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Outlook for Growth in Life Settlement Market Positive

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Editor's Letter, Volume 2, Issue 11, November 2023

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Life Risk News

A new report from asset manager, Conning, suggests that the outlook for growth in the life settlement market is generally positive. *Life Settlements: Steady Growth Ahead* is the 18th annual report the Hartford, CT-based company has published covering the life settlement market. **Scott Hawkins**, Head of Insurance Research, and **Roberta Lauria**, AVP, Insurance Research at **Conning** offer their thoughts to *Greg Winterton*, with colour from **Jonas Martenson**, Founder and Sales Director **Ress Capital** and **Alejandra Limones**, Partner at **Demeter Capital** in *Outlook for Growth in Life Settlement Market Positive.*

According to the **World Health Organisation**, there are approximately 1.3 billion global users of tobacco. Each year, eight million die - a number which includes more than one million passive smokers. Governments globally are trying to reduce the number of people smoking but they are dealing with the issue in different ways. *Aaron Woolner* spoke to **Tracey Johnson**, Underwriting and Claims Manager and **Andrew Gethin**, Managing Director at **MorganAsh** and Monideepa Chetia, Vice President of Underwriting at **Longevity Services Incorporated** to get their views in *Debate Continues Over the Dangers of Vaping Versus Cigarette Smoking*.

UK industry group the **Equity Release Council** published its quarterly update recently, showing a market that has returned to growth for the first time in a year. Market activity remains suppressed when compared to recent years, however. *Greg Winterton* looks at whether the growth is sutainable in *(Small) Green Shoots Appearing in UK Equity Release Market,* featuring comments from **David Burrowes**, CEO at the **Equity Release Council**.

Technology has brought about tremendous benefits and conveniences in today's hyperconnected world. However, it has also given rise to a dark underbelly of cyber threats, which have only grown more sophisticated with the proliferation of artificial intelligence (AI). In this blog, we'll explore how AI has become a double-edged sword, enhancing our capabilities and increasing the risks of cyberattacks. **Karun Arathil**, Senior Analyst, Insurance at **Celent**, explains more in *The Rising Tide of Cyber Threats: How Artificial Intelligence Amplifies the Risk in Insurance Industry*, a commentary piece this month.

In September, the US Federal Reserve maintained interest rates at 5.5%, the first pause in what has been a rising rate environment since early 2022. Similarly, the Bank of England kept its interest rate at 5.25%, the first time since 2021 that the rate had paused. So, in October, we asked our readers, *Have We Now Seen the Top of the Current Interest Rate Cycle?* There was a rare lack of consensus this month.

Our *Q&A* this month features **Rob Haynie**, Managing Director at life settlements broker, **Life Insurance Settlements, Inc**. Haynie offers his thoughts on activity in the secondary market this year and the outlook for 2024.

Registered Investment Advisors (RIAs) wear three hats in the life settlement market, each of varying degrees of influence. *Greg Winterton* spoke to **Jon Mendelsohn**, CEO at **Ashar Group**, and **Barry Flagg**, CEO at **Veralytic**, to get their thoughts on where RIAs currently sit in the life settlements ecosystem and where they could use their influence going forward in *RIAs Increasingly a Strategic Priority for Life Settlement Market.*

I hope you enjoy the latest issue of Life Risk News.

Outlook for Growth in Life Settlement Market Positive

Author:
Greg Winterton
Senior
Contributing Editor
Life Risk News

A new report from asset manager, Conning, suggests that the outlook for growth in the life settlement market is generally positive.

Life Settlements: Steady Growth Ahead is the 18th annual report the Hardtford, CT-based company has published covering the life settlement market. The report covers a range of factors relevant to the life settlement market, including drivers of demand for life settlements among consumers and investor interest in asset classes such as life settlements. Conning's bullish view is supported by trends in each of these areas.

"Conning's analysis of the factors driving life settlement growth are mostly positive. Consumers are likely to seek additional sources of income to offset economic pressures. Investor demand for alternative assets remains strong. Both factors are positive for life settlement growth," said Roberta Lauria, an AVP, Insurance Research at Conning.

