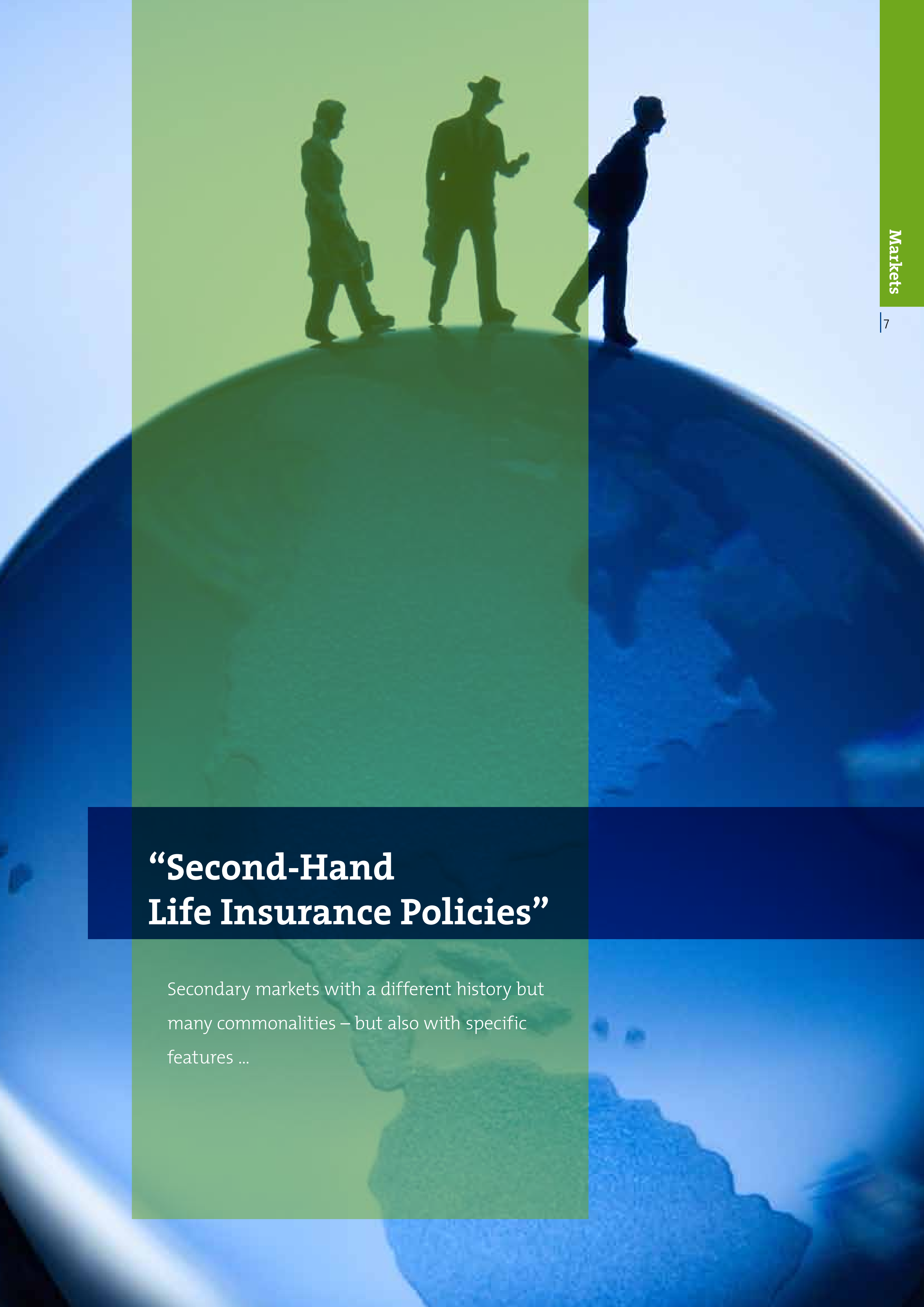
Through the continuation of death coverage
- an additional amount of just under 7 million Euro was paid to the surviving beneficiaries.

