

**Report
of the
Society of Actuaries
Life Settlements
Survey Subcommittee**

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Introduction

This report presents the results of the survey on Life Settlements that was undertaken by the Society of Actuaries (SOA) Committee on Life Insurance Mortality and Underwriting Surveys. Two separate surveys, one tailored to Direct Writers and the other tailored to Reinsurers, included questions concerning Company Characteristics, Market Participation, Market Management, and Consequences to the Industry. The responses from both Direct Writers and Reinsurers have been combined into this single report.

The surveys were conducted during July-August 2008 and were sent to companies writing or reinsuring individual life insurance business in the United States. A total of 19 Direct Writers and four Reinsurers responded to their respective surveys. Not all companies answered all questions. Unless otherwise indicated as being from Reinsurers, the responses discussed in this report are from Direct Writers. We generally asked for information related to current practices, however, in some questions, we asked for 2007 information.

Caveat and Disclaimer

While we anticipate and hope that the results prove useful for the industry, it should be noted that, although the data the Survey Subcommittee received was fairly comprehensive, it is by no means a look at the whole industry. It also bears mentioning that financial conditions changed significantly after the survey was completed by the respondents in July-August 2008. In addition to the overall financial repercussions that might have affected the life settlement process, individual conditions for some respondents may have changed. The SOA Survey Subcommittee makes no specific recommendations as to how this might have affected the survey had it been completed currently. We simply mention it for consideration as you review results.

This report is published by the SOA and contains information based on input from companies engaged in the U.S. life insurance industry. The information published in this report was developed from actual historical information and does not include any projected information. The SOA and the participating companies do not recommend, encourage or endorse any particular use of the information reported in this report. The SOA makes no warranty, guarantee or representation whatsoever and assumes no liability or responsibility in connection with the use or misuse of this report.

The Survey Subcommittee thanks all of the companies who participated in this survey. We also thank those who helped us review this document and offered helpful suggestions and comments. Finally, the Survey Subcommittee thanks a number of the Society of Actuaries staff for their help in completing this project, especially Jack Luff and Korrel (Crawford) Rosenberg, without whose help this could not have been completed.

Comments on this report and suggestions for the future surveys are welcome and can be addressed to the Mortality and Underwriting Survey Committee c/o The Society of Actuaries.

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Executive Summary

A Life Settlement is a financial transaction in which a policyowner (usually the insured) possessing an unneeded or unwanted life insurance policy or even for the financial incentive alone, sells the policy to a third party for more than the cash value offered by the life insurance company at the time of sale. This is often referred to as the “secondary market.” The purchaser, after filing ownership change forms, becomes the new beneficiary of the policy and is responsible for all subsequent premium payments. The economic value of the sale price is determined by calculating the life expectancy based on the current health profile of the insured, factoring in estimated future premiums to be paid, annual maintenance costs, origination fees and other upfront expenses, all discounted at a risk rate of return.

Company Characteristics

- Nineteen Direct Writers and four Reinsurers responded to the Survey.
- Volume of inforce life insurance from the Direct Writer respondents was evenly distributed among all size carriers, ranging from under \$50 billion to over \$500 billion. All four Reinsurer respondents had inforce in excess of \$100 billion.
- Sixty-eight percent of the Direct Writer respondents sold a mixture of permanent and term insurance.
- The most prominent (42%) maximum issue age for both single life and joint and last survivor products was 85. The maximum issue age was 90.
- The majority of the Direct Writer respondents had multiple distribution channels for new business issued at ages 70 and above. The leading distribution channels (in order ranked by face amount) for this issue age group were (1) Independent Agents, (2) Career Agents, (3) Brokers, and (4) Independent Marketing Organizations.

Market Participation

- A majority of the respondents indicated the growing life settlements market was an important issue in today’s market and that they have no current plans to enter the life settlement market.
- About half of the Direct Writer respondents indicated they currently monitor their inforce policies that have been settled. The remaining respondents have no plans to monitor, even in the future.
- Eight Direct Writer respondents indicated they had actually had policies settled in the secondary market. Universal Life and UL with Secondary Guarantees were the products with the highest percentage of settlements, followed by Whole Life. Somewhat surprisingly, two respondents indicated around half of their settled policies were Term insurance.

Market Management

- Nearly all of the respondents indicated they would not issue (or reinsure) policies where it was *known* or *strongly suspected* the ultimate intent was to settle them in the secondary market.

- Most of the Direct Writer respondents had addressed potential life settlement concerns by integrating multiple protective mechanisms into their sales and underwriting processes. In order of use, the most prominent examples of such mechanisms were (1) educate underwriters in identifying life settlement cases, (2) ask a question on the application, (3) monitor and control producer incentives, and (4) review trust agreements. Three of the four Reinsurer respondents indicated they have integrated protective mechanisms into their underwriting and treaty processes.
- Realizing that premium-financing programs can lead to life settlements, two-thirds of the Direct Writer respondents indicated they review such programs prior to participating. Three of the four Reinsurer respondents indicated they review all premium-financing programs from ceding clients before agreeing to participate.
- For the block of their policies that had been settled, 11 of the 19 Direct Writer respondents indicated that they were able to review mortality, lapses, premium-funding levels or other experience items. A majority of the Direct Writer respondents who had reviewed these experience items had updated their lapse assumptions to account for settled policies.