> **"Economic factors are favorable for continued growth as higher interest rates improve UL (universal life) crediting rates. In addition, the combination of inflation, equity market volatility, and potential recession may lead to greater life settlements as policy owners consider opportunities to reduce their costs or generate more income. The strength of the insurance companies whose policies have been settled continue to be above the industry average."**

Conning's new report suggests that $4.5bn worth of face value was transacted in 2022, compared to $4.0bn in 2021. It's the second highest amount since 2010, which saw the end of premium finance programmes that created a glut of policies that were sold in the secondary markets before the global financial crisis. Only 2020, when $4.6bn of face value was transacted, has delivered a greater amount.

The rising interest rate environment of the past 18 months or so has had an impact on the life settlement market in the sense that the spread of returns over the risk-free rate has compressed, making liquid fixed income investments more appealing.

"You can get a four-week US treasury bill for around 5% at the moment. It's had a big impact on asset raising in our space," Jonas Martenson, Founder and Sales Director at life settlements investor Ress Capital, recently told Life Risk News.

But, whilst the macro environment is having an impact on capital raising for asset managers, Scott Hawkins, Head of Insurance Research at Conning, says that it is providing other tailwinds.

"Economic factors are favorable for continued growth as higher interest rates improve UL (universal life) crediting rates. In addition, the combination of inflation, equity market volatility, and potential recession may lead to greater life settlements as policy owners consider opportunities to reduce their costs or generate more income. The strength of the insurance companies whose policies have been settled continue to be above the industry average," he said.

Also supporting Conning's view that growth should be sustainable is the amount of in-force life settlements – those owned by asset managers – in the market. In 2021, that figure was estimated to be $25.1bn, having grown from a low of $21.6bn in 2018. This years' report says that this figure continues to grow, which is an encouraging leading indicator for the industry's tertiary market, which has endured a challenging 2023; Alejandra Limones, a Partner at Demeter Capital, told Life Risk News that there had been a drop of approximately 25% in paper auctions so far in 2023.

Perhaps the most-watched section of the report is that of the forecast of what the market looks like in the next 10 years. Conning defines the net market potential as those policies that meet the criteria for investors but whose owners are willing to sell. Last year, the upper limit was $187bn, which, when considering that the total face value transacted in 2022 was $4.5bn, shows the opportunity that life settlement bulls frequently discuss.

Conning didn't disclose this year's figure to Life Risk News, but Hawkins says that, overall, it's a good news story for the industry.

"Given the favorable nature of the drivers of life settlement market growth, our forecast for the life settlement market is steady growth in both the annual face amount of new policies settled and the gross market over the period of 2023 through 2032."

Debate Continues Over the Dangers of Vaping Versus Cigarette Smoking

Author:
Aaron Woolner
Contributing Editor
Life Risk News

According to the World Health Organisation, there are approximately 1.3 billion global users of tobacco. Each year, 8 million die - a number which includes more than one million passive smokers. Governments globally are trying to reduce the number of people smoking but they are dealing with the issue in different ways.

The UK introduced a 'swap to stop' scheme in April that allows smokers to exchange their cigarettes for an electronic substitute. Health Minister Neil O'Brien heralded the initiative as a global first in a speech announcing its introduction as the UK looks to cut cigarette use to less than 5% of the population by 2030.

Whereas a month later, Australia effectively banned vapes, restricting them to prescription only, with prohibition increasingly becoming the weapon of choice in fighting cigarette consumption. Over 20 of the 35 countries in the Americas have restricted the sale of vapes, including eight outright bans; an approach which has also been used in India, Japan, Thailand, and North Korea.

> "It's easy to get confused about whether vaping is dangerous or not. Because the simple answer is that we don't really know what the long term impact of using a vape will be."

So, is vaping bad for users, or not?

According to Tracey Johnson, Underwriting and Claims Manager at UK-based MorganAsh, which provides support services to the financial sector, the question is complicated.

"It's easy to get confused about whether vaping is dangerous or not. Because the simple answer is that we don't really know what the long term impact of using a vape will be. Research published in 2015 by Public Health England states that it has previously been estimated that e-cigarettes are 95% safer than smoking cigarettes.

And it also shows that vaping is a fantastic tool for people looking to get away from smoking."

Despite this the insurance sector still treats vaping the same as smoking. According to Zurich UK, anyone who has used nicotine in the last 12 months - or up to five years in the case of some carriers - will be classified as a smoker by life insurers and charged premiums double that of a non-smoker.