The volume of the actual premium payments to first insurers
- totals to ca. 250 million Euro (totaling to ca. 5% premium p. a.)

Development of cancellation volume (in EUR billion)



*Source: BVZL / *GDV*



"Second-Hand Life Insurance Policies"

Secondary markets with a different history but many commonalities – but also with specific features ...

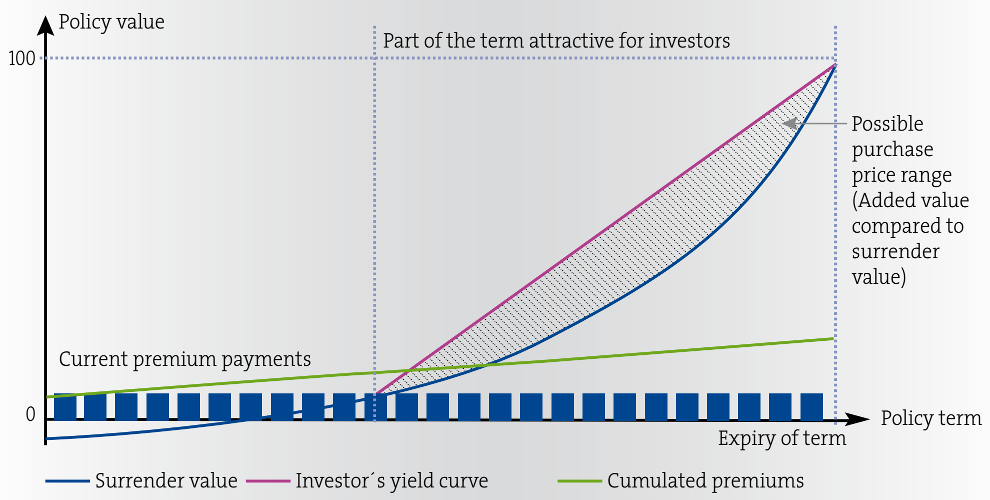
Mode of Operation

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 maintained after the sale.

In the German secondary market for life insurance there are some providers buying the policies directly from the insurants 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 insurant, 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 insurants 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 insurant 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 cancelled and the capital of the insurant (or policy vendor) is often transferred into other investments or disproportionally 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, insurants 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, 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.

More than half of the signed contracts did not reach their maturity date with the original insurant

"Returns from investments in 'used' life insurance policies are attractive for investors."

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 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 insurant 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 capital 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 recovery rates and less need for value adjustments in the field of recollection of loan collaterals
- Opportunity for new business with released liquidity

For further information and valuable tips for consumers and investors, please see the BVZL **guidelines** at **www.bvzl.de**

British Secondary Market

After the USA and Japan, Great Britain is the third largest market worldwide and the largest market in Europe. About one fourth of the investment capital managed in the United Kingdom stems from insurances. The British insurers count 290,000 employees.
One common form of savings and capital investment in Great Britain is the classical with-profit endowment policy. Over half of the policies are no longer with the original purchaser when they mature.