Consequences to the Industry

- The Survey asked Direct Writer and Reinsurer respondents to rank their concerns about the growing life settlement market *with respect to public policy*. Most of the respondents were very concerned about the reputation risk to the life insurance industry, the risk of losing the tax-exempt status of life insurance policies and the risk associated with lack of insurable interest on settled policies.
 - About half of the Direct Writer respondents were very concerned about the possible loss of the insured's ultimate capacity to purchase new life insurance due to a history of settlements. The other half were only slightly concerned or not concerned at all.
- The Survey also asked Direct Writer and Reinsurer respondents to rank their concerns about the growing life settlement market *with respect to their own companies*.
 - A majority of Direct Writer respondents were concerned about the reputation risk to their own company.
 - Most of the respondents were concerned about the reduced profitability on settled policies, mostly due to the impact of reduced lapse rates.
 - There was some concern among the Direct Writer respondents about possible litigation by the original beneficiaries on settled policies. Most of the Reinsurer respondents were only slightly concerned about this.
 - While the Direct Writer respondents were only slightly concerned about loss of reinsurance on settled policies due to breach of reinsurance treaty terms, nearly all of the Reinsurer respondents were very concerned about this.
- Nearly all of the respondents felt that the growing life settlement market was mainly negative *for the insurance industry*, but mainly neutral *for their own company*.

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Section 1: Company Characteristics

There were 19 Direct Writers and four Reinsurers who responded to the Survey. For the Direct Writer respondents, the volume of life insurance inforce was evenly distributed among all size carriers, ranging from under \$50 billion to over \$500 billion; the Reinsurer respondents all had inforce volumes in excess of \$100 billion.

The respondents sold a mixture of permanent and term insurance. The most prominent maximum issue age among the respondents, for both single life and joint and last survivor products, was 85; the maximum issue age among all respondents was 90.

The majority of the Direct Writer respondents had multiple distribution channels for new business issued at ages 70 and above. The leading distribution channels (in order ranked by face amount) for this issue age group were (1) Independent Agents, (2) Career Agents, (3) Brokers, and (4) Independent Marketing Organizations.

Further details regarding the characteristics of the Survey respondents is in Appendix A - Company Characteristics.

Section 2: Market Participation

2.1 The Survey asked how respondents would rate the importance of the growing life settlement market on a five-point scale ranging from no importance to most important.

Table 8 - Importance of Life Settlements in Market

Rating	# of Direct Writers	# of Reinsurers
Most Important	2	0
Very Important	3	3
Important	7	1
Little Importance	4	0
No Importance	2	0
Total # of Respondents	18	4

Twelve (67%) of the 18 respondents rated life settlements, at a minimum, an important issue in today's market. Alternatively, six (33%) indicated life settlements were of little or no importance. All of the Reinsurers rated life settlements as being either important or very important in today's market.

2.2 The Survey asked respondents about their company's current approach to the life settlement market. Respondents were able to indicate more than one selection.

Table 9 - Current Company Approach to Life Settlement Market

Approach	# of Direct Writers	# of Reinsurers
Actively purchase policies for investment	1	0
Actively purchase policies for securitization	1	0
Establish separate business unit	2	1
Investigate future involvement	6	1
No current plans to become involved	12	2
Other*	1	0
Total # of Respondents	19	4

Of the 19 respondents, 12 (63%), indicated they have no current plans to enter the life settlement market. However, six (32%) indicated they are currently investigating future participation.

*Comment regarding “Other”:

- *Actively opposing abuses of the Non Forfeiture law to shrink the settlement market.*

Among the Reinsurer respondents, one indicated “establish separate business unit,” another indicated “investigate future involvement” and two indicated “no current plans to become involved” in the life settlement market.

2.3 The Survey asked respondents if their company is currently monitoring its policies inforce that have actually been settled in the secondary market. There were 19 respondents to this question.

Table 10 - Monitoring of Settled Policies

Monitoring	# of Respondents
Yes	9
No, but plan to monitor in future	3
No, and have no plans to monitor in future	7
Total # of Respondents	19

Nine (47%) of the respondents indicated they were currently monitoring their inforce policies that had been settled with three (16%) more respondents indicating they planned to monitor in the future.

2.4 For those who monitored settled policies, the Survey also asked for an estimate of the percentage of policies with face amounts of \$250,000 and above that were settled in 2007. Seven respondents estimated the percentage to be less than 1%. One respondent commented they were monitoring 60 policies that had been settled, but did not indicate the percentage these policies represented.

2.5 The Survey asked respondents whose company had policies settled in the secondary market to indicate the product type of those settled policies. Eight respondents answered this question, choosing from among seven product types. The Survey also asked respondents to indicate the average size of their settled policies for each of the product types. Note that respondents indicated average face amounts of their settled policies, not average settlement amounts.

Table 11 shows the distribution by face amount and average face amount of settled policies among the various product types. For example, three respondents indicated some of their settled policies were whole life. The median percentage indicated by these three respondents was that 19% of their settled policies were whole life and the median average face amount of those settled policies was \$53,000.

Table 11 – Percentage of Settled Policies by Product Type

Product	# of Responses	Median %	Median Average Face Amt. (000)
Whole Life	3	19%	\$53
Traditional UL	5	45%	\$724
VUL	2	4%	\$870
UL with Secondary Guarantees	4	49%	\$1,085
JLS	2	12%	\$2,287
Term	4	26%	\$230
Other*	2	100%	\$950
Total # of Respondents	8		

*Two respondents were unable to determine the policy type for their settled policies and indicated “Other.”

Traditional UL and UL with secondary guarantees were the products with the highest percentage of settlements, followed by whole life. Somewhat surprisingly, two respondents indicated that around half of their settled policies were term insurance. It is possible that these were sold with the intent to convert to permanent products.

There was a fairly wide range of average face amounts for settled policies, with the highest averages being over \$3,000,000 and the lowest averages being well under \$250,000. Respondents indicated that UL with secondary guarantees and JLS plans had settlements with the highest median average face amounts.

Section 3: Market Management

3.1 Realizing that premium-financing programs can lead to life settlements, the Survey asked respondents whether their company reviews all premium-financing programs prior to participating.

Table 12 – Number of Respondents Indicating Review of All Premium-Financing Programs

Response	# of Direct Writers	# of Reinsurers
Yes	12	3
No	1	0
Other*	5	1
Total # of Respondents	18	4

Of the 18 respondents, two-thirds indicated they do review such programs, one indicated they do not and five indicated “Other.” Of the five indicating “Other,” four respondents indicated they do not participate in such programs.