The same is true in the US. In 2016, the country's Food and Drug Administration (FDA), ruled that e-cigarettes were to be considered as tobacco products and therefore subject to federal regulation, putting vapes and cigarettes in the same category.

According to Monideepa Chetia, Vice President of Underwriting at Longevity Services Incorporated, the implication for life settlements providers is that they should equally take the same approach when looking at policies.

"Until long-term health studies prove or disprove that e-cigarettes and vapes are less harmful than traditional cigarettes, the best way to deal with this in underwriting is to consider it as smoking or consider debits on a case-to-case basis."

Andrew Gethin, Managing Director at MorganAsh, says that despite the Public Health England report, in the absence of granular data and extensive studies into the long term impact of vaping, it is easier for insurers to take a safety first approach.

"It's just simpler to go yes or no: you are either a smoker or a nonsmoker, and someone who uses nicotine is a smoker. It's a bit crude, but it comes down to the practicalities of where you get the data and how you prove it's correct."

Gethin also says that an older person who now uses a vape, even if it's intended as a bridge to non-smoking status, is still likely to have smoked for a long time and therefore have the associated health impairments.

"Traditionally, underwriting practice was to require someone to give up smoking for 12 months prior to moving to no smoker rates. If they move to vaping with nicotine, then they are still using nicotine and hence still qualified as a smoker.

From a risk point of view the damage from years of smoking does not disappear overnight," he says.

The UK government may view vapes as an

effective method to get people to stop smoking but evidence suggests it is also an easy way for young people to acquire a nicotine habit.

This was noted by O'Brien in his speech announcing the swap to stop scheme. Describing vaping as a 'double edged sword', the health minister said an unwelcome result of vaping was its use by younger age groups.

"There has been a very sharp increase in children vaping - particularly disposable vapes. NHS figures for 2021 showed that 9% of 11-to-15 year old children used e-cigarettes, up from 6% in 2018. That's a rapidly rising trend we need to stop," O'Brien said.

Vaping may be safer than smoking but it isn't without risk. One danger is nicotine itself; its consumption impacts blood pressure and increases the likelihood of blood clots and can negatively impact adolescent brain development.

"There is no statistical evidence to suggest that passive smoking is a risk to other people living in the same household as someone who is vaping. There may be small elements of nicotine, and other chemicals, in the exhaled smoke but it isn't enough to impact someone else's health."

Vaping potentially brings entirely new risks with it. In 2019, there was an outbreak of a lung condition termed EVALI - an acronym for 'e cigarette or vaping use association lung injury' - which was tracked down to the use of vitamin E acetate in vapes.

It is presumed that this substance is no longer used in vapes but they still contain a number of potentially harmful additives. The American Lung Association reports that vapes typically include carcinogens such as: acetaldehyde and formaldehyde, and metals including; nickel, tin and lead and diacetyl.

"There are risks associated with vaping. But statistically, it's better to vape than it is to smoke," says Johnson. "That may change because there's an enormous amount of data out there and more is coming in all of the time. Currently we don't really know what the longer term effects are."

Johnson says these long term effects will not become clear until there are 10 to 20 years' worth of mortality data to demonstrate the dangers of vaping, and with the product only being available since the early 2000s, and in widespread use for a decade, it is currently too early to make a definitive call.

The long term impact of vaping may be unclear but according to Johnson it appears to be safer than cigarettes with regard to passive smoking.

When someone applies for a life insurance policy and declares themself a non-smoker, insurers can ask them to take a cotinine test, which looks for metabolites of nicotine present in urine or saliva and is usually presumed to indicate the person is a smoker.

Johnson says that is impossible to trigger this test via second hand vape smoke, whereas research shows that people who live in house with at least one smoker can often test positive for cotinine - and are therefore exposed to the dangers of second hand smoke.

"There is no statistical evidence to suggest that passive smoking is a risk to other people living in the same household as someone who is vaping. There may be small elements of nicotine, and other chemicals, in the exhaled smoke but it isn't enough to impact someone else's health."

(Small) Green Shoots Appearing in UK Equity Release Market

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Life Risk News

UK industry group the Equity Release Council (ERC) published its quarterly update recently, showing a market that has returned to growth for the first time in a year; both new customers and total lending in the market increased (10% and 8% respectively) from the second quarter of this year.

