


# Life<sup>®</sup>

SETTLEMENT SOLUTIONS





# Webinar Instructions

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# Servicing Life Settlement Portfolios

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# Topics to Cover

- Servicing goals
- Impact on IRR
- Key elements of servicing
- Roles of servicer and trustee
- Portfolio “9-1-1” service
- Preparing a portfolio for a transaction





# Goals

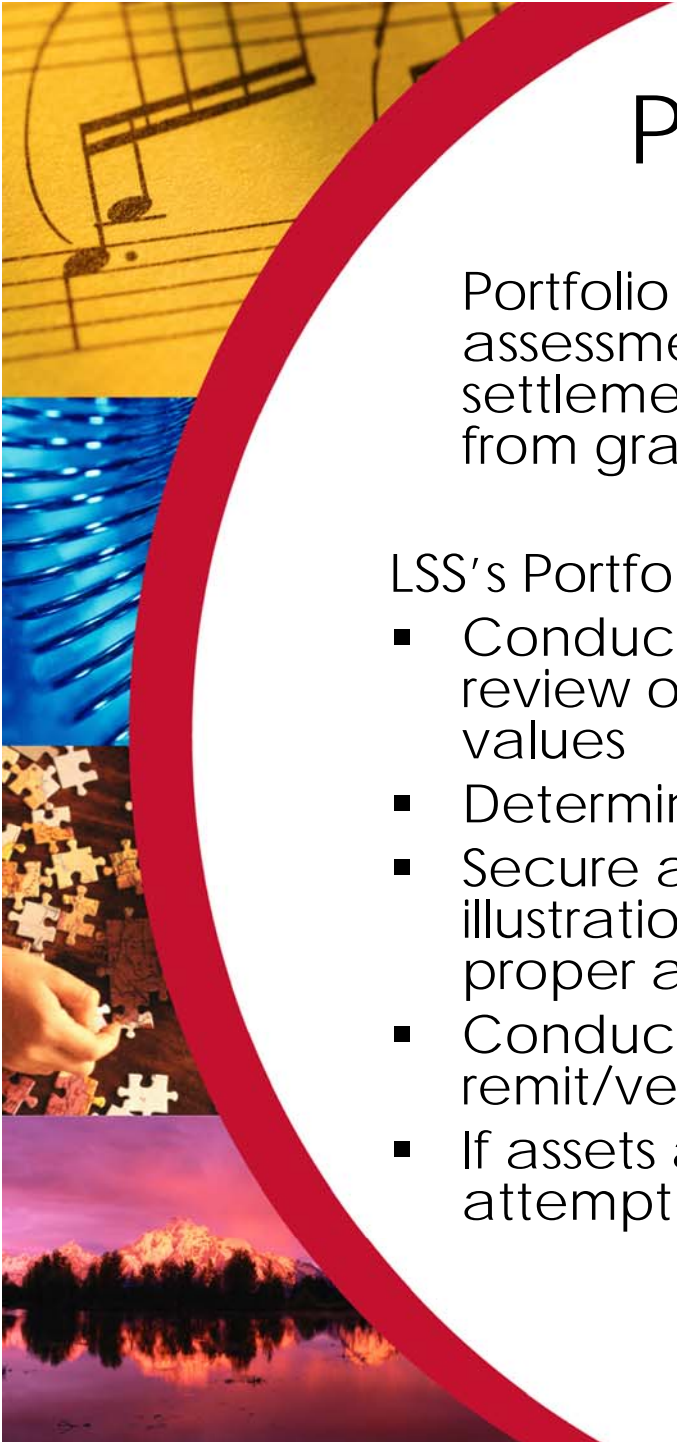
Primary goals are easy to state but not so easily achieved:

- Keep policies in force/avoid lapse
- Minimum premium payments
- Collect death benefit from carriers upon maturity
- Maintain and update files for sale, securitization or until maturity



# Servicing Needs in Current Market

- Even though capital became scarce, portfolio owners need to maintain/service assets
- Many firms intended to be short-term owners of portfolios, but lack of buyers has forced them to become longer term holders
- Some firms not experienced at servicing these assets
- Several newer servicers in the market
- Owners need additional capabilities from their servicers, including portfolio valuations, transaction support, buyer/seller networks



# Portfolio "9-1-1" Service

Portfolio owners may have urgent needs for portfolio assessment, valuation, conditioning, and assumption of settlement servicing responsibilities to keep policies from grace, pending lapse or lapse.