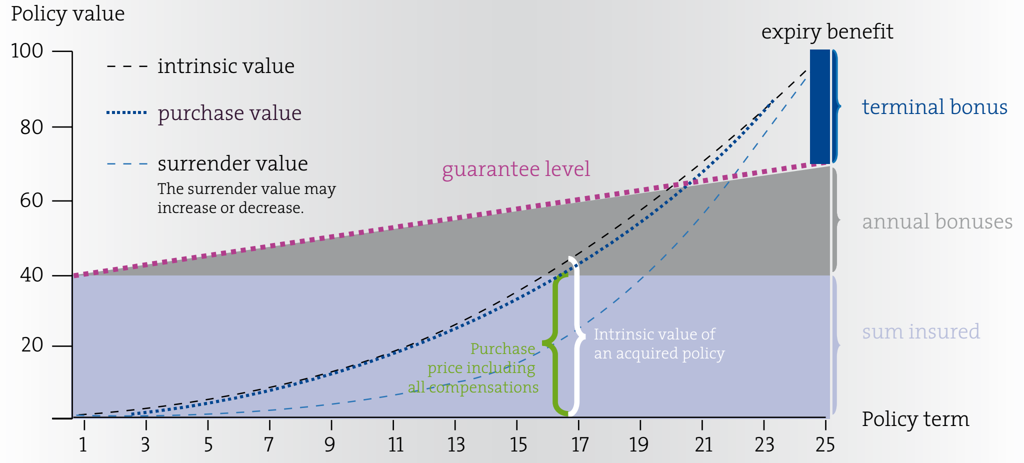
The reasons for this are mainly changed circumstances in the lives of the policyholders such as the purchase of real-estate property or divorce. Instead of cancelling the insurance policies which are no longer needed, the policies can be sold directly, for example, over the internet or at auctions.

Since 2002 British insurance companies have been required by law to point out the secondary market to policyholders wishing to cancel their policies. If the policyholder sells the policy on the secondary market, the with-profit endowment policy becomes a traded endowment policy (TEP).

Special Characteristics in the UK

As opposed to German life endowment policies, TEPs always consist of three components: the basic sum insured, annual reversionary bonuses and the terminal bonus. The sum insured is paid out at the end of the contract or in the event of the death of the person insured. The sum insured is guaranteed and its amount is fixed definitely when the contract is concluded. In addition, there are annual bonuses which are usually determined by British insurers in the spring and allocated to the individual policies. Once allocated, the current bonuses are fully guaranteed up to the time the policy expires. When the TEP expires, a variable terminal bonus may also be paid in addition to the sum insured and the accrued bonuses.

Institutional purchase price/fees and value of a traded endowment policy



Source: BVZL, UK Department

Another feature of TEPs as contrasted with German life endowment policies is based on the investment policy of insurance companies. German insurance companies are only allowed to invest a maximum of 35 percent of the interest-bearing capital in stocks – actually in practice, the share invested is well below 10 percent, while the British Financial Conduct Authority (FCA) permits the British insurers a significantly more flexible investment policy. Consequently, the share of stocks in the past averaged often more than 30 percent. However, the British insurers are required to be able to meet their liabilities at all times (i.e. guarantee commitments to the customer). To this end, they must, among other things, form large reserves. Beyond meeting these requirements, though, they can invest as they like.

Mode of Operation of the British Secondary Market

A majority of the British life endowment insurance policies are sold before the end of their term. Institutional and private investors acquire these policies above their surrender values, but considerably below their actual 'intrinsic value'.

