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Life Settlements Well Positioned To Navigate Choppy Macro Waters But Caution Required

Contents

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Editor's Letter
Volume 1 Issue 6 October 2022

Chris Wells
Managing Editor
Life Risk News

Geopolitical and macroeconomic issues are having a significant impact on all asset classes and life settlements is no different. *Life Risk News' Greg Winterton* spoke to **Cory Zass**, Founder of **Actuarial Risk Management**, to get his thoughts on how the life settlement market is managing through the current storm for our cover story this month, *Life Settlements Well Positioned To Navigate Choppy Macro Waters But Caution Required.*

Still on the macroeconomic theme, a rising interest rate environment, in theory, makes alternative credit products less attractive to investors when compared to their traditional, liquid counterparts. In the Life ILS space, however, there are nuances in the space that make the effect of higher interest rates less of a concern. *Life Risk News' Greg Winterton* spoke to **Adam Robinson**, Head of Life at Life ILS manager **Securis**, to learn more about them in *Could Rising Interest Rates Be a Catalyst for More Attention on the Life ILS Market?*

The Geronta Funding v. Brighthouse Life Insurance Company case in the United States caused quite a stir in life settlement circles, and *Life Risk News' Jeffrey Davis* delves into the nuances of the case in *The Fictitious 'Mansour Seck'.*

Our first commentary piece this month comes from **Roger Lawrence**, Managing Director at **WL Consulting**. P*roposed DWP Regulations May Hasten the Demise of DB Pensions in the UK* takes a look at upcoming UK pensions legislation and the impact it might have on the longevity risk transfer space.

The grim state of the world economy translates into our poll this month, which asks Life Risk News readers, *Will High Inflation, Increasing Energy Bills and a Potential Recession Force More Homeowners To Access the Equity Release/Reverse Mortgage Market?* Our readers are pretty sure about the answer to this one.

Our second commentary piece this month comes courtesy of **Simon Erritt**, Managing Director at **Coventry Capital**. The European Life Settlement Association's Code of Practice is 10 years old this month, and Erritt dives into the history and main points of the code in The *Development of the European Life Settlement Association's Code of Practice.*

Our Q&A this month features **Sherry Duarte** of the **Life Insurance Settlement Association**. Duarte is the Chairwoman elect of the organisation, and she shares her views on LISA's activities this year and her outlook for 2023.

Blockchain technology bulls say that blockchain will eat the world. That maybe true, it maybe not. But there are certainly areas of the life settlement market where the technology could be incorporated. *Life Risk News' Greg Winterton* spoke to **Brian Casey**, Partner at law firm **Locke Lord**, to find out what these areas are in *Is Blockchain Poised To Revolutionise the Life Settlement Market?*

If you're interested in getting in touch, whether that's with an idea for a topic that you'd like to see covered, or just to offer some feedback, please drop the team a line at editor@liferisk.news. In the meantime, on behalf of ELSA, we hope you enjoy this new issue of *Life Risk News.*

Life Settlements Well Positioned To Navigate Choppy Macro Waters But Caution Required

Author:
Greg Winterton
Senior
Contributing Editor
Life Risk News

The current macroeconomic environment is having a significant impact on millions of people and businesses across the world, and in terms of the alternative investment industry, some hedge fund strategies are struggling, some private equity-backed companies are beginning to suffer, and start-ups promising the next great idea are finding it harder to secure venture capital funding.

The going isn't as tough in the life settlement market. Inflationary pressures don't impact this corner of the investment world like they do others; the passing on of costs to the consumer – in this instance, the fund which owns a portfolio of secondary life insurance policies, underwritten by the vendor (the life insurance company) - doesn't work in the same way that a private equity-owned portfolio of a chain of restaurants does (in the sense that the latter might have to pass on higher food costs to their diners in the form of higher menu prices, for example). The carrying charge for the life insurance policy is its premium – paid to keep the policy in good standing - and buried within is the cost of insurance (COI). While the COI component increases, but that's not being driven by inflation, rather it is the likelihood of mortality as one ages.

> "The industry's marketing efforts will need to be sharpened, as the life settlement market faces the same challenge as other alternative investment sectors do."

"The policy administration or servicing cost of a life settlement may be slightly higher because of increased inflation, yet that is rather trivial in comparison to the premiums," said Corwin (Cory) Zass, Founder and CEO of Actuarial Risk Management, Ltd. "On one hand, over the past 25 years, life insurance companies realized diminished investment (asset) margins as market interest rates continued spirally lower. While the life insurance industry's mortality experience has generally shown past actuarial assumptions overstated deaths.