Market activity remains suppressed when compared to recent years, however. The first three quarters of 2023 have delivered three of the five lowest periods of activity since at least 2017, and the number of new plans agreed nosedived at the end of 2022 (although that has plateaued, perhaps indicating a natural floor in the market).

> **"This decision is important for life settlement investors because it reaffirms that a prearranged agreement with an investor is required for a policy to qualify as an unlawful wagering contract, even where the insured uses a non-recourse loan."**

Still, green shoots are green shoots.

"With customers starting to venture back, the market is at the start of a gradual but fragile road to recovery, with pent-up demand likely to emerge in future years as the interest rate cycle begins to turn again," said Equity Release Council CEO, David Burrowes, in the ERC's press release on October 30th.

Equity release market participants will undoubtedly be hoping for the interest rate cycle to turn. And those who feel that it is got some additional good news on 2nd November when the Bank of England's monetary policy committee voted to keep interest rates on hold – for the second consecutive time after 14 consecutive increases.

Now the market has returned to growth, numerous structural tailwinds support the bullish case for that growth to continue. The UK has an ageing population which is asset rich but cash poor; a bulk annuity market that continues to grow – and that has medium to long term sustainability; and high property prices, which means that first-time buyers need to access the Bank of Mum and Dad to get a deposit for a mortgage.

The industry is also driving change. The ERC is producing an adviser summit in mid-November 2023, a first for the organisation, which is designed to educate financial advisors in the UK about the equity release market; a recent review of later life mortgage firms by British regulator the Financial Conduct Authority, whilst critical of some of the practices it identified, forced firms to make changes to their sales and advice processes and changed how they incentivise their advisers. Additionally, the country's new Consumer Duty, which came into force on 31st July this year, holds advisers to a higher standard, which should provide consumers with added comfort and better advice.

The primary driver of activity in the market is that of necessity, which is usually either the transfer of wealth to children or grandchildren, or simply the need for cash to pay bills if the homeowner has a small pension.

But the rising interest rate environment in the past two years has curtailed equity release demand. While the homeowner doesn't pay out interest each month, it rolls up, and higher rates means a higher bill when the home is sold – which means less for the recipients of any inheritance that might be available. And it's uncertain for how long rates will remain elevated.

"The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures," says the Bank of England's Monetary Policy Summary.

Capital for the equity release market is in plentiful supply. Life insurers awash with bulk annuity premiums – the main source of funding of equity release mortgages in the UK - have plenty of money available to meet any growth in demand in the coming years. For the industry, it's a case of continuing to educate the market to ensure that it's best positioned for growth.

"Looking ahead, we must be wholly committed as an industry to putting equity release in its proper context as one of a range of later life lending options and putting property wealth in its proper context at the heart of every retirement planning conversation," said Burrowes.

The Rising Tide of Cyber Threats: How Artificial Intelligence Amplifies the Risk in Insurance Industry

Author:
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Technology has brought about tremendous benefits and conveniences in today's hyperconnected world. However, it has also given rise to a dark underbelly of cyber threats, which have only grown more sophisticated with the proliferation of artificial intelligence (AI). In this blog, we'll explore how AI has become a double-edged sword, enhancing our capabilities and increasing the risks of cyberattacks.

Artificial Intelligence has revolutionised industries ranging from healthcare to finance, offering unprecedented opportunities for automation, data analysis, and decision-making. AI systems can process vast amounts of data, identify patterns, and make predictions faster and more accurately than humans ever could. This transformative power has brought benefits, such as improved customer experiences, more efficient operations, and innovative products.

Unfortunately, cybercriminals are quick to adapt and exploit the very technology that drives these advancements. The 2023 Stanford AI Index[1] reported that the number of AI incidents and controversies related to the ethical misuse of AI has increased 26 times since 2012.

Here's how AI is contributing to the rise of cyber threats:

Automated Attacks: AI-driven malware and bots can autonomously seek vulnerabilities, exploit weaknesses, and propagate attacks at an alarming speed. This automation makes it challenging for traditional cybersecurity measures to keep up.