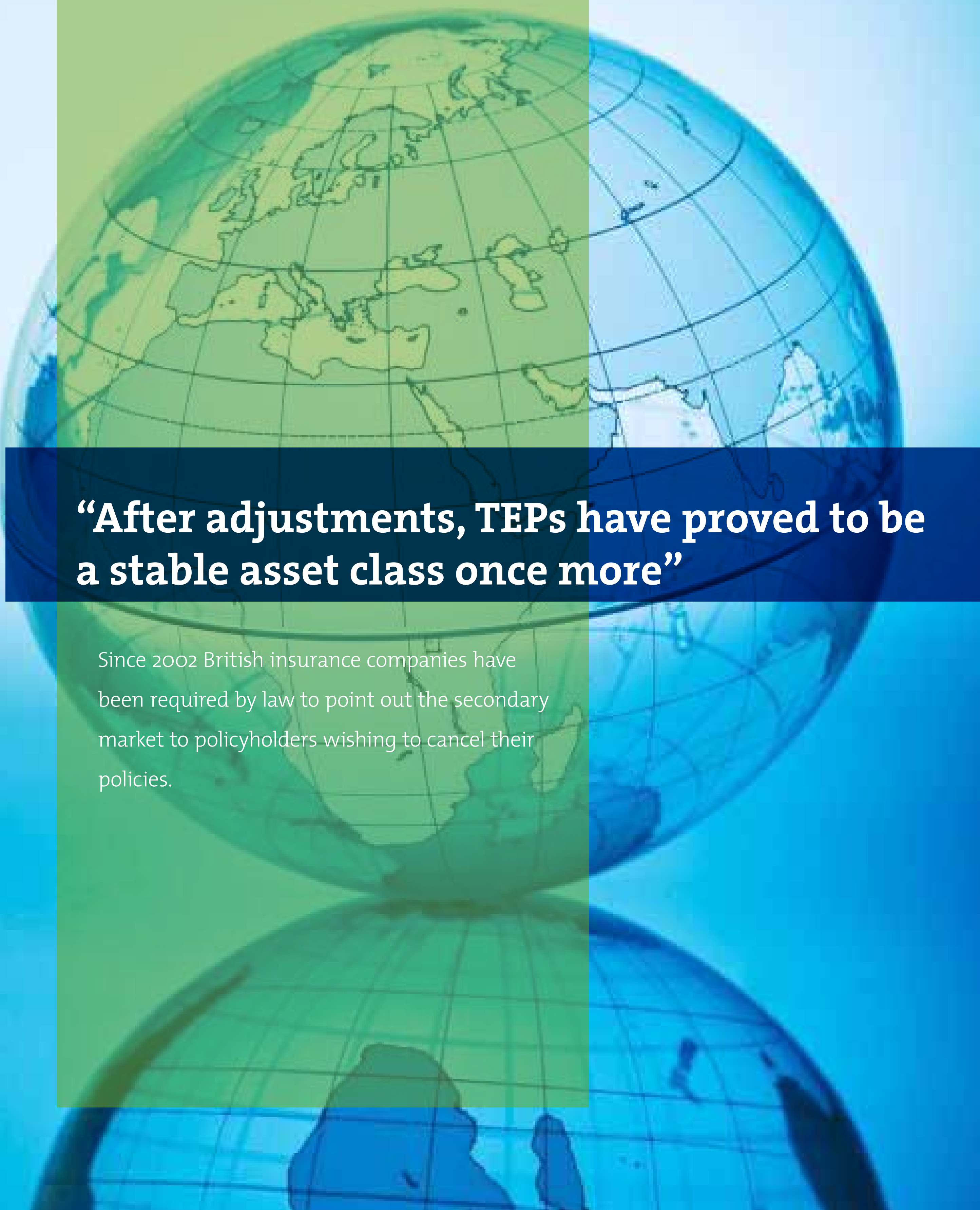
The acquisition of second-hand policies (TEPs) takes place through policy trading companies, so-called market makers. These brokers evaluate the insurance agreements offered and subsequently submit a purchase offer. The prospective expiry benefit is extrapolated under consideration of the already obtained annual bonuses as well as the terminal bonus of a comparable (same company, same term), but currently expiring policy.
The purchase price is always higher than the surrender value, but also regularly considerably less than the actual 'intrinsic value' of the policy. The legal transfer as well as the safekeeping of the vested policy rights is performed by a British solicitor (lawyer and notary public).

The average sum invested in a TEP is between 10,000 and 25,000 pounds sterling. After purchasing the TEP, the investor pays the ongoing premium and when the policy matures – in addition to the accrued annual bonuses and the sum insured up to expiration of the policy – receives the variable terminal bonus.

Advantages for all Parties involved

Ultimately, all parties involved profit from the British secondary market:

- The insurant because he receives a considerably higher price by selling than by cancelling the policy. This is mainly due to the fact that British insurance companies pay out a large part of the balance as a terminal bonus only upon expiration of the contract. As a result, the premature termination of a British policy is associated with mostly higher losses than the cancellation of a German capital-forming life insurance policy



“After adjustments, TEPs have proved to be a stable asset class once more”

Since 2002 British insurance companies have been required by law to point out the secondary market to policyholders wishing to cancel their policies.

