

A Life Settlement Investment Shell Game?

December 22, 2014

American International Group, Inc., through its subsidiary Lavastone Capital, LLC, filed a lawsuit against Coventry First, LLC in New York federal court. Coventry reciprocated by filing a lawsuit against Lavastone in New York state court. **At issue is whether Coventry's failure to negotiate the lowest price when acquiring a large investment portfolio of life settlements resulted in Lavastone's loss of more than \$150 million.** According to Lavastone, since the early 2000s it has paid Coventry more than \$1 billion to identify life insurance policies that would make attractive investment vehicles and to acquire them from policyholders at the lowest negotiable price. Lavastone alleges that Coventry did not act in good faith when acquiring policies on its behalf. Specifically, Lavastone claims that Coventry founder Alan Buerger and members of the Buerger family were "scam artists" who bought policies at much lower prices than those disclosed to Lavastone. Coventry allegedly hid the original prices by "systematically concealing and/ or failing to disclose material information" from and to Lavastone, and by "falsifying transaction and financial records." Further, Lavastone alleges that Coventry managed several "shell companies" that were used to purchase the policies at the original price before selling them to Lavastone at "inflated prices." For example, Lavastone claims that a Coventry shell company bought a policy in 2007 for \$1.9 million. Three months later, Lavastone allegedly bought the same policy from Coventry for \$3.5 million based on Coventry's represented price. According to Lavastone, this constituted a significant overcharge by Coventry on this transaction, which was one of hundreds. In its state court suit, Coventry contends that Lavastone breached its contract by acquiring life insurance policies in contravention of the exclusivity provision in its origination agreement. Coventry seeks a declaratory judgment as well.

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