Sophisticated Phishing: AI can generate highly convincing phishing emails by mimicking the writing style of trusted individuals or adapting content based on the recipient's interests. These attacks are more complex to detect and more likely to succeed.

Adversarial Machine Learning: Attackers use AI to manipulate or deceive machine learning models. They can bypass security systems, evade detection, and even poison data used for training, leading to false positives and negatives in threat detection.

Personalized Attacks: AI enables cybercriminals to customise attacks for specific targets, exploiting vulnerabilities unique to individuals or organisations. This makes it increasingly difficult to rely on one-size-fits-all security solutions.

Deepfakes and Social Engineering: The rise of deepfakes is a growing concern in cybersecurity, as AI-generated videos and audio can be used to impersonate individuals and perpetrate fraudulent activities such as impersonation-based attacks, corporate espionage, and fake insurance claims. With the recent advancements in generative AI, deepfakes are becoming increasingly sophisticated and realistic, making them harder to detect and prevent. This poses a significant risk to organisations, as deepfakes can be used to manipulate video evidence in court cases or to create fake insurance claims.

As AI continues to fuel cyber threats, organisations must respond with equally advanced cybersecurity strategies specifically tailored to the risks posed by AI. This may involve investing in AI-based security tools and technologies, as well as developing policies and procedures that take into account the unique risks associated with AI:

> **"As AI continues to fuel cyber threats, organisations must respond with equally advanced cybersecurity strategies specifically tailored to the risks posed by AI. This may involve investing in AI-based security tools and technologies, as well as developing policies and procedures that take into account the unique risks associated with AI."**

AI-Powered Defense: Deploy AI-driven cybersecurity solutions that can analyse vast datasets in real-time, detect anomalies, and respond to threats swiftly.

"Insurance companies play an important role in helping businesses mitigate the risks associated with cyber security threats by providing products that offer coverage for cyberattacks and data breaches. These products can help companies to recover from financial losses and reputational damage from a cyber attack. With the increasing use of AI in enterprises, new cyber insurance products may emerge to address AI-related risks specifically"

These systems can adapt to evolving attack techniques. Insurers may need to invest in new technologies or services that can help them detect and prevent deepfake fraud, such as advanced video and audio analysis tools.

Employee Training: Raise employee awareness about the risks associated with AI-powered attacks, especially in recognising sophisticated phishing attempts and social engineering tactics.

Adaptive Security: Implement dynamic security measures that can adapt to changing threat landscapes. Regularly update and patch systems to minimise vulnerabilities.

Ethical AI Use: Promote ethical AI use within your organisation. Ensure transparency and accountability in AI algorithms to prevent misuse.

Collaboration and Information Sharing: Work with cybersecurity communities, share threat intelligence, and collaborate with other organisations to stay updated on emerging threats. It is also important for organisations to stay up to date with the latest developments in AI and cybersecurity and to work closely with experts in these fields to ensure that their strategies are effective and up to date.

By taking a proactive and strategic approach to cybersecurity, organisations can help mitigate the risks posed by AI and protect their systems and data from cyber threats.

Insurance companies play an important role in helping businesses mitigate the risks associated with cyber security threats by providing products that offer coverage for cyber-attacks and data breaches. These products can help companies to recover from financial losses and reputational damage from a cyber attack. With the increasing use of AI in enterprises, new cyber insurance products may emerge to address AI-related risks specifically. However, most existing cyber insurance products cover a broad range of cyber threats, including AI-related ones. Therefore, if an enterprise is using AI extensively, it may be able to negotiate additional coverage or specific endorsements to its current policy to address any unique risks associated with AI.

It is worth noting that the cyber insurance market is still evolving, and insurers are constantly updating their products to keep up with new threats and technologies. As AI develops and becomes more widespread, insurers may introduce new products or coverage options tailored to AI-related risks.

Armilla Assurance[2], a Canadian insurtech firm, has recently launched a new product that offers performance guarantees for AI products. This product aims to assist companies in managing the risks associated with developing and deploying AI systems. Armilla Assurance has partnered with Swiss Re, Greenlight Re, and Chaucer to underwrite policies that provide performance guarantees for AI products. By offering performance guarantees for these systems, Armilla Assurance intends to help companies mitigate the risks associated with AI and provide greater assurance to their customers and stakeholders.