- The investor because he acquires the policy at a discounted price which is below the policy's actual 'intrinsic value'. Moreover, most of his investment is secured because he is irrevocably entitled to the already allocated annual bonuses as well as the sum insured. At the beginning of the investment these sums often come to around 85 percent of the capital invested including future premium.

- The insurance company because the investor continues to pay the insurance premiums for the policies acquired and, thus, reduces cancellation rates for the insurers. This allows the companies to calculate better and invest more money since the policies are retained in its portfolio.

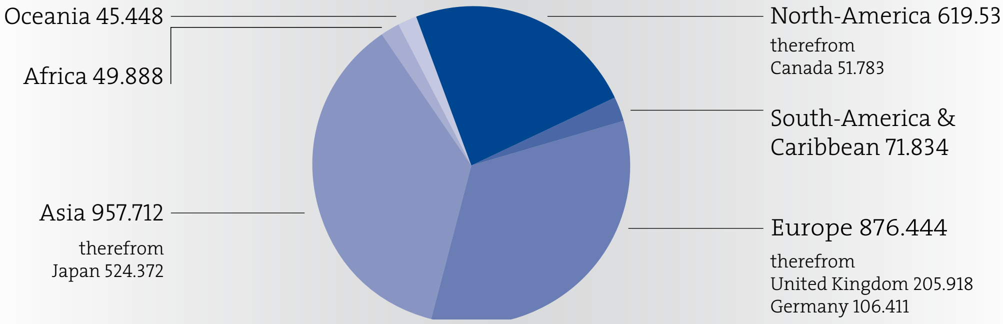
Outlook

After the major adjustments of the maturity payments over the past years, the TEPs have proved to be a stable asset class once more. The long-term average of the surrender value development remains constant and no major fluctuations are expected in view of the stable economic conditions. Due to the fact that 80% of maturity payments are built up by policy guarantees, even large-scale fluctuations of the terminal bonuses have only a limited impact on the overall maturity payments of the policies. The legal conditions for the purchase and transfer of TEPs are reliable and granted. In view of the current interest environment, TEPs are particularly recommended for institutional and large-volume investments for portfolio and risk diversification.

The U.S. Secondary Market

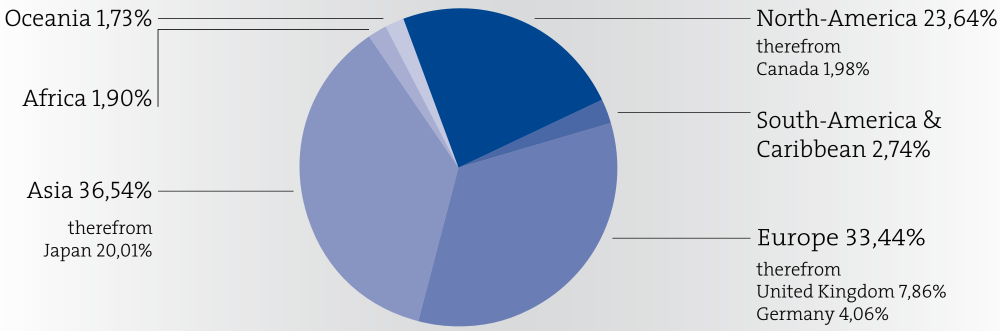
In 2012, income from premiums of life insurers in the USA and Canada totaled to 619,538 million USD. With a premium share of over 24 percent, the North American market is the world's largest market for life insurance policies. Moreover, the market holds a tremendous potential because well over half of all life insurance policies in the U.S. are terminated prematurely.

