

MapleLife
ANALYTICS

Analysis Report

LE Comparison Update

January 2013

Report Objective

Recent Events

November 2011

- AVS made changes to their process, most notably for statin use.

December 2012

- MLA published LE Comparison study.

January 2013

- 21st Services announced that they would be making significant changes, effective immediately.
- MLA publishes updated LE Comparison Study reflecting the AVS and recent 21st changes.

The objective of this report is to update our December, 2012 report on Life Expectancy (LE) reports of the three major underwriters to reflect recently taken extensions in LE's. In doing so, we are addressing two changes in the past 15 months.

In November, 2011 AVS made changes to their processes, most notably for statin use. This had the effect of increasing the LE for statin users by approximately 4–8 months. As only 50% of insureds are statin users, the average effect was smaller at 2 – 4 months.

Just last week, 21st Services announced that they would be making much larger changes, effective immediately. We do not have more detailed information than is available on their website, but it appears that increases averaging 19% will be experienced.

In this Report, we again use our historical life expectancy data, identifying every insured for whom we have at least one LE from each underwriter. Ideally, a comparison of underwriters would involve a study in which each underwriter reviewed the same individual at the same time with the same medical files. We cannot control the conditions to this degree, so instead we have identified every possible combination of three LE's and retained only those combinations where all three LE's were issued within 6 months of each other. The short 6 month timeframe suggests that the reviews were likely based on the same information and improves the quality of the comparison.

Adjustment to Factual Data

Table 1.0 -
21st Services Extensions*

	Non-Smoker	Smoker	All
Male	23%	40%	23.5%
Female	13%	6%	12.8%
All	19%	27%	19.2%

* Source: 21st Services Web Site

The weighted averages in Table 1.0 are based on a gender mix of 60/40 Males to Females and 97/03 Non-Smokers to Smokers.

To reflect the AVS changes, we have extended all LE's from prior to December, 2011 for the statin changes. There were other small changes made at the same time, but it is the statin changes that were the most substantial of the changes made. We cannot say which cases underwritten in 2009 – November, 2011 were actually statin users, so we cannot make adjustments as precisely as AVS was able to do. If we could do so, we would be able to extend the LE's of one-half the insureds for the full amount of the AVS adjustment. Instead, we have adjusted all cases, but for only half of the change. Because the change was not large, we felt that the error in adjusting all LE's by half was acceptable. Not ideal, but acceptable.

For 21st, we extended the LE's based on their online presentation of the changes taking effect. Specifically, every LE was lengthened, based on gender and smoking status.

Fasano LE's were not adjusted, as we are aware of no changes to the Fasano methodology or factors.

We have not reflected the LE extensions of 2008, as that would require estimating the effect of two underwriting changes on the data, which is beyond our abilities. Because we cannot make the adjustments needed, this report focuses on LE's from 1/1/2009 and later. This does dramatically reduce the size of our dataset, but the consistency of the numbers developed is, in our opinion, worth your consideration.

Summary Level LE Analysis

At a very high level of summary, LE's show encouraging convergence once the older AVS and all 21st Services LE's are adjusted. Where we once saw a difference of opinion averaging 30 months, we now see a difference of opinion averaging 12 months. Chart 1.0 shows the 2009 – 2012 data from our original report; based on actual LE reports. Chart 2.0 shows the same time period, but is based on adjusted AVS and 21st Services LE's.

Differences of opinion are still larger than we would wish to see. In our opinion, what would be best for the industry would be three underwriters with even smaller differences of opinion around an average LE that was indicative of a 100% actual / expected mortality ratio. Clearly, we are not there yet, but we appear to be closer this year than we were last year. We will update this report as actual case data emerges.