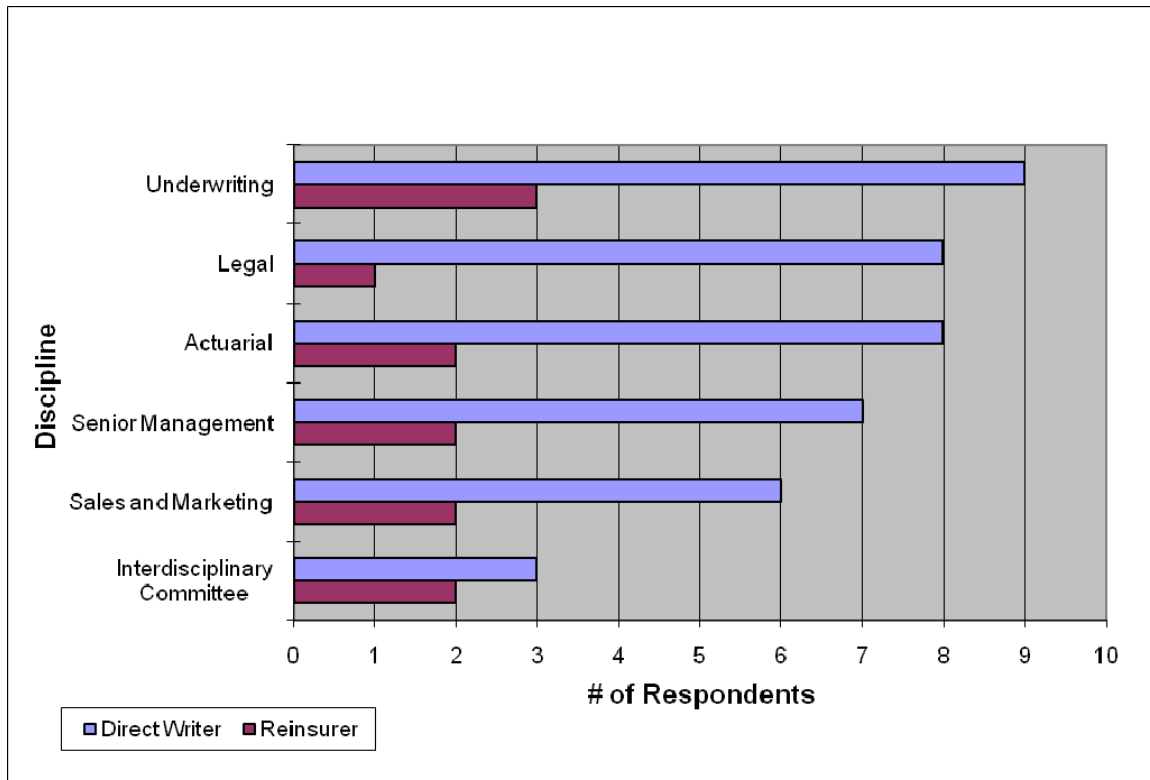
Of the four Reinsurers that participated in the Survey, three indicated they review all premium-financing programs from ceding clients before agreeing to participate, with the fourth indicating they review only upon request from the ceding company.

*Comments regarding “Other”:

- *Do not participate in any premium financing arrangements; (4)*
- *No, we review change of ownership forms; and*
- *Only upon request from the ceding company. (Reinsurer response)*

3.2 For those respondents who indicated their company reviews all premium financing programs prior to participation, the Survey asked which functional areas are involved in the review. Respondents were able to indicate more than one functional area. The 12 respondents who indicated their company reviews all premium-financing programs prior to participation noted the functional areas shown in Chart 1 - Functional Area Responsible for Reviewing Premium Financing Programs as being involved in that review.

Chart 1 – Functional Area Responsible for Reviewing Premium Financing Programs



The majority of respondents had three or more disciplines involved in the review of their premium-financing programs, with underwriting, actuarial and legal being the most common, followed by senior management. Two respondents did not utilize a multi-discipline review, indicating underwriting as the only discipline to review such programs.

Of the four Reinsurers, it appears that multiple disciplines are involved (whether separately or via a committee) in the decision to participate in premium-financing programs.

3.3 The Survey asked respondents whether, after their review of premium-financing programs, they referred them to their reinsurers.

Six (50%) of the 12 respondents indicated they do not refer the programs to their reinsurers even if the reinsurers are involved in the risk. Of the six that do refer to their

reinsurers, all but one specified that it is not a requirement within their reinsurance treaty to do so.

3.4 The Survey asked respondents whether their company would issue policies where it was *known* the ultimate intent was to settle them, and if not, whether they were declined outright or issued another policy. If their company would issue such a policy, the respondents were asked to indicate whether there were any conditions upon the acceptance. There were 18 respondents to this question.

Table 13 - Willing to Make an Offer when it is Known that Policy will be Settled

Response	# of Direct Writers	# of Reinsurers
Yes	1	0
No	17	4
Total # of Respondents	18	4

Of the 18 respondents, 17 (94%) indicated their company would not issue policies where it was known the ultimate intent was to settle and of these, 15 (88% of the 17) indicated they would decline the application. For the one company indicating it would issue such policies, the respondent indicated there were no additional conditions placed upon their issuance.

Reinsurer respondents were asked a similar question as to whether they would make a facultative offer on cases where the policies were being purchased with the ultimate intent to be settled. All four of the respondents indicated they would not make such an offer.

3.5 The Survey asked respondents to indicate if their company would issue a policy if they *strongly suspected* it was being purchased with the ultimate intent to be settled.