Premium volume by regions (Life Business)
Share of world market 2012 in millions of USD



*Source: Swiss Re, **sigma** 03/2013*

Premium volume by regions (Life Business)
Share of world market 2012 in %



*Source: Swiss Re, **sigma** 03/2013*

Different Types of Policies

In contrast to the term and endowment life insurance known in the UK and Germany, the policies offered for purchase on the American market are mainly special life insurance policies with a saving portion (universal life, whole life) or without a savings portion (term life insurance). Here a distinction is generally made between insurance policies with limited terms (term life insurance) and those which exist for the entire life span of the insured (permanent life insurance).

Since such life insurance policies, in general, were not made to provide for old age but to hedge individual risks, for example, to secure the family in case of death, to finance inheritance estate taxes or obligations from a mortgage to purchase a house, the insurant frequently ceases to show interest in maintaining his contract and the required – partially high – premium payments if personal life conditions change and the insurant has reached an advanced age.

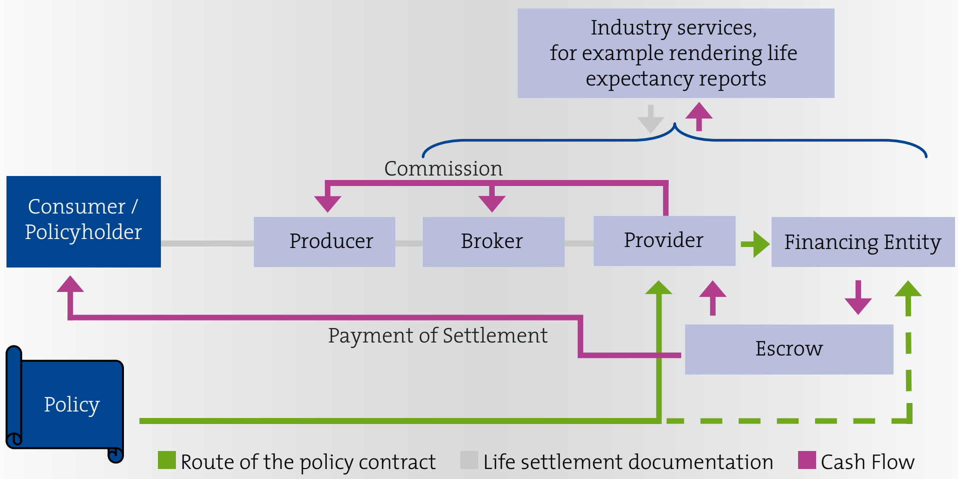
Instead of cancelling the policy to obtain a low (or even no) surrender value, the insured may generate higher proceeds selling their policy on the secondary market.

Mode of Operation of the U.S. Secondary Market for Life Insurance

Investors acquire this special life insurance policy (senior life settlements) from the insurants (persons usually older than 75 year) to be entered as new beneficiaries; they take over the premium payment obligations and collect the complete insurance sum payment when the insured event occurs (death of the insured). The difference between the death benefit sum and purchase price plus other paid premiums, thus, substantially influences the return from this business model.

Contrary to the German and also the British secondary market for life insurance, the exact amount of the maturity value (death benefit) is known for U.S. life insurance policies, although the time of the insured event remains uncertain. In order to still provide a maximum forecast security, specialized medical underwriters determine the assumed residual life expectancy of the insured.

