

Critical Information on Life Settlement Model Act Developments.

February 20, 2007

Dear Friend of Life Insurance,

We write to ensure that you have information about recent developments in the regulation of the Secondary Market in Life Insurance. Some of these developments, we believe, are damaging to both consumers and to insurance professionals.

We have seen that AALU, NAIFA and NAILBA have announced that they worked closely with the National Association of Insurance Commissioners to develop these amendments which, we believe, are damaging to consumers. These industry associations are quoted as saying, "We believe these efforts were successful, and we strongly support the amendments to the Model Act which were approved." As you are involved in one or more of these organizations, you may want to inquire further on the positions taken by the organizations.

Great growth has occurred in the secondary market for life insurance in recent years. Consumers have benefited from the payment of hundreds of millions of dollars of value above surrender, and you may have been part of that growth assisting your clients in settling policies or planning for the possibility of a settlement.

As you are aware, the National Association of Insurance Commissioners writes Model Acts for consideration by the various State Legislatures. Recently, the NAIC has been considering amendments to its Model for the Regulation of Life Settlements.

The NAIC Model now being considered for adoption contains some provisions which are not good for consumers of life insurance products; nor are they good for producers:

1. 5 Year prohibition on Settlements:

It proposes that there be a prohibition on any life settlement which occurs in the first five years that the policy is in force. A range of exceptions is offered to that proposal, but the proposal calls for settlements to be prohibited if the policy is funded with a premium finance agreement, or if the insured or the policy have been evaluated for a settlement. (Section 11).

2. Full Commission Disclosure:

In a major departure from traditional practice in the insurance industry, it proposes that any agreements between a buying company and the agent or producer or other participant be disclosed to the policy seller. This includes affiliations or contractual arrangements with provider companies, as well as the method and amount of compensation paid to the broker. All bids on the policy must be disclosed as well. It is not clear if this would include commissions on other policies offered to the seller. (Section 8. B. (3)).



3. \$250,000 in Producer Bond Requirement

An extraordinary provision calls for \$250,000 in surety bonds or cash to be deposited by a producer in advance, in every state where that producer does a settlement contract, to hold a license, as part of the required license. (Section 3. F. (4) (b)).

There are many other issues in the proposal which deserve your review.

We believe that the provisions we have outlined should be clearly understood by you, the producer, in order to determine whether or not they are in the best interest of consumers or yourself. We think that there be a serious examination of the issues within the organizations that have expressed support for the NAIC changes. As a highly qualified insurance producer, we do not believe that you will find it in your interest or the interest of your customer that new precedents be established for disclosure of commissions, or that consumers be deprived of the right to sell their property or that you be required to pay a quarter of a million dollars to be qualified in your professional field for certain select transactions.

We hope that you will read the documents for yourself and analyze them carefully. Key documents are posted on the LISA website; www.lisassociation.org. We hope that you will actively ask questions about the position of organizations in which you participate. LISA is available to answer any questions you might have regarding these, and any other, life settlement questions. Please do not hesitate to contact us at support@lisassociation.org if you need additional information or want to be advised of further developments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Doug Head'. The signature is written in a cursive, flowing style with some loops and flourishes.

Doug Head
Executive Director