Table 14 - Willing Make Offer if Strong Suspicion Policy will be Settled

Response	# of Direct Writers	# of Reinsurers
Yes	2	0
No	17	4
Total # of Respondents	19	4

Of the 19 respondents, 17 (89%) indicated they would not issue the policy.

Similarly, the Survey asked Reinsurers whether they would make a facultative offer on a case where they strongly suspected the case was being purchased with the ultimate intent to be settled. All four Reinsurers indicated they would not make such an offer with one providing an additional caveat that it would not make a facultative offer if the plan or lender were known to be active in the Stranger Owned Life Insurance market.

3.6 For the 17 respondents who indicated they would not issue a policy under a strong suspicion that it was to be settled, the Survey asked how their company handles this situation.

Twelve (71%) of the 17 respondents indicated they decline the application; the other five respondents provided comments.

Comments regarding “Other”:

- *Case by case decision;*
- *Continue to question; if all answers point to likely to be settled, decline;*
- *Never comes up;*
- *Specific questions relating to life settlements intent are asked on the application and underwriting process; and*
- *This is new to us. We don't think we've ever had intent to settle.*

3.7 For the respondents who indicated they would issue a policy under a strong suspicion that it was being purchased with the ultimate intent to be settled, the Survey asked whether or not such cases were tracked and, if so, how.

Two respondents answered this question and neither indicated they track such cases.

3.8 The Survey asked respondents whether their company has addressed potential life settlement concerns by integrating protective mechanisms into their sales and underwriting process.

Table 15 - Integrated Protective Mechanisms into Sales and Underwriting Process

Response	# of Direct Writers	# of Reinsurers
Yes	15	3
No	4	1
Total # of Respondents	19	4

Of the 19 respondents, 15 (79%) indicated they have integrated protective mechanisms.

Reinsurers were asked a similar question. Three of the four respondents indicated they have integrated protective mechanisms into their underwriting and treaty processes.

3.9 For those respondents who indicated they have integrated protective mechanisms into their sales and underwriting process, the Survey asked specifics around what mechanisms they used. Respondents were able to indicate more than one mechanism.

Table 16 - Protective Mechanism - Direct Writer

Mechanism	# of Responses
Monitor and control producer incentives	8
Educate underwriters in identifying life settlement cases	14
Ask a question on the application or use a statement of intent in the application	10
Policyowner Intent Form	4
Enhanced Agent supplements	1
Review trust(s) agreement(s)	7
Signed illustrations	5
Eliminate or modify table shave programs in the elderly	4
Offer alternative product	0
Other*	3
Total # of Respondents	14

Thirteen of the 14 respondents provided multiple responses, but all 14 included educating underwriters. The most common other mechanisms employed were asking additional questions on the application, monitoring and controlling producer incentives and reviewing trust agreements. On average, respondents used between three and four mechanisms.

*Comments regarding “Other”:

- *An Inspection Report is used for large policies, which includes questions regarding any intent to sell;*
- *Enhanced financial underwriting criteria, Indemnification; and*
- *Scrutinize financial underwriting.*

Table 17 - Protective Mechanism - Reinsurer

Mechanism	# of Responses
Educate underwriters in identifying life settlement cases	3
Add applicable wording to treaties	2
Review participation and structure of table shave programs for the elderly	3
Inform ceding companies of policy regarding premium financing	2
Inform ceding companies of policy regarding life settlements	2
Include in underwriting audit	1
Total # of Respondents	3

The three Reinsurer respondents indicated they were generally aware of the life settlement market and had taken precautionary measures to mitigate the financial risk associated with these cases.

3.10 The Survey asked respondents, for the block of policies that have been settled, to indicate which experience items the company has been able to review. There were 10 respondents and they were able to indicate more than one response.

Table 18 - Experience Items Able to Review

Item	# of Responses
Mortality	6
Lapses	5
Premium funding levels	4
Other*	4
Total # of Respondents	10

Of the 10 respondents, six (60%) were able to track mortality and five (50%) were able to track persistency/lapses.

For the three Reinsurers who responded to this question, two indicated they have updated mortality and lapse assumptions, and one indicated "*not yet - profitability for most reinsurance products not largely impacted.*"

*Comments regarding "Other":

- *Not currently reviewing but considering starting;*
- *Only two policies have been settled to-date;*
- *The block is too small to be material; and*
- *Too few to monitor any of these items.*

3.11 The Survey asked respondents whether they have, as a result of exposure to life settlements, changed their pricing assumptions with respect to mortality, lapses, guarantees, commissions or some other assumption. There were 13 respondents and respondents were able to indicate more than one assumption.

Table 19 - Assumptions Updated

Assumption	# of Responses
Mortality	3
Lapses	8
Guarantees	1
Commissions	1
Other*	6
Total # of Respondents	13

Eight (52%) of the respondents have updated lapse assumptions as a result of their exposure to life settlements. Three (23%) have updated their mortality assumptions.

*Comments regarding “Other”:

- *Funding assumptions;*
- *Immaterial impact at this point;*
- *None;*
- *No, not at this time;*
- *Our products are priced to pay death benefits or economically-equivalent cash values, with no aggressively-priced guarantees, so there is no need to update assumptions; and*
- *We will run additional sensitivities to test the effect of settlements.*

3.12 The Survey asked respondents to indicate what procedure(s) their company follows once a policy has been settled as a life settlement. There were 12 respondents and they were able to indicate more than one procedure.

Table 20 - Procedure Followed once a Policy is Settled

Procedure	# of Responses
Monitor term conversions	4
Monitor joint & last survivor policies (e.g., first deaths)	1
Monitor beneficiary and policyowner changes	8
Monitor experience	3
Reprice the products at the older ages	1
Consider rescinding the policy if it is sold	4
Terminate producers circumventing the system	6
Require right of first refusal to purchase settled policies	1
Other*	4
Total # of Respondents	12

Eight (75%) of the respondents monitor beneficiary and policyowner changes, while six (50%) terminate the producers they find trying to circumvent the system. Seven (58%) of the respondents indicated they implement more than one procedure once they know a policy has been settled.