The Life Settlement Process

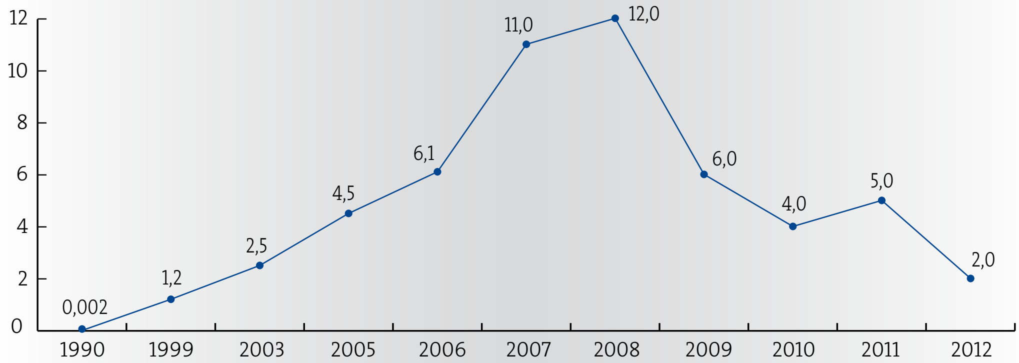


Source: LISA Life Insurance Settlement Association

Therefore, the quality and reliability of these life expectancy assessments play a decisive role: It influences the purchase price of the policy / added value for the vendor as well as the forecast reliability and respective investment success of the purchaser.

The processes and forecast quality of medical underwriters in the U.S. have considerably improved over the past years. A large database for reliable back-testing putting more focus on the newest medical and socio-demographic knowledge, updating of the mortality table and improved actuarial methods and processes ensure that today's assessments are much more precise and reliable than just a few years ago. In addition, the due-diligence process required for the purchase of each individual U.S. policy, the policy pricing and quality evaluation as well as the precision of medical expertises require a high degree of special know-how and profound market knowledge.

Development of the life insurance policies trade volume (in USD billion)[1]



[1] *The figures refer to estimated volumes since no clearly documented market data exist in the United States.*

Source: BVZL

Since the beginning of the U.S. secondary market for life insurance in the Nineties, the government also has implemented and established complex measures for market regulation and market control.
Accordingly, comprehensive regulations, licensing and permit obligations were established in almost all federal states of the USA, partially crossing federal state borders. Statistic basics and instruments for fair pricing and a transparent purchase process were introduced. In summary, the industry underwent a professionalization process, from partially negative experiences, the correct and necessary conclusions were drawn – to the benefit of consumers and investors.

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What we stand for

- Introducing / setting quality standards
- Enhancing transparency by providing information on the respective risk-reward profiles of the various secondary markets for life insurance policies
- Establishing asset classes with regard to private investors, institutionals, opinion leaders, the media and the general public

The services we offer

→ Representation of interests at political level in Berlin and Brussels

→ Networking platform

→ Business trends / marketing support

→ Press and public relations

... and a lot more

Become a Member!

Benefit from BVZL services and reputation in the secondary life insurance markets

