

# LIFE INSURANCE SECURITIZATIONS AND STRUCTURED PRODUCTS

WHERE MORALITY RISK MEETS THE CAPITAL MARKETS

WE HAVE, together with our investment bank clients, pioneered efforts to raise capital or transfer risk to the capital markets through novel forms of life insurance securitizations and structured products, including life/annuity securitizations, premium finance securitizations, and embedded value and Triple X securitizations.

In innovative risk transfer transactions that required extensive discussions with state regulators, broad legislative efforts and in-depth expertise in insurance, tax and trust and estates law, we advised in the development of structures that matched annuities against individual life insurance policies in securitization pools, obviating the need for in-depth mortality analysis required in more traditional senior settlement securitization structures. These product development efforts led to major investment banks to underwrite billions of dollars in offerings that follow a now widely-accepted technique in the life insurance industry. We also have worked on variations to the initial structure, representing investment bank clients as packagers or purchasers of securities in later generation transactions.

Embedded value transactions permit an insurer to monetize the captured value of a block of business. Our attorneys assisted in developing the first U.S. insurance embedded value transaction for a major insurance company as part of its demutualization. A securitization of a closed block of its life business was undertaken, with the issuance of both bonds and tracking stock, resulting in the company generating \$1.9 billion of capital. Following that transaction, our attorneys advised investment bank clients acting as financial advisor on a similar embedded value transactions for other large mutual companies.

During the last several years, the majority of securitization transactions in the life insurance market have been the so-called “Triple X” or “A Triple X” securitizations undertaken by life companies seeking to fund statutory reserves in excess of economic reserves for specified types of insurance products. Every life insurance company that

issues specified insurance products is required to hold such excess reserves making the potential market for these transactions enormous. In recent years, insurers have executed Triple X life securitizations aggregating in the multi-billion dollar range. Our attorneys have been involved in advising investment banks in structuring potential contingent capital and other Triple X structures that offer novel methods for building statutory reserves.