During the era of low interest rates, which seemed to suddenly dissipate in the last 6 months of 2022, increases in the life insurance premium levels for some life insurers were driven by their actions to maintain a positive profit margin."

As such, the need for life insurance companies to increase the cost of insurance component of a life policy is arguably set to recede. Where inflation goes, interest rates follow. And whereas economic theory says that a rising interest rate environment should dampen demand for public equities and will drive poorer performance in existing bond portfolios, there are benefits to this for the life settlement market via the primary life insurance market.

"In a rising interest rate regime, life insurance companies are earning more on their assets which in turn means they can make more on the spread between what they earn and the interest rate they credit to the policy," said Zass. "This makes them financially healthier, and, as they're the counterparty to a life settlement, it further mitigates the admittedly lower risk of carrier default."

Another area where the life settlement market could benefit from a rising interest rate environment is in deal flow. Some life settlement fund managers frequently grumble about the lack of deal flow coming to market, but a rising rate environment might further persuade policy owners, who are impacted by escalated cost of consumer goods, that they don't need the policy anymore and thus will seek to cash it in to help with increasing mortgage costs.

The industry isn't sitting back and licking its fingers, however. The industry's marketing efforts will need to be sharpened, as the life settlement market faces the same challenge as other alternative investment sectors do – produce stable and attractive risk adjusted yields and not lose pace when rates rise.

"Alternative investment products, with a debt-like return profile, all face the same quandary; if you're saying you can get me a return of 14%, and I can get this same return in some other perceived less risky investment, help me understand why should I place more invested dollars in perceived risky opportunities.

That's an extreme example, but in 1981, US treasuries were 19%. What happens if interest rates do rise 500bps? All fixed income strategies will need to be able to sell against that backdrop," said Zass.

"Going forward, for new life settlement acquisitions, there is some similarity to the compression of the longevity risk situation, yet it is accepted that investors will simply demand higher returns so buyers will use higher interest rates in their present value calculations which produce lower prices."

With respect to the tertiary life settlement market, current investors (holders) of these assets could be affected by the financial market calamity. Look at the need to sell assets to raise cash to meet collateral calls during the recent UK gilt market turmoil. With central banks reacting, these situations of forced selling may indeed become a norm. The need to dump life settlement investments could not certainly be immune.

With the last 30 years of easy money from global central banks almost disappearing in a flash in the major western industrial nations, rising interest rates are putting investors on notice with depressed investment market values.

From the life settlement standpoint there are two considerations: how do the rate increases impact current investments in life settlements and how will the rate increases impact new acquisitions of life settlements. There is not complete agreement by life settlement participants that the prices to acquire a policy decrease (since the price is a by-product of a present value computation and thus acts like bond values – increased interest rate, lower value) are directly influenced by recent rate actions in the U.S.

Some in the industry believe that demand influences more of the price paid than interest rates, yet under fair value accounting concepts, this simply means that the biggest risk – longevity risk – is being compressed by buyers. This could end up being a return disaster in the long run if there is any extension or mis-estimation of life expectancy. Going forward, for new life settlement acquisitions, there is some similarity to the compression of the longevity risk situation, yet it is accepted that investors will simply demand higher returns so buyers will use higher interest rates in their present value calculations which produce lower prices.

Still, considering the lack of financial market influence on longevity, Zass remains bullish.

"The major risk of the life settlement market is longevity risk," he said. "The trade-off from financial market risk has this asset class seemingly well positioned as a viable option to make it through the financial chaos that could still lie ahead."

Could Rising Interest Rates Be a Catalyst for More Attention on the Life ILS Market?

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Life Risk News

Alternative credit comes in many different shapes and sizes, with fund managers of all sorts of strategies competing for a slice of an institutional investor's illiquid credit allocation. The risk exposures and sources of return in these products vary significantly, and each has a solid claim for a place in a diversified portfolio for different reasons.

One of the few things that most of these products have in common is that a rising interest rate regime, in theory, makes them less attractive to investors; traditional, liquid fixed income investments have always offered lower risk and better liquidity terms, but now, these benefits are being supplemented with a higher yield.

> "One sector of the alternative credit world that might not be as affected as others if interest rates revert back to something resembling a long-term norm, however, is life ILS."

One sector of the alternative credit world that might not be as affected as others if interest rates revert back to something resembling a long-term norm, however, is life ILS. Whilst the initial transactions involve life insurance companies and other related entities, according to Adam Robinson, Head of Life at ILS investment manager Securis in London, says that the nuance of the strategy means that it behaves differently to other sectors of the alternative credit market such as private debt, for example.