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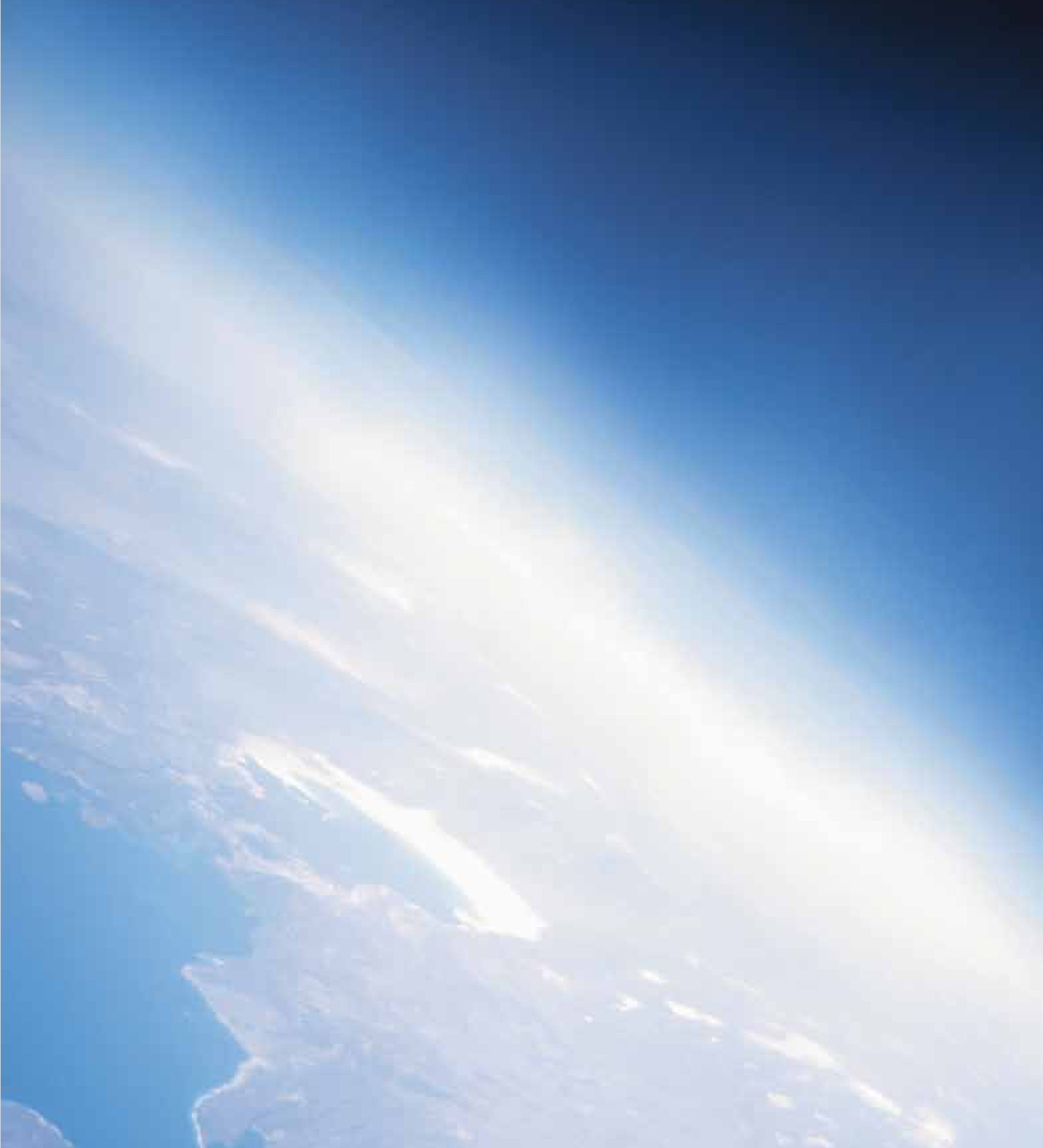
New Chances and Perspectives

The asset class 'U.S. Life Settlements' has grown up after initial problems. The increasing professionalization of all market players – mainly induced or commanded by activities of the different international industry associations, an almost uniform stateside regulation, best practice and transparency initiatives (**'BVZL Best Practices: Guidelines for Investors and Suggested Best Practice Standards for Professionals in the US Life Settlement Investment Industry'**), continuously improved forecast quality of medical examiners and the partially built up medical and actuarial know-how of German initiators increasingly make investments in used U.S. life insurances a very interesting investment option in view of stable purchase returns, for private but particularly for (semi-)professional investors during the AIFM implementation.

U.S. Life Settlement Investments are an excellent tool for diversification of an investment portfolio providing attractive interest rates with calculable risks even in a low-interest environment.

In general, the handling of the so-called 'biometric risks' and investment options in longevity risks will gain increasing importance. In order to meet the challenges of the demographic development, e.g. in the health system and retirement system in a sustainable way, intelligent capital market products may present a suitable tool for the transfer of longevity risks. More than ever experts are needed capable of assessing and managing the biometric risks, including the longevity risks. Thus, the pricing of insurance and retirement products or services in the health sector of the future will be stronger linked with the relevant statistic life expectancy forecasts.

The BVZL and its member companies will use the know-how acquired over the past years to increase its focus on the topic 'longevity' in future, especially in view of the strongly growing target group of the golden agers to open up new business fields promising also attractive investment alternatives for interested investors.



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