*Comments regarding "Other":

- *Depending on timing of settlement, we may or may not do as checked;*
- *Nothing formal yet since our exposure is so small;*
- *Procedures listed are general practices not only for life settlements; and*
- *Too few to monitor any of these items.*

Section 4: Consequences to the Industry

The Survey asked respondents how concerned they were about the growing life settlements market from both a public policy standpoint, as well as their own company's perspective. Respondents were asked to rank their concern on a scale from *not concerned at all* to *extremely concerned* in the following areas:

a. With Respect to Public Policy

1. Reputation risk for life insurance industry
2. Possible criminal element entering the industry
3. Risk of losing tax-exempt status on all policies
4. Loss of insurance proceeds to original beneficiaries
5. Loss of insured's ultimate capacity to purchase insurance
6. Risk associated with lack of insurable interest
7. Other (please specify)

b. With Respect to Your Own Company

1. Reputation risk for your own company
2. Risk associated with lack of insurable interest
3. Reduced profitability
4. Impact of reduced lapses on affected products
5. Possible lawsuits by original beneficiaries
6. Loss of reinsurance due to breach of contract
7. Other (please specify)

With Respect to Public Policy:

4.1 The Survey asked respondents how concerned they were about the growing life settlements market from *a public policy standpoint* as far as the reputational risk for the life insurance industry is concerned:

Table 21 - Reputation Risk for Life Insurance Industry

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	3	1
Very concerned	11	3
Concerned	2	0
Slightly concerned	2	0
Not concerned at all	1	0
Total # of Respondents	19	4

Among the 19 respondents, 14 (74%) were very or extremely concerned, while among the Reinsurers, all were extremely or very concerned about the reputation risk for the life insurance industry

4.2 The Survey asked respondents how concerned they were about the growing life settlements market from a *public policy standpoint* as far as the possibility of a criminal element entering the industry is concerned:

Table 22 - Possible Criminal Element Entering the Industry

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	3	0
Very concerned	4	1
Concerned	7	0
Slightly concerned	5	2
Not concerned at all	0	1
Total # of Respondents	19	4

While there was concern about possible criminal element entering the industry, there was less concern than that on reputation risk. Here, among the 19 respondents, all were concerned at some level but 12 (63%) indicated they were only slightly concerned or concerned.

Among the Reinsurers, there was a spread of responses, from one being very concerned to one being not concerned at all.

4.3 The Survey asked respondents how concerned they were about the growing life settlements market from a *public policy standpoint* as far as the risk of losing tax-exempt status on all policies:

Table 23 - Risk of Losing Tax-exempt Status on All Policies

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	9	1
Very concerned	6	1
Concerned	4	2
Slightly concerned	0	0
Not concerned at all	0	0
Total # of Respondents	19	4

All respondents, including the Reinsurer respondents, were concerned with the risk of losing tax-exempt status on their policies, with 15 (79%) of the respondents indicating they were either very or extremely concerned. Among the Reinsurers, all indicated they were at least concerned.

4.4 The Survey asked respondents how concerned they were about the growing life settlements market from a *public policy standpoint* as far as the loss of insurance proceeds to original beneficiaries:

Table 24 - Loss of Insurance Proceeds to Original Beneficiaries

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	3	0
Very concerned	6	2
Concerned	5	2
Slightly concerned	2	0
Not concerned at all	3	0
Total # of Respondents	19	4

Among the 19 respondents, there was not a consensus regarding the degree of concern regarding the loss of insurance proceeds to original beneficiaries. Fourteen (74%) were at least concerned, whereas five (26%) were only slightly or not concerned at all.

All of the Reinsurers were at least concerned about the loss of insurance proceeds to original beneficiaries.

4.5 The Survey asked respondents how concerned they were about the growing life settlements market from a *public policy standpoint* as far as the loss of the insured's ultimate capacity to purchase insurance:

Table 25 - Loss of Insured's Ultimate Capacity to Purchase Insurance

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	1	1
Very concerned	9	1
Concerned	1	1
Slightly concerned	4	1
Not concerned at all	4	0
Total # of Respondents	19	4

The 19 respondents were divided about the level of concern regarding the loss of an insured's ultimate capacity to purchase insurance. Eleven (58%) were at least concerned, whereas eight (42%) were slightly concerned or not concerned at all.

All Reinsurer respondents indicated some level of concern regarding the loss of an insured's ultimate capacity to purchase insurance, with the level of concern evenly divided between slightly concerned, concerned, very concerned and extremely concerned.

4.6 The Survey asked respondents how concerned they were about the growing life settlements market from *a public policy standpoint* as far the risk associated with lack of insurable interest:

Table 26 - Risk Associated with Lack of Insurable Interest

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	5	1
Very concerned	9	1
Concerned	2	2
Slightly concerned	2	0
Not concerned at all	1	0
Total # of Respondents	19	4

Among the 19 respondents, all but one indicated at least some level of concern with 14 (74%) indicating they were extremely or very concerned about the risk associated with lack of insurable interest.

All the Reinsurers indicated they were at least concerned, with half indicating they were either extremely or very concerned.

4.7 The Survey asked respondents if they had any other comments with respect to public policy. One respondent provided the following comment:

- *Extremely concerned - We are very concerned about stranger originated insurance as answered above, but feel life settlements can be legitimate in certain scenarios.*

With Respect to Your Own Company:

Categories included:

1. Reputation risk for your own company
2. Risk associated with lack of insurable interest
3. Reduced profitability
4. Impact of reduced lapses on affected products
5. Possible lawsuits by original beneficiaries
6. Loss of reinsurance due to breach of contract
7. Other (please specify)

4.8 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as the reputational risk for their company is concerned:

Table 27 - Reputation Risk for Your Own Company

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	3	0
Very concerned	5	0
Concerned	6	3
Slightly concerned	2	0
Not concerned at all	3	1
Total # of Respondents	19	4

Among the 19 respondents, fourteen (74%) were at least concerned about the reputation risk for their own company, whereas five (26%) were only slightly concerned or not concerned at all.

