BusinessWeek

JULY 30, 2007

COVER STORY
by Matthew Goldstein

Online Extra: Life Settlements: Betting on Death

From the Lowinger clan to hedge funds, investors are cashing in on the business of trading unwanted life insurance policies. But buyers should be wary

The Lowinger family has always been early to spot a trend. In the 1950s, clan patriarch Maurice Lowinger was one of the first importers of consumer electronics from Japan. Two decades later, the Lowingers recognized the potential of pocket calculators, marketing one of the first devices under the Unisonic brand in early 1970s.

Now the close-knit Lowingers, whose personal wealth is estimated to reach into the hundreds of millions of dollars, are hoping to cash in on what they see as the next hot thing—life settlements.

The life settlements industry—the business of buying and selling unwanted life insurance policies—is attracting people from a variety of backgrounds. In the past eight years, business has blossomed as the elderly look to unload unwanted policies. The main buyers of these policies are hedge funds, speculators, and Wall Street banks, all betting that the sellers will die sooner rather than later, so they can collect on the hefty death benefits.

AN OPEN FIELD But because of lax oversight, virtually anyone can get into the game, making life settlements fertile ground for everyone from erstwhile experts to novices to rogues. Scandals have been commonplace in the business, with some scam artists taking advantage of elderly sellers and investors in specialized life settlement funds. Yet new players keep joining the market every day, seemingly undeterred by the prospect of getting burned by bad actors.

The Lowingers began eyeing the life settlements market some three years ago. The family decided it needed to branch out beyond consumer electronics. So two years ago, the Lowinger family, which runs all of its businesses out of its New York City headquarters on Madison Avenue, opened up shop as NAF Funding. In short order, NAF became one of the fastest-growing life settlement brokers in the nation. "We are not in business for the short term," says Andrew Lowinger, 58, who oversees all the family businesses. "We saw this as an area where we could build."

PLAYERS OF EVERY STRIPE The Lowingers aren't alone. Mitchell Fried, a former Manhattan dentist and Wall Street options trader, hung out his shingle this year, looking for hedge funds and other speculators interested in snapping up unwanted life insurance policies to create income-generating investments.

Fried, who has advertised his services on the Internet site Craigslist, says his firm, Practice Valuation Associates, has ties to an unidentified "major" finance firm that specializes in selling policies to investors. Says Fried, who once ran a business that helped doctors sell their medical practices, "We're getting a lot of interest from people across the country." He expects to complete some deals soon.

Another big believer in life settlements is Gordon Clark, a British citizen who splits his time between Los Angeles and Singapore. For the past two years he has been looking to package life settlements into an investment fund that could create a steady stream of income that will provide financing for small independent films. He says he came close to making a deal last year, but the plan collapsed when one of his partners pulled out and decided to form his own life settlements venture. Still, he keeps trying. "It's a work in progress. But we think it's close to fruition."

Wealthy Europeans and hedge funds were some of the first to see value in life settlements as an investment opportunity. For instance, the Assured Fund, a London-based mutual fund that invests exclusively in life settlements, says it has generated average annual returns of 10% over its first three years.

Other early investors were hedge funds such as Cheyne Capital Management , DB Zwirn & Co. , Dune Capital Management , New Stream Capital , Reservoir Capital Group , and XE Capital Management. Now Wall Street banks, including Goldman Sachs Group (GS), Credit Suisse Group (CS), and Wells Fargo (WFC), are also looking to accumulate unwanted policies.

SEC NOW INVOLVED The business, however, is attracting the attention of regulators. In April, the Securities & Exchange Commission sued the managers of Lydia Capital, a one-year-old Boston hedge fund that invests solely in life settlements. Regulators charge in the case that Glenn Manterfield and Evan Anderson misled the fund's mostly Taiwanese investors by overstating returns and misappropriating millions of dollars. The SEC suit also alleges the managers never disclosed that Manterfield has an "extensive criminal record with arrests and convictions for fraud and theft" in his native England. Their attorney declined to comment.

Big investors like unions and pension funds also have become a target of financial scam artists using questionable schemes. *BusinessWeek* has learned that a year ago an insurance agent who has had his license revoked in several states was trying to get labor unions in two southern states to sign on to a dubious life settlements scheme. A representative for one of the unions, who didn't want to be identified, says they walked away from the plan because it sounded too sketchy.

The bottom line is that investors need to be wary of life settlements. Even legitimate investment opportunities can be fraught with peril because so much of the return is based on the expectation that a person will die within a given time frame. Emmanuel Modu, head of structured finance for rating agency A.M. Best , says a common problem with life settlement funds is that some promoters promise unrealistic returns based on unrealistic mortality projections. "I've seen data that I know is just not possible," says Modu. Investors "are often buying policies based on exaggerations."

Goldstein is an associate editor at BusinessWeek covering hedge funds and finance.