STORM
Synthetic Transfer Of Risk Markets
News and features for the alternative risk transfer industry

The STORM interview
Structuring settlements

Stefano Sola, cio of J.G. Wentworth, answers STORM's questions

Q: **Which sector of the synthetic transfer of risk markets are you/your firm primarily involved with?**
A: J.G. Wentworth (JGW) is the leading direct-to-consumer purchaser of structured settlements and illiquid financial products in the US. Structured settlements are personal injury settlements paid out to claimants over time. The payments are funded through annuities issued by insurance companies.

JGW has purchased over 51,700 annuity payment streams directly from consumers, aggregating over US$4bn. We fund our programmes through private and public placements in the capital markets and we were the first to offer institutional investors securitised structured settlement notes in 1997. Since then, we have securitised a total of over US$2bn in over 20 transactions.

Q: **When, how and why did your firm become involved in the sector?**
A: J.G. Wentworth was founded in 1992 and started purchasing structured settlements in 1994. Through the years we have expanded the types of illiquid assets that we purchase to include lotteries in 1995, mortgage notes in 1997, annuities in 2005 and life contingent structured settlements and life settlements in 2007.

We consider ourselves liquidity providers and we are constantly seeking new areas where we can help consumers unlock the value of future cashflows.

Q: **In your view, what has been the most significant development in the markets you cover in recent years?**
A: I believe there have been a number of developments that can be considered turning points in our sector.

One major development was the federal tax treatment decision that proclaimed that structured settlements can only be transferred to another party pursuant to a court order without incurring 40% excise tax. In fact 100% of the structured settlements that we purchase at JGW are sanctioned in a court order process, where the sale is established to be in the best interest of the customer and the transfer does not contravene any other court order or statute.

A second major event has been the securitisation of these assets. The constant flow of this asset into the capital markets has attracted a broad and stable investor base and has consequently allowed for a deeper and broader origination.

Q: **How has this affected your business?**
A: Our business model is based upon a strong and broad origination platform, coupled with consistent and attractive funding. The court order process has set high standards for this asset class with reference to origination and regulatory transparency, while the capital markets interest is driving the pricing matrix for the purchasing.

Given the current market conditions, investors are seeking superior and diversifying collateral quality coupled with stable, low correlation and no prepayment risk. Structured settlements can meet these standards.

In fact this asset class shows strong credit quality – not only in the investment grade nature of the insurance providers, but, more importantly, in the fact that as an investor you are actually at the policy holder level. Consequently, I believe that we are still at the nascent state of the market and we will be seeing a substantial increase in volume over the next couple of years.

As an example, the structured settlement market has been in existence for over 20 years. There is an available market of well over US$100bn and annual issuance of over US$6bn.

Q: **What are your key areas of focus today?**
A: Today we are focused mainly on building a diversified funding base to support our growing product platform. Currently our funding sources include not only the securitisation market, but also private placements and future flow transactions directly with institutional investors.

Concurrently we are building a broader funding platform that will overlay the capital markets sources with sources that can reach a broader investor universe, like retail or high net-worth individuals, through managed funds, insurance products and structured notes. Our funding platform will not only be flexible in terms of financing sources for the asset purchase, but we also want to provide our investors with the flexibility to focus on different sectors of our origination platform.

Q: **What is your strategy going forward?**
A: JGW has spent the last 17 years building up a nationally recognised brand name in the specialty finance business. In the process we have built innovative in-house systems and experience in origination, underwriting, servicing and financing these asset classes.

Our strategy will be to leverage our platform, our proprietary database and our national attorney network to develop and launch profitable product extensions.

As an example, JGW is licensed in 29 states for life settlements. Our life settlement platform is unique as we can target smaller policy sizes with an average size of US$350,000, allowing for diversified representation within a pool of policies and the consequent creation of more granular portfolios. JGW's direct-to-consumer model also allows for more transparency in the economics of a transaction. We are looking to leverage our extensive direct marketing expertise to originate further product extensions directly from consumers.

Q: **What major developments do you need/expect from the market in the future?**
A: We believe that the know-how and understanding of structured settlements and the general insurance-related asset class has grown significantly in the past five years. We expect growing investor demand, coupled with increased liquidity. Flight to quality in the current market conditions is a constant and we are seeing a surge of interest as investors seek solid, long-term investments to utilise as core components within their portfolio construction.

An added value is that investors have had the opportunity to monitor the structured settlement asset class during one of the toughest market cycles in our lifetime and the analysis was clear with respect to zero defaults to investors, coupled with actual cashflows averaging 99.97% versus those expected at issuance.

About the J.G. Wentworth family of companies
J.G. Wentworth Inc, based in Bryn Mawr, PA, is the US' oldest and largest buyer of deferred payments for illiquid financial assets like structured settlements and annuities. Since 1992, J.G. Wentworth has purchased over US$4bn of future payment obligations from consumers and is also the nation's largest securitiser of structured settlement and annuity-backed notes.

www.jgwentworth.com

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