Among the Reinsurers, three were concerned and one indicated they were not concerned at all.

4.9 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as the risk associated with lack of insurable interest:

Table 28 - Risk Associated with Lack of Insurable Interest

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	1	1
Very concerned	9	0
Concerned	6	2
Slightly concerned	1	1
Not concerned at all	2	0
Total # of Respondents	19	4

Among the 19 respondents, 16 (84%) were at least concerned about the risk associated with the lack of insurable interest, with over half indicating they were either very or extremely concerned; two (10%) indicated they were not concerned at all.

Among the Reinsurers, half were simply concerned, one was extremely concerned and one was slightly concerned.

4.10 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as reduced profitability was concerned:

Table 29 - Reduced Profitability

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	3	1
Very concerned	8	1
Concerned	4	1
Slightly concerned	2	0
Not concerned at all	2	1
Total # of Respondents	19	4

Among the 19 respondents, 11 (58%) were at least very concerned about reduced profitability. Four (21%) were concerned, two were slightly concerned and two were not concerned at all.

Among the Reinsurers, the results were evenly distributed. One was extremely concerned, one was very concerned, one was concerned and one was not concerned at all.

4.11 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as the impact of reduced lapses on affected products:

Table 30 - Impact of Reduced Lapses on Affected Products

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	5	0
Very concerned	7	1
Concerned	3	2
Slightly concerned	1	0
Not concerned at all	2	1
Total # of Respondents	19	4

Among the 19 respondents, 12 (63%) indicated they were at least very concerned about the impact of reduced lapses on affected products. Three (16%) were concerned, two were not concerned at all and one indicated they were only slightly concerned.

Among the Reinsurers, half were concerned, one was very concerned and one was not concerned at all.

4.12 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as possible lawsuits by original beneficiaries:

Table 31 - Possible Lawsuits by Original Beneficiaries

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	0	0
Very concerned	5	1
Concerned	10	0
Slightly concerned	0	3
Not concerned at all	4	0
Total # of Respondents	19	4

Among the 19 respondents, 15 (79%) were at least concerned about possible lawsuits by original beneficiaries, whereas four (21%) were not concerned at all.

Among the Reinsurers, three were slightly concerned and one was very concerned.

4.13 The Survey asked respondents how concerned they were about the growing life settlements market from *their own company standpoint* as far as loss of reinsurance due to breach of contract:

Table 32 - Loss of Reinsurance Due to Breach of Contract

Response	# of Direct Writers	# of Reinsurers
Extremely concerned	0	0
Very concerned	2	2
Concerned	8	1
Slightly concerned	5	1
Not concerned at all	4	0
Total # of Respondents	19	4

Among the 19 respondents, ten (53%) were at least concerned about the loss of reinsurance due to breach of contract, five (26%) were slightly concerned and four (21%) were not concerned at all.

All the Reinsurer respondents indicated some level of concern with two indicating they were very concerned. Of the remaining two, one was concerned and one was slightly concerned.

4.14 The Survey asked respondents if they had any other comments with respect to their own companies:

- *Extremely concerned - Cost of reinsurance with respect to converted policies;* and
- *Very concerned - Lawsuits by other than beneficiaries.*

The Survey asked respondents if they felt the growing life settlements market was positive in the following areas with respect to their own company as well as the industry in general. Respondents were asked to rank their feelings from *not positive at all* to *very positive* in the following areas:

a. Your Company

1. Enhanced financial flexibility for the insured
2. Growth in premium for the life insurance industry
3. Growth in new clients and marketing channels
4. Other (please specify)

b. The Industry

1. Enhanced financial flexibility for the insured
2. Growth in premium for the life insurance industry
3. Growth in new clients and marketing channels
4. Other (please specify)

With Respect to Your Own Company:

4.15 The Survey asked respondents if they felt the growing life settlements market was positive *with respect to their own company* as far as enhanced financial flexibility for the insured is concerned:

Table 33 - Enhanced Financial Flexibility for the Insured

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	8	3
Neutral	5	1
Slightly positive	3	0
Not positive at all	2	0
Total # of Respondents	18	4

Among the 18 respondents, eight (44%) felt the enhanced financial flexibility of the insured was positive, five were neutral and three were either slightly or not positive at all.

Among the Reinsurers, three were positive and one was neutral.

4.16 The Survey asked respondents if they felt the growing life settlements market was positive *with respect to their own company* as far as growth in premium for the life insurance industry is concerned:

Table 34 - Growth in Premium for the Life Insurance Industry

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	2	0
Neutral	3	1
Slightly positive	2	3
Not positive at all	11	0
Total # of Respondents	18	4

Among the 18 respondents, 11 (61%) were not positive at all about the growth in premium for the life insurance industry. The remaining seven were fairly evenly split among neutral, slightly positive and positive.

Among the Reinsurers, three were slightly positive and the remaining one was neutral.

4.17 The Survey asked respondents if they felt the growing life settlements market was positive *with respect to their own company* as far as growth in new clients and marketing channels is concerned:

Table 35 - Growth in New Clients and Marketing Channels

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	2	0
Neutral	2	2
Slightly positive	4	2
Not positive at all	10	0
Total # of Respondents	18	4

Among the 18 respondents, ten (56%) indicated they were not positive at all about the growth in new clients and marketing channels. Of the remaining eight, four (22%) were slightly positive, two were neutral and two were positive.

The Reinsurer responses were evenly split between slightly positive and neutral.