"In a rising interest rate environment, the opportunity and projected return profile of life ILS strategies stays pretty much the same. Interest rates aren't the main driver of performance," he said. "It's an opportunistic and solutions-driven product; we enter into transactions that life insurance companies can't do ordinarily, and that opportunity should persist regardless of the prevailing interest rate environment. Indeed, I'd argue that life ILS should exhibit fairly defensive characteristics when compared to other alternative credit products."

The risk profile and the lack of correlation of the return stream to capital markets are two other features of life ILS strategies that are touted by those in the sector as a reason to allocate to their products. Mortality and longevity risk are generally uncorrelated to capital markets whereas lapse risk – the risk that policyholders either stop paying their premiums or pay less into a policy - tends to be more correlated, meaning that managers in the space need to construct their portfolios to compensate.

"Mortality and longevity are generally almost entirely uncorrelated but lapse risk can be more correlated depending on who the product is sold to and what the purpose of it is. It's a much more subtle risk and depends on counterparty but these risks can be mitigated out with structural features such as lower loan to value deals, and exposure to different populations and products that don't move in tandem. When you blend it all, it's typically pretty immunised to financial market risk," said Robinson.

Two of the reasons holding the life ILS sector back in terms of more investors entering the space is its smaller size when compared to other alternative credit options and the longer timescales that are part and parcel of investing in this space. For those not in the asset class but who are curious about it, Robinson urges patience.

"Life ILS strategies take time to deploy capital. Our trades are largely privately sourced and privately originated. There's a long lead time from an initial meeting with a counterparty to originating a trade, which can be as much as six to twelve months. The ideal investor for this asset class is one that is willing to take a long-term view on the opportunity because you're buying into the manager's ability to source and execute transactions."

Investors that are taking a closer look at the life ILS space for the above reasons are also looking at the ESG credentials of these products. Life ILS managers suggest that their products can be a natural fit for an ESG mandate due to the social benefit derived from supporting individuals' insurance needs, and investors aren't looking at this as purely a box ticking exercise.

"A lot of investors are asking us to confirm that we can satisfy their ESG policies," said Robinson. "This has only really begun to pick up steam in the past few years, but investors are pushing through our layer to one layer beyond which involves the counterparties that we work with, where we invest and in what we invest. It's getting more rigorous, but I welcome it, because the more investors that see that life ILS strategies can satisfy their ESG requirements, I think the better it will be for the industry at large".

"The market is fairly untapped. I don't brush shoulders with my peers," he said. "Most conversations I have with counterparties are educating them for the first time about why life ILS is a good idea. A tell-tale sign of a mature market is when you meet a counterparty, and they say that one of your competitors already met with them. I'm not sure where the ceiling is, but I don't think that we're close to it."

> **"Life ILS managers suggest that their products can be a natural fit for an ESG mandate due to the social benefit derived from supporting individuals' insurance needs, and investors aren't looking at this as purely a box ticking exercise."**

The U.S. Federal Reserve says that it expects interest rates to rise to around 4.5% in 2023, before cooling off again in subsequent years, assuming inflation is brought under control. Whether the life ILS market can seize this opportunity to pitch what it says are the benefits of the strategy remains to be seen, but for Robinson, the capacity challenges could well go away.

The Fictitious 'Mansour Seck'

Author:
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Life Risk News

On July 11, 2007, according to court documents, the Mansour Seck Irrevocable Life Insurance Trust applied to MetLife Investors USA Insurance Company (the predecessor to Brighthouse Life Insurance Company) for a $5 million universal life insurance policy insuring the life of a 'Mansour Seck'. After confirming that its procedures and guidelines were met, MetLife issued a $5 million universal life insurance policy on or around July 24, 2007.

The life insurance application offered financial details describing a wealthy retired ambassador, a French citizen living in a three-story apartment building at 170 Academy Street in Jersey City, New Jersey. The address is in the Journal Square neighborhood, named for the Jersey Journal whose headquarters were located there from 1911 to 2013. At the time of the application, the median income in Journal Square was $32,625.

> "The condition of the apartment listed on the application stands out as a clue that he may not have been living the lifestyle of a multi-millionaire French dignitary."

The condition of the apartment listed on the application stands out as a clue that he may not have been living the lifestyle of a multi-millionaire French dignitary. Built in 1895, 170 Academy Street has 14 units and today rents for around $2,700 per month for a 1-bedroom.

He could easily afford the rent. The application for Seck's policy stated that he earned $500,000 from a pension and $1.5 million from investments each year. The 74-year-old was listed as having a net worth between $18 million and $20 million, showing he could handle premium payments as well.

