Index

Accelerated death benefits, 165
Accountants:
  A.M. Best’s analysis and, 69
  role in securitization, 53
Acquisition schedule, A.M. Best’s analysis
  and, 75
Actual to Expected analysis, in underwriting,
  28
Actuaries, roles of, 21–22, 52
Adviser for inconsistency, role in 
  securitization, 51
Age:
  age 105 and risk, 161
  pricing and, 96
  risk and misstatement of, 161
AIDS, 3–4, 199
AIG, 112
Allianz Life, 165
Alpha-longevity risk, 180–193
  buying strategies, 185–187
A.M. Best Co., 50, 230, 239, 241
  analysis based on existing portfolio, 55–56
  analysis based on newly acquired
  portfolio, 53–55
  description of life settlement market, 14
  evaluating credit risk, 79–89
  evaluating settlement-backed securities,
  56–79
  security surveillance, 90–91
  transaction costs and, 16, 65–66
American Council of Life Insurers (ACLI),
  holding period proposal, 135–150
  costs of, 135, 137, 142, 143–145
  insurance industry and, 216–217
  real options analysis framework, 137–148
American puts, 141, 142
Analytics and pricing:
  duration and complexity valuation,
  109–134
life settlement pricing, 95–108
real options approach to valuation and
  ACLI five-year holding period proposal,
  135–150
Angel, Linda, 204
Annuities:
  annuity mortality tables, 30
  annuity unwind, 161
  profit motive and, 235–236
  Arrangers of transactions, A.M. Best’s
  analysis and, 69
Asset servicers, 23–24
Attorneys:
  A.M. Best’s analysis and, 66–67
  role in securitization, 53
Auditors:
  A.M. Best’s analysis and, 69
  role in securitization, 53
Aurora Defined Benefits Fund, 115
AVS Underwriting, 22
AXA Equitable Life Insurance Company,
  203–204
Backup service providers, A.M. Best’s
  analysis and, 68–69
Basis in property, tax issues and, 
  227–228
Beneficial interest:
  defined, 5–6
  regulation and, 200
Beneficiary, defined, 5
Bernstein Research, 135–136, 238, 240
Beta-longevity risk, 181–193
Brackenridge’s Medical Selection of Life
  Risks (Brackenridge, Croxson, and
  Mackenzie), 58
Brokers, role in transactions, 20, 112
Business planning, as reason for sale of life
  insurance, 13
### INDEX

| Cantor Life Markets, 24 | Ethical issues, 235–244 |
| Carrier approved premium finance, 45 | best practice standards for intermediaries, 237–238 |
| Cash value, pricing and, 97 | clear and consistent regulation, 239–241, 242 |
| Cell companies, 115 | fair treatment of policy holders, 237, 242 |
| Closed-end funds, 115 | market inefficiencies and, 235–236 |
| *Cohen v. Comm'r*, 227 | policy sale and, 13 |
| Collateral manager: | proposals for, 241–243 |
| A.M. Best’s analysis and, 67–68 | transparency for investors, 238–239, 242 |
| role in securitization, 51 | European puts, 141–142 |
| Commissioners’ Standard Ordinary mortality table (‘80 CSO), 29 | Exchanges, 24 |
| Commissions, disclosure of broker’s, 20 | Existing portfolio, A.M. Best’s analysis of, 55–56 |
| Contestability period, 6, 11 | Experience mortality tables, 29 |
| regulation and, 199–200, 216–218 | Face-value variance risk, 180 |
| risk mitigation and, 153–156 | Fasano Associates, 22 |
| Controlled foreign corporation (CFC), 229 | Females, mortality tables and, 31, 33 |
| Convertible Term Life Insurance policies, 9 | Financial Accounting Standards Board (FASB), 114 |
| Cost of insurance (COI), risk mitigation and, 157–158 | Financial advisers, 17 |
| Coventry, 19, 113 | Financial Industry Regulatory Authority (FINRA), 206–207 |
| Credit markets, pricing and, 98 | Financing entities, 20–21 |
| Credit Suisse Longevity Index*sm, 188 | Five-year holding period, proposed by ACLI, 135–150 |
| Death benefits, recovery after impairment, 80–81 | costs of, 135, 137, 142, 143–145 |