The product is an example of how the insurance industry is evolving to meet the needs of companies developing and deploying new technologies. As AI becomes more prevalent in society, we will likely see more products and services like this emerge to help manage the risks associated with these technologies.

[1] https://aiindex.stanford.edu/report/

[2] https://www.armilla.insure/featured-blog/armilla-assurance-launches-armilla-guaranteed-tm-warranty-coverage-for-ai-products-in-partnership-with-leading-insurance-companies

November 2023 Poll Results

Have We Now Seen the Top of the Current Interest Rate Cycle?

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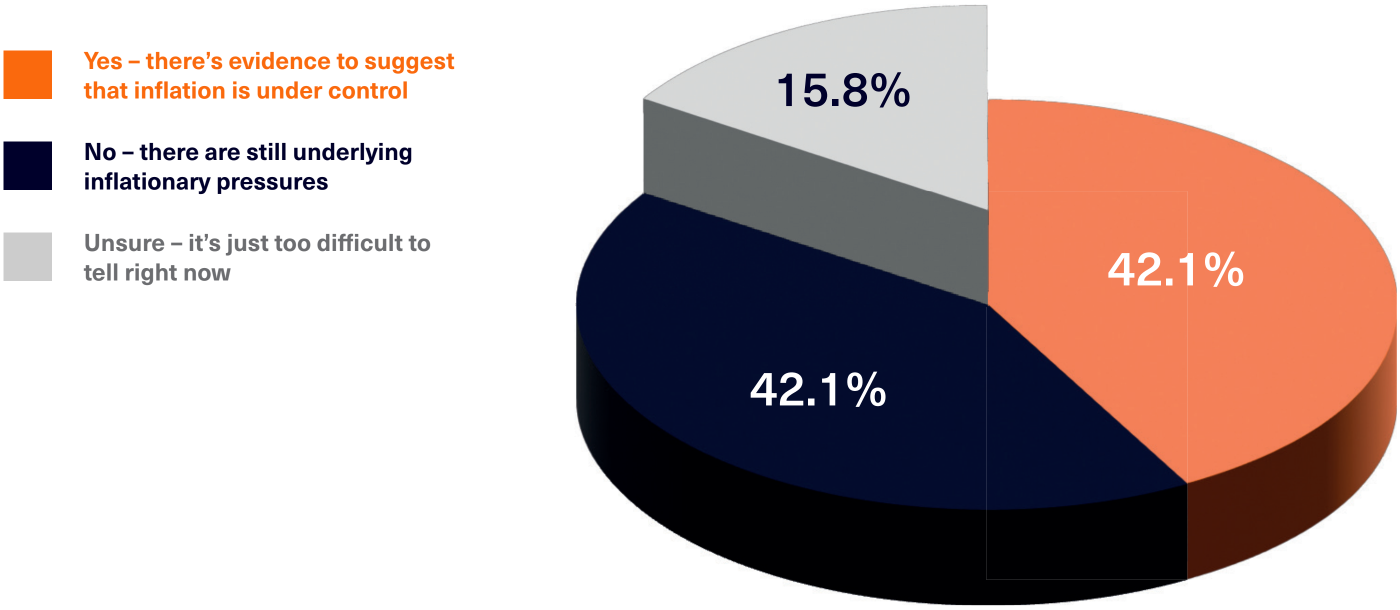
Life Risk News

In September, the US Federal Reserve maintained interest rates at 5.5%, the first pause in what has been a rising rate environment since early 2022. Similarly, the Bank of England kept its interest rate at 5.25%, the first time since 2021 that the rate had paused.

So, in October, we asked our readers whether they thought that this marked the end of the recent rising interest rate environment.

In a rare turn of events, Life Risk News readers were split; 42.1% said they thought that the rising rate environment had now seen its peak, and 42.1% said that there were more increases likely. Only 15.8% were unsure.

The ayes were right – in the short term. On 2nd November, the Bank of England voted to maintain interest rates at 5.25% and on 3rd November, the US Fed also voted to maintain the country's status quo. Whether the ayes or the nays are right in the medium term remains to be seen.



Life ILS Conference 2024

Registration information coming soon.