So how did a wealthy retired ambassador come to live in Journal Square? Whatever the reason, it's clear that Seck was not your average retiree. Perhaps the ambassador was spending time at his other properties, as the application claimed; apparently, Seck owned Washington, D.C. real estate valued in excess of $4 million, real estate in Jersey City valued in excess of $1.3 million and real estate in Upper Marlboro, Maryland, valued at approximately $200,000 to $300,000.

All seemed to proceed like any other transaction, and for the next two years the Seck Trust paid $248,711.14 in premiums. After the two-year contestability period ended, the Seck Trust sold the policy on the secondary market and in 2015 Geronta Funding purchased it in a tertiary market transaction as part of a portfolio. In 2017 Geronta notified Brighthouse of its suspicions that the insured (Seck) was a fictitious person.

Geronta was correct.

According to the New Jersey Office of the Attorney General, an insurance agent with the same last name and the same address -- Pape Michael Seck, 170 Academy Street, Suite B23, Jersey City, New Jersey -- had created fraudulent documents to supplement applications for seven multi-million-dollar life insurance policies for fictitious individuals, including the policy for Mansour Seck.

Licensed in New York and New Jersey, he would forge documents, create false identities, and even bring on accomplices to help carry out the plan. Pape Michael Seck created documents on "Sims, Stewart and Weis, PC" letterhead in which the accomplice, using the name "Angela Sims," purported to be the ambassador's financial advisor and accountant.

The Attorney General's office said Seck admitted he submitted false applications to other insurance companies for policies on behalf of Mansour Seck, listing Pape Michael Seck as Mansour Seck's son and the beneficiary. However, his father, whose name is Mansour Seck, didn't apply for the life insurance, nor did anyone by that name. In filing the applications, he also used identifying information, including a Social Security number, from two other real people named Mansour Seck, the investigation showed. One is a retired dignitary from Senegal (Mansour Seck is a common name in the country) and the other a New Jersey resident.

Geronta agreed to rescind the policy but wanted a refund of all premiums paid. Brighthouse disagreed, so the parties took the case to Delaware Superior Court, and it later headed to the Delaware Supreme Court which was asked to determine whether premiums paid on insurance policies declared void ab initio -- or having no legal effect from inception -- for lack of an insurable interest should be returned.

In the end, Pape Michael Seck's lies caught up with him, and he was ultimately fined and sentenced to prison for the Mansour Seck case, as well as others. The legal sector is paying particular attention to the Seck decision, as it begins to offer much-needed clarity on a complex issue.

> **"The "Seck" case as it's referred to now, is drawing widespread attention within the industry."**

While there are still unanswered questions, the case sets a precedent that will likely be followed in future litigation.

Proposed DWP Regulations May Hasten the Demise of DB Pensions in the UK

Author:
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> "The intention is to try and improve member's security of benefits and a gradual reduction in the number of inadequately funded schemes having to revert to the Pension Protection Fund (PPF) lifeboat."

Defined Benefit (DB) pension schemes in which the employer bears the investment and longevity risk have been on a downward journey to eventual extinction in the U.K. and many other jurisdictions for years. Extending life spans and low investment returns have combined to make running these schemes far too operationally risky for most employers including many of the largest. To cap increasing liabilities, most have either closed to new members (the lowest level of intervention), through to also stopping new accrual of entitlements for existing workers, and on to eventual buy-out or other run off strategies. The market for these risk transfer or sharing arrangements has grown rapidly in the U.K.

New proposed U.K. regulations, the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2023, have been launched in draft form in July and are now open for public consultation with the deadline for feedback set at 17 October 2022. This will then be considered in finalising the regulations with a view to bringing them into force next year.

As the title of the regulations suggests, the focus is primarily on future investment strategy, and in further de-risking. In the terminology of the document, regulators are seeking to achieve a state of "low dependency". A scheme with low dependency is one where the employer no longer needs to make additional contributions or, in effect, the scheme is self-financing. Depending on the actuarial assumptions used for this assessment, it should mean that schemes are, more or less, ready for a final buy-out or equivalent when they are in low dependency. The trigger for a scheme to start these preparations is reaching a defined a level of "scheme maturity" based on the weighted outstanding duration of liabilities.

The intention is to try and improve member's security of benefits and a gradual reduction in the number of inadequately funded schemes having to revert to the Pension Protection Fund (PPF) lifeboat. One of the most high-profile uses of the PPF, which involves a 10% haircut to members' benefits, was British Steel, which is a classic example of a legacy pension fund covering an industry whose current workforce is considerably smaller than it was historically. This leaves behind a huge legacy benefit liability, with a much-diminished operation to make good any shortfalls.

