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Life-Settlements Business Gets Boost Amid Crisis

Life Partners Posts Strong Profit as Older Customers Sell Insurance Policies and Investors Seek Other Investing Opportunities

BY JENNIFER HODSON

As an aging population finds its nest eggs wiped out, and as investors increasingly seek alternative investments, both are looking to cash in on the inevitable—death.

The growing life-settlements industry allows older people who no longer need or can afford a life-insurance policy to sell it to investors, who receive the death benefit upon the insured's demise.

Life Partners Holdings Inc. focuses solely on such transactions. Despite regulatory hurdles and a negative public perception, Life Partners is extremely profitable.

On the supply side, many older people have seen their life savings diminished amid the global financial crisis or they can no longer afford to make premiums on high-end life insurance policies.

On the buy side, investors weary of turbulent markets are turning to investments that aren't correlated to any set of economic indicators. Even before the current financial crisis, Life Partners was offering its clients low double-digit returns. Those re-

turns are now closer to mid-double digits, according to analysts.

Life Partners saw its 2008 earnings grow more than five times compared with 2007 figures, while its revenue more than doubled. For its fiscal 2009, revenue has grown an additional 42%, so far. John Nobile, an analyst with Taglich Brothers Inc., said he sees no reason why that growth rate won't continue throughout the fiscal year.

Last week, Mr. Nobile raised his 12-month price target to \$56 a share from \$51.

Life Partners' core business is matching sellers of policies with purchasers. Unlike its competitors, mainly private companies relying on institutional investors, it lets individual accredited investors directly buy fractions of policies. The policies are held like any stock or bond investment.

Investors pay any remaining premiums and a lump sum less than the final death benefit.

William Jones of independent research firm Singular Research said Life Partners' retail customers "typically aren't employing sophisticated leverage strategies" akin to those a hedge fund would

use, and therefore are less inhibited by credit constraints.

Life Partners Chief Executive Brian Pardo declined to give specifics of the fee structure or the size of lump-sum payments, which vary according to underwriting factors.

A 2007 analysis by Life Policy Dynamics LLC, however, estimated that payouts industrywide typically range from 10% to 29% of the death benefit, depending on the insured's health, age and other factors, with an average payout of about 24% across all policy types. Singular's Mr. Jones estimated the payouts are typically three to five times higher than the surrender value offered by insurance companies.

Life Partners receives a one-time fee for setting up transactions, but it doesn't actively manage accounts. All transactions are handled via escrow.

Recently, the company started investing in its own products, to the tune of about \$12 million so far, alongside existing investors and under the same terms so as to avoid any accusations of "cherry picking," Mr. Pardo said.

With a CEO who routinely

rails against the folly of debt, extra cash to invest isn't an issue. The Waco, Texas, company has only about \$800,000 in long-term debt on its books, and Mr. Pardo said this debt was attached to an acquired building and came with a \$30,000 prepayment penalty.

Life Partners, which qualified to trade on the Nasdaq Global Select Market in December, first went public in 2000, but—like the rest of the settlement industry—traces its roots back to the AIDS crisis of the 1980s.

At the time, Mr. Pardo said, AIDS victims with little or no estate needed to cash out life-insurance policies to pay for expensive medical treatment. Settlement brokers were offering 60 cents to 70 cents on the dollar for policies, "a very substantial amount of money," he said, but the industry quickly saw a backlash.

"A lot of people saw us at the time as being ghoulish," Mr. Pardo said.

Even in recent years, the industry hasn't been immune to scandal, especially in the case of stranger originated life-insurance policies, or STOLI.

These deals, which Life Partners says it eschews, involve investors approaching older people to take out a life-insurance policy solely for the purpose of selling it.

In an effort to prevent STOLI transactions, states have enacted laws requiring, for example, waiting periods of as many as five years to sell a policy to a third party, but also allows exceptions, such as bankruptcy, to permit legitimate life settlements.

Susan Voss of the National Association of Insurance Commissioners said, "We have to realize this is a reality and something consumers want."

The American Council of Life Insurers said it has never had a quarrel with legitimate settlements.

Some speculate that as the industry grows, a push toward securitization will accelerate. Mr. Pardo said large investment banks that worked on life-settlement portfolios backed off following the credit crunch.

Securitization would bring its own share of regulatory hurdles. The variety of laws on the books already means Life Partners has a full-time attorney devoted to

compliance issues. Still, regulation can help, especially as it raises awareness and brings more legitimacy and transparency to the industry, company executives said.

In an October 2008 report, Conning Research estimated about \$12 billion in face amount of life settlements changed hands in 2007, up from \$6.1 billion in 2006. By 2012, Conning estimated that figure will approach \$21 billion. Life Partners transacted about \$415 million in face value in fiscal 2008.

As the industry grows, traditional insurers, which once shunned settlements, have been dipping their toes in the water. Yet neither Messrs. Nobile or Jones, or Life Partners itself, is worried about stiffer competition. They also doubt a sudden upswing in the economy will hinder growth. Even as life settlements grow in popularity, few people know they have the option to sell their policies. As awareness grows, so will the industry, analysts said.

"The nice thing about a growing pie is there is more for everyone," Mr. Jones said.