Chart 1.0 -
3 Month Rolling Avg. LEs - No Adjustments

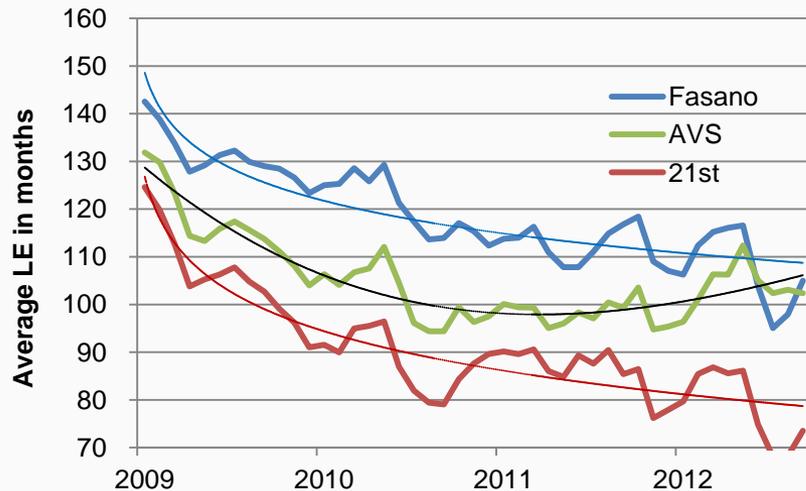
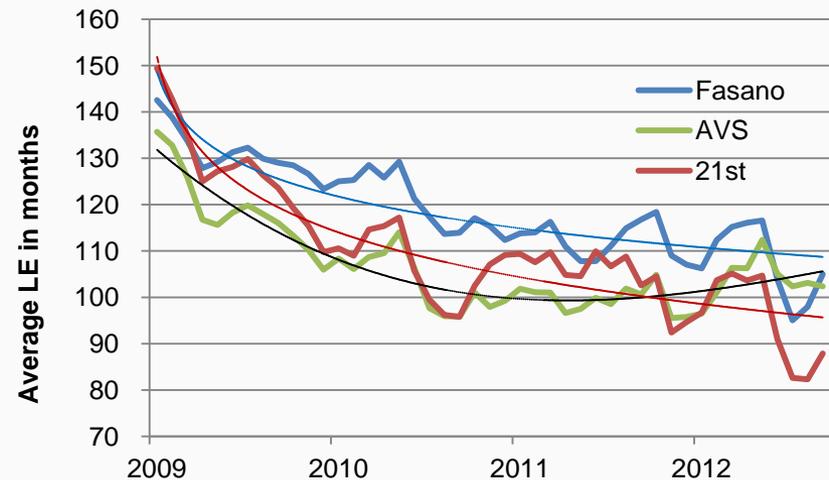