From an investment perspective, the regulations will drive a rotation from risk-on to risk-off assets, but because future returns are potentially more limited, it will create an estimated £200bn of additional liability added to employers' future commitments.

The view is that this legislation will hasten the runoff of remaining DB schemes but there is concern amongst actuaries as to whether existing capital resources - almost invariably reinsurers - will have sufficient capacity to deal with this. Buyout levels are estimated to accelerate towards annual capacity requirements of £200bn a year. In 2019, estimates of market size were £43bn, and in the Covid-19 years of 2020 and 2021 this fell to around £30bn each year. It is certainly an opportunity for capital markets to engage, especially if they can sharpen their offerings.

> **"At a time when the world looks like entering a period of slowdown with pockets of recession expected, not least in the U.K., this might be a difficult political move to pull off and the legislation could end up being deferred."**

The biggest risk for markets looking to gear up ready to participate is the one of whether the legislation proceeds to statute. Undoubtedly, the additional expense of migrating to a low dependency investment strategy will be a drain on employers' resources and around 5% of schemes are already in the same position as British Steel were: a large pension fund and a now much diminished sponsoring employer. Applying the regulations to all scheme/employer situations alike may well lead to employer insolvencies and job losses. At a time when the world looks like entering a period of slowdown with pockets of recession expected, not least in the U.K., this might be a difficult political move to pull off and the legislation could end up being deferred.

At the moment, there is little noise of dissent beyond the Pension Scheme Village, but as employers wake up to some of the implications this does have the potential to capture the mainstream media with its preference for emotive impacts (i.e., job losses) rather than obscure technicalities. However, most affected schemes and employers won't be entering "scheme maturity" and therefore having to implement the low dependency rules for a few years hence so the political counterargument required to push these rules over the line will be that the current economic squeeze may well be short term, whilst this program to secure members' benefits is a much longer project.

October 2022 Poll Results

Will High Inflation, Increasing Energy Bills and a Potential Recession Force More Homeowners To Access the Equity Release/Reverse Mortgage Market?

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The current macroeconomic environment – higher inflation, rising interest rates, the threat of recession – all factor into making this a challenging time for consumers. The older population – at least, those who are homeowners – have the option to release liquidity from their homes via the equity release option (reverse mortgages in the United States). So, this month, we asked Life Risk News readers whether they think that we could see more activity in this market due to macroeconomic pressures.

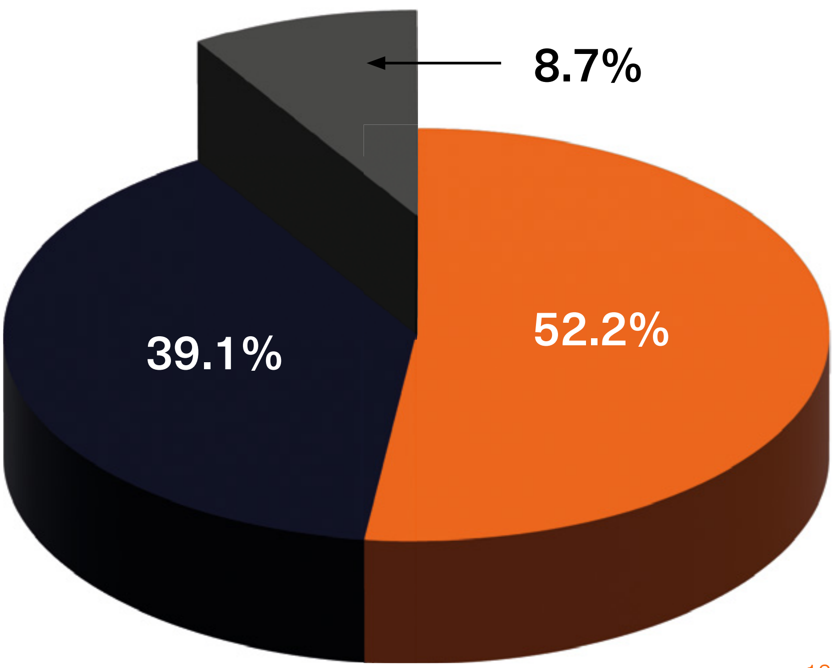
Surprisingly few think that the current environment will be a catalyst for more activity here – only 8.70%. Almost 40% are unsure, but more than 50% of -readers say that they don't think that equity release will see an uptick in activity. Whilst a rising interest rate environment impacts the equity release market via higher interest rates on these mortgages, ultimately, the estate of the mortgage owner foots the bill, so there is not a direct impact on the homeowner themselves.

