

**STATEMENT OF MICHAEL FREEDMAN,
SENIOR VICE PRESIDENT OF COVENTRY FIRST LLC**

My name is Michael Freedman, and I am the Senior Vice President of Government Affairs for Coventry First. I appreciate the opportunity to testify before the Committee. I especially appreciate the Committee's interest in the secondary market for life insurance, and life settlements specifically, and the question: "What's at Stake for Seniors?" I am pleased to share my views on that subject today.

As the market for life settlements develops, a lot is at stake for consumers. One of the most significant of these issues is whether consumers will be able to realize the fair market value of their policies. Until recently, policyholders had two options for divesting unneeded, underperforming, or unaffordable policies: Stop paying premiums and allow the policy to lapse, or surrender the policy. According to a leading actuarial firm, approximately 88% of life insurance policies are surrendered or lapse without paying a death benefit. A policy's surrender value is typically a small fraction of its market value, and the value paid by an insurer for a lapsed term policy is zero.

Life settlements provide a valuable alternative to the lapse or surrender of a policy. Life settlements pay policy owners fair market value for their policies. These payments typically exceed the surrender value by many multiples. Coventry

is a leading participant in the life settlement market. We have paid approximately \$2 billion to policy owners in excess of the surrender value of their policies.

Coventry purchases policies mostly from sophisticated trusts, corporate entities, and high net worth individuals who are represented by counsel and financial advisors. We believe that these policy owners' decision to sell a policy should be properly informed. Coventry requires sellers to establish that they are sophisticated. We disclose to consumers alternatives to life settlements, including borrowing against their policy's cash value and accelerated death benefits available under the policy. In addition, we inform prospective sellers that life settlements may have tax consequences, and advise them to seek professional advice before selling their policies.

Of equal importance, Coventry strongly believes that consumers' privacy must be protected. To that end, we have implemented extensive procedural safeguards to protect confidential financial and medical information of policy owners and insureds.

How do we protect what's at stake for consumers? Coventry believes in a properly regulated life settlement market with regulations that provide clarity, consistency, transparency and a level playing field. We proactively support life settlement regulation across the United States. The American Council of Life Insurers has referred to Coventry as "the principal initiator of settlement

legislation in the states.” Presently, 31 states regulate life settlements, and states such as California, New York, and Illinois are in the process of enacting such regulations. By the end of this year, state laws regulating life settlements are expected to cover nearly 90 percent of Americans.

Coventry supports measures that prohibit Stranger Originated Life Insurance (“STOLI”). We do not condone STOLI transactions, and we have supported the legislation adopted in numerous states since the start of 2008 addressing STOLI.

As we come together today to consider what’s at stake for consumers, I feel compelled to report that many insurance companies aggressively take steps to deprive consumers of access to this important market. It has been a common practice for insurers to prohibit their agents from informing policy owners about the option of a life settlement. Insurance companies have terminated agents for helping consumers sell their policies, leaving those consumers with few, if any, options beyond the lapse or surrender of those policies. Insurers have sought to rescind policies sold in the secondary market, and have imposed contractual restrictions on policy sales. Some have even refused to issue policies when a prospective policy owner indicates an awareness of the policy’s market value. Worse still, insurance companies have promoted legislation that has been criticized as “anti-consumer” and “protectionist” by state legislators and consumer

advocates. All of these efforts are calculated to protect corporate profits at the expense of consumers.

Coventry supports fair competition in a market regulated to provide transparency for consumers and a fair playing field for businesses. Such a market is the best way to protect and to provide the most value to consumers. Thank you.