

Credit quality of life insurance carriers

The credit quality of a counterparty matters. This holds also for investors in life settlements—the necessary insurance premiums are paid for having the option to collect the face amount from the respective insurance carriers when due. This is why the financial stability of insurance companies is important also in our market.

The insurance companies and their ratings are part of the transaction data that we collect. We took secondary transaction data from the years 2021-2023 for this report.

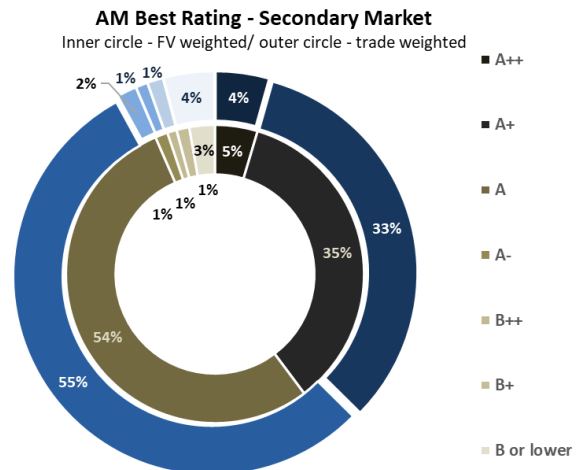
- The top two insurance carriers are Lincoln and John Hancock, compare the list below. More than 30% of the total traded face amount and slightly less than 20% of all transactions refer to policies that were issued from the two companies, thus their policies are substantially larger on average.

- The universe of life insurance carriers is quite diverse. The top ten companies account for 51.8% of the transactions and 63.7% of the traded face amount. The rest are less often traded and often smaller and less well known names.

Secondary Market 2021 -2023	Nr of policies	FV weighted
Lincoln National	9.77%	14.95%
John Hancock	9.69%	15.59%
Equitable Financial	5.76%	4.22%
Protective	5.12%	2.47%
Transamerica	4.56%	3.87%
Prudential	4.40%	4.36%
American General	3.60%	3.81%
Pacific Life	3.28%	8.01%
Genworth	2.96%	2.06%
New York Life	2.64%	4.40%
Others	48.20%	36.26%

The average credit rating of life insurance carriers of which policies are traded in the life settlement markets, is high, compare the chart on the top right. The vast majority of transactions refers to carriers with AM Best ratings of A and A+. Thus, the risk of a failure of the counterparty that owes the death claim to an investor, is low on average.

However, there are also insurance carriers with lower credit ratings. A well known example is PHL Variable Insurance Company (PHL). PHL policies have been traded frequently in the



past. And with regards to PHL there was a recent development: by order of the Superior Court of the State of Connecticut PHL and its subsidiaries have been placed into rehabilitation as of May 20th, 2024.

What happens when an insurance carrier fails?

Insurance companies are overseen by the state insurance departments. When an insurance company is unable to meet its contractual obligations, the insurance commissioner initiates a process called 'rehabilitation' where efforts are made to get the company going again.¹

PHL is the first case of an insurance carrier put into rehabilitation where life settlement investors' owned policies represent a sizeable amount of death benefit. And it goes without saying that this development comes with various dilemmas and problems for the investors. We will take a closer look at this topic in the next issue of this newsletter.

¹ Compare National Organization of Life & Health Insurance Guaranty Associations www.nolhga.com

Data Sampling and Data Provider

The information in this report is based on life settlement transaction data which is collected by AAP on a multi provider basis. Per each transaction information regarding the policy, the insured and the transaction itself is obtained.

The transparent life settlement providers are (in alphabetical order):

- FairMarket Life Settlements
- Habersham Funding LLC
- Life Capital Group
- Life Equity
- Life Policy Traders
- Life Settlement Solutions
- LifeTrust, LLC
- Q Capital Strategies
- Settlement Group, Inc.

Life Settlement Market Activity

Mth to Mth

Secondary Market	Proj. Ret.	Volume
Main Market (Age 75-86)	↑	↓
Tail Market (Age < 75)	↑	→
Tail Market (Age > 86)	↑	↓
Tertiary Market		
Tertiary Market All	↑	↓
Total Market		
Sec. and Tert. Market	↑	↓

AA-Partner is a boutique company specialized on life settlement consulting. The company is domiciled in Zurich, Switzerland and provides consulting services as independent 3rd party for institutional clients. AA-Partner is a member of ELSA, the European Life Settlement Association.

AA—Partners Ltd.

Witikonstrasse 36
CH-8032 Zurich
Switzerland
Tel. +41 76 414 42 29

Partnering for mutual success

www.aa-partners.ch

Disclaimer

This report has been prepared by and the opinions expressed are those of AA-Partners Ltd. as of the date of writing.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information and illustration purposes and may not be relied on in any way. It does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. AA-Partners Ltd. does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and the report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other market participants as a result of using different assumptions and criteria. AA-Partners Ltd. is under no obligation to update or keep current the information contained herein.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Any reference to past performance is not necessarily a guide to the future. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. Neither AA-Partners Ltd. nor any of its directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. AA-Partners Ltd. does not provide any legal or tax advice.

Issuers of the securities referred herein or AA-Partners Ltd. may have acted upon the information and analysis contained in this publication before being made available to recipients. AA-Partners Ltd. may, to the extent permitted by law, participate or invest in other financial transactions with issuers of the securities referred herein, perform services or solicit business from such issuers, and/or have a position or effect transactions in the securities or options thereof.

The disclosures contained in research reports produced by AA-Partners Ltd. shall be governed by and construed in accordance with Swiss law. The report is assigned to the use of the subscriber to this publication. AA-Partners Ltd. prohibits the redistribution of this material in whole or in part without the written permission of AA-Partners Ltd. to any other person or company or legal entity, and AA-Partners Ltd. accepts no liability whatsoever for the actions of third parties in this respect.