There is great uncertainty generally at present with regards to just how long the current cost of living crisis will persist. But central banks and governments say publicly that they are committed to getting inflation under control. Homeowners in the older generation will continue to rely on alternative methods of funding in later life. It remains to be seen whether equity release – in a higher interest rate environment – will continue to be an attractive option for them.

Higher interest rates will make lending products like equity release less attractive

Inflation might be transitory and I'd expect seniors to use alternative options

It's one of the few options for seniors to access liquidity



The Development of the European Life Settlement Association's Code of Practice

Author:
Simon Errit
Coventry Capital
Managing Director

The European Life Settlement Association ("ELSA") was established in May 2009 to set standards for the European life settlement industry and to promote transparency by providing accurate, authoritative information to its investors.

ELSA's founding members recognised that the consistent application of best practice was fundamental to the continued prosperity of the industry and the protection of its investors, and quickly sought to collate, refine, document and highlight this best practice.

Work began on the first edition of its code of practice (the "Code") in October of that year and it was completed nine months later in July 2010. As Patrick McAdams, then ELSA's chair, said at the time, "Our Code is a living framework, intended both to encourage and reflect the development of the European life settlement industry in the years ahead. As the market continues to mature, the Code will be updated to ensure that it continues to best serve the needs of the life settlement investor."

Twelve years and six editions later, that message still rings true. The current edition of the Code, which ELSA expects to update again this year, is available at https://www.elsa-sls.org/code-of-practice/.

Development

The development of the Code is perhaps best summarised by the edition history presented in the Code itself:

> "ELSA's founding members recognised that the consistent application of best practice was fundamental to the continued prosperity of the industry and the protection of its investors."

Edition	Date	Key Features
1.0	Oct 2009	First draft. Organised into general provisions and sections on education, transparency, policy origination, competition, consumer choices, suitability, conflicts of interest and priority of clients' interest.
1.1	May 2010	Second draft. Reorganised into asset management and disclosure, risk mitigation, suitability, and transparency.
1.2	Jun 2010	Third draft. Reorganised into asset origination, asset and risk management, and managing the investor relationship.
1.3	Jul 2010	First published edition. Page of contents added. Minor textual changes.
2.0	Sep 2012	Reorganised into product design, disclosure and reporting, and sales and marketing.
3.0	May 2013	Separated into requirements and guidance. Additional standards added reflecting "Big 4" auditing practice.
4.0	Nov 2016	Introductory sections revised. Additional standards added relating to COI increases, valuation, performance attribution, performance fees, data security, medical record updates, external data sources, and overhead and leverage disclosure.
5.0	May 2018	Performance attribution and loan/(re)insurance disclosure reworded. Key portfolio information and portfolio breakdown reporting revised.
6.0	Jan 2021	Extensive textual changes based on committee members' comments. Member conduct section added. Guide and "Comply or Explain" procedure created.

> "ELSA expects to update the Code again this year. One area it is currently looking into is that of performance fees, making sure that the existing wording is clear as it relates to open-ended as well as closed-ended structures."

Usage and Reception

ELSA members that are product designers, managers or distributors must comply with the required elements of the Code and are expected to comply with its guidance. ELSA members that are not product designers, managers or distributors are expected to encourage the Code's use in the products with which they are associated.

ELSA members certify their compliance with the Code when they apply for membership and annually thereafter. Failure to comply with the Code may ultimately result in the member being asked to resign from the association.

Members typically reference their membership of ELSA and, by extension, their compliance with the Code in marketing materials, and may use the Code as a basis of discussions with prospective investors; the Code has also been presented and favourably received in ELSA's meetings with European regulators, including the UK's FCA, Luxembourg's CSSF, and Ireland's CBI.

Challenges

Spreading awareness of the existence and content of the Code is a key challenge. Membership in ELSA, and therefore compliance with the Code, remains voluntary. Opportunities to promote the Code, such as this article, are always very welcome.

As the industry has grown so has the Code, and the current edition runs to fourteen pages of densely worded text. To make it more accessible, particularly to investors looking at the market for the first time, ELSA created a shorter, three-page summary of the principles guiding the formation of the Code, which is available alongside the Code itself at https://www.elsa-sls.org/code-of-practice/.

To avoid stifling innovation and to bring the Code in line with other international standards, ELSA also introduced a new "Comply or Explain" procedure with the current edition. This allows members, in exceptional circumstances, to request from ELSA's membership committee an exemption from one or more practices required by the Code. If granted, the member must prepare a disclosure statement, which must be made available to all its existing and prospective investors on request and presented alongside the Code when shared. Viewed by some commentators as potentially weakening the Code, the opposite has been ELSA's experience: The limited number of exceptions requested to date have highlighted unclear or unqualified wording in the Code that can be refined in the next edition.