With Respect to the Life Insurance Industry:

4.18 The Survey asked respondents if they felt the growing life settlements market was positive with respect to the life insurance industry as far as enhanced financial flexibility for the insured is concerned:

Table 36 - Enhanced Financial Flexibility for the Insured

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	4	1
Neutral	7	2
Slightly positive	6	0
Not positive at all	2	1
Total # of Respondents	19	4

Among the 19 respondents, eight (42%) were either slightly or not positive at all regarding the enhanced financial flexibility for the insured. Of the remaining 11, seven were neutral and four were positive.

Among the Reinsurers, two were neutral, one was positive and one was not positive at all.

4.19 The Survey asked respondents if they felt the growing life settlements market was positive with respect to the life insurance industry as far as growth in premium for the life insurance industry is concerned:

Table 37 - Growth in Premium for the Life Insurance Industry

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	3	0
Neutral	3	1
Slightly positive	2	2
Not positive at all	11	1
Total # of Respondents	19	4

Among the 19 respondents, 11 (61%) were not positive at all regarding growth in premium for the life insurance industry. Of the remaining eight, two were slightly positive, three were neutral and three were positive.

Among the Reinsurers, three were either slightly positive or not positive at all; one indicated they were neutral.

4.20 The Survey asked respondents if they felt the growing life settlements market was positive with respect to the life insurance industry as far as growth in new clients and marketing channels is concerned:

Table 38 - Growth in New Clients and Marketing Channels

Response	# of Direct Writers	# of Reinsurers
Very positive	0	0
Positive	2	0
Neutral	4	2
Slightly positive	2	1
Not positive at all	11	1
Total # of Respondents	19	4

Among the 19 respondents, 11 (58%), were not positive at all about the growth in new clients and marketing channels. Of the remaining eight (42%), two were slightly positive, four (21%) were neutral and two were positive.

Among the Reinsurers, two were neutral, one was slightly positive and one was not positive at all.

4.21 The Survey asked respondents if, overall, they felt the growth of the life settlement market was positive or negative for the life insurance industry.

Table 39 - Growth of the Life Settlement Market to be Positive or Negative for the Life Insurance Industry

Response	# of Direct Writers	# of Reinsurers
Very Positive	0	0
Positive	2	0
Neutral	2	0
Negative	13	3
Very Negative	2	1
Total # of Respondents	19	4

Among the 19 respondents, 15 (79%) felt the growth of the life settlement market was either negative or very negative for the life insurance industry. Two respondents indicated they felt the growth was positive and two felt it was neutral.

Of the Reinsurers, all four felt that such growth was either negative or very negative for the industry.

4.22 The Survey asked respondents if, overall, they felt the growth of the life settlement market was positive or negative for their company.

Table 40 - Growth of Life Settlement Market Positive or Negative for Company

Response	# of Direct Writers	# of Reinsurers
Very Positive	0	0
Positive	2	0
Neutral	7	3
Negative	9	1
Very Negative	1	0
Total # of Respondents	19	4

Among the 19 respondents, 10 (53%) felt the growth of the life settlement market was either negative or very negative for their company. Seven (37%) felt neutral about such growth, while only two felt it was positive.

Of the Reinsurers, three indicated they felt neutral about such growth while one indicated they felt it was negative.

4.23 The Survey asked respondents if their company was considering entering the life settlement market in the near future.

Table 41 - Company Considering Entering Life Settlement Market in Near Future?

Response	# of Direct Writers	# of Reinsurers
Yes, policies in general	3	1
Yes, but only our policies	0	NA
No current plans	14	3
I don't know	2	0
Total # of Respondents	19	4

For the most part, direct writers and reinsurer respondents indicated they had no current plans to enter the market.

Fourteen (74%) of the 19 respondents indicated they had no current plans to enter the life settlement market in the near term. Three respondents indicated they did have plans for "policies in general" and two were unsure.

Of the Reinsurers, three indicated they had "no current plans" and one indicated they were considering.

Additional Comments Made by Respondents Regarding this Survey in General

Respondents were also able to provide additional comments regarding the survey. The comments provided are as follows:

- *Nonforfeiture benefits need to be reflective of the economic value of the policy. If so, you wouldn't need the life settlement;*
- *We write small to medium average face amounts (\$50-250k) with a negligible amount of our sales above 70, and generally don't offer lapse supported products, or participate in premium financed sales. We also have a captive employee agency force. So the life settlement market is really very foreign to us. It came as a surprise to me when one of our reinsurers indicated it was a major factor in their unwillingness to coinsure Return of Premium term products, for example;*
- *Survey does not sufficiently distinguish between valid life settlements and policies that are issued with the intent to settle. Primarily regarding questions 20 & 21, the questions have very different answers based on the type of policy from the previous sentence;*
- *Our business includes approximately 5,000 UL and VUL policies and 1,000 Whole Life Conversion policies. The total face amount of these policies is approximately \$243,000,000;*
- *It is not a coincidence that the STOLI and Life Settlement markets have grown at the same time that aggressively-priced UL products with secondary guarantees and low or no cash values have proliferated. Investors have seized upon pricing that relies on policyholders acting contrary to their own best interests (lapsing for no value rather than settling for pennies on the dollar of real economic value) and policy designs that make a mockery of the standard nonforfeiture law. If the Life Settlement market ultimately forces companies to return to rational pricing and provide fair cash values, then it will have served a purpose;*
- *We offer an accelerated death benefit for terminal illness and nursing home confinement. Our opinion of life settlements differs depending on whether the settlement is a viatical settlement, life settlement after the policy has been in force for some time, or STOLI (Stranger originated life settlement);*
- *In questions 12-20, in general we interpret "life settlements" to focus on stranger originated policies. For questions 21-24, we interpret "life settlements" to focus on policies issued with legitimate insurable interest (not stranger originated); and*
- *Premium financing questions did not seem to anticipate companies not being involved with premium financing. Surprised that question 10 asked for percentage of policies settled in 2007, as I assume this will be a very small number for most companies.*

Appendix A – Company Characteristics

A.1 The Survey asked respondents to indicate their primary discipline.