TUESDAY 21ST MAY 2024

LONDON, UK

Life Risk News

Q&A

Rob Haynie
Life Insurance Settlements

A recent report published by asset manager Conning suggests that the life settlement industry is poised for continued growth in the coming years. Life Risk News' Greg Winterton spoke to Rob Haynie, Managing Director at life settlements broker Life Insurance Settlements, Inc, to get his views on how the life settlement market has done in 2023 and what his expectations are for 2024.

GW: Rob, let's start with 2023. At the end of last year, you told Life Risk News that you expected the main reasons why seniors look to sell their policies to be covering medical bills and simply not needing the policy anymore. Has that forecast proven correct? What about the cost of living crisis?

RH: Yes, the two main reasons you mention are the primary drivers of policy sales. It's important to remember that the policies transacted in the intermediated market tend to carry a higher face value than the direct to consumer channel. The policies we bring to market tend to be associated with a wealthier socioeconomic group so while the cost of living crisis has contributed a little bit to deal flow, it's not been a significant driver. Medical bills can get very expensive in the United States, and at the age cohorts we tend to work with, it's frequently the case that the policy is no longer needed. I think those two reasons will remain the top two reasons why policies come to market because they're not cyclical.

GW: Moving onto deal flow more generally. Again, last year, you said that you'd expect 2022 to end up higher than 2021. You were right. What's your observation this year?

RH: Speaking for ourselves, we've seen increased activity in terms of the various different advisor groups coming to us looking to sell their client's policy. Anecdotally, from conversations I've had with peers and clients, I'd say the industry should show growth again when the numbers for 2023 come out in late spring or early summer next year. How much growth though is hard to predict.

GW: Are you concerned that the increasing influence of the direct to consumer channel in the secondary market might take deal flow away from the intermediated market?

RH: No. Actually, DTC helps those of us in the intermediated market in terms of awareness. Remember that both the individual insured senior and their advisers are seeing TV commercials. Yes, that naturally leads to increased deal flow for the direct to consumer life settlement providers. But equally, many of the folks that are seeing these advertisements are then using that as a nudge to go away and do their own research. Often, that research includes contacting a trusted adviser like a life insurance agent, lawyer, or accountant, which then brings them to firms like ours. And the flip side is that those advisors proactively contact their clients to talk about life settlements. DTC is good for our industry overall.

GW: Changing gears a little bit. In the summer, you published a short podcast series. What was the driver of that decision? Will you do any more?

RH: Those who know me know that I've been beating the drum about awareness in the life settlement market for years. The podcast was – is – designed to be additive to the conversation. Lapse rates are still way, way too high. Not nearly enough life insurance policyowners understand the nuances of the life settlement market, and even more aren't even aware that the life settlement option even exists. The more content out there that people might stumble upon, the merrier, in my view. And we might do some more. We will continue the podcast with 10 more episodes beginning in a few weeks. Our plan is to feature some of the best and brightest in the life settlement industry and get their unique perspectives and help educate the listener on the entirety of our marketplace and illuminate the value it brings to consumers.

GW: Lastly, Rob, looking ahead to 2024. Are there any hurdles on the road to growth that the life settlement market might have to negotiate next year?

RH: I think the main thing is the uncertainty around the macroeconomic environment. It's difficult to tell whether we're at the top of the current rising interest regime or not. Higher rates impact the ability of asset managers in the market to raise capital because of the relatively higher appeal of bonds, but that's something out of their control. I prefer to focus on what we can control, which is to continue to work hard and keep educating the consumer and their advisors. There is a lot that we as an industry can do, regardless of the economic and social environment.

RIAs Increasingly a Strategic Priority for Life Settlement Market

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Deal flow in the life settlement industry's secondary market can be separated into two main channels – the direct-to-consumer market, where insureds sell their policies to a licensed life settlement provider, perhaps because they have seen or heard TV or radio advertising – and the intermediated channel, where life insurance agents, accountants, attorneys, and wealth managers work with their client to sell their policy via a licensed life settlement broker.

In the intermediated channel, deal flow from the wealth manager – registered investment adviser (RIAs) – cohort is on the rise. And the increased activity is coming from what is, figuratively, two sides of the same coin.

> "A lot of the increased interest in the life settlement market by RIAs is actually being driven by the RIA client. They are seeing advertising on TV, articles online, and in turn, asking their wealth manager whether selling their life insurance policy is right for them."