Refinement

As noted above, ELSA expects to update the Code again this year. One area it is currently looking into is that of performance fees, making sure that the existing wording is clear as it relates to open-ended as well as closed-ended structures.

A second relates to how regularly life expectancy estimates should be updated. A number of products in the market are less reliant or wholly non-reliant on life expectancy estimates, and the existing wording may benefit from qualification.

Conclusion

ELSA believes the Code is among the most comprehensive documents of its type in the life settlement industry. It is detailed throughout and complex in places, reflecting the relative complexity of the market. For over a decade, it has provided prospective investors with a framework for their due diligence, highlighting the questions they need to ask of product designers, managers, and distributors. It reflects the thinking and philosophy of ELSA's members and is a key reason the association was established. ELSA looks forward to refining it further in the months and years ahead.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Q&A

Sherry Duarte

Life Insurance Settlement Association

U.S. based trade association the Life Insurance Settlement Association (LISA) published its inaugural market data report earlier this year, a first for the organisation; 23 members contributed data anonymously and the results help market participants get a better sense of the size of the industry. Life Risk News spoke to LISA Chairwoman-elect, Sherry Duarte, about the organisation's achievements in 2022 and plans for next year.

LRN: Sherry, the market data report published by LISA earlier this year was a first for the organisation. What are some of the highlights from the report?

Earlier this year, LISA released findings from its 2021 Annual Market Data Collection Survey. The anonymous, aggregate data collected represents summary closing data from 2021 life settlement transactions. Twenty-three LISA provider members contributed data to this effort.

Highlights from the data include:

- Consumers were paid over $750 Million by LISA Members for the sale of their unwanted life insurance policies, instead of receiving only $96 Million had they chosen to lapse or surrender their policy.
- Consumers received an average of 7.8 times more than their Cash Surrender Value, translating into over $660 Million more in American seniors' pockets than what they would have received from life insurance carriers.
- More than 3000 transactions were conducted by LISA members totalling over $4 Billion in Face Value. These figures represent just a tiny fraction of the 9 million plus policies & $642 Billion that are lapsed or surrendered annually by life insurance consumers.
- The average policy size, or amount of Net Death Benefit, per transaction was $1.33M.

In advancing this work, LISA's goal is to deliver relevant and valuable life settlement industry data to its members, the investment community, and policy holders and their advisors.

LRN: Getting market data in the life settlement industry has been difficult historically. What – if anything – was the thing that really got the report done this year? Or was it a confluence of efforts from multiple people?

This was a truly collaborative effort. LISA's has had internal discussions regarding the collection of industry data for over a decade, with our Chair John Welcom being a long-time champion of this effort. The representatives of LISA's Member Affairs Committee (MAC) that were most closely engaged on the project worked to be transparent about internal processes related to the collection of the data and responsive to feedback from our provider members. LISA Members provided the transactional data anonymously.

LRN: Data exists to suggest that the life settlement market contracted in 2021, ending a run of six years of consecutive growth. Industry commentators attribute this to a variety of factors. What's your view and are you hearing that activity is on the increase again?

Based on our experience this year and feedback from other LISA Members, we are excited to report that the industry is growing in all areas.

LRN: LISA has also been active this year in the lobbying space; the NCOIL resolution in the summer, which asked state insurance regulators to cease approving certain enhanced cash surrender value offers, being a notable one. That must have been one that pleased the team at LISA?

LISA's Board of Directors and our membership are encouraged by the recent NCOIL resolution. We have an effective team engaged on this effort. We will continue to monitor these efforts and strive to ensure that long-standing state laws are enforced and that regulatory violations do not continue and negatively impact seniors evaluating life settlement as an alternative to policy lapse or surrender.

LRN: Lastly, Sherry, you're LISA's Chairwoman elect – you officially take up the role of Chair on January 1st next year. Do you have any specific goals for your time as Chair? What would make your tenure a success?

I am interested in continuing and building upon LISA's efforts to grow the life settlement marketplace and advancing the highest standards of practice and professional development for the industry. This will involve further focus on our data collection efforts, engaging with institutional investors to educate them about the asset class, and supporting advocacy activities that protect industry stakeholders. Each of these activities are made more effective by robust engagement from LISA's members.

Sherry Duarte is Vice Chair and Chairwoman elect of the Life Insurance Settlement Association

Is Blockchain Poised To Revolutionise the Life Settlement Market?

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Blockchain technology investment continues apace. According to GlobalData, venture capital investments in the blockchain sector increased from $2.1bn in 2020 to $14.8bn in 2021. This year looks set to set a record yet again.