| Debit default table, 82 | insurance industry and, 216–217 |
| Debit methodology, in underwriting, 25–26 | real options analysis framework, 137–148 |
| A.M. Best’s analysis and, 57–59 | Florida, 203 |
| Derivatives. See Synthetic longevity assets | Foreign holders, tax issues, 228–230 |
| Deterministic pricing model, 100–101 | Franklin Templeton Total Return Fund, 110–111 |
| Discounted cash flow, pricing and, 98–99 | Full recourse premium financing, 43–44 |
| Diversity of policies: | Funders computations, 34–37 |
| A.M. Best’s analysis and, 71–72 | Gain, tax issues and character of, 226–227 |
| risk mitigation and, 159–160 | Global Insurance Exchange, 24 |
| Documentation, A.M. Best’s analysis and, 77–78 | Goldman Sachs, 129, 131 |
| Doherty, N., 136 | *Grigsby v. Russell*, 3, 199 |
| Doherty, N., 136 | Group mortality tables, 29 |
| Eastport Financial, LLC., 112 | Health Insurance Portability and Accountability Act (HIPPA), 70 |
| EEA Life Settlement Fund, 115 | Hedge funds, 112 |
| ‘80 CSO, 29 | Hedging longevity risk, 187–189 |
| Electronic exchanges, 24 | Holmes, Oliver Wendell, 3 |
| EPIC Life Settlement Fund, 118 | |
**Index**

Howie test, 205–206
Hybrid synthetic assets, 246–247

ICAP markets, 188–189
Impairment risk, A.M. Best’s analysis and, 80–82
Income protection, as reason for sale of life insurance, 12
Inconsistency checks, 51
Incorrect purchase price, 158
Indiana, 240
Indicative rating, by A.M. Best, 53–55, 75

Institutional Life Markets Association, Inc. (ILMA), 4, 208
Institutional Life Services, 24
Insurable interest, 66–67
  regulation and, 198–199
  risk and, 156–157
Insurance companies
  alpha-longevity risk and, 185–187
  credit risk and, 159
  impact of secondary market on, 243
  longevity swaps and, 192
  rate of claims, 153–154
  ratings and pricing, 97
  reactions to regulatory framework, 197–212
  reactions to regulatory issues, 213–224
  role in securitization, 52–53
  viatical settlements and, 213–215
Insurance policies, 5–9
  A.M. Best’s analysis and types of, 56–57, 71–72, 75–76
  beneficial interest, 5–6
  contestability period, 6
  policy swaps, 39–41
  pricing and size of, 98
  types of policies, 6–9
Insured, defined, 5
Interest deductions, tax issues, 228–229
Interest rates:
  policy swaps and, 39–40
  premium financing and, 44
  risk and interest gap, 161
Intermediaries, 15
  ethics and best practices, 237–238
Internal rate of return (IRR), synthetic assets and, 252–253
Investors:
  ethics and transparency for, 238–239, 242
  role in transactions, 20–21
Irrevocable life insurance trust (ILIT), 43, 200, 201
Issuer, role in securitization, 53
Joint survivorship policies, pricing and, 96–97
J.P. Morgan, 129, 131, 188
Key-man insurance, 13
King, Larry, 206–207
Lansdowne Atlantic Life Settlement Fund, PLC, 118–119
Law of Large Numbers, risk and, 153–154
LE-duration and LE-convexity:
  methodologies, 116–117, 119–131
  model, 172–175
Legacy Benefits, 19
Legal reviews, A.M. Best’s analysis and, 78
Level versus varying mortality ratio, 36–37
Licensing, of providers, 19
  A.M. Best’s analysis and, 66–67
Life Exchange, Inc., 24, 111–112
Life expectancy. See also Underwriting
duration and convexity, 163–177
LE-duration and LE-convexity model, 172–175
Lifemark Secure Income Bond, 167–171
Macaulay duration D, 175–176
pricing and, 96
Life expectancy (LE) providers, 34–37
Life-extension risk (longevity risk), 109–110, 117, 159–162
Life Insurance Settlement Association, 4
Lifeline Program, 20
Lifemark Secure Income Bond, 167–171
LifeMetrics Index, 129, 131, 188
Life Partners Holdings, Inc., 112, 113–114, 164
Life Settlement Fund Series A, 112
Life settlements, 11–12