"A lot of the increased interest in the life settlement market by RIAs is actually being driven by the RIA client. They are seeing advertising on TV, articles online, and in turn, asking their wealth manager whether selling their life insurance policy is right for them," said Jon B. Mendelsohn, CEO of life settlements broker, Ashar Group. "And the RIAs themselves are also seeing the same commercials and taking a more proactive approach with their clients. There is increased awareness coming from both segments that is driving increased activity in the secondary market."

The contribution that the RIA segment makes to the life settlement industry in terms of secondary market deal flow is one of three hats they wear in the space.

The second is that of the capital allocator. Life settlement asset managers source their third-party capital from the usual suspects – pension plan sponsors, foundations, endowments, funds of funds, insurance companies, family offices, and high net worth individuals. RIAs are increasingly funnelling their clients' assets towards life settlements, as part of a broader effort to engage with alternative investments such as hedge funds, private equity, private debt, real estate and venture capital more broadly.

Hats one and two are linked by something of a virtuous circle.

"In many cases, an RIA working with a client to sell a life insurance policy they no longer need is beneficial to them because it's increasing their AUM. And life settlement brokers like us have the same fiduciary duty to the policy seller as the RIA does to their clients' best interest, so the RIAs fiduciary duty is satisfied here. The premiums that the insured was previously paying, and the lump sum they receive from the sale of the policy, can now be routed into other investments, which increases the AUM of the RIA. Life settlements works well for both sides," said Mendelsohn.

The third hat is, currently, by far the smallest the RIA wears. But it could be the most influential: that of increasing the number of life insurance policies that could turn into life settlements in future by incorporating life insurance into the financial planning process that they do for their clients.

Except that they don't. Or, at least, not many of them do. Reasons abound as to why life insurance is an afterthought for a wealth manager/advisor. First, most RIAs are not licensed to be compensated for work involved in managing life insurance policy assets. Second, in some states, they aren't licensed to even talk with clients about their life insurance, let alone sell it.

Third, even for those RIAs legally able to talk with clients about life insurance, they lack an eco-system of tools, educational resources, and service providers to support the prudent selection or retention and proper management of life insurance in clients' 'Best Interests'. Without such an eco-system, like they have for investment management, no wonder RIAs feel unprepared and hesitant to incorporate life insurance portfolio management in the financial planning process that they do for their clients.

All this adds up to what is a substantial roadblock to getting RIAs more involved in life insurance at the ground level.

"There's no reason why an RIA can't include life insurance portfolio management as part of their overall service offerings," said Barry Flagg, CEO at life insurance analytics firm, Veralytic. "But advising clients without tools and service providers that support their fiduciary business model is more time-consuming and outside their comfort zone - and human beings rarely volunteer to do things that are both more difficult and outside their comfort zone. In the meantime, the more progressive RIAs are engaging "sub advisors" to evaluate and manage clients' life insurance policy assets, in the same way they already do for other specialty financial instruments."

"The two roles that RIAs currently play in the life settlement industry are enough by themselves to justify making the wealth manager channel a strategic priority for the life settlement industry," said Flagg. "But what also needs to happen is for some of the barriers that currently exist for RIAs to engage with life insurance at the outset to be lowered or removed. That's a longer-term play but one that makes sense for the life settlement industry to look into."

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The life settlement industry believes that its market could be significantly larger. Industry group the European Life Settlement Association, publisher of *Life Risk News*, recently published a fact sheet that suggests the secondary market could potentially be three times its current size. That belief is driven largely by the gap that exists between the number of policies transacted annually in the secondary market, and the lapse rate of life insurance policies in the US. In 2021, the combined termination rate of all life insurance in the US was worth more than $600bn, whereas the total dollar value of transactions in the secondary market was only $4bn. Whilst not all of the $600bn would qualify for a life settlement, the disparity is clear to see.

But what's also true is that RIAs could be seed planters, growing the total number and value of life insurance policies that could eventually qualify for a life settlement, if they were to engage with life insurance to a greater extent. Combining that, with their role as an existing driver of secondary market supply, and their influence as capital allocators, shows just how important this cohort is to the life settlement market going forward – and why breaking down barriers to life insurance education is key to success in the long term.

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