The life settlement market is not typically associated with cutting-edge...anything. It's an industry that is still 'paperwork' intensive – buyers of life settlements need medical records from (often multiple) doctors, it's a heavily intermediated market with insurance agents, brokers, lawyers, providers and more all being involved in the process of completing a transaction.

Increasing the expeditiousness with which transactions get completed is the first benefit that blockchain technology could unlock for this corner of the alternative credit universe.

"Blockchain technology would speed up the process of getting deals done," said Brian Casey, Partner and Co-Chair of the Regulatory & Transactional Insurance Practice Group at law firm Locke Lord in Atlanta, GA, who has been working in the distributed ledger technology area since 2017. "There are efficiency gains and increased comfort that the documents are secure on the blockchain, assuming they are maintained correctly and are true and accurate. All of this would facilitate faster closing times."

> **"Increasing the expeditiousness with which transactions get completed is the first benefit that blockchain technology could unlock for this corner of the alternative credit universe."**

Indeed, a life settlement transaction in the secondary market can take up to six months to close. Much of this time is spent to-ing and fro-ing between the various parties involved, with each participant duplicating work already done by other parties. That's not a criticism; each firm has their own processes and protocols that they have to adhere to because of the 'trust' issue and the lack of a single source of data. Blockchain bulls say that this duplication is solved for using distributed ledger systems.

Other benefits could be provided to the market by adopting blockchain more widely, including the building of trust between counterparties, improving the standardisation of key data to reduce redundancies, and increase the reliability of information.

On the surface, it sounds like a no-brainer. But the biggest hurdle to incorporating blockchain into the life settlement market is user adoption, aside from the need for the broader blockchain industry to become more mainstream beyond cryptocurrency uses. The industry starts and ends with the individual policyholder; they, typically through life insurance agents and life settlement brokers, bring the policy supply to market in the first place. They would have to be willing to either put their policy details and medical records on the blockchain themselves, which requires some degree of tech-savviness, or they would need to authorise an advisor to do so. And then the life insurance companies might not want to play ball.

"In a typical life settlement transaction, the provider has to get the change forms [for transfer of ownership of the policy] from the carriers. If the carriers don't put them on the blockchain then the provider would still need to chase the carriers for this as they do now and then they would upload those forms. And that would be the case every time the policy is sold on the tertiary market unless the policy is held by a financial institution on behalf of an investor, which is commonly done through a securities intermediary," said Casey. The financial institutions that serve as securities intermediaries in the life settlements marker should be thinking critically about their roles in a blockchain world, which cuts across many other aspects of their businesses and the custody and trading of other asset classes, he added.

The tertiary market would benefit just as much as the secondary market – possibly more. These block deals comprise many policies – tens, sometimes hundreds (and potentially, thousands). Each of these needs to have the medical records sourced and a new life expectancy analysis conducted before the buyer decides to make a bid.

"If I'm the fifth buyer of a policy, I can look at the original life settlement transaction and the three tertiary trades in one view," said Casey. "That cuts my administration and asset diligence time significantly."

There is also the risk of theft and manipulation. There have been a few instances of brand-name cryptocurrency exchanges being hacked in the past few years, with millions of dollars' worth of digital assets stolen. The risk in the life settlement market is that personal data is stolen, although Casey says that the risk isn't exclusive to blockchain.

> **"The tertiary market would benefit just as much as the secondary market – possibly more. These block deals comprise many policies – tens, sometimes hundreds (and potentially, thousands). Each of these needs to have the medical records sourced and a new life expectancy analysis conducted before the buyer decides to make a bid."**

"There is cybersecurity risk when anything is being electronically stored. Some people use the word immutable when describing a benefit of blockchain; that's not to say that it's risk free from unauthorised access. But if a life insurance policy or a life settlement data stored on a blockchain were to become accessed in an unauthorised manner, the block gets disrupted, and you can see that's happened so it's easier to detect intrusion.

The whole concept of blockchain is that it's asymmetrical encryption. You have the public key to engage in the blockchain based life settlement transaction. The buyer / provider has the credentials to the private key to unlock it," said Casey.

The life settlement market goes to great lengths to stress that it is a force for good; when the ESG zeitgeist comes up in conversation, market participants say that there is a strong 'S' component, because the policy holder receives more money from a life settlement transaction than they would if they let the policy lapse – oftentimes, it's a six-figure sum, where lapsing it gets zero. For blockchain bulls like Casey, distributed ledger technology aligns with this movement as well.

"Blockchain is all about speed to close for the policy holder and investor," said Casey. "Simply, policy sellers get their money quicker."

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