  description of market, 14
  history of, 3–4
  parties involved in, 17–24, 50–53
  reasons for purchase of policies, 12–14
  reasons for sale of policies, 12–13, 49–50
  returns on, 15–16
Life Settlements Institute (LSI), 240–241
Life Settlement Solutions, Inc., 19, 112–113
Limited recourse premium financing, 44, 46
Liquidation plan, A.M. Best’s analysis and, 77
Liquidation prospects, A.M. Best’s analysis and, 73–74, 82
Liquidity risk, 117
Loans:
  premium financing and, 44–45
  pricing and, 97–98
  tax implications, 229–230
Lobel, Leon, 204
Loews Corporation, 112
Longevity-extension insurance, 187–189
Longevity risk, 109–110, 117, 159–162
Longevity swap, 246
Long-term debt rating, by A.M. Best, 53, 55
Macaulay duration D, 175–176
Males, mortality tables and, 31, 32–33
Management expertise, A.M. Best’s analysis and, 77
Maple Life, 136
Market disruptions, risk and, 161
Medical examiners:
  A.M. Best’s analysis and, 57–64, 69–70, 79
  role in securitization, 51
Medical Information Bureau (MIB), 25
Medical records, A.M. Best’s analysis and, 69–71
Minnesota, 203
Missing body risk, 158–159
Modified debit methodology, in underwriting, 26–27
Modified endowment contracts (MECs), 225
Monte Carlo simulations, 82–89
  in stochastic pricing model, 103–108
Mortality. See Underwriting
National Association of Insurance Commissioners (NAIC), 202, 215, 239–240
  model act, 201–202, 215–218
  model act, contrasted to NCOIL’s, 220
National Association of Securities Dealers (NASDAQ), 206–207
National Conference of Insurance Legislators (NCOIL), 201, 215
  model act, 202, 218–220
  model act, contrasted to NAIC’s, 220
Net present value:
  pricing and, 98–99
  synthetic assets and, 183–184, 252–253
  Newly acquired portfolio, A.M. Best’s analysis of, 53–55
New Stream Capital, 112
New York, 156, 204
Nonconvertible policies, pricing and, 96
Nonrecourse premium financing, 44, 46
Nonsmokers, mortality tables and, 31, 33
North Dakota, 220
“Notice to Members” (FINRA), 206–207
Ohio, 240
Open-ended funds, 115
Partial recourse premium financing, 44, 46
Passive foreign investment company (PFIC), 229
Peachtree Life Settlements, 19
Pensioenfonds Metalektro, 112
Permanent life insurance, 6–9
Phoenix Life Insurance Company, 204
Phoenix Life Solutions, 208
Policies. See Insurance policies
Policyholders:
  defined, 5
  ethics and treatment of, 237, 242
Policy in-force period, A.M. Best’s analysis and, 70–71
Prearranged life settlements, regulatory issues, 202–204
Preliminary assessment, by A.M. Best, 53–54
Premium financing, 43–46
  regulation and, 216
types of, 43–44
Premiums:
  payment of, 23–24
  pricing, 97–98
  risk mitigation and, 158–159, 161
Pricing, 95–108
A.M. Best’s analysis and, 74–75
deterministic model, 100–101
discounted cash flow and net present value, 98–99
policy value drivers, 95–98
probabilistic model, 101–103
risk and incorrect purchase price, 158
stochastic model, 103–108
Private Client Portfolio, 115
Probabilistic pricing model, 101–103, 251
Property casualty coverage, risk mitigation and, 162
Providers:
A.M. Best's analysis and, 65–66
role in securitization, 51
role in transactions, 17–20
Q Capital Strategies, 19–20
Qualified institutional buyer (QIB), 21
QxLS index, 129, 131
Racketeer Influence and Corrupt Organizations Act (RICO), 204
Rate of claims (ROC), of insurance companies, 153–154
Real options framework, for valuation, 135–150
ability to resell and, 138–140
ACLI’s five-year holding period proposal, 135–137
valuing of option to resell, 140–141
valuing of option to resell, as American puts, 141, 142
valuing of option to resell, as European puts, 141–142
Reference mortality experience, 58
Regulation. See also Tax issues