LSS's Portfolio 9-1-1 Service will:


- Conduct detailed analysis of each policy and a full review of policy contract in order to assess contract values
- Determine status of each asset with carrier
- Secure all current documentation on asset including illustrations, statements, medical information (with proper authorization)
- Conduct premium optimization calculations and remit/verify premiums with carrier
- If assets are discovered to have lapsed, LSS will attempt policy reinstatement with carrier





# Key Elements of Servicing

- Premium administration
- Premium optimization
- Insured/life tracking
  - Proper licensing is critical
- Collecting death proceeds
- Maintain and analyze asset/policy files
- Portfolio valuations & sale transaction consulting



# Premium Administration & Optimization

- Processing of policy information from current in-force illustrations and annual statements
- Review policy for premium-related provisions, specifically no lapse and death benefit guarantees
- Review current values against policy to determine whether asset is properly funded
- Premium optimization – calculate timing and amount of premiums to keep policy in force for a stated, owner-defined period of time
- Analysis of potential cash withdrawals from over-funded assets
- LSS can make premium payments directly, instruct portfolio owner's trustee to make payments or advise owner of premiums to be paid
- Verify premium receipt from carrier



# Impacts of Servicing

- Over time, the amount of capital allocated to ongoing premiums could exceed the amount to acquire the life settlement asset
- Optimizing premium cost has a significant impact on IRR
- Premiums paid must not exceed the premium amounts used to calculate the price, otherwise the IRR goal will not be met
- Purchaser resources freed up for more productive activities than tedious servicing work and policy follow-up



# Recent Case Examples

Accepted a new institutional client with 400 policy cases:

- Origination and servicing performed by another firm
- Full review of all policy contracts
- Detailed review and contact with all carriers to assess status of each policy asset

Another new institutional client:

- Full review and interpretation of several policy protection riders
- Client did not understand why their policies were going in and out of grace before transfer to LSS
- Review enabled accurate and proper premium calculations to be made going forward, as well as better control over the status of the assets with the insurance carriers





# Recent Case Examples

Another institutional client:

- Reviewed annual reports and discovered policies that were significantly over-funded
- One \$5M policy had approximately \$600,000 of CSV that could be withdrawn or borrowed against - client was unaware of the availability of these funds

Another new institutional client with 300+ policies originated from another firm:

- Full analysis and carrier review found that premiums had been overpaid to the extent of 24 or more months of minimum premiums
- Stopped client from making planned premium payments, preventing millions of dollars in additional costs that would have been incurred by client



# Tracking & Benefit Receipt

Multi-layer process for tracking assets:

- Electronic tracking of public data (SSA, regional/local databases)
- Recurring contact with insured or designated contact (via mail and/or phone)
- When assets' proceeds become payable, LSS secures all necessary documentation and obtains proceeds from carrier on behalf of portfolio owner
- As an additional service, securing updated medical records, LE's and HIPPA's (authorizations required) to keep current status of insured



# Portfolio Valuation & Transactions

- Keep assets and all important information about assets current, accessible and verifiable, which allows portfolio to be properly valued in current marketplace
- Detailed policy & portfolio analysis
- Compilation of policy & portfolio reports
- Ability to work with other third-party buyers & sellers or act as matching service with LSS's institutional network of buyers and sellers
- Full transaction support through completion of purchase or sale of portfolio