Chart 2.0 -
3 Month Rolling Avg. LEs - Adjusting for all known Extensions



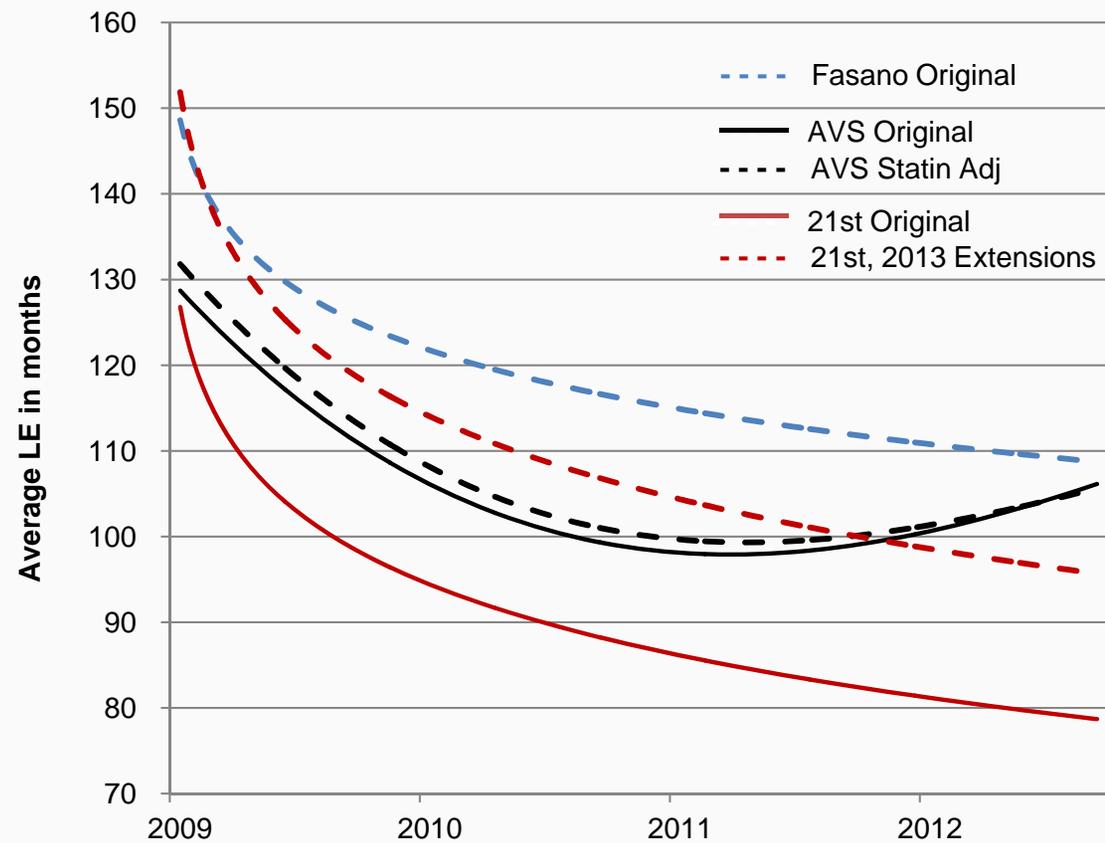
Post & Pre Extension Differences

Pattern of Convergence

Chart 3.0 consolidates the data from the previous two Charts in a single graph; Fasano unchanged, AVS and 21st as originally issued and after adjustments.

The pattern of convergence is clear, with both 21st Services (in red) and AVS (in black) moving longer, showing an overall industry convergence of opinion.

Chart 3.0 -
3 Month Rolling Avg. LEs – Before & After all known Extensions



One Big Caveat

In our analysis, we applied a simple LE extension estimate to the 21st LE's, based on their announcement. We have requested more detailed information regarding the changes that we will all be seeing in the coming months as new reports are issued, but to date we do not have that information. However, we did already have an opportunity to review a very small number of updated 21st Services LE reports. The results of the first 4 updated LE's we have seen so far are confusing, to say the least.

Table 2.0 below shows the original LE data and the revised LE data for the 4 cases we reviewed. These are the only cases that we have seen under the new process so far and we can explain none of them. Each original LE was issued less than 10 days prior to the updated LEs. And yet, in no case is the new mortality multiplier within 50% of the prior multiplier. Two of the four cases go from more than 200% mortality to below 100% mortality.

So, we have to warn that relying upon simple rules of thumb like 19% extension is probably inadequate. While we are encouraged by the words of the announcement, we are confused by the details. We expect to update this effort from time to time, as we continue to believe that the better the market data, the better the market performance and value.

Table 2.0 – 4 Examples of Actual 21st LEs Pre & Post Extension

Internal Identifier	Date of Birth	Sex	Smoke	Initial UW Date	Initial Mortality Multiplier	Initial 21 st LE	New Mortality Multiplier	New 21 st LE
54811	7/12/1944	M	SM	1/15/2013	1008	67	595	100
54848	5/25/1938	M	NS	1/18/2013	230	150	67	239
54861	10/26/1937	M	NS	1/21/2013	207	149	69	231
54869	10/10/1934	M	NS	1/21/2013	537	83	817	73

In our follow up papers to this topic, we will address:

- (1) Actual to Expected mortality implications of the identical lives used in this report.
- (2) Pricing/IRR implications of the LE differences discussed in this report.

Contact Us

Questions?

Maple Life Analytics has extensive data and expertise which it uses to advance its client's success in mortality based products. We expect to continue to examine this dataset, looking for additional insights into the major drivers of success in the Life Settlement market.

For further information or to discuss these results, please contact:

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