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## Victims of the deaths trade

**Article by Paul Lashmar**

appearing in *The Independent, Business Analysis & Features*, 30 April 2006

**A British firm that offered investors the chance to buy the life policies of terminally ill Americans was itself doomed.**

The "death futures" market, heavily promoted as an investment innovation guaranteeing high returns, is in disarray after the collapse of companies both in the UK and US.

One UK investment company that specialised in this bizarre sector is in liquidation, with British investors facing losses of up to \$40m (£22m). The major US broker trading in these policies is also in receivership with losses of up to \$1bn, and is beset with regulatory investigations, prosecutions for fraud and allegations of money laundering.

Death futures is a US- based market in which investors gamble on life policyholders, often Aids victims, dying by a certain date. Companies buy the victim's policy at less than the cash surrender value, and pay the policyholder an agreed annuity. They get the full value of the policy when the victim dies.

Shepherds Select Fund, which was based in the Isle of Man, invested solely in so-called traded life policies (TLPs), which are not regulated in the UK. Run by Mike Abraham, 61, Shepherds Select Funds bought its non-HIV-positive TLPs from a Florida-based company called Mutual Benefits Corporation (MBC).

But MBC went into receivership in May 2004 amid allegations of fraud and money laundering. With all 100 per cent of its investment in MBC, the Shepherds Select Fund itself went into liquidation last May.

Unusually, most of those who lost money in the fund were experienced wealthy investors and even independent financial advisers. Even so, some investors have lost their entire life savings.

One retired British couple, now living abroad, invested almost \$250,000. "Putting money into Shepherds was the worse thing we have ever done," said the couple, who do not want to be named but who say the investment was based on very positive advice that it was low risk. "The rest of our retirement has been severely damaged by this event, and my wife's health has suffered badly as a result," said the husband, 59, who may now have to return to work.

Mr Abraham, Shepherds' managing director, who gives his address as a country club in Marbella, told *The Independent* on Sunday he was sorry investors had lost out. "But I've lost more than anybody," he said in a phone call from Spain.

Shepherds' liquidator, Mike Simpson of PricewaterhouseCoopers, says it is difficult to estimate how much money investors might eventually get back. "Shepherds has invested in fractional policies, which remain owned by MBC, rather than whole policies they would have owned themselves." He adds that how much and when money will be recouped from America is in the hands of MBC's receivers.

Investor groups claim that the risk would not have been so high if Shepherds had run the fund according to its own literature. William Ellerton and Paul Nedas of Bevans Solicitors advise both investors and financial advisers in relation to the collapse of the Shepherds Fund. "It would appear", says Mr Nedas, "that Shepherds invested 100 per cent of its funds in a company called MBC, which was itself subject to investigation in the US. Given the way MBC operated, the collapse of Shepherds was almost inevitable. Mr Ellerton adds that "it is inconceivable that Mike

Abraham was unaware of MBC's operating history. That all of Shepherds' funds were placed with MBC, rather than 20 per cent as allowed by the offering document, leaves Mr Abraham with a number of questions to answer."

Mr Abraham denied that there was any malpractice or that Shepherds had been negligent. "There had been problems with MBC going back to 1996. But if you know the American scene you would know this was nothing unusual."

He claims that MBC was a very good company that "made one big mistake" in angering a Florida politician. "Three days later the Securities and Exchange Commission arrived on MBC's doorstep and then closed them down."

In a London High Court judgement given this month it was revealed that huge commissions from MBC were paid into an offshore company controlled by Mr Abraham. In the 2003 financial year alone, some \$1.3m was paid from over \$10m worth of business.

Mr Abraham denied that the commission rate was as high as 13 per cent. "I think it was more like 10.25 per cent," he said, claiming that there was nothing unusual about such rates. "This is all in the Shepherds accounts. Most of it went back into Shepherds to enhance marketing and only a small percentage went to pay me and cover my running costs."

Mr Simpson, the Shepherds liquidator, was unable to confirm this. "I am still investigating where this money went," he said.

Mr Abraham is now involved with a traded policy investment company called Indemnity First with an address in Marbella. Its publicity does not mention the collapse of Shepherds.

### **Scandal: Costa del Sol expats given the hard sell**

The charitable-sounding Mutual Benefits Corporation (MBC) was set up in 1994 by the Steinger Brothers, to act as brokers of traded life policies. But it was to disintegrate a decade later.

The death futures industry had sprung out of the Aids epidemic of the 1980s and 1990s, when many victims wanted to realise capital from their life policies before they died. In 1990 approximately \$80m worth of policies were traded in the US; by 1999 this had grown to \$1bn a year.

As early as 1996 a "cease and desist" order had been issued against Florida-based MBC hinting at the troubles yet to come. In February 2002 the Idaho Department of Finance issued a highly publicised warning about the level of fraud in the industry.

It said the product was legitimate but that state securities regulators still had serious concerns: "Many investors have been outright defrauded by some companies or their sales agents." The Idaho report cited a number of allegations against companies, which included MBC.

At the time MBC was offering returns of between 12 per cent and 72 per cent depending on the maturation date of the policies.

In June 2004 the US federal and state regulators stepped in to close down MBC, alleging fraud and contempt of a prior injunction.

"This company has shown a flagrant disregard of this office, the laws of this state and for its investors," said Kevin McCarthy, director of Florida's Office of Insurance Regulation. "The dangers posed by letting it continue are grave and I needed to act immediately to salvage what we can for MBC's investors and creditors."

The corporation was put into receivership. Its executives Joel and Leslie Steinger, Steven Steiner and Peter Lombardi have all been named in legal actions. In March this year, the Securities and Exchange Commission, the US financial services regulator, reached settlement agreements to make MBC's bosses pay millions of dollars in fines and "disgorgement" of their financial gain. The settlements still leave more than 30,000 people with little to show for investments totalling nearly \$1.5bn.

Many British expatriates in Spain invested directly in MBC. Gwilym Rhys Jones of the Costa del Sol Group Against Unregulated Financial Advisers says: "MBC was peddled on the Spanish costas with seminars attended by the

founding Steinger brothers and other hierarchy from Florida. Dim-witted or unscrupulous financial advisers took commissions up to 12 per cent plus junkets to Florida and the Caribbean."

The Florida court recently revealed MBC's many problems. Some 90 per cent of original policyholders had lived beyond their life expectancy. MBC had misused investor funds, paying the insurance premiums on older policies with new investor's money.

It has also emerged that the Steinger brothers had a history of financial disciplinary actions, and that Joel Steinger had a criminal conviction for fraud.

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