# LSS Capabilities

- Proven track record of successful servicing provided to institutions world wide
- History of exclusively servicing LSS institutional origination clients
- Recently expanded servicing offered to new clients
- Extensive state licensing
- Start-to-finish services; one-stop shop with capabilities in all areas discussed in this session
- Experienced and knowledgeable staff with servicing, origination, legal, insurance, financial, pricing, and valuation expertise, both with individual and portfolio settlement assets
- Sought after by institutions for origination and, now, servicing capabilities
- Robust and secure technology platform to provide client with custom reports
- Management handling servicing since 2000 for billions in face value on behalf of a multitude of customers; LSS has never been at fault for a policy lapse





# Settlement Servicers & Trustees

- Settlement servicer works closely with trustees to properly maintain portfolio
- Trustee acts as custodian of assets and often maintains a liquid account (to pay premiums) for institutional owner
- Trustee receives premium notices from carriers, which usually display a target/scheduled premium due, and can also make premium payments
- Servicer (LSS) calculates optimal premiums necessary to keep asset in force and instructs Trustee to make those payments as opposed to scheduled premium amounts on notices
- Servicer verifies premium receipt by carrier

*Note: the structures of responsibility between owner, trustee and servicer vary considerably; LSS can and does work in many different capacities.*



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# Role of Trust Companies in Servicing Life Settlement Transactions

- Safekeeping Policies & Documentation
- Premium Payment Services
- Escrow Services
- Trustee Services



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# Safekeeping Services

- Christiana will hold original life insurance policies, trust agreements and other important documentation. Life insurance policies and other legal documentation are stored under dual control, audited semi-annually, and placed in a secured environment protected by a non-destructive fire suppression system.
- Safekeeping services are provided under the following arrangements:
  - Custodian (cash and/ or marketable securities and other type marketable and non marketable investments)
  - Trustee (Irrevocable Life Insurance trusts, Master trusts)
  - Security Intermediary
  - Escrow Agent



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# Premium Payment Services

- Premium payments - Premium payments will be made to the insurance carrier monthly, quarterly, etc. Payments will be sent by wire transfer, check or electronic check (ACH). The financial institution will work in partnership with a third party servicer. The servicer will optimize premium payments and send a monthly direction letter to the financial institution, to instruct payment. The servicer will also call the carrier to insure proper credit. Our system is tested with appropriate checks and balances.
- Premium Payment Services are provided under the following arrangements:
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  - Trustee (Irrevocable Life Insurance trusts, Master trusts)
  - Security Intermediary
  - Premium Reserve Escrow Agent



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# Escrow Services

- Purpose – Escrow agreements are required by law in certain states if the original insured is the owner. It is also a common arrangement between institutional investors to buy and sell life insurance policies, to insure payment before transfer of ownership.
- Escrow Agent – Christiana will act as a neutral stakeholder to hold and disburse funds based on terms detailed in the escrow agreement.
  - Funds may be invested in a bank money market deposit account, a money market mutual fund or other cash equivalent investments.
  - Funds may be held until the change of ownership or beneficial interest from a trust is conveyed to the new owner.



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# Trustee Services

- Irrevocable Life Insurance Trust (ILIT) Trustee - A trust created to hold life insurance as its primary investment while the grantor is alive. Has been generally utilized as a sophisticated estate planning tool or wealth transfer structure. When unneeded, the trust may become part of a life settlement transaction. Ownership of the trust and its assets may be changed with assignment of the beneficial ownership of the trust.
- Master Trust Trustee - A master trust arrangement is commonly structured as a Delaware statutory trust which may be used as a bankruptcy remote special purpose entity to hold life insurance or beneficiary interest of ILITs. The master trust can be pledged to a fund, an investment vehicle or other third party.



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# About Christiana

Christiana Bank & Trust Company is a Delaware banking corporation and a subsidiary of National Penn Bancshares, Inc. (NASDAQ: NPBC).

National Penn has over \$9.5 billion in assets. Christiana provides a wide range of trust, asset management and agency services. It was formed to provide an alternative to the financial supermarket strategy of the larger institutions. Our staff is specialized and among the most experienced in the industry. This staff has a high degree of knowledge and expertise in the administration of Life Settlement and Premium Finance transactions. Our firm can provide the skill, experience and flexibility to help facilitate and implement a client's transaction.



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