Eighty-four percent were actuarial and the remaining responses were from other disciplines.

Four Reinsurers responded to the Survey. Three indicated they were from the Actuarial area and one from Senior Management.

A.2 The Survey asked respondents for the total face amount of their company's individual life insurance inforce (before reinsurance) as of year-end 2007.

The responses were grouped as shown in Table 1 below.

Table 1 - Face Amount of Company Individual Life Insurance Inforce

Face Amount Range	# of Direct Writers	# of Reinsurers
<\$50 Billion	6	0
\$50 – 99 Billion	5	0
\$100 – 499 Billion	2	2
\$500 Billion +	6	2
Total # of Respondents	19	4

Of the 19 respondents, six (32%) had in-force volumes of less than \$50 billion and seven (37%) had in-force volumes between \$50-499 billion. The remaining six (32%) had in-force volumes of \$500 billion and higher.

Of the four Reinsurer respondents, two indicated they were from companies whose total life reinsurance in-force as of year-end 2007 was between \$100 and \$499 billion. The remaining two indicated life reinsurance in-force of \$500 billion and over.

A.3 The Survey asked respondents to indicate their distribution by face amount of their company's fully underwritten new business in 2007 that was for issue ages 70 and above. A total of 15 respondents answered this question and indicated their distributions of new business among pre-defined ranges.

Of the 15 companies, only two indicated at least 50% of their over 70 new business policies had face amounts under \$100,000. Four companies indicated at least 50% had face amounts between \$100,000-999,000. Seven companies had at least 50% of their new business policies at \$1,000,000 and higher. The remaining two companies indicated their new business did not have a preponderance of new issues in any one face amount range.

A.4 The Survey asked respondents to describe the life insurance products their company markets.

Table 2 - Life Insurance Market

Response	# of Respondents
Mix of term/permanent	13
Primarily permanent	4
Primarily term	2
Total # of Respondents	19

Of the 19 respondents, 13 (68%) sold a mix of term and permanent products.

A.5 The Survey asked respondents for their maximum issue age for life insurance.

Table 3 - Maximum Issue Age for Individual Life

Maximum Issue Age	# of Respondents
75	1
80	5
85	8
90	5
Total # of Respondents	19

Of the 19 respondents, eight (42%) noted 85 as the maximum issue age for individual life insurance coverage. Five (26%) of the respondents indicated their company would issue coverage to age 90.

Table 4 - Maximum Issue Age for Joint Life

Maximum Issue Age	# of Respondents
79	1
80	2
85	7
90	3
Total # of Respondents	13

Six (32%) of the respondents indicated they did not offer joint life products. Of the 13 respondents who offered joint life coverage, seven (64%) indicated their maximum issue age was 85. Three (23%) of the 13 respondents indicated their company would issue joint coverage to age 90.

A.6 Recognizing that joint and last survivor policies are a prime target for the life settlement market (due to their relatively low premiums and high face amounts), the Survey asked what percentage of all of the company's insurance in-force was joint and last survivor by both face amount and percentage of premium.

Of the 13 respondents indicating they offer Joint and Last Survivor, 12 were able to indicate the percentage of face that was Joint and Last Survivor:

Table 5 - Joint and Last Survivor Business by Face Amount

% of Face Amount	# of Respondents
1-5%	6
6-10%	2
11-15%	4
Total # of Respondents	12

Of these 12 respondents, six (50%) had 1-5% Joint and Last Survivor business by face amount.

Ten respondents were able to provide the percentage of their inforce Joint and Last Survivor business by premium:

Table 6 - Joint and Last Survivor Business by Premium

% of Premium	# of Respondents
1-5%	4
6-10%	4
11-17%	2
Total # of Respondents	10

Of the 10 respondents, four (40%) had 1-5% and four (40%) had 6-10% Joint and Last Survivor business by premium.

Two Reinsurers responded to this question. For both Reinsurers, the percentage of reinsurance inforce by face was 6-15%, but by premium it was 1-5%.

A.7 The Survey asked respondents to indicate the percentage of their company's new business issued in 2007 by distribution channel at ages 70 and above, by face amount of insurance.

Nineteen respondents answered this question and indicated their distributions of new business from among eight choices.

Table 7 shows the percentage of new business at ages 70 and above by distribution channel. For example, six respondents indicated that some of their new business came from an independent marketing organization. The median percentage indicated by these six respondents was that 32% of their new business was from this channel. Of the 19 respondents, the prominent distribution channels were (1) independent agent, (2) career agent, (3) independent marketing organization and (4) broker.

Table 7 - Percentage of New Business by Distribution Channel for Ages 70+

Distribution Channel	# of Responses	Median %
Independent Agent	12	30%
Career Agent	9	31%
Broker	8	42%
Independent Marketing Organization	6	32%
Bank	3	11%
Direct Mail	3	80%
Internet	2	1%
Other*	2	3%
Total # of Respondents	19	

*Comments regarding "Other":

- *Preferred relationship with multi-line exclusive agents; and*
- *42 issues in 2007, none at age 70 and above.*

Appendix B – Participating Companies

AIG American General
Genworth Financial
Generali USA Life Reassurance Company
Horace Mann Life Insurance Company
Indiana Farm Bureau Insurance Company
Kansas City Life Insurance Company
Lincoln Financial Group
Midland National and North American
Minnesota Life, Affiliate of Securian Financial Group
Modern Woodman of America
Munich American Reassurance Company
Mutual of America Life Insurance Company
Mutual of Omaha
Northwestern Mutual
Penn Mutual
Physicians Mutual Insurance Company
Protective Life Insurance Company
Prudential Insurance Company
SCOR Global Life
Swiss Re Life & Health America
Symetra Life Insurance Company
The Cincinnati Life Insurance Company
The Phoenix Companies