ethics and, 239–241, 242
framework and insurance company reactions, 197–212
issues and insurance company reactions, 213–224
Regulatory valuation tables, 29
Research-based clinical judgment, in underwriting, 27–28
Residual value, 73
Retirement planning, as reason for sale of life insurance, 13
Return on traded policy, 15–16
Risk management:
A.M. Best’s analysis and, 72–74, 79–89
applying LE-duration and LE-convexity methodologies to, 119–131
life expectancy and, 163–177
risk mitigation, 153–162
synthetic assets and, 179–183
underwriting strategies, 37
Sales documentation, A.M. Best’s analysis and, 66–67
Secondary Life Capital, 20
Securities law, 204–207
Securitization, 49–91
A.M. Best’s approach to credit evaluation, 79–89
A.M. Best’s approach to securities evaluation, 56–79
A.M. Best’s rating policies, 53–56
A.M. Best’s surveillance requirements, 90–91
SEC v. Life Partners, Inc., 205
SEC v. Mutual Benefits Corp., 205–206
Select mortality rates, 30–32
Senior life settlements, 166–167
Sex, risk and misstatement of, 161
Silverman, R., 136
Singer, Hal J., 118, 136
Single Premium Immediate Annuity (SPIA), 44, 45
Smokers, mortality tables and, 31, 33
Socially responsible investment (SRI) strategy, 242
Society of Actuaries (SoA), 29, 30
Source of income, tax issues, 228
Stallard, Eric, 118, 136
Stalsberg v. New York Life Insurance Company, 203–204
Stochastic pricing model, 103–108
Stone, Charles A., 119, 172–175
Stop-loss insurance, 73
 Stranger-owned life insurance (STOLI), 6, 44, 211, 237, 240
regulation and, 200–202, 214–215
state legislation and, 221–223
Surrender values, 13–14
Surveillance requirements, A.M. Best analysis and, 90–91
Swaps, synthetic, 179–193, 246
benefits of, 189–193
SwapsMarket℠, 188–189
Synthetic longevity assets, 208, 238, 245–253
advantages of, 247–249
ethics proposals and, 243
Synthetic longevity assets (Continued)
swaps to hedge longevity risks, 179–193
types of, 246–247
underlying lives and, 250–251
valuation of, 251–253
Table bias, 183–184
Tax issues:
ACLI proposal, 137, 149
A.M. Best’s analysis and, 77–78
open issues, 226–228
policy swaps and, 39–41
regulations and, 225–231
viatical settlements, 4
1035 exchanges, 46
Term life insurance, 6–7, 12
pricing and, 96
profit and, 236
Tracking agent:
A.M. Best’s analysis and, 67
role in securitization, 51
Traded life policy (TLP), 11
Transaction costs, 16, 65–66
Transamerica Life Solutions, LLC, 208
Transfer of policy, A.M. Best’s analysis and,
70–71
Trustee, role in securitization, 52
21st Services, 22
2001 Valuation Basic Table (2001VBT), 29, 30
A.M. Best’s analysis and, 58, 61, 73, 79
2008 Valuation Basic Tables (2008VBT), 29, 239
Ultimate mortality rates, 30–32
Underwriting, 25–37
A.M. Best’s analysis and mortality matrix,
82–89
contrasted to life insurance underwriting,
25–26
life expectancy, 31–34
medical examiners and A.M. Best analysis,
57–64
methodologies, 26–28
mortality tables, 29–30
performance measurement, 28
risk management strategies, 37
role of underwriters, 21–22
select and ultimate mortality rates,
30–32
Universal American Financial Corp.,
163–164
Universal Life insurance policies, 7, 96
Utah, 203
Utopia TLP Fund, PLC, 115–116
Valuation, of contracts, 109–134. See also
Real options framework, for valuation
accounting rules, 114–115
LE-duration and LE-convexity
methodologies, 119–131
structure of market and, 111–119
synthetic assets, 251–253
Variable Life insurance policies, 7
Variable Universal Life (VUL) Insurance
policies, 7, 9, 206
Via Source, 115
Viatical settlements, 3–4, 14, 49–50, 111,
199, 213–215
vivaDexsm, 188–189
“Wet paper,” 6
Whole Life insurance policies, 7, 12, 97
Zissu